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 2021

FINANCIAL SUMMARY

- In 2021, the operating revenue of the Group was RMB3,793.62 million, representing a decrease of 4.96% as compared to RMB3,991.71 million in 2020.
- In 2021, the net profit of the Group amounted to RMB23.15 million, representing a decrease of 42.91% as compared to RMB40.56 million in 2020.
- In 2021, the Group's net profit attributable to the shareholders of parent company was RMB23.15 million, representing a decrease of 42.91% as compared to RMB40.56 million in 2020
- In 2021, the Group's basic and diluted earnings per share was RMB0.2144 compared to RMB0.3755 in 2020.
- The Board does not recommend the payment of a final dividend for the year ended 31 December 2021.

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 2021, together with the comparative figures for the year ended 31 December 2020.

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2021

Items	*Notes*	**2021** *RMB*	2020 *RMB*
I. Total operating revenue		**3,793,617,720.03**	3,991,710,524.36
Including: Operating revenue	*4*	**3,793,617,720.03**	3,991,710,524.36
II. Total operating cost		**3,759,192,653.30**	3,922,377,617.39
Including: Operating cost	*4*	**3,556,398,664.23**	3,751,305,696.45
Taxes and surcharges		**8,657,894.86**	6,965,203.94
Selling expenses		**103,327,989.46**	85,915,907.96
Management expenses		**48,523,027.84**	45,758,488.87
Finance costs	*6*	**42,285,076.91**	32,432,320.17
Including: Interest expenses		**40,609,536.96**	30,856,814.90
Interest income		**3,798,241.18**	4,021,645.59
Add: Other gains		**523,715.09**	681,362.66
Investment income (“–” for loss)		**23.25**	-
Impairment loss of credit (“–” for loss)		**391,365.51**	-15,244,009.95
Impairment loss of assets (“–” for loss)		**-3,102,249.84**	-3,001,808.91
Gains on disposal of assets (“–” for loss)		**149,987.17**	18,110.52
III. Operating profit (“–” for loss)		**32,387,907.91**	51,786,561.29
Add: Non-operating revenue		**762,102.23**	3,093,405.99
Less: Non-operating expenses		**169,431.00**	137,587.54
IV. Total profit (“–” for total loss)		**32,980,579.14**	54,742,379.74
Less: Income tax expense	*7*	**9,827,519.07**	14,186,414.31
V. Net profit (“–” for net loss)		**23,153,060.07**	40,555,965.43
(1) By continuity of operations		**23,153,060.07**	40,555,965.43
1.Net profit from continuing operation (“–” for net loss)		**23,153,060.07**	40,555,965.43
2.Net profit from discontinued operation (“–” for net loss)		-	-
(2) By ownership		**23,153,060.07**	40,555,965.43
1.Net profit attributable to the owners of parent company (“–” for net loss)		**23,153,060.07**	40,555,965.43
2.Profit of loss of minority shareholders (“–” for net loss)		-	-
VI. Total comprehensive income		**23,153,060.07**	40,555,965.43
Total comprehensive income attributable to the shareholders of parent company		**23,153,060.07**	40,555,965.43
Total comprehensive income attributable to minority shareholders		-	-
VII. Earnings per share			
Basic and diluted earnings per share	*8*	**0.2144**	0.3755

CONSOLIDATED BALANCE SHEET

As at 31 December 2021

Items	*Notes*	**31 December 2021**	31 December 2020
		RMB	*RMB*
Current assets:			
Monetary funds		**630,168,026.51**	590,322,268.07
Bills receivables	*10*	**14,947,500.00**	20,639,970.00
Trade receivables	*11*	**716,312,947.43**	717,554,454.07
Account receivable financing	*12*	**-**	25,799,692.96
Prepayments		**312,160,694.19**	253,766,373.02
Other receivables		**32,249,707.83**	12,839,764.71
Inventories		**509,156,426.37**	585,008,876.72
Other current assets		**23,226,980.50**	45,377,379.28
Total current assets		**2,238,222,282.83**	2,251,308,778.83
Non-current assets:			
Fixed assets		**334,925,145.94**	354,551,660.22
Construction in progress		**-**	1,496,742.97
Right-of-use assets		**13,511,183.61**	16,451,641.00
Intangible assets		**143,033,824.90**	152,191,599.87
Goodwill		**6,024,104.16**	6,024,104.16
Long-term expenses to be amortised		**19,214,660.88**	8,085,530.37
Deferred income tax assets		**8,160,319.54**	9,292,634.77
Total non-current assets		**524,869,239.03**	548,093,913.36
Total assets		**2,763,091,521.86**	2,799,402,692.19

