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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)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2017

	Six months ended 30 June		
	2017	2016	
	RMB'000	*RMB'000*	Change
	(Unaudited)	(Unaudited)	
Results			
Operating revenue	**1,903,942**	1,777,949	7.09%
Profit before taxation	**56,688**	49,229	15.15%
Net profit attributable to the owners of parent company	**42,009**	36,762	14.27%
Basic and diluted earnings per share (expressed in RMB per share)	**0.39**	0.34	14.27%

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 (collectively referred to as the "**Group**") for the six months ended 30 June 2017, together with the comparative figures for the corresponding period in 2016.

CONSOLIDATED STATEMENT OF PROFIT

For the six months ended 30 June 2017

	Notes	Six months ended 30 June **2017** *RMB* **(Unaudited)**	2016 *RMB* (Unaudited)
Operating revenue	*3*	**1,903,941,547.86**	1,777,948,606.26
Less: Operating cost	*3*	**1,778,787,008.02**	1,678,350,983.63
Taxes and surcharges		**2,031,413.15**	681,985.58
Selling expenses		**32,168,217.67**	21,929,614.40
Management expenses		**23,527,469.53**	23,549,305.81
Finance costs		**12,191,178.92**	5,040,246.53
Impairment loss of assets		**612,823.32**	–
Operating profit		**54,623,410.25**	48,396,470.31
Add: Non-operating revenue		**2,240,617.59**	845,123.78
Less: Non-operating expenses		**175,812.78**	12,288.17
Total profit		**56,688,215.06**	49,229,305.87
Less: Income tax expense	*4*	**14,635,784.11**	12,466,605.65
Net profit		**42,052,430.95**	36,762,700.22
Net profit attributable to the owners of parent company		**42,008,928.37**	36,762,700.22
Profit or loss of minority shareholders		**43,502.58**	–
Total comprehensive income		**42,052,430.95**	36,762,700.22
Including:			
Total comprehensive income attributable to the owners of parent company		**42,008,928.37**	36,762,700.22
Total comprehensive income attributable to minority shareholders		**43,502.58**	–
Earnings per share			
Basic and diluted earnings per share	*5*	**0.39**	0.34

CONSOLIDATED BALANCE SHEET
As at 30 June 2017

	Note	**30 June 2017 *RMB* (Unaudited)**	31 December 2016 *RMB* (Audited)
Current assets			
Monetary funds		**491,820,125.81**	477,316,881.37
Bills receivables	*7*	**149,962,378.98**	199,205,471.36
Trade receivables	*7*	**813,453,074.63**	864,943,990.38
Prepayments		**132,113,616.53**	100,570,879.12
Other receivables		**11,849,216.27**	4,885,699.46
Inventories		**454,258,206.40**	356,939,289.82
Other current assets		**28,007,844.46**	2,777,436.24
Total current assets		**2,081,464,463.08**	2,006,639,647.75
Non-current assets			
Fixed assets		**115,614,590.56**	117,887,615.13
Construction in progress		**3,461,659.32**	–
Liquidation of fixed assets		**24,669.12**	–
Intangible assets		**107,706,634.93**	105,693,516.25
Goodwill		**4,593,625.31**	–
Long-term expenses to be amortised		**155,489.95**	–
Deferred income tax assets		**3,033,425.24**	573,283.57
Total non-current assets		**234,590,094.43**	224,154,414.95
Total assets		**2,316,054,557.51**	2,230,794,062.70

	Note	**30 June 2017** *RMB* **(Unaudited)**	31 December 2016 *RMB* (Audited)
Current liabilities			
Short-term borrowings		**392,200,000.00**	421,362,263.10
Bill payables	*8*	**872,904,742.07**	823,856,770.32
Trade payables	*8*	**495,733,155.81**	489,550,917.08
Receipts in advance		**7,223,382.75**	4,408,115.75
Salaries payable to employees		**4,353,322.16**	3,303,566.02
Tax payables		**14,493,885.13**	26,922,631.63
Interests payable		**643,768.65**	–
Dividend payables		**5,600,000.00**	–
Other payables		**10,205,162.02**	8,922,962.06
Other current liabilities		**36,417,280.23**	–
Total current liabilities		**1,839,774,698.82**	1,778,327,225.96
Non-current liabilities			
Deferred income		**1,560,000.00**	–
Total non-current liabilities		**1,560,000.00**	–
Total liabilities		**1,841,334,698.82**	1,778,327,225.96
Equity of shareholders			
Share capital		**108,000,000.00**	108,000,000.00
Capital reserve		**282,204,487.50**	299,981,515.02
Surplus reserve		**5,669,742.65**	10,872,532.49
Unallocated profits		**71,048,178.67**	33,612,789.23
Total equity attributable to owners of parent company		**466,922,408.82**	–
Equity of minority shareholders		**7,797,449.87**	–
Total equity of shareholders		**474,719,858.69**	452,466,836.74
Total liabilities and shareholders' equity		**2,316,054,557.51**	2,230,794,062.70

NOTES TO THE UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

1. GENERAL

Charmacy Pharmaceutical Co., Ltd. (the "**Company**") was established as an enterprise owned by the whole people in the PRC (全民所有制企業) under the name of 汕頭市醫藥聯合公司物資站 (Shantou Pharmaceutical Supplies Company *) on 18 February 1984. Pursuant to an approval granted by the relevant PRC authorities on 28 May 2015, the Company was transformed into a joint stock company with limited liability and changed to its current name. The shares of the Company have been listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") on 14 December 2015. The address of the registered office and principal place of business are No. 235, Song Shan North Road, Longhu District, Shantou City, Guangdong Province, the PRC.

