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 ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2022

FINANCIAL SUMMARY

- In 2022, the operating revenue of the Group was RMB4,175.28 million, representing an increase of 10.06% as compared to RMB3,793.62 million in 2021.
- In 2022, the net profit of the Group amounted to RMB90.38 million, representing an increase of 290.36% as compared to RMB23.51 million in 2021.
- In 2022, the Group's net profit attributable to the shareholders of parent company was RMB90.38 million, representing an increase of 290.36% as compared to RMB23.15 million in 2021.
- In 2022, the Group's basic and diluted earnings per share was RMB0.8369 compared to RMB0.2144 in 2021.
- The Board recommends the payment of a final dividend of RMB0.45 per share (tax inclusive) for the year ended 31 December 2022.

ANNUAL RESULTS

The board (the "**Board**") of directors (the "**Directors**") of Charmacy Pharmaceutical Co., Ltd. (the "**Company**" or "**we**") is pleased to announce the audited consolidated financial results of the Company and its subsidiaries (the "**Group**") for the year ended 31 December 2022 (the "**Reporting Period"**or "**Year**"), together with the comparative figures for the year ended 31 December 2021.

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2022

Item	*Note*	2022 *RMB*	2021 *RMB*
I. Total operating revenue		**4,175,279,039.20**	**3,793,617,720.03**
Incl:Revenue	*4*	4,175,279,039.20	3,793,617,720.03
II. Total operating cost		**4,113,291,002.67**	**3,759,192,653.30**
Incl: Operating cost	*4*	3,903,521,213.18	3,556,398,664.23
Taxes and surcharges		10,073,659.26	8,657,894.86
Selling expenses		112,831,003.98	103,327,989.46
Management expenses		49,736,270.40	48,523,027.84
Research & development expenses			
Finance costs	*6*	37,128,855.85	42,285,076.91
Incl: Interest expenses		34,257,509.72	40,609,536.96
Interest income		4,601,780.21	3,798,241.18
Add: Other income		371,738.94	523,715.09
Investment income (“ – ” for loss)			23.25
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)		-3,530,457.97	391,365.51
Impairment loss of assets (“ – ” for loss)		-3,148,303.99	-3,102,249.84
Gains on disposal of assets (“ – ” for loss)		65,839,056.46	149,987.17
III. Operating profit (“ – ” for loss)		**121,520,069.97**	**32,387,907.91**
Add: Non-operating revenue		906,412.11	762,102.23
Less: Non-operating expenses		372,783.97	169,431.00
IV. Total profit (“ – ” for total loss)		**122,053,698.11**	**32,980,579.14**
Less: Income tax expense	*7*	31,673,359.34	9,827,519.07
V. Net profit (“ – ” for net loss)		**90,380,338.77**	**23,153,060.07**
(I) By continuity of operations		**90,380,338.77**	**23,153,060.07**
1.Net profit from continuing operation(“ – ” for net loss)		90,380,338.77	23,153,060.07
2.Net profit from discontinued operation(“ – ” for net loss)			
(II) By ownership		**90,380,338.77**	**23,153,060.07**
1.Net profit attributable to the shareholders of parent company (“ – ” for net loss)		90,380,338.77	23,153,060.07
2.Profit of loss of minority shareholders (“ – ” for net loss)			

Item	Note	2022 *RMB*	2021 *RMB*
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 shareholders			
VII. Total comprehensive income		**90,380,338.77**	**23,153,060.07**
Total comprehensive income attributable to the shareholders of parent company		90,380,338.77	23,153,060.07
Total comprehensive income attributable to minority shareholders			
VIII. Earnings per share:			
(I) Basic earnings per share	*8*	0.8369	0.2144
(II) Diluted earnings per share	*8*	0.8369	0.2144

CONSOLIDATED BALANCE SHEET

As at 31 December 2022

Item	*Note*	31 December 2022 *RMB*	31 December 2021 *RMB*
Current assets:			
Monetary funds		492,673,555.44	630,168,026.51
Trading financial assets			
Derivative financial assets			
Bills receivables	*10*	5,329,945.37	14,947,500.00
Trade receivables	*11*	844,442,544.71	716,312,947.43
Account receivable financing	*12*	15,483,006.79	
Prepayments		388,217,993.17	312,160,694.19
Other receivables		96,654,746.27	32,249,707.83
Incl: Interest receivable			
Dividends receivable			
Buying back the sale of financial assets			
Inventories		586,853,688.43	509,156,426.37
Contract assets			
Assets held for sale			
Non-current assets due within one year			
Other current assets		32,705,868.93	23,226,980.50
Total current assets		**2,462,361,349.11**	**2,238,222,282.83**
Non-current assets:			
Debt investment			
Other debt investment			
Long-term accounts receivable			
Long-term equity investments			
Other equity instrument investments			
Other non-current financial assets			
Investment properties			
Fixed assets		276,489,505.37	334,925,145.94
Construction in progress			
Right-of-use assets		17,590,155.87	13,511,183.61
Intangible assets		80,857,328.57	143,033,824.90
Development expenditure			
Goodwill		6,024,104.16	6,024,104.16
Long-term expenses to be amortized		16,338,602.59	19,214,660.88
Deferred income tax assets		6,224,098.37	8,160,319.54
Other non-current assets			
Total non-current assets		**403,523,794.93**	**524,869,239.03**
Total assets		**2,865,885,144.04**	**2,763,091,521.86**

Item	Note	31 December 2022 *RMB*	31 December 2021 *RMB*
Current liabilities:			
Short-term borrowings		513,251,685.23	668,039,276.07
Trading financial liabilities			
Derivative financial liabilities			
Bills payables	*13*	876,775,586.87	809,768,308.81
Trade payables	*14*	632,791,945.43	532,860,284.07
advance receipts			
Contract liabilities		13,528,877.69	46,664,141.17
Salaries payable to employees		13,346,444.66	5,180,138.03
Tax payables		94,155,794.37	44,557,999.46
Other payables		105,824,075.61	11,030,236.31
Incl: Interest payable			
Dividends payable			
Liabilities held for sale			
Non-current liabilities due within one year		4,154,632.64	34,758,053.67
Other current liabilities		1,758,754.11	6,066,338.36
Total current liabilities		**2,255,587,796.61**	**2,158,924,775.95**
Non-current liabilities:			
Long-term borrowings			86,867,415.04
Bonds payable			
Incl: preferred stock			
perpetual note			
Lease liabilities		15,754,772.11	12,489,734.63
Long-term payables			
Long-term payroll payable			
Accruals and provisions			
Deferred income			304,706.99
Deferred income tax liabilities		60,256.92	402,909.62
Other non-current liabilities			
Total non-current liabilities		**15,815,029.03**	**100,064,766.28**
Total liabilities		**2,271,402,825.64**	**2,258,989,542.23**
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	21,080,432.34
General Risk Preparation			
Unallocated profits		179,362,232.39	96,030,718.25
Total equity attributable to the shareholders of parent company		**594,482,318.40**	**504,101,979.63**
Minority interests			
Total shareholders' interests		**594,482,318.40**	**504,101,979.63**
Total liabilities and shareholders' interests		**2,865,885,144.04**	**2,763,091,521.86**