Items	*Notes*	**31 December 2021**	31 December 2020
		RMB	*RMB*
Current liabilities:			
Short-term borrowings		**668,039,276.07**	535,919,072.17
Bills payables	*13*	**809,768,308.81**	938,611,254.96
Trade payables	*14*	**532,860,284.07**	569,826,535.10
Receipts in advance		-	-
Contract liabilities		**46,664,141.17**	5,013,052.93
Salaries payable to employees		**5,180,138.03**	5,788,619.82
Tax payables		**44,557,999.46**	58,549,342.70
Other payables		**11,030,236.31**	13,765,328.93
Non-current liabilities due within one year		**34,758,053.67**	34,520,568.55
Other current liabilities		**6,066,338.36**	-
Total current liabilities		**2,158,924,775.95**	2,161,993,775.16
Non-current liabilities:			
Long-term borrowings		**86,867,415.04**	118,455,570.44
Lease liabilities		**12,489,734.63**	15,331,202.41
Deferred income		**304,706.99**	761,767.49
Deferred income tax liabilities		**402,909.62**	311,457.13
Total non-current liabilities		**100,064,766.28**	134,859,997.47
Total liabilities		**2,258,989,542.23**	2,296,853,772.63
Shareholders' equity:			
Share capital		**108,000,000.00**	108,000,000.00
Capital reserve		**278,990,829.04**	278,990,829.04
Surplus reserve		**21,080,432.34**	18,439,830.70
Unallocated profits		**96,030,718.25**	97,118,259.82
Total equity attributable to the shareholders of parent company		**504,101,979.63**	502,548,919.56
Minority interests		-	-
Total shareholders' interests		**504,101,979.63**	502,548,919.56
Total liabilities and shareholders' interests		**2,763,091,521.86**	2,799,402,692.19

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2021

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, 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 2021 did not find any event or condition which may cast significant doubt on the going concern ability. Hence, the preparation of these financial statements was based on the assumption of going concern.

3. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(1) Declaration on compliance with Accounting Standards for Enterprises

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

(2) Accounting period

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

(3) Business cycle

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

(4) Functional currency

The Group adopts Renminbi 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 2021, 31 December 2021, 1 January 2021 to 31 December 2021, and 1 January 2020 to 31 December 2020, respectively, while the currency unit is RMB yuan.

4. OPERATING REVENUE AND OPERATING COST

Item	Amount for the year		Amount for last year	
	Revenue	**Cost**	Revenue	Cost
Principal business	**3,763,064,314.48**	**3,556,398,664.23**	3,962,210,247.45	3,751,305,696.45
Other businesses	**30,553,405.55**	**-**	29,500,276.91	-
Total	**3,793,617,720.03**	**3,556,398,664.23**	3,991,710,524.36	3,751,305,696.45

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: trading and promoting pharmaceutical products.

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 the two years ended 31 December 2021 and 2020.

6. FINANCE COSTS

Items	Amount for the year	Amount for last year
Interest expenses	**40,609,536.96**	30,856,814.90
Less: Interest income	**3,798,241.18**	4,021,645.59
Add: Foreign exchange loss	**-139,015.35**	-16,477.44
Add: Handling fees	**4,705,476.86**	4,731,031.39
Add: Interest on lease liabilities	**907,319.62**	882,596.91
Total	**42,285,076.91**	32,432,320.17

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	**8,603,751.35**	17,166,327.46
— Corporate income tax in Mainland China	**8,603,751.35**	17,166,327.46
— Profit tax in Hong Kong, PRC	**-**	-
Deferred income tax expenses	**1,223,767.72**	-2,979,913.15
Total	**9,827,519.07**	14,186,414.31

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
Combined total profit for the period	**32,980,579.14**
Income tax expenses calculated at statutory/applicable tax rate	**8,245,144.79**
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	**227,477.06**
Use of deductible losses that have not been previously confirmed for deferred EIT assets	-
Effect of deductible temporary differences or deductible losses on deferred income tax assets not recognised in the current period	**1,354,897.22**
Income tax expenses	**9,827,519.07**

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 2021 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	4.62	0.2144	0.2144
Net profit attributable to the shareholders of parent company (excluding non-recurring profit and loss)	4.40	0.2044	0.2044

9. DIVIDEND

The Board does not recommend the payment of a final dividend for the year ended 31 December 2021 (2020: RMB0.2 per share).