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

The condensed interim consolidated financial statements are presented in RMB, which is also the functional currency of the Company.

2. BASIS OF PREPARATION

The Company has previously adopted the International Financial Report Standards in preparing the financial statements for information disclosure at the Stock Exchange. According to the Consultation Conclusions on Acceptance of Mainland Accounting Standards and Mainland Audit Firms for Mainland Incorporated Companies Listed in Hong Kong published by the Stock Exchange in December 2010, the Company has resolved, starting from the current financial period, to prepare its financial statements for information disclosure at the Stock Exchange pursuant to the "China Accounting Standard for Business Enterprises" issued by the Ministry of Finance of the PRC and the specific accounting standards, practice notes, interpretations and other relevant requirements issued and revised thereafter (collectively referred to as the "**Accounting Standard for Enterprises**").

These financial statements are presented on the basis of continuous operations.

The condensed interim consolidated financial statements have been prepared on the historical cost basis, except for certain financial instruments which are measured at fair values.

* *English name for identification purpose only*

3. OPERATING REVENUE, OPERATING COST AND SEGMENT INFORMATION

Information reported to the chief executive officer of the Group, being the chief operating decision maker, for the purposes of resource allocation and assessment of segment performance. The directors of the Company consider that there is only one operating and reportable segment for the Group: trading and promoting pharmaceutical products.

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

	Six months ended 30 June	
	2017	2016
	RMB	*RMB*
	(Unaudited)	(Unaudited)
Sales of goods	**1,881,994,596.84**	1,765,242,761.53
Services income	**21,946,951.02**	12,705,844.73
Operating revenue	**1,903,941,547.86**	1,777,948,606.26
Operating cost	**1,778,787,008.02**	1,678,350,983.63

4. INCOME TAX EXPENSE

	Six months ended 30 June	
	2017	2016
	RMB	*RMB*
	(Unaudited)	(Unaudited)
Current income tax	**14,777,687.11**	12,358,637.78
Deferred income tax expenses	**-141,903.00**	107,967.87
Total income tax expenses for the period	**14,635,784.11**	12,466,605.65

Under the Law of the PRC on Enterprise Income Tax (the "**EIT Law**") and Implementation Regulation of the EIT Law, the tax rate of the Company and its subsidiaries is 25% for the both periods.

5. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the following:

	Six months ended 30 June	
	2017	2016
	RMB	*RMB*
	(Unaudited)	(Unaudited)
Earnings		
Net profit attributable to the owners of parent company	**42,008,928.37**	36,762,700.22
Number of shares		
Weighted average number of shares for the purpose of basic earnings per share (shares)	**108,000,000**	108,000,000

The Company has no outstanding potential diluted ordinary shares in issue for the six months ended 30 June 2017 and six months ended 30 June 2016.

6. DIVIDEND

The directors are pleased to declare and pay an interim dividend of RMB0.10 (interim period of 2016: RMB0.20) per share totalling RMB10,800,000.00 (interim period of 2016: RMB21,600,000.00) after the interim period. The interim dividend has not been recognised as liability at the end of the reporting period.

7. TRADE RECEIVABLES AND BILLS RECEIVABLES

	30 June 2017	31 December 2016
	RMB	*RMB*
	(Unaudited)	(Audited)
Trade receivables	**822,340,105.55**	867,229,869.28
Less: allowance for bad debts	**8,887,030.92**	2,285,878.90
	813,453,074.63	864,943,990.38
Bills receivables (Note)	**149,962,378.98**	199,205,471.36
Total	**963,415,453.61**	1,064,149,461.74

The Group generally allows an average credit period of 0 to 180 days to its trade customers. The Group does not hold any collateral over these balances.

An aged analysis of trade receivables net of allowance for bad debts presented based on the date of delivery of goods at the end of the reporting period is as follows:

	30 June 2017	31 December 2016
	RMB	*RMB*
	(Unaudited)	(Audited)
Within 1 year	**793,829,471.04**	826,552,825.12
Over 1 year	**19,623,603.59**	38,391,165.26
	813,453,074.63	864,943,990.38

8. TRADE PAYABLES AND BILLS PAYABLES

	30 June 2017	31 December 2016
	RMB	*RMB*
	(Unaudited)	(Audited)
Trade payables	**495,733,155.81**	489,550,917.08
Bills payables	**872,904,742.07**	823,856,770.32
Total	**1,368,637,897.88**	1,313,407,687.40

An aged analysis of trade payables presented based on the invoice date at the end of the reporting period is as follows:

	30 June 2017	31 December 2016
	RMB	*RMB*
	(Unaudited)	(Audited)
Within 1 year	**494,839,825.23**	488,538,082.78
Over 1 year	**893,330.58**	1,012,834.30
	495,733,155.81	489,550,917.08

MANAGEMENT DISCUSSION AND ANALYSIS

INDUSTRY OVERVIEW

The year 2017 is an important year for in-depth reform on pharmaceutical and healthcare system and propelling structural reform on the supply side. The year 2017 is in the midst of the adjustment period and a market volatility period for the policies of pharmaceutical industry. The industry faces new opportunities and challenges as national pharmaceutical policies are implemented frequently, in particular, as new medical reform policies are constantly propelling, a large amount of policies such as the two-invoice system, separation of treatment and medicine, zero medicine mark-up, control on medical insurance fees, consistency evaluation has been implemented.