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2022

1. GENERAL

Charmacy Pharmaceutical Co., Ltd. (the "**Company**") was established as an enterprise owned by the whole people (全民所有制企業) in the People's Republic of China (the "**PRC**") under the name of Shantou Pharmaceutical Supplies Company* (汕頭市醫藥聯合公司物資站) on 18 February 1984. Pursuant to an approval granted by relevant PRC authorities on 28 May 2015, the Company was transformed into a joint stock company with limited liability and changed its name to Charmacy Pharmaceutical Co., Ltd. (創美藥業股份有限公司). The shares of the Company have been listed on the main board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") from 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 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(the "**Listing Rules**"), 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 31 December 2022 did not find any event or condition which may cast significant doubt on the going concern ability. Hence, the preparation of these financial statements was based on the assumption of going concern.

3. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(1) Declaration on compliance with Accounting Standards for Enterprises

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

(2) Accounting period

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

(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.

(5) Changes of significant accounting policies and accounting estimates

There is no change in the significant accounting policies and accounting estimates of the Group for the Reporting Period.

Unless otherwise stated, in respect of the following data disclosed in the financial statements, "beginning of the year", "end of the year", "the year" and "last year" refer to 1 January 2022, 31 December 2022, 1 January 2022 to 31 December 2022, and 1 January 2021 to 31 December 2021, respectively, while the currency unit is RMB.

4. OPERATING REVENUE AND OPERATING COST

Item	**Amount for the year**		Amount for last year	
	Revenue	**Cost**	Revenue	Cost
Principal business	**4,140,664,410.05**	**3,903,521,213.18**	3,763,064,314.48	3,556,398,664.23
Other businesses	**34,614,629.15**		30,553,405.55	
Total	**4,175,279,039.20**	**3,903,521,213.18**	3,793,617,720.03	3,556,398,664.23

5. SEGMENT INFORMATION

Information would be reported to the chief executive officer of the Company, 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 products distribution and related service.

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.

Information about major customers

No individual customer has contributed over 10% of the total operating revenue of the Group for 2022 and 2021.

6. FINANCE COSTS

Item	**Amount for the year**	Amount for last year
Interest expenses	**34,257,509.72**	40,609,536.96
Less: Interest income	**4,601,780.21**	3,798,241.18
Add: Foreign exchange loss	**749,260.81**	-139,015.35
Handling fees	**5,908,232.98**	4,705,476.86
Interest on lease liabilities	**815,632.55**	907,319.62
Total	**37,128,855.85**	42,285,076.91

7. INCOME TAX EXPENSES

(1) Income tax expenses

Item	Amount for the year	Amount for last year
Current income tax calculated according to the tax law and related regulations	**30,079,790.87**	8,603,751.35
— Corporate income tax in Mainland China	**30,079,790.87**	8,603,751.35
— Profit tax in Hong Kong, PRC		
Deferred income tax expenses	**1,593,568.47**	1,223,767.72
Total	**31,673,359.34**	9,827,519.07

The Group had no Hong Kong income tax, since it had no taxable income in Hong Kong during the year.

(2) Reconciliation between accounting profit and income tax expenses

Item	Amount for the year
Total consolidated profit for the year	**122,053,698.11**
Income tax expenses calculated at statutory/applicable tax rate	**30,513,424.53**
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	**256,388.40**
Use of deductible losses that have not been previously confirmed for deferred EIT assets	**-378,785.46**
Effect of deductible temporary differences or deductible losses on deferred income tax assets not recognised in the year	**1,282,331.87**
Income tax expenses	**31,673,359.34**

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 in 2022 are as follows:

Profit for the Reporting Period	Weighted average return on net assets (%)	Earnings per share	
		Basic earnings per share	Diluted earnings per share
Net profit attributable to the shareholders of parent company	**16.45**	**0.8369**	**0.8369**
Net profit attributable to the shareholders of parent company (excluding non-recurring profit and loss)	**7.29**	**0.3708**	**0.3708**

9. DIVIDEND

The Board proposed the distribution of a final dividend of RMB0.45 (tax inclusive) per share for the year ended 31 December 2022 (2021: Nil), subject to the Company's shareholders' approval on the forthcoming annual general meeting.

10. BILLS RECEIVABLES

(1) Classification of bills receivables

Item	Balance as at the end of the year	Balance as at the beginning of the year
Bank acceptance bills		
Commercial drafts	**5,348,665.70**	15,000,000.00
Subtotal	**5,348,665.70**	15,000,000.00
Less: Provision for bad debt	**18,720.33**	52,500.00
Total	**5,329,945.37**	14,947,500.00

(2) Pledged bills receivable as at the end of the year

Item	Pledged amount as at the end of the year
Commercial drafts	**5,348,665.70**
Total	**5,348,665.70**

(3) The Group had no notes receivable that had been endorsed or discounted at the end of the year and were not yet mature at the balance sheet date.

(4) As at the end of the year, 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

	Balance as at the end of the year				
	Book balance		Provision for bad debt		
Classification	Amount	Proportion (%)	Amount	Provision ratio (%)	Book value
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 : Aging 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**

Classification	Balance as at the beginning of the year				
	Book balance		Provision for bad debt		
	Amount	Proportion (%)	Amount	Provision ratio (%)	Book value
Bad debt provision made on individual basis					
Bad debt provision made on a collective basis	15,000,000.00	100.00	52,500.00	0.35	14,947,500.00
Incl: Aging portfolio	15,000,000.00	100.00	52,500.00	0.35	14,947,500.00
Low risk portfolio					
Total	15,000,000.00	100.00	52,500.00	—	14,947,500.00

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

Name	Balance as at the end of the year		
	Book balance	**Provision for bad debt**	**Provision ratio (%)**
Aging portfolio	**5,348,665.70**	**18,720.33**	**0.35**
Total	**5,348,665.70**	**18,720.33**	**—**

Note 1: For the aging portfolio comprising the amounts of the commercial drafts held as at the end of the year and the commercial drafts discounted as at the end of the year 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 trade receivables.