10. BILLS RECEIVABLES

(1) Classification of bills receivables

Items	Balance as at the end of the year	Balance as at the beginning of the year
Bank acceptance bills	-	-
Commercial drafts	**15,000,000.00**	20,700,000.00
Subtotal	**15,000,000.00**	20,700,000.00
Less: Provision for bad debt	**52,500.00**	60,030.00
Total	**14,947,500.00**	20,639,970.00

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

Item	Pledged amount as at the end of the year
Commercial drafts	**1,400,000.00**
Total	**1,400,000.00**

(3) Bills receivables endorsed or discounted as at the end of the year but not mature at the balance sheet date

Items	Amount derecognised as at the end of the year	Amount not derecognised as at the end of the year
Bank acceptance bills	-	-
Commercial drafts	**18,777,327.83**	**13,600,000.00**
Total	**18,777,327.83**	**13,600,000.00**

(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

Classification	**Balance as at the end of the year**				
	Book balance		**Provision for bad debt**		
	Amount	**Percentage (%)**	**Amount**	**Provision ratio (%)**	**Book value**
Bad debt provision made on individual basis	-	-	-	-	-
Bad debt provision made on a collective basis	**15,000,000.00**	**100.00**	**52,500.00**	**0.35**	**14,947,500.00**
Including : 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**

Classification	Balance as at the beginning of the year				
	Book balance		Provision for bad debt		
	Amount	Percentage (%)	Amount	Provision ratio (%)	Book value
Bad debt provision made on individual basis	-	-	-	-	-
Bad debt provision made on a collective basis	20,700,000.00	100.00	60,030.00	0.29	20,639,970.00
Including: Aging portfolio	20,700,000.00	100.00	60,030.00	0.29	20,639,970.00
Low risk portfolio	-	-	-	-	-
Total	20,700,000.00	100.00	60,030.00	-	20,639,970.00

1) Bad debt provision for bills 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	**15,000,000.00**	**52,500.00**	**0.35**
Total	**15,000,000.00**	**52,500.00**	**0.35**

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 period

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	60,030.00	**-7,530.00**	-	-	-	**52,500.00**
Total	60,030.00	**-7,530.00**	-	-	-	**52,500.00**

11. TRADE RECEIVABLES

Name of item	**Balance as at the end of the year**	Balance as at the beginning of the year
Trade receivables	**745,187,896.34**	746,721,441.41
Less: Provision for bad debt	**28,874,948.91**	29,166,987.34
Net	**716,312,947.43**	717,554,454.07

(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		Book value
	Amount	Percentage (%)	Amount	Provision ratio (%)	
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**
Including: 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**

Classification	Balance as at the beginning of the year				
	Book balance		Provision for bad debt		Book value
	Amount	Percentage （%）	Amount	Provision ratio （%）	
Provision for bad debt made on individual basis	23,094,569.76	3.09	23,010,577.26	99.64	83,992.50
Provision for bad debt made on a collective basis	723,626,871.65	96.91	6,156,410.08	0.85	717,470,461.57
Including: Aging portfolio	723,626,871.65	96.91	6,156,410.08	0.85	717,470,461.57
Total	746,721,441.41	100.00	29,166,987.34	—	717,554,454.07

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	**697,043,226.18**	**2,439,651.30**	**0.35**
1 to 2 years	**23,125,099.54**	**2,224,634.58**	**9.62**
2 to 3 years	**36,122.01**	**27,669.46**	**76.60**
Over 3 years	**336.77**	**336.77**	**100.00**
Total	**720,204,784.50**	**4,692,292.11**	**—**

(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		
	Book balance	**Percentage （%）**	**Provision for bad debt**	Book balance	Percentage （%）	Provision for bad debt
Within 1 year	**698,261,162.04**	**93.70**	**3,069,424.63**	695,596,183.09	93.15	2,159,815.83
1 to 2 years	**23,963,529.50**	**3.22**	**2,934,764.53**	29,112,315.62	3.90	6,821,027.12
2 to 3 years	**3,785,724.58**	**0.51**	**3,777,272.03**	7,754,342.27	1.04	5,927,543.96
More than 3 years	**19,177,480.22**	**2.57**	**19,093,487.72**	14,258,600.43	1.91	14,258,600.43
Total	**745,187,896.34**	**100.00**	**28,874,948.91**	746,721,441.41	100.00	29,166,987.34