The launch of "13th Five-Year Plan" in-depth reform on pharmaceutical and healthcare system in Guangdong, aiming at promoting the separation of treatment and medicine

On 12 May 2017, the launch of "13th Five-Year Plan" in-depth reform on pharmaceutical and healthcare system in Guangdong province. One of the major purposes is to conduct the reform of the pharmaceutical supply system by taking integrated measures to promote the separation of treatment and medicine, so as to cut off the chain of interests between hospitals and medical staff and the medicine and medical supplies. Medical institutions shall not limit the outflow of the prescription, so that patients could purchase medicines in retail stores with the prescription. Adjustment on the market landscape enables the retail stores to gradually become the key channel of selling medicines and providing pharmacy services to patients, thus improving the medicine policy system.

In June 2017, the Ministry of Commerce issued the "Statistical Analysis Report on the Operation of the Pharmaceutical Distribution Industry in 2016" (the "**Report**"), the Report pointed out that due to the implementation of "Healthy China" (「健康中國」) strategy and the propelling of "13th Five-Year Plan" in-depth reform on pharmaceutical and healthcare system, the development of the pharmaceutical distribution industry is standing on a new starting point, of which:

Sales growth of pharmaceutical wholesale enterprises slowed down; slight increase of concentration in the industry

In 2016, the revenue from principal business of the top 100 pharmaceutical wholesale enterprises had a year-on-year increase of 14.0%, while the growth rate decreased by 1.6 percentage points. In terms of market share, the concentration of pharmaceutical wholesale industry has further increased. In 2016, the revenue from principal business of the top 100 pharmaceutical wholesale enterprises accounted for 70.9% of the whole pharmaceutical wholesale market in the PRC for the same period, representing a year-on-year increase of 2.0 percentage points.

Consistent enhancement on operating efficiency and service functions among pharmaceutical distribution operations

The modern logistics technologies have greatly enhanced the operating efficiency of the pharmaceutical distribution enterprises, lowered the management cost and facilitated the development of supply chain. According to a non-comprehensive statistics, among the modern pharmaceutical logistics enterprises in the PRC, 74.5% are equipped with warehousing management system, 93.8% are equipped with automatic temperature and humidity monitoring system, 85.4% are equipped with order management system, 50.5% are equipped with Digital Picking System (DPS), 55.2% are equipped with Radio Frequency Identification (RFID), 55.7% are equipped Warehouse Control System (WCS), and 53.6% are equipped with Transportation Management System (TMS).

The increasing assistance on enterprise integration from the capital market

During the "13th Five-Year Plan" period, the integration of pharmaceutical distribution enterprises has been speeded up under the assistance from the capital market, continuously achieving dual-strong alliance. The annual reports of various listed companies showed that the merger and acquisition transactions among pharmaceutical distribution enterprises are relatively active.

It is anticipated in the Report that with the full implementation of various reform initiatives, there will be new opportunities and challenges for developing the pharmaceutical distribution industry in 2017: the accelerating adjustment and transformation on the development pattern and landscape in the industry, the increasing integration assistance to enterprises from the capital market, the rapid upgrades of pharmaceutical supply chain management services, the continuous implementation on the cross-boundary integration of pharmaceutical e-commerce, the continuous innovation on the mode of operations of pharmaceutical retailing, and the increasing enhancement on the functionality of industry infrastructures.

BUSINESS REVIEW

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

As of 30 June 2017, our distribution network covered 6,330 customers, among which 680 were distributors, 4,040 were retail pharmacy stores and 1,610 were hospitals, clinics, health centres and others. As of 30 June 2016, we had a distribution network covering 4,626 customers, among which 657 were distributors, 2,816 were retail pharmacy stores, and 1,153 were hospitals, clinics, health centres and others.

As of 30 June 2017, we had a total of 926 suppliers, among which 626 were pharmaceutical manufacturers and 300 were distributor suppliers. As of 30 June 2016, we had a total of 1,015 suppliers, among which 712 were pharmaceutical manufacturers and 303 were distributor suppliers.

For the six months ended 30 June 2017, we distributed 9,617 products. For the six months ended 30 June 2016, we distributed 5,734 products.

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

	Number of Products For the six months ended 30 June	
	2017	2016
Categories of Products		
Western medicines	**4,143**	2,766
Chinese patent medicines	**2,546**	2,242
Healthcare products	**167**	116
Others	**2,761**	610
Total	**9,617**	5,734

As of 30 June 2017, our B2B e-commerce platform, "Charmacy e-Medicine" (創美e藥) (http://www.cmyynet.com/) had 5,621 registered customers whom are mainly retail pharmacy stores. The operating revenue contributed by e-commerce transactions through our B2B e-commerce platform was approximately RMB111.48 million for the six months ended 30 June 2017.