Note 2: The age of the aforementioned bills receivables of the Group as at the end of the year was within 1 year.

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

Category	**Balance as at the beginning of the year**	**Changes in the year**				**Balance as at the end of the year**
		Accrued	**Recovered or reversed**	**Written back or written off**	**Other**	
Commercial drafts	52,500.00	**-33,779.67**				**18,720.33**
Total	52,500.00	**-33,779.67**				**18,720.33**

11. TRADE RECEIVABLES

Name of item	**Balance as at the end of the year**	Balance as at the beginning of the year
Trade receivables	**865,013,450.04**	745,187,896.34
Less: Provision for bad debt	**20,570,905.33**	28,874,948.91
Net	**844,442,544.71**	716,312,947.43

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

Classification	**Balance as at the end of the year**				
	Book balance		**Provision for bad debt**		
	Amount	**Proportion (%)**	**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: Aging 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**

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

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

Age	Balance as at the end of the year		
	Book balance	Provision for bad debt	Provision ratio (%)
Within 1 year	**838,189,045.73**	**2,933,661.66**	**0.35**
1 to 2 years	**9,418,029.04**	**906,014.39**	**9.62**
2 to 3 years	**268,870.25**	**205,954.61**	**76.60**
Over 3 years			
Total	**847,875,945.02**	**4,045,630.66**	—

(2) Trade receivable by aging

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 the end of the year**	Balance as at the beginning of the year
Within 1 year	**838,690,868.18**	698,261,162.04
1 to 2 years	**10,677,499.45**	23,963,529.50
2 to 3 years	**1,380,979.86**	3,785,724.58
More than 3 years	**14,264,102.55**	19,177,480.22
Total	**865,013,450.04**	745,187,896.34

(3) Preparations for bad debts receivable for the current year

Classification	**Balance as at the beginning of the year**	**Changes in the year**				**Balance as at the end of the year**
		Accrued	**Recovered or reversed**	**Written back or written off**	**Others**	
Provision for bad debt made on individual basis	24,182,656.80	3,433,599.48	305,266.04	10,785,715.57		16,525,274.67
Provision for bad debt made on a collective basis	4,692,292.11	-646,661.45				4,045,630.66
Total	28,874,948.91	2,786,938.03	305,266.04	10,785,715.57		20,570,905.33

(4) The status of the write-off of accounts receivable for the year

Company name	The nature of accounts receivable	The amount of write-off	Reason for write-off	Verification procedures performed	Whether the payment was generated by a connected transaction
Guangdong Wei'erkang Medicine Co.,Ltd. *廣東爲爾康醫藥有限公司)	Payment	5,592,584.15	The customer shows a revocation status, the arrears are long, and the amount is not expected to be collected	Internal approval process	No
Fujian Minzhe Pharmaceutical Co., Ltd (福建省閩浙醫藥有限責任公司)	Payment	2,010,786.55	The customer has been listed as a dishonest executor, the arrears have been long, and the amount is not expected to be recovered	Internal approval process	No
Guangdong Guofeng Pharmaceutical Co.,Ltd *(廣東國鳳藥業有限公司)	Payment	720,358.21	The customer shows a revocation status, the arrears are long, and the amount is not expected to be collected	Internal approval process	No
Total	—	**8,323,728.91**	—	—	—

12. ACCOUNT RECEIVABLE FINANCING

Item	**Balance as at the end of the year**	Balance as at the beginning of the year
Bank acceptance bills	15,483,006.79	
Total	**15,483,006.79**	

13. BILLS PAYABLES

Classification of bills	**Balance as at the end of the year**	Balance as at the beginning of the year
Bank acceptance bills	**876,775,586.87**	809,768,308.81
Total	**876,775,586.87**	809,768,308.81

Note: As at the end of the year, the age of the aforementioned bills payables of the Group were within 1 year.

14. TRADE PAYABLES

(1) Trade payables

Item	**Balance as at the end of the year**	Balance as at the beginning of the year
Loans	**631,927,855.43**	525,003,330.09
Equipment costs	**864,090.00**	7,856,953.98
Total	**632,791,945.43**	532,860,284.07

(2) Aging presentation of trade payables

Below is an aging analysis of trade payables based on transaction date as at 31 December 2022:

Age	**Balance as at the end of the year**	Balance as at the beginning of the year
Within 1 year	**627,284,478.84**	530,047,558.14
1 to 2 years	**4,226,813.06**	2,040,818.31
2 to 3 years	**755,347.04**	308,387.62
More than 3 years	**525,306.49**	463,520.00
Total	**632,791,945.43**	532,860,284.07

(3) Important accounts payable that are more than 1 year

Company name	Balance as at the end of the year	The reason for not being reimbursed or carried over
Guangzhou Dashenlin Pharmaceutical Co.,Ltd. * (廣州大參林藥業有限公司)	**3,281,110.55**	Payments payable that have not yet been settled
Xinjiang Xinyu Runcheng Trade Co., Ltd * (新疆信宇潤誠商貿有限公司)	**1,419,370.52**	Payments payable that have not yet been settled
Total	**4,700,481.07**	—

MANAGEMENT DISCUSSION AND ANALYSIS

INDUSTRY OVERVIEW

There was repeated outbreaks of COVID-19 pandemic across the People’s Republic of China (**“China”** or the **“PRC”**) in 2022, but the virus gradually became less virulent, laying the foundation for continued optimization of the epidemic prevention policy. China efficiently coordinated epidemic prevention and control with the social and economic development, maintaining the overall national economy and society stable, and achieving the Gross Domestic Product (GDP) of over RMB120 trillion, representing a year-on-year increase of 3.0%. Following significant adjustments to the epidemic prevention policy in China at the end of 2022, gradually witnessed a return to pre-pandemic levels of and social production and , leading to an improvement in living return with a positive outlook on economic growth.

In the post-pandemic era, China's pharmaceutical industry is poised to accelerate its high-quality development because of the people's increasing emphasis on physical health and the further deepening of many policies in this industry. Benefiting from the deepening promotion of new policies for medical reform the healthcare sector such as the “Healthy China”, accelerated procurement and expansion of drugs, “Internet + Medical Health”, hierarchical diagnosis and treatment and the medical insurance system, and the stronger empowerment of the digital wave, the pharmaceutical distribution industry is rapidly transforming. The retail terminal market is embracing such new development opportunities and continuously moving towards high-quality development. 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.

With an increasing concentration, the drug circulation industry has resumed growth of its market volume

In 2022, The sales scale of China's pharmaceutical distribution market experienced steady sales growth, and rate gradually returning to return level before the outbreak of COVID-19 pre-pandemic level. Statistics show that the sales volume of the pharmaceutical wholesale market will be RMB2,061.5 billion, with a year-on-year increase of 8.5% after deducting non-comparable factors, which represent an increase in growth rate of 6.1 percentage points year-on-year.