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

Balance as at the beginning of the year	Changes in the year: Accrued	Recovered or reversed	Written back or written off	Others	Balance as at the end of the year
29,166,987.34	**-277,601.73**	**14,400.00**	**36.70**	**-**	**28,874,948.91**

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

Item	**Write-off amount**
Haifeng County Pharmaceutical United Corporation thirteen stores of medicinal materials*（海豐縣醫藥聯合總公司藥材十三門市）	36.70

12. ACCOUNT RECEIVABLE FINANCING

Item	**Balance as at the end of the year**	Balance as at the beginning of the year
Bank acceptance bills	-	25,799,692.96
Total	-	25,799,692.96

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	**809,768,308.81**	938,611,254.96
Commercial drafts	-	-
Total	**809,768,308.81**	938,611,254.96

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

Items	**Balance as at the end of the year**	Balance as at the beginning of the year
Loans	**525,003,330.09**	550,254,913.32
Equipment costs	**7,856,953.98**	13,371,029.16
Transfer of assets	**-**	6,200,592.62
Total	**532,860,284.07**	569,826,535.10

(2) Aging presentation of trade payables

Below is an aging analysis of trade payables based on transaction date as at 31 December 2021:

Age	**Balance as at the end of the year**	Balance as at the beginning of the year
Within 1 year	**530,047,558.14**	567,810,738.30
1 to 2 years	**2,040,818.31**	890,901.02
2 to 3 years	**308,387.62**	757,753.60
More than 3 years	**463,520.00**	367,142.18
Total	**532,860,284.07**	569,826,535.10

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

MANAGEMENT DISCUSSION AND ANALYSIS INDUSTRY OVERVIEW

2021 is the opening year of the "14th Five-Year Plan" of the People's Republic of China ("**China**" or the "**PRC"**). Looking back over the past year, pharmaceutical industry policies have been intensively introduced to facilitate the development of China's pharmaceutical industry to a higher quality. In addition, the fluctuation of the COVID-19 pandemic over the globe has deeply affected the development pattern of China's pharmaceutical industry. With the launch and coordinated linkage of new medical reform policies including the "Healthy China" initiative, "Internet + Healthcare", increased adoption of centralised procurement, and the introduction of medical insurance payment fund, coupled with the strong empowerment of cutting-edge technologies such as "Internet + drug circulation" and big data, the ecological structure of the pharmaceutical circulation industry will continue to be reshaped. Meanwhile, under the environment of strict supervision and policy encouragement, national and regional pharmaceutical wholesale enterprises continue to expand the market coverage through merger and acquisition, reorganisation, strong alliances, etc., leading to the continuous increase of market concentration in the pharmaceutical circulation industry. Overall, China's pharmaceutical circulation industry is accelerating its transformation from an era of competition for resources to competition for capacities.

Internet healthcare is booming and online prescription drugs are fully liberalised

The pandemic has accelerated the process of economic and social digitalisation. Internet healthcare has ushered with a rapid development opportunity and increased the public awareness of internet healthcare, such as online medical consultation, internet hospitals and online pharmacies. Along with the advancement of cutting-edge technologies including cloud computing, big data, and artificial intelligence (AI), and supported by favorable policies constantly implemented by the country, the downstream pharmaceutical retailers have a stronger expansion power in the era of "Internet + Healthcare". It is expected to welcome a wide market space expansion. According to the statistics of the Network Supervision Center of the Southern Medical Economic Research Institute, in 2020, the online sales of drugs amounted to RMB159.3 billion, representing an increase of RMB59.1 billion or 59% compared to that in 2019. The absolute growth of online sales was about 2.4 times of that of offline sales.

The Opinions on Supporting Efforts to Ensure Stability on Six Fronts and Maintain Security in Six Areas and Further Promoting the Reform of Simplification and Decentralisation* (《關於服務「六穩」「六保」進一步做好「放管服」改革有關工作的意見》) issued by the General Office of the State Council in April 2021 makes clear that the prescription drugs not under the national special control can be sold online provided that the source of the electronic prescription is authentic and reliable.

In July 2021, the National Healthcare Security Administration issued the Opinions of the National Healthcare Security Administration on Optimising Convenience Services in the Medical Insurance Field to actively promote the "Internet + Medical Insurance Services" and achieve the integrated services covering prescription circulation, online payment and settlement, and medicine delivery to home by actively exploring information sharing through the improvement of the agreement management and the settlement process according to the service characteristics, the principle of online and offline fairness, and the policy for medical expense reimbursement by medical insurance.