During the six months ended 30 June 2017, the Company was awarded the "China Internet Industry Honesty Demonstration Unit" (中國互聯網行業誠信示範單位) by the Digital Service Center of China E-Commerce Association (中國電子商務協會數字服務中心), the "China Logistics Industry Golden Ants Award in 2017" (2017年度中國物流行業金螞蟻獎) by the Organization Committee of the China (Guangzhou) International Logistics Equipment and Technology Exhibition (中國(廣州)國際物流裝備與技術展組委會), the "Model Enterprise of Trustworthiness in Guangdong Province for Six Consecutive Years from 2011 to 2016" (2011-2016連續六年廣東省誠信示範企業) by the Guangdong Provincial Enterprise Confederation (廣東省企業聯合會) and the Guangdong Provincial Association of Entrepreneurs (廣東省企業家協會), the "Special Contribution Enterprise of Pharmaceutical Industry in Guangdong Province in 2016" (2016年廣東省醫藥行業特殊貢獻企業) by the Guangdong Pharmaceutical Industry Association (廣東省醫藥行業協會), the "Annual Major Wholesaler and Retailer in 2016" (2016年度批零大戶) and the "Annual Major Tax Payer in 2016" (2016年度納税大戶) by the Longhu District Committee, Shantou, CPC (中共汕頭市龍湖區委) and the People's Government of Longhu District, Shantou (汕頭市龍湖區人民政府).

Launch the Construction of Informatization Program (Phase II) to Facilitate Corporate Strategic Development

In March 2017, the Group officially launched the construction of informatization program (Phase II) to invest in the implementation of three modules, namely, SAP EWM, SAP TM and SAP HR. It is our aims to: (i) construct and enhance the warehousing management system and transportation system, coupled with a supply-chain collaboration platform, to realize the visualized management of warehousing and distribution; (ii) establish a model of logistic integrated network, to breakthrough the independent operations model among logistics and distribution centers to achieve support among warehouses; deliver a standardized operations in terms of logistics and distribution to develop a replicable operational model; and (iii) develop a three-pillars HR management model (namely HR expert center, HR platform, and HR business partners), as well as the shared services and HRBP, to achieve the principle of "the sharing of resources, teams, capabilities, and information", providing an one-stop HR solution to all departments, so as to improve the work efficiency of teams and better serve the corporate strategies.

Penetrating into Zhuhai and Guangzhou regions to improve its own distribution network

During the reporting period, the Group has continued to promote the progress of its acquisitions, and has made additional capital contributions to two pharmaceutical distribution companies in Zhuhai and Guangzhou. It has further improved the distribution network of the Group in Southern China region, extended the coverage of service area of pharmaceutical delivery, increased the service efficiency, enhanced the Group's coverage in the end markets of Southern China region, and formed a more competitive pharmaceutical distribution network.

On 13 March 2017, the Company increased the registered capital in Zhuhai Hengxiang Pharmaceutical Limited* (珠海市恒祥醫藥有限公司) ("**ZHP**") to 70% of its equity interests and became its controlling shareholder, at a consideration of RMB18 million. The completion of the industrial and commercial registration in respect of such increase took place on 30 March 2017, and ZHP changed its name to "Zhuhai Charmacy Hengxiang Pharmaceutical Limited*" (珠海創美恒祥醫藥有限公司).

The increase of capital in ZHP is an important move to penetrate into Zhuhai region, which will fully cover the end markets in Zhuhai as well as the end markets of the nearby Jiangmen and Zhongshan. As of 30 June 2017, ZHP has increased the number of downstream customers by 920, and increased the number of products by 2,898, including 1,537 Chinese medicine decoction pieces.

On 19 June 2017, the Company entered into a capital contribution agreement with the owner of Guangzhou Wangkang Pharmaceutical Technology Limited* (廣州王康醫藥科技有限公司) to increase the Company's registered capital in Guangzhou Wangkang Pharmaceutical Technological Limited to 90% of its equity interest and became its controlling shareholder, at a consideration of RMB18 million (the "**Investment**"). The Investment has completed the registration of alteration with the Administration of Industry and Commerce (廣州市天河區工商行政管理局) on 21 June 2017, and had changed its name to "Guangzhou Charmacy Pharmaceutical Limited*" (廣州創美藥業有限公司) ("**Guangzhou Charmacy**").

* *English name for identification purpose only*

Prospects

Proposal of the initial public offering and listing of the ordinary shares denominated in Reminbi (the "A Shares"), promoting corporate image and the brand recognition

The Company has proposed the initial public offering and listing of A Shares (the "**A Shares Offering**") and the total amount of A Shares to be issued will not exceed 20,000,000 shares. The extraordinary general meeting and class meetings will be held on 5 September 2017 by the Company to discuss the matters in relation to the A Shares Offering.