Offline retail competition in the pharmaceutical industry was intensified, and the industry concentration will further increase.. The pharmaceutical distribution market maintained stable growth. According to industry data statistics from MENET, the sales of medicine in the six major markets across China's three major terminals of reached RMB867 billion, represent a year-on-year increase of 3.3% in the first half year of 2022, representing an increase of 3.3% when compared with the sales in the corresponding period last year. From the perspective of market share, the concentration of drug wholesale enterprises continues to increase. Statistics show that in 2021, the top 100 drug wholesale enterprises accounted for 74.5% of the total China's pharmaceutical market size in the same period, 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.

The Ministry of Commerce issued the “Guidance on Promoting the High-Quality Development of the Drug Distribution Industry during the 14th Five-Year Plan Period” (the **"Guidance"**), proposing that by 2025, the drug distribution industry should adapt to the people's health needs in China's new development stage, and the modern drug 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 drug distribution industry in the next five years, providing important guidelines for the industry to achieve high-quality development.

Policy guidance led the high-quality development, and a unified national market helped pharmaceutical distribution enterprises to intensify their operations

In April 2022, the CPC Central Committee and the State Council issued the "Guideline on Accelerating the Establishment of a Unified Nationwide Market", proposing to promote the formation of a domestically circulating market mutually promotes supply and demand, production and marketing, and smooth and efficient, through the construction of efficient and standardised, fair competition, and fully open unified national market. This will lay a solid foundation for high-quality economic development. For pharmaceutical distribution enterprises, a unified large market will help to solve the problem of inconsistent regional pharmaceutical logistics policies. Through the formulation of unified standards for third-party pharmaceutical logistics access and setup of warehouses in different places, promoting the international alignment of the pharmaceutical logistics standards system, pharmaceutical distribution enterprises can achieve intensified operations, further expand market room and reduce operating costs.

In May 2022, the General Office of the State Council issued the "Lists Tasks for Further Reform of the Medical and Health Care System in 2022", which intensified the reform of the linkage between medical treatment, medical insurance and pharmaceutical, and promote the accelerated expansion and balanced allocation of high-quality medical resources. As the medical reform entering a deep-water zone, the drug distribution business model continued to move towards intensification, diversification, specialisation and digitalisation. In addition, in November 2022, the National Medical Products Administration organised the formulation of "Appendix 6 to the Good Supplying Practice (GSP): Quality Management of Drug Delivery for Retail Sales" (the "**GSP Appendix**"), which came into effect on 1 January 2023. The GSP Appendix provided an important guidance for the whole industry's high-quality development, noting that it is necessary to develop a quality management system for drug distribution, strengthen the supervision and management of drug operations, and effective quality control measures must be taken during the delivery of drugs. The drug distribution process must also meet the requirement of drug information traceability to achieve controllable and traceable quality throughout the entire process of drug delivery, further regulate the behavior of delivery of drugs for retailing, and ensure the quality and safety of drugs in retail-related delivery.

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 + Drug Distribution" and promote the digital transformation and upgrading of the drug distribution industry. The release of the Guidance accelerated the drug distribution enterprises to actively explore digital transformation process, promoting them to strengthen the upgrading and application of intelligent and automated logistics technology and intelligent equipment, and continuously enhance the logistics collaboration capabilities of cross-regional supply chains. They constantly explore the construction of sub-warehouses and multi-warehouse operations, which will help integrate the resources of the upstream and downstream components of the supply chain, promote the integration of "logistics, information flow and capital flow", establish and continuously improve a diversified but collaborative pharmaceutical supply chain system, so as to enhance the operational efficiency and competitiveness of the whole industry chain. Meanwhile, based on the collaborative ability resource integration using digital technology, more and more national and regional pharmaceutical distribution companies are transforming themselves into pharmaceutical supply chain solution service providers, gradually setting up a full-chain delivery system from pharmaceutical manufacturers to patients, accelerating the expansion of third-party logistics business, giving better play to the advantages of their logistics networks, and enhancing their capabilities of providing big-scale, tailor-made services as needed to realise differentiated product/service deliveries and provide pharmaceutical manufacturers with efficient nationwide and regional third-party pharmaceutical logistics services with synergistic effect among multiple warehouses.

The number of pharmaceutical wholesale enterprises engaging third-party pharmaceutical logistics enterprises for storage and transportation has gradually increased. According to statistics, as of the first half of 2022, there were more than 1,400 pharmaceutical wholesale enterprises in Guangdong, of which more than 280 engaged third-party pharmaceutical logistics enterprises for storage and distribution of drugs. There were more than 560 chain pharmacy enterprises, of which more than 40 engaged third-party pharmaceutical logistics enterprises in Guangdong. Guangdong's drug retail market pattern shows a trend of accelerating changes, and regional distribution giants will continue to expand their market shares by virtue of their comprehensive competitive advantages.

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

In recent years, with the further deepening of the healthcare reform and the continuous introduction of policies aimed at breaking the "drug-based medical treatment" model, the separation of medical treatment and drugs led to change in the original pattern, which was dominated by in-hospital market. There are considerable blue-ocean opportunities for the off-hospital pharmaceutical market. Facing the new changes in the entire pharmaceutical industrial chain, actively expanding the off-hospital market seems to be a major direction for the future development of pharmaceutical distribution enterprises. (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. Drug 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 "Provisions for Supervision and Administration of Online Drug Sales" was put into implementation to ensure the safety of public's online purchase of drugs

The "Provisions for Supervision and Administration of Online Drug Sales" (the **"Online Drug Sale Provisions"**) was released in August 2022, which clarified that prescription drugs can be sold online. The Online Drug Sale Provisions took effect on 1 December 2022 and provide clear requirements for the sources of electronic prescriptions, drug sales under the real-name registration system, avoiding reuse of prescriptions, and provision of prescriptions before buying drugs.