Relying on a new generation of information and communication networks, the gradual relaxation of restrictions on internet healthcare and prescription pharmacy outflow can facilitate the deep connection of supply and demand sides, leading to a closed loop in the medical industry. It will significantly promote the expansion of non-tendering market and the transformation and upgrade of the pharmaceutical distribution industry.

Establishment of the security mechanism for "mutual aids in outpatient services" has been proposed

According to the Guideline on Establishing and Improving a General Support Mechanism for Covering Outpatient Medical Bills under the Basic Medical Insurance for Urban Employees* (《關於建立健全職工基本醫療保險門診共濟保障機制的指導意見》) (hereinafter referred to as the "**Guideline**") issued by the General Office of the State Council in April 2021, the system for attributing medical insurance premiums to personal accounts shall be reformed to effectively reduce the medical expenses borne by the employees participating in medical insurance. According to the Guideline, the method to attribute medical insurance premiums to personal accounts shall be improved; all the basic medical insurance premiums paid by the employers shall be allocated to the pooling fund; the role of mutual aids in outpatient services shall be enhanced, and for this purpose, the outpatient expenses on frequently-occurring diseases and common diseases shall be gradually included in the scope of payment from the pooling fund, and the settlement and dispensing of prescriptions shall be supported in designated retail drugstores; and the scope of use of funds in personal accounts shall be improved, under which the funds in personal accounts may be used to pay the medical expenses borne by individuals when the insured or their spouses, parents or children seek medical treatment in designated medical institutions, and may also be used to pay the expenses borne by individuals when they purchase medicines, medical devices and medical consumables at designated retail pharmacies.

In the short run, a large number of designated pharmacies for medical insurance will face a new round of industry reshuffle due to the "mutual aids in outpatient services" policy. According to the Statistical Bulletin on the Development of the National Medical Security Undertakings in 2020, the personal accounts of employee medical insurance had a total income of RMB658.7 billion and a total expenditure of RMB493.6 billion in 2020. Among the expenditure, the expenses on purchasing medicines at pharmacies was RMB207.6 billion, accounting for 42% of the total expenditure. After the reform, personal accounts will have the annual income of nearly RMB400 billion plus the accumulated balance of RMB1,009.6 billion, which is enough to meet the insured's needs for purchasing medicines at pharmacies

With the promulgation of the "dual-channel" policy, pharmaceutical circulation has become more diverse and market-oriented

In May 2021, the National Healthcare Security Administration and the National Health Commission issued the Guiding Opinion on Improving the Dual-channel Management Mechanism of Drugs in the National Medical Insurance Negotiations* (《關於建立完善國家醫保談判藥品「雙通道」管理機制的指導意見》) (hereinafter referred to as the "**dual-channel**"). For the first time, the designated retail drugstores are nationally included in the medical insurance pharmaceutical supply guarantee scope, and are subject to the same payment policies as those of medical institutions. The "dual-channel" policy is expected to further promote the outflow of prescription medicines, bring a large number of visitors and increase the number of prescription medicines to retail pharmacies qualified to take over the outflow of prescription medicines, and promote the compliant and professional operation of pharmacies. This shows that the supply guarantee of negotiated drugs is diversified and the pharmaceutical distribution market is further liberalised.

With the introduction of the long-term prescription policy, the pharmaceutical industry chain has been improving

In August 2021, the Bureau of Medical Administration of the National Health Commission issued the Notice on Printing and Distributing the Norms for Administration of Long-term Prescriptions (for Trial Implementation) (hereinafter referred to as the "Notice"), which specifically makes clear to whom the long-term prescriptions shall apply, the implementers such as medical institutions that issue long-term prescriptions, and the main processes of prescription and other aspects. According to the Notice, a long-term prescription duration shall be generally within 4 weeks in view of the patients' diagnosis and treatment needs; a long-term prescription duration for a patient in stable conditions may be increased appropriately but shall not exceed 12 weeks in view of the characteristics of chronic diseases. The promulgation of the Notice not only responds to the urgent needs of patients with chronic diseases, but also perfectly responds to the needs for current and future prevention and control of infectious diseases. The Notice not only points out the specific direction for the development of long-term prescriptions, but also provides opportunities for the development of internet-based remote medical consultation and medical informatization. From another perspective, as the long-term prescription policy is conducive to improving the compliance of medicine