A Shares Offering will further optimise the corporate governance structure of the Group, develop domestic and overseas financing platforms, and improve the liquidity of all the shares held by shareholders. Since the Company currently focuses mainly on its core business in the PRC, the A Shares Offering will enhance the Group's corporate image and brand awareness, further expand the Group's financing channels, increase the Group's working capital, and achieve stronger recognition from the capital market. A Shares Offering will be beneficial to the Group's business growth, financing flexibility and business development. It will also enable the Group to obtain more financial resources and improve the competitiveness of the Group, which would be beneficial to the long-term development of the Group.

Establish pharmaceutical classification and distribution center in Guangzhou; enhance the market competitiveness

On 12 July 2017, the Company as the purchaser entered into a sale and purchase agreement with a vendor, an independent third party to purchase the properties situated at No. 33, Liyu Street, Dongyong Town, Nansha District, Guangzhou City, the PRC (the "**Properties**") at an aggregate cash consideration of RMB131 million (inclusive of tax). The properties comprise of (i) the plants with a total gross floor area of 15,293.80 square metres; and (ii) the dormitory with a total gross floor area of 4,881.06 square metres, both of which are erected on the land with a site area of 31,141.57 square metres.

The Group intends to use the plants and the vacant land comprised in the Properties for the construction of the pharmaceutical classification and distribution center in Guangzhou, and the plants will be provided to Guangzhou Charmacy for use in the fourth quarter of 2017. The construction of the pharmaceutical classification and distribution center in Guangzhou will facilitate the Group's servicing capability in the Pearl River Delta region, and increase the supply capacity and meet the increasing market demand. Upon completion, the overall scale of the Group will be enlarged, the distribution capacity of the network will be enhanced, the advantage of the Group's services, the customer resources, branding and management resources will be further utilised, and the market competitiveness and sustainability of development of the Group will be strengthened.

Establish a wholly-owned subsidiary in Shenzhen; increase the coverage in the end markets of Southern China region

The Group will continue to intensively engage itself in the market of Southern China, expand the distribution network, and widen its coverage in the end market of Southern China region. The Group plans to set up a wholly-owned subsidiary in Shenzhen in the fourth quarter of 2017, which is expected to be put into operation in the first half of 2018, so as to provide an in-depth layout in Shenzhen region with the coverage to the surrounding cities, further enhancing its own distribution network, expanding the distribution coverage, increasing the operating efficiency, broadening its customer base, and increasing its operating revenue.

On 20 July 2017, the Board of the Company resolved to propose a further change in the use of proceeds from the global offering, which was proposed at the extraordinary general meeting of the Company to be held on 5 September 2017 for consideration and approval. It was intended that part of the proceeds from the global offering would be used for the establishment of the wholly-owned subsidiary in Shenzhen. The establishment of the wholly-owned subsidiary in Shenzhen by the Company coincides with the needs of continual and rapid development of the Group. It will facilitate the enhancement of the overall distribution capability of the Group in Southern China region, to further enhance the Group's overall market position.

Continuously expand the product offerings and enhance the product mix

The Group will continuously introduce new products with high quality, including Chinese medicine decoction pieces, healthcare products, cosmetics and medical devices, as well as boost our product variety and enhance the product mix to meet the diversified purchasing demands from customers and enhance customers' reliance and loyalty. At the same time, the Group will phase out some of the products with lower gross profit margin and turnover rate, to increase the profitability of the Group so as to strengthen our competitive position.

Promote and integrate the construction of distribution network and enhance the distribution capability

The Group plans to upgrade the existing facilities and equipment of the logistics distribution centers of the Company and its subsidiaries, increase the operating efficiency, and reduce operating costs. We plan to purchase more refrigerated transportation vehicles to ensure a stable product quality in the distribution process, provide quality transportation services, increase distribution efficiency, and expand distribution coverage. We also plan to upgrade the information system in order to increase the operating efficiency. By adopting above measures, the overall distribution ability of the Group will be further enhanced.

FINANCIAL REVIEW

Operating revenue

The following table sets forth the breakdown of operating revenue by sales of goods and services income:

	Six months ended 30 June	
	2017	2016
	RMB'000	*RMB'000*
Sales of goods	**1,881,995**	1,765,243
Services income	**21,947**	12,706
Total operating revenue	**1,903,942**	1,777,949

The Group's operating revenue for the six months ended 30 June 2017 was approximately RMB1,903.94 million, representing an increase of 7.09% over the corresponding period of last year.

The following table sets forth the breakdown of operating revenue from sales of goods by customer types:

	Six months ended 30 June	
	2017	2016
Customer Type	***RMB'000***	*RMB'000*
Distributors	**1,252,976**	1,248,742
Retail pharmacy stores	**577,992**	482,468
Hospitals, clinics, health centres and others	**51,026**	34,033
Total sales of goods	**1,881,995**	1,765,243

For the six months ended 30 June 2017, we generated substantially all of our operating revenue from sales of goods to (i) distributor customers, (ii) retail pharmacy stores, and (iii) hospitals, clinics, health centres and others. For the six months ended 30 June 2017, over 97% of total sales of goods was derived from distributor customers and retail pharmacy stores customers.

The increase in our operating revenue from sales of goods for the six months ended 30 June 2017 primarily attributable to the increase in sales to retail pharmacy stores customers.