On one hand, the separation of medical treatment from drug sales has become an inevitable trend with the continuous deepening of the healthcare reform. Factors such as zero markups on drug prices, control over the percentage of income from drug sales in the total income of hospitals, and dual channels of hospitals eligible for healthcare reimbursement and retail pharmacies, as well as the outcomes of the pilot construction of electronic prescription centres in Hainan and Shenzhen are helping to facilitate the increase the pace of prescription drug purchases from pharmacies in China, bringing considerable traffic volume to the sales terminals that receive prescription sales . With the deepening implementation of the policy of separating medical treatment and drug sales widely, the market size brought by the outflow of prescriptions from hospitals in the future are expected to directly benefit pharmacies eligible for healthcare reimbursement, pharmacies adjacent to hospitals, and direct-to-patient (DTP) pharmacies, and accelerate the overall growth of drug retail industry. On the other hand, as the COVID-19 control measures gradually loosen, people will resume their drug purchase practice and storing drugs at home based on their own needs, and the demand for online drug purchase and consultation by residents will increase. With the joint stimulation of policy promotion and and release of market demand, Internet-based medical treatment will embrace great opportunities. (The fourth terminal reported sales at RMB136 billion in the first half year of 2022, represent a year-on-year increase of 22.0% .)

With the further regulation of online drug sales and the gradual exploration and promotion of electronic prescription centers and construction and medical insurance settlement via "one-stop" solutions in various regions, sale of prescription drugs online will truly come to fruition. Internet-based diagnosis and treatment will follow clear guidelines, and the online sales of prescription drugs will be traceable, while patients will gain access to safer online medical services. All of these will build a sound foundation for the high-quality development of the drug distribution industry.

New business model of drug retail in the off-hospital market were encouraged, and the development of the drug retail chain industry was accelerated

In January 2022, the National Development and Reform Commission of the State Council released the "Circular on Recent Boost to Consumption", proposing that it is necessary to further stimulate the new vitality of intelligent retail, and encourage the development of new business formats and services such as smart supermarkets and smart pharmacies in office buildings, residential communities and community business. Among them, smart pharmacies can link the prescription system with their own systems seamlessly through innovative technologies such as the Internet, big data and artificial intelligence. This shortens the waiting time for patients picking up their medications and provides innovative pharmaceutical services, such as contactless medicines pickup.

In February 2022, the Guangdong Medical Products Administration issued the “Scheme for the Pilot Comprehensive Reform of Class B Over-the-Counter Drug Operations in Guangdong Province” to all market supervision and administration bureaus at or above the prefectural level, deciding to launch the pilot comprehensive reform of allowing large chain convenience stores to sell Class B OTC drugs across the province, which officially started in March 2022. Currently, the model of integrating “pharmacies + convenience stores” has been so far launched in many places, and is expected to transform traditional pharmacies into community-based health convenience stores.

In April 2022, the Guangdong Medical Products Administration issued the “Measures for Supervision and Management of Chain-based Operations of Drug Retailing in Guangdong Province” (the “**Measures**”), which officially came into effect on 1 May 2022, helping to accelerate the large-scale, intensive and standardized development of the pharmaceutical retail chain industry. In July 2022, the Guangdong Medical Products Administration issued the “Circular on Improving the Modern Drug Distribution System and Promoting the High-quality Development of the Drug Distribution Industry”, proposing to strive to build Guangdong into a national modern logistics and delivery center of drugs, a drug Internet platform data processing center and a cluster of headquarters of national pharmaceutical retail chain stores. It is clear that Guangdong Province will accelerate the fostering of large and modern pharmaceutical backbone enterprises, support innovation development of pharmaceutical retail chains through mergers, restructuring, acquisitions, and franchises, etc., and comprehensively improve the pharmaceutical retail chain rate and standardisation management level.

The epidemic prevention policy was substantially optimised

In early December 2022, the Joint Prevention and Control Mechanism for COVID-19 under the State Council released the “Circular on Further Optimising the Response to the COVID-19 Pandemic”, which announced "New Ten Measures", including prohibiting any form of temporary containment, not conducting mass nucleic acid testing by administrative regions, and allowing asymptomatic infections and mild symptoms with home quarantine conditions to choose voluntary home or centralised quarantine. At the end of that month, the National Health Commission issued the “Overall Plan for Managing COVID-19 as a Category B Infectious Disease”, stating that starting from 8 January 2023, COVID-19 infections will be adjusted to downgrade the management from Category A to Category B, and will no longer implement quarantine, stop identifying close contacts, and not adopt quarantine measures for incoming persons and goods. Since December 2022, the national production and living have gradually resumed, and the overall pandemic situation is at a low epidemic level, providing an increasingly better development environment of the pharmaceutical distribution industry.

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 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 drugs. They leverage on new technologies such as Internet-based medical care and big data to promote a medical service system that provides all the people with a full package of medical solutions integrating prevention, treatment, rehabilitation and health management, which helps promote the pharmaceutical industry’s healthy development and the volume expansion of the end market.

Sources of the above information: MENET; Annual Report on China’s Pharmaceutical Distribution Industry (2022) (《中國藥品流通行業發展報告》(2022)); Journal of China Drug Circulation (《中國藥品流通》期刊)

BUSINESS REVIEW

The principal business of the Company and its subsidiaries (collectively referred to as 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, hospitals, clinics, health centres and other customers.

In 2022, we followed our established operation targets, and continued to expand our operation in Guangdong and its surrounding markets, with a focus on developing our retail terminal network. As at 31 December 2022, our distribution network covered 13,396 customers, among which 702 were distributors, 8,683 were retail pharmacy stores, and 4,011 were hospitals, clinics, health centres and others, representing an increase of 771 in the number of customers, including the increase of 2 distributors, 702 retail pharmacy stores, and 67 hospitals, clinics, health centres and others compared to last year.

In order to meet the various 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. We also continued to optimise our product mix by introducing marketable, high-quality products with high profit margin to enrich our product categories. As at 31 December 2022, we had a total of 1,141 suppliers, of which 638 were pharmaceutical manufacturers and 503 were distributor suppliers, representing a decrease of 16 suppliers compared to last year. For the year ended 31 December 2022, we had distributed 12,952 types of products, representing a decrease of 549 types of products compared to last year.

Product Category	**Number of products for the year ended 31 December**	
	2022	2021
Chinese patent medicines	**4,925**	5,088
Western medicines	**4,687**	4,826
Others	**3,340**	3587
Total	**12,952**	13,501

Actively expanded third-party logistics to improve profitability

The Group has a well-established logistics network and information system and uniform storage conditions conforming to GSP management standards. It takes Charmacy (Guangzhou) Pharmaceutical Sorting and Distribution Center as the core warehouse, and has built a leading regional logistics hub. The Company had realised multi-warehouse collaboration with the 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 generating revenues for the Group and improving the Group's profitability. In addition to meeting the warehousing and logistics needs for the Group's own business, as of 31 December 2022, the Group had cooperated with nearly 110 customers, including manufacturers, commercial distributors and chain pharmacies, for third-party pharmaceutical logistics business and other value-added services such as warehousing or transportation, the corresponding revenue increased by 177.49% to RMB8.24 million in 2022.