The increase in our operating revenue from sales to retail pharmacy stores for the six months ended 30 June 2017 mainly (i) due to our continued marketing efforts on the expansion of retail pharmacy stores network to prepare for our expansion of B2B e-commerce business, which increased the sales of goods to retail pharmacy stores customers, (ii) an increase in the number of our retail pharmacy stores customers from 2,816 as of 30 June 2016 to 4,040 as of 30 June 2017.

Operating cost, gross profit and gross profit margin

For the six months ended 30 June 2017, the operating cost of the Group was RMB1,778.79 million, representing an increase of 5.98% as compared to RMB1,678.35 million for the six months ended 30 June 2016. The increase in business cost was in line with the increase in operating revenue from sales of goods.

For the six months ended 30 June 2017, the gross profit of the Group was RMB125.15 million, representing an increase of 25.66% as compared to RMB99.60 million for the six months ended 30 June 2016. For the six months ended 30 June 2017, the gross profit margin of the Group was 6.57%, increased by 0.97 percentage points as compared to 5.60% for the six months ended 30 June 2016. This was mainly due to (i) the increase in proportion of operating revenue from sales to retail pharmacy stores which generally have higher gross profit margin as retail pharmacy stores usually sell the pharmaceutical products directly to consumers; and (ii) the increase in trade discount from our suppliers primarily attributable to the increase in procurement of products which we acted as primary distributor from 4,147 products for the six months ended 30 June 2016 to 5,542 products for the six months ended 30 June 2017.

Selling expenses

For the six months ended 30 June 2017, the selling expenses were RMB32.17 million, representing an increase of 46.69% as compared to RMB21.93 million for the six months ended 30 June 2016. It was mainly due to (i) the greater efforts on the development of end-markets, as a result, sales staff increased from 191 as of 30 June 2016 to 269 as of 30 June 2017, the logistics classification and distribution staff increased from 265 as of 30 June 2016 to 320 as of 30 June 2017, leading to the increase of the salaries of employees, fringe benefits for employees, and the five social insurance and one housing fund amounts; and (ii) an increase in transportation expenses as a result of the operations of refrigerated transportation vehicles.

Management expenses

For the six months ended 30 June 2017, the management expenses maintained stable at RMB23.53 million, representing a slight decrease of 0.09% as compared to RMB23.55 million for the six months ended 30 June 2016.

Finance costs

For the six months ended 30 June 2017, the finance costs were RMB12.19 million, representing an increase of 141.88% as compared to RMB5.04 million for the six months ended 30 June 2016. It was mainly due to (i) the balance of short-term borrowings amounting to RMB392.20 million as of 30 June 2017, representing an increase of RMB123.05 million as compared to the balance of short-term borrowings of RMB269.15 million as of 30 June 2016; (2) the significant increase in discount rate of bank promissory notes for the six months ended 30 June 2017 as compared to that for the six months ended 30 June 2016.

Non-operating revenue

For the six months ended 30 June 2017, non-operating revenue was RMB2.24 million, representing an increase of 165.12% as compared to non-operating revenue of RMB0.85 million for the six months ended 30 June 2016, mainly due to the receipt of the governmental rewarding fund of RMB2 million.

Income tax expense

For the six months ended 30 June 2017, the income tax expense of the Group were RMB14.64 million, increased by 17.40% as compared with that of RMB12.47 million for the six months ended 30 June 2016. For the six months ended 30 June 2017, the effective tax rate (income tax divided by profit before taxation) was 25.82%, representing an increase of 0.50 percentage points as compared to 25.32% for the six months ended 30 June 2016.

Net profit

The net profit of the Group was RMB42.05 million for the six months ended 30 June 2017 compared to RMB36.76 million for the six months ended 30 June 2016, representing an increase of 14.39%. Among which, the net profit attributable to the owners of parent company was RMB42.01 million compared to RMB36.76 million for the six months ended 30 June 2016, representing an increase of 14.27%. The increase in net profit attributable to the owners of parent company was mainly due to (i) the increase in operating revenue as compared to the corresponding period in 2016; (ii) the increase in the overall gross profit margin; (iii) the increased amount in gross profit exceeded the overall increased amount in expenses.

Liquidity and financial resources

As at 30 June 2017, the cash and bank deposits of the Group were RMB96.89 million, while the cash and bank deposits were RMB119.57 million as at 31 December 2016.

As at 30 June 2017 and 31 December 2016, the Group recorded net current assets of RMB241.69 million and RMB228.31 million respectively. As at 30 June 2017, the current ratio (based on the calculation of current assets divided by current liabilities) of the Group was 1.13 (31 December 2016: 1.13). The bank borrowings of the Group as at 30 June 2017 were RMB392.20 million (31 December 2016: RMB421.36 million).

All of the bank borrowings were provided by the banks within the PRC. All bank borrowings bore interest at fixed rates. The carrying amount of the bank borrowings is denominated in RMB, which is approximate to its fair value. The Group did not use any financial instruments for hedging purposes or any existing borrowings and/or other hedging instruments for hedging net foreign currency investments.

Trade receivables and bill receivables

As of 30 June 2017, the trade receivables and bill receivables amounted to RMB963.42 million, representing a decrease of RMB100.73 million as compared to the amount of trade receivables and bill receivables as of 31 December 2016, mainly due to our enhancement of management of receivables, and our greater effort on the collection of receivables.

Trade payables and bill payables

As of 30 June 2017, the trade payables and bill payables amounted to RMB1,368.64 million, representing an increase of RMB55.23 million compared to the amount of trade payables and bill payables as of 31 December 2016, mainly due to an increase in the procurement volume as a result of an increase in the sales volume.

Financial ratios

	Six months ended 30 June	
	2017	2016
Net profit margin	**2.21%**	2.07%

	As at 30 June 2017	As at 31 December 2016
Gearing ratio	**0.83**	0.93
Net debt to equity ratio	**0.62**	0.67

The net profit margin of the Group (based on the calculation of net profit attributable to the owners of parent company divided by operating revenue) for the six months ended 30 June 2017 was 2.21% as compared to 2.07% of the corresponding period of last year.

The gearing ratio of the Group as at 30 June 2017 (based on the calculation of bank borrowings divided by total equity) was approximately 0.83 as compared to 0.93 as at 31 December 2016.

The net debt to equity ratio of the Group as at 30 June 2017 (based on the calculation of total debts net of cash and cash equivalents divided by total equity) was approximately 0.62 as compared to 0.67 as at 31 December 2016.

Treasury policies

The Group adopts a prudent financial management strategy in implanting the treasury policy. Thus a sound liquidity position was able to be maintained throughout the period under review. The Group continues to assess its customers' credit and financial positions so as to minimize the credit risks. In order to control the liquidity risks, the Board would closely monitor the liquidity position of the Group to ensure its assets, liabilities and other flow structure committed by the Group would satisfy the funding needs from time to time.

Foreign exchange risks

The transactions of the Group are mainly denominated in RMB. Except for part of the unused funds raised from listing which are denominated in HK$ and deposited in designated accounts of commercial banks within the PRC and Hong Kong, most of the assets and all liabilities are denominated in RMB. The Group's deposits which are denominated in HK$ and deposited in designated accounts of commercial banks within the PRC and Hong Kong are subject to exchange rate risks. During the six months ended 30 June 2017, the Group did not use any financial instruments for hedging the foreign currency risk.

Interest rate risks

For the six months ended 30 June 2017, the Group had no bank borrowings which bears interest at floating rate.

Capital structure

The shares of the Company were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") on 14 December 2015. There has been no change in the capital structure of the Company since that date. The capital structure of the Company comprises bank borrowings, secured bank deposits, bank balances and cash as well as equity attributable to the owners of the Company (including issued share capital and reserves).

Capital commitments

As at 30 June 2017, the Group has the capital commitments of RMB6.71 million (2016: nil) on the informatization (Phase II) construction projects and the purchase of logistics equipment.

Employees' information

As at 30 June 2017, the Group had 804 employees (as at 30 June 2016: 604), including the executive Directors. Total staff costs (including emoluments of Directors and supervisors) were approximately RMB24.73 million, as compared to approximately RMB18.71 million for the six months ended 30 June 2016. The emoluments were determined with reference to market practice and the performance, qualification and experience of individual employees.

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

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

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

Material investments, acquisitions and disposals being held

Save as its investments in the subsidiaries, during the six months ended 30 June 2017, the Group did not hold any material investments, acquisitions and disposals in the equity interests of any other companies.

Future plans for material investments and capital assets

Save as disclosed in the prospectus, the Group did not have other plans for material investments and capital assets.

Material acquisitions and disposals related to the subsidiaries and affiliated companies

During the six months ended 30 June 2017, the Group did not have any material acquisitions and disposals related to the subsidiaries and affiliated companies.

Pledge of assets

As at 30 June 2017, the Group was granted a credit limit of RMB859.17 million by various banks while the Group's utilized banking facilities amounted to RMB775.38 million, which were secured by:

(i) property, plant and equipment held by the Group with a carrying amount of RMB82.96 million as at 30 June 2017 (31 December 2016: RMB86.33 million).

(ii) land use rights held by the Group with a carrying amount of RMB94.92 million as at 30 June 2017 (31 December 2016: RMB96.35 million).

(iii) inventories with a carrying amount of RMB250.00 million as at 30 June 2017 (31 December 2016: RMB250.00 million).

Contingent liabilities

The Group had no material contingent liabilities as at 30 June 2017 (2016: nil).

EVENTS AFTER THE REPORTING PERIOD

On 12 July 2017, the Company as the purchaser entered into a sale and purchase agreement with a vendor, an independent third party, to purchase the properties situated at No. 33, Liyu Street, Dongyong Town, Nansha District, Guangzhou City, the PRC, properties including the properties thereunder and the right of land use of the land occupied, at an aggregate cash consideration of RMB131 million (inclusive of tax).

The properties comprise of (i) the plants with a total gross floor area of 15,293.80 square metres; and (ii) the dormitory with a total gross floor area of 4,881.06 square metres, both of which are erected on the land with a site area of 31,141.57 square metres. The Group intends to use the plants and the vacant land comprised in the properties for the construction of the Group's pharmaceutical classification and distribution center in Guangzhou.