Introduce state-owned strategic investment to inject new impetus into high-quality development

Jiangxi Jiangzhong Pharmaceutical Commercial Operation Co., Ltd. (江西江中醫藥商業運營有限責任公司) (the "**Jiangzhong Yishang**") is a state-owned mixed-ownership enterprise jointly established by Jiangxi Provincial State-owned Capital Operation Holdings Group Corporation and China Resources Jiangzhong Pharmaceutical Group Co., Ltd. Relying on the policy resources and brand advantages of these two state-owned enterprises, Jiangzhong Yishang enjoys sound brand effect and social influence in the national market. Jiangzhong Yishang and the Group share the positioning of focusing on the non-tendering pharmaceutical terminal market. Based on their trust in and expectation of the Group, Jiangzhong Yishang became a substantial shareholder of the Company during the Reporting Period and has signed a three-year purchase and sales agreement with the Group, aimed at engaging in all-around and in-depth strategic cooperation in the drug distribution business, providing the Group with more high-quality and cost-effective product specifications with brand effects, and sharing more sales channels for the purposes of taking complementary advantages, sharing resources, achieving win-win outcomes through cooperation, and seeking common development. By giving full play to the synergistic effects of both parties, and capitalizing on the state-owned resources and industrial development advantages of Jiangzhong Yishang, the Group's overall operation level and comprehensive competitiveness are to be further improved, which will fully support the high-quality development of the Group.

We completed the H Share full circulation programme

On 15 February 2022, the Company submitted an application to the China Securities Regulatory Commission (the "**CSRC**") in respect of the conversion of all of its domestic shares into H shares of the Company. On 6 June 2022, the Company received formal approval from the CSRC the domestic shareholders of the Company are allowed to convert up to an aggregate of 80,000,000 unlisted domestic shares of the Company into H shares of the Company and the listing thereof on the main board of the Stock Exchange. On 14 June 2022, the Listing Committee of the Stock Exchange granted approval for the listing of and permission to deal in 80,000,000 H shares of the Company (the "**Converted H Shares**"). On 29 June 2022, the share certificate for the Converted H Shares was issued to China Securities Depository and Clearing (Hong Kong) Company Limited and deposited into the Central Clearing and Settlement System operated by the Hong Kong Securities Clearing Company Limited on 29 June 2022 and the listing of the Converted H Shares on the Stock Exchange commenced at 9:00 a.m. on 30 June 2022. For further details, please refer to the Company's announcements dated 15 February 2022, 6 June 2022, 15 June 2022 and 29 June 2022.

The conversion of all of the Company's domestic shares into H shares, increases the number of shares available in the market, which may lead to a more diverse shareholder base.

We entered into the land resumption agreement

The Company entered into a land resumption agreement with Foshan Chancheng District Land Reserve Center and Foshan Chancheng District Zumiao Sub-district Office, pursuant to which the Company agreed to surrender the land use right of the land situated at No. 65, Foshan Avenue, Chancheng District, Foshan, the PRC* (佛山市禪城區佛山大道北65號) with an aggregate site area of approximately 16,827.75 sq.m. (the "**Land**") and the construction of the Land to Foshan Chancheng District Land Reserve Center at a consideration by way of cash compensation of RMB160,000,000 (the "**Land Resumption**"). As one or more of the applicable percentage ratios (as defined in the Listing Rules) for the Land Resumption is more than 5% but less than 25%, the Land Resumption constituted a discloseable transaction of the Company under Chapter 14 of the Listing Rules. For details of the Land Resumption Agreement, please refer to the Company's announcements dated 11 October 2022 and 3 January 2023.

The Company recorded a gain after tax of approximately RMB49.38 million from the Land Resumption for the year ended 31 December 2022.

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 development strategy of focusing on "Intensive Engagement in Guangdong Province and Extensive Coverage across Surrounding Areas", and commit ourselves to becoming the most competitive health and medical service provider in China.

China's epidemic prevention policy has been substantially optimised. As a result, the social production and living are gradually returning to the pre-pandemic level, and the people is raising their health awareness. And, China is accelerating the establishment of a new development pattern with the dual circulation in which domestic and foreign markets reinforce each other with the domestic market as the mainstay. At the same time, the deepening of the reform of "Medical Care, Medical Insurance and Pharmaceutical Industry" has accelerated the implementation of the "Healthy China" initiative. The medical reform represented by the "Two-Invoice System", "Centralised Procurement in Large Quantities", and "Risk Pooling of Outpatient Services" leads to cost increase, profit decrease, and product structure adjustment in distribution enterprises which cover the bidding market and bring up opportunities to the third-party logistics service under the advantages of higher market concentration and greater product variety.

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 drug 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.

In the long run, China's economy has both tenacity and growth potential, and the trend of steady progress will not change. Moreover, with the advancement of social civilization, the increasingly wider coverage of the health insurance coverage, the acceleration of ageing population and the enhancement of people's health awareness, the potential of China's medical and health industry is expected to be released rapidly, driving the market share of the non-tendering market to continuously expand, which will contribute to the long-term growth of our business.

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.

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.

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

We will search for long-term and deep strategic cooperation with pharmaceutical producers. We will focus on strengthening our cooperation with major prescription drug manufacturers to capture more growth opportunities in non-tendering market products, diversify our product portfolios and cement the strength of our products. 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.

We will continue to strengthen the capacity building for pharmaceutical logistics modernisation and actively expand the third-party logistics business. We will actively explore the application of 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.

We will actively explore the mode of cooperation with state-owned strategic shareholders, and further optimise our Group’s shareholder structure and governance structure. We will work with Jiangzhong Yishang to explore the model of deepening cooperation, and will also introduce new business development resources at the appropriate time, facilitate the continuous improvement to our market influence, further strengthen our Group’s soft power and competitiveness, and promote our Group’s better and more sustainable development.

Looking ahead, we will continue to 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 revenue

	For the year ended 31 December	
	2022	2021
	RMB'000	*RMB'000*
Principal business	**4,140,664**	3,763,064
Other businesses	**34,615**	30,553
Operating revenue	**4,175,279**	3,793,618

	For the year ended 31 December	
Customer type	**2022**	2021
	RMB'000	*RMB'000*
Distributors	**1,922,097**	1,823,835
Retail pharmacy stores	**2,057,232**	1,792,830
Hospitals, clinics, health centres and others	**161,335**	146,399
Revenue from principal business	**4,140,664**	3,763,064

For the year ended 31 December 2022, our revenue from principal business was derived from product sales to (i) distributor customers; (ii) retail pharmacy stores; and (iii) hospitals, clinics, health centres and others. For the year ended 31 December 2022, over 96% of our revenue from principal business was derived from distributor customers and retail pharmacy stores.

The operating revenue of the Group for the year ended 31 December 2022 was RMB4,175.28 million, representing an increase of 10.06% as compared to that for the year ended 31 December 2021, which was mainly due to: (i) the pandemic response policy. The pandemic prevention and control policy in 2021 and the first half of 2022 lowered the number of visits to pharmacies and resulted in decrease in drug sales. The Company managed to increase its sales when such epidemic prevention policy was relaxed in the second half year of 2022; and (ii) the peak demand for drugs when all pandemic protocols were removed at the end of 2022. Leveraging its strong goods storage and solid partnerships with suppliers, as well as its professional marketing team and logistics team, the Company went all out to ensure the drug supply at the retail terminals, which pushed up its income.

Operating cost, gross profit and gross profit margin

The operating cost of the Group increased by 9.76% from RMB3,556.40 million for the year ended 31 December 2021 to RMB3,903.52 million for the year ended 31 December 2022, which was consistent with the increase in the operating revenue from product sales.

The gross profit of the Group increased by 14.56% from RMB237.22 million for the year ended 31 December 2021 to RMB271.76 million for the year ended 31 December 2022. The gross profit margin of the Group increased from 6.25% for the year ended 31 December 2021 to 6.51% for the year ended 31 December 2022, mainly due to the Company's active adjustment of product mix by replacing products with low gross profit margin with those with high gross profit margin. Income from the third party logistics business increased by 177.49% from RMB2.97 million in 2021 to RMB 8.24 million in 2022.

Selling expenses

The selling expenses of the Group increased by 9.20% from RMB103.33 million for the year ended 31 December 2021 to RMB112.83 million for the year ended 31 December 2022. The related change was consistent with the increase in principal business revenue.

Management expenses

The management expenses of the Group increased by 2.50% from RMB48.52 million for the year ended 31 December 2021 to RMB49.74 million for the year ended 31 December 2022, which was mainly due to an increase in the payment to intermediaries hired for completing the full circulation of H shares during the period.

Finance costs

The finance costs of the Group decreased by 12.19% from RMB42.29 million for the year ended 31 December 2021 to RMB37.13 million for the year ended 31 December 2022, primarily because: (i) the short-term borrowings newly made during the year were RMB60 million less than the last year; and (ii) the Group repaid RMB118.46 million in long-term borrowings ahead of maturity.

Income tax expenses

The income tax expenses of the Group increased by 222.29% from RMB9.83 million for the year ended 31 December 2021 to RMB31.67 million for the year ended 31 December 2022, primarily because: (i) the increase in principal business revenue; and (ii) the resumption of Foshan Logistics and Distribution Centre which increased the income tax expenses correspondingly. The current income tax expenses were recognised and the deferred income tax assets and liabilities were adjusted according to the accounting standards.

Net profit

The net profit of the Group increased by 290.36% from RMB23.15 million for the year ended 31 December 2021 to RMB90.38 million for the year ended 31 December 2022. In particular, the net profit attributable to the shareholders of parent company increased by 290.36% from RMB23.15 million for the year ended 31 December 2021 to RMB90.38 million for the year ended 31 December 2022, primarily due to: (i) the increase in principal business revenue and gross profit; and (ii) the resumption of Foshan Logistics and Distribution Centre which increased the profit by RMB49.38 million correspondingly.

Liquidity and financial resources

As at 31 December 2022, the cash and bank deposits of the Group amounted to RMB68.86 million, while the cash and bank deposits amounted to RMB144.23 million as at 31 December 2021.

As at 31 December 2022 and 31 December 2021, the Group recorded net current assets of RMB206.77 million and RMB79.30 million, respectively. As at 31 December 2022, the current ratio (based on the calculation of current assets divided by current liabilities) of the Group was 1.09 (2021: 1.04).

The bank borrowings of the Group as at 31 December 2022 amounted to RMB513.25 million (short-term borrowings: RMB513.25 million, none of long-term borrowing) (The bank borrowings of the Group as at 31 December 2021 amounted to RMB786.69 million, including short-term borrowings of RMB668.04 million and long-term borrowing of RMB118.65million.). All the bank borrowings bear fixed interest rates. The carrying amount of the bank borrowings is presented in RMB, and is approximate to the fair value. The Group did not use any financial instruments for hedging purposes or did not have any existing borrowings and/or other hedging instruments for hedging net foreign currency investments.

Bill receivables, trade receivables and receivables financing

As at 31 December 2022, the Group's bill receivables, trade receivables and receivables financing amounted to RMB865.26 million, representing an increase of RMB134.00 million, increased by 18.32% year-on-year, compared to those as at 31 December 2021. This is primarily due to a significant increase in sales revenue in December 2022 following the lifting of all pandemic restrictions which led to higher total receivables at the end of the Reporting Period. The overall change was consistent with the increase in operating revenue.

Bills payables and trade payables

As at 31 December 2022, the Group's bills payables and trade payables amounted to RMB1,509.57 million, representing an increase of RMB166.94 million, increased by 12.43% year-on-year, compared to those as at 31 December 2021, primarily because that we increased our drugs storage to ensure the market supply and reserve in the distribution areas in view of the complete lifting of pandemic restrictions in late 2022, along with the upcoming Chinese New Year and flue season..

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 under review. The Group continues to assess its customers' credit and financial positions so as to minimise credit risks. In order to control liquidity risks, the Board would closely monitor the liquidity position of the Group to ensure that its assets, liabilities and other flow structure committed by the Group would satisfy the funding needs from time to time.

Foreign currency exchange risk

The transactions of the Group are denominated in RMB, and most of the assets and all liabilities of the Group are denominated in RMB. The foreign exchange risk that the Group has to bear is extremely low. During the Year, the Group did not use any financial instruments for hedging the foreign currency risk.

Interest rate risk

For the year ended 31 December 2022, the Group had no bank borrowings which bear interest at floating rate. (2021: Nil)

Capital management

Set out below are the Group's gearing ratios as at 31 December 2022 and 31 December 2021, respectively:

	31 December 2022	31 December 2021
Gearing ratio	**42.78%**	56.03%

Note: Gearing ratio is equal to net liabilities divided by aggregate capital as at the end of the year. 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 31 December 2022, the Group did not have any capital commitment. (31 December 2021: Nil).

Employees' information

As at 31 December 2022, the Group had a total of 817 employees (including executive Directors) (2021: 837 employees), representing a decrease of 20 employees compared with the number of employees as at 31 December 2021. The total staff cost (including emoluments of directors and supervisors) was RMB83.92 million, representing an increase of 11.91%, as compared to RMB74.99 million for the year ended 31 December 2021. The emoluments were determined with reference to market practice and the performance, qualification and experience of individual employees.