The Company has proposed the A Shares Offering. Please refer to the announcement of the Board of the Company dated 20 July 2017, and the circular of the Company dated 15 August 2017 for details of the A Shares Offering.

USE OF PROCEEDS

The Company's ordinary shares were listed on the Stock Exchange on 14 December 2015. The net proceeds from the Global Offering after deduction of underwriting commissions, fees and listing related expenses payables amounted to approximately RMB158.91 million.

For the purpose of enhancing the utilization efficiency of the proceeds from the global offering, the reallocation of the use of proceeds has been resolved by the Board at the Board meeting held on 21 March 2017 and approved at the annual general meeting of the Company held on 10 June 2017, and the details of the actual usage of proceeds after reallocation as of 30 June 2017 are as follows:

Planned Use	**Estimated usage amount** *(RMB million)*	**Estimated usage amount after changing the use of proceeds on 10 June 2017** *(RMB million)*	**Actual usage amount as of 30 June 2017** *(RMB million)*
To strengthen, expand and integrate our existing distribution network and capabilities	55.62	45.62	24.55
To enhance and promote our B2B e-commerce platform	11.89	11.89	9.87
To repay bank borrowings	47.67	47.67	47.67
To acquire pharmaceutical distribution business in Southern China region	23.84	37.84	36.00
For working capital and general corporate purposes	15.89	15.89	15.89
Total	**158.91**	**158.91**	**133.98**

The proposed further change in use of proceeds was resolved by the Board at the Board meeting held on 20 July 2017, and will be proposed at the extraordinary general meeting of the Company to be held on 5 September 2017. Please refer to the Circular of the Company dated 15 August 2017 for details of the proposed further change in use of proceeds.

INTERIM DIVIDEND

The Board proposed the payment of an interim dividend of RMB0.10 (tax inclusive) per share for the six months ended 30 June 2017 subject to approval by the shareholders of the Company at the extraordinary general meeting of the Company to be convened and, if approved, will be payable on or before 15 December 2017. Dividends on domestic shares will be paid in RMB and dividends on H shares will be paid in Hong Kong dollars. The Company will publish the information regarding the date of the extraordinary general meeting, the record date for the payment of H share dividends and the dates of closure of H share register of members of the Company in due course.

CORPORATE GOVERNANCE

The Company confirms that, other than the deviation from Code Provision A.2.1, the Company has complied with all the code provisions (the "**Code Provisions**") set out in the Corporate Governance Code contained in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**") throughout the six months ended 30 June 2017.

Pursuant to Code Provision A.2.1, the responsibilities between the chairman and the chief executive officer should be segregated and should not be performed by the same individual. Mr. Yao Chuanglong is our Chief Executive Officer, and he also performs as the chairman of our Board as he has considerable experience in the pharmaceutical distribution industry. Our Board believes that vesting the roles of both the chairman of our Board and the chief executive officer in the same person has the benefit of ensuring consistent leadership within our Group and enables more effective and efficient overall strategic planning of our Group. The Company considers that the balance of power and authority for the present arrangement will not be impaired and this structure will enable the Company to make and implement decisions promptly and effectively. The Company will continue to review and consider splitting the roles of chairman of the Board and chief executive officer at a time when it is appropriate and suitable by taking into account the circumstances of the Group as a whole.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS AND SUPERVISORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") set out in Appendix 10 to the Listing Rules as the code of conduct for securities transactions for the Directors and supervisors of the Company. Having made enquiries with all Directors and supervisors of the Company, the Company confirmed that all Directors and supervisors have compiled with the required standards of dealing as set out in the Model Code during the six months ended 30 June 2017.

PURCHASE, SALE OR REDEMPTION OF THE LISTED SECURITES OF THE COMPANY

For the six months ended 30 June 2017, the Company did not redeem any of its listed securities, and neither did the Company nor any of its subsidiaries purchase or sell any of the listed securities of the Company.

AUDIT COMMITTEE AND REVIEW ON THE INTERIM RESULTS

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

The unaudited condensed consolidated interim financial statements for the six months ended 30 June 2017 have been reviewed by the audit committee and the audit committee is of the view that the interim report for the six months ended 30 June 2017 is prepared in accordance with applicable accounting standards, rules and regulations and appropriate disclosures have been duly made.

PUBLICATION OF INTERIM RESULTS ANNOUNCEMENT AND INTERIM REPORT

The interim results announcement is published on the websites of both the Stock Exchange (http://www.hkexnews.hk) and the Company (http://www.chmyy.com). An interim report of the Company for the six months ended 30 June 2017 containing all the information required by Appendix 16 to the Listing Rules will be dispatched to the shareholders of the Company and available on the same websites in due course.

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

Hong Kong, 24 August 2017

As at the date of this announcement, the executive Directors are Mr. Yao Chuanglong, Ms. Zheng Yuyan and Mr. Lin Zhixiong; the non-executive Directors are Ms. You Zeyan and Mr. Li Weisheng; and the independent non-executive Directors are Mr. Wan Chi Wai Anthony, Mr. Zhou Tao and Mr. Guan Jian (also known as Guan Suzhe).