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

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

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

Material investments held, acquisitions and disposals held

Apart from investments in subsidiaries, the Group did not hold any material investment, acquisition or disposal in the equity interests of any other company for the year ended 31 December 2022.

Future plans related to material investments and capital assets

Save as disclosed in the prospectus of the Company dated 2 December 2015, the Group has no other future plans related to the material investments and capital assets.

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

During the year ended 31 December 2022, the Group had no material acquisitions and disposals related to subsidiaries, associates and joint ventures.

Pledge of assets

As at 31 December 2022, the Group was granted a credit limit of RMB1,212.42 million by various banks, while the Group's utilised banking facilities totaled RMB965.92 million, which were secured by (i) property, plant and equipment held by the Group with a carrying amount of RMB231.44 million as at 31 December 2022; (ii) land use rights held by the Group with a carrying amount of RMB71.09 million as at 31 December 2022; and (iii) the Group's inventories with a carrying amount of RMB350.00 million as at 31 December 2022.

Assets subject to restrictions on ownership or use

As at 31 December 2022, the Group's restricted monetary funds amounted to RMB423.81 million, which served as deposit for bank acceptance bills and borrowings; the Group's restricted bills receivable and account receivable financing amounted to RMB16.85 million, which were restricted for being pledged to banks; the Group also pledged certain other assets totalling RMB652.52 million as guarantee for the Group's borrowings. Assets subject to restrictions on ownership or use totalled RMB1,093.18 million.

Contingent liabilities

As at 31 December 2022, the Group had no material contingent liabilities (2021: Nil).

Significant events after the reporting period

On 17 January 2023, Mr. Yao Chuanglong, (the "**Transferor**"), the controlling shareholder of the Company, entered into a block trade transaction with Jiangxi Pharmaceutical Investment Co., Limited (江西醫藥投資有限公司) (the "**Jiangxi Pharmaceutical Investment**" or "**Offeror**"), a subsidiary of Jiangzhong Yishang, the shareholder of the Company, to sell a total of 9,720,000 shares, representing 9.00% of the total issued share capital of the Company, for consideration of HK$70,858,800.

Jiangzhong Yishang, the Offeror and the Company jointly issued a comprehensive offer and response document (the "**Consolidated Document**") on 20 January 2023 and completed the tender offer on 10 February 2023. The Offeror received 11,356,500 offer shares in respect of the Offer (the "**Accepting Shares**"). Upon completion of the transfer of the Accepting Shares to the Offeror, the Offeror Concerted Action Group (including the Transferor) beneficially owns a total of 84,656,500 Shares, representing 78.38% of the total issued share capital of the Company as at the date of related Joint Announcement.

For details of the Offer, please refer to the Consolidated Documents and announcements jointly issued by Jiangzhong Yishang, the Offeror and the Company on 10 February 2023 and 16 February 2023.

On 2 March 2023 (after trading hour), the Company as borrower and Jiangzhong Yishang, a controlling shareholder of the Company, as lender have entered into the framework loan agreement, pursuant to which Jiangzhong Yishang agrees to provide a loan facility not exceeding the maximum limit as authorised by the statutory approval authorities of both parties to the Group for a term of three years commencing from the effective date. However, the agreement is subject to approval by the extraordinary general meeting of the Company held on 17 April 2023. For details, please refer to the announcement of the Company dated 2 March 2023.

DIVIDEND

The Board recommends the payment of a final dividend of RMB0.45 per share (tax inclusive) for the year ended 31 December 2022, which is subject to the approval by the shareholders of the Company at the annual general meeting to be convened on 31 May 2022 (the "**AGM**") and, final dividend for full circulation H shareholders of the Company will be paid in RMB, and the final dividend for other H shareholders of the Company will be paid in Hong Kong dollars. The exchange rate for the final dividend to be paid in Hong Kong dollars will be the mean of the exchange rates of Renminbi to Hong Kong dollars as announced by the PBOC during the five business days preceding the date of approval of the final dividend at the AGM. The final dividend is expected to be paid on 20 July 2023. The Company will announce the details in relation to the record date of dividend payment and the relevant dates when the registration of the Company will be closed, when appropriate. (2021 final dividend: Nil).

CLOSURE OF REGISTER OF MEMBERS

For the purpose of determining the entitlement of the shareholders of the Company to attend the AGM to be held on 31 May 2023, the register of members of the Company will be closed from 25 May 2023 to 31 May 2023 (both days inclusive), during which period no transfer of shares will be registered. In order to qualify for attending and voting at the AGM, all transfer documents accompanied by the relevant share certificates should be lodged for registration with the H share registrar of the Company, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong, no later than 4:30 pm on 24 May 2023.

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 Listing Rules for the year ended 31 December 2022, save for the deviation as stated below:

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

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

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS AND SUPERVISORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") set out in Appendix 10 to the Listing Rules as the code of conduct in dealings with the Company's securities for the Directors and supervisors of the Company. Having made enquiries with all Directors and supervisors of the Company, the Company confirmed that all Directors and supervisors had complied with the required standard as set out in the Model Code for the year ended 31 December 2022.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

For the year ended 31 December 2022, the Company and its subsidiaries did not purchase, sell or redeem any of the listed securities of the Company.

AUDIT COMMITTEE AND REVIEW ON THE ANNUAL RESULTS

The audit committee of the Company (the "**Audit Committee**") consists of three members and three of them are independent non-executive Directors, namely Mr. Wan Chi Wai Anthony (Chairman), Mr. Zhou Tao and Mr. Guan Jian. The Audit Committee reports to the Board and has held 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, re-appointment and removal of the external auditor, review the financial statements and material advice in respect of financial reporting and overseas internal control of the Company.

The Audit Committee, together with the management of the Company and the external auditor, had conducted review on the accounting principles and policies adopted by the Group and the audited consolidated financial statements for the year ended 31 December 2022.

PUBLICATION OF INFORMATION ON THE WEBSITE OF THE STOCK EXCHANGE

This announcement is published on the websites of the Company (www.chmyy.com) and the Stock Exchange (www.hkexnews.hk), and the annual report of the Company for the year ended 31 December 2022 will be dispatched to shareholders of the Company and published on the above websites in due course.

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

Shantou, the PRC, 31 March 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. Li Weisheng, Mr. Yan Jingbin and Ms. Fu Zheng; and the independent non-executive Directors are Mr. Wan Chi Wai Anthony, Mr. Zhou Tao and Mr. Guan Jian (also known as Guan Suzhe).

* *For identification purpose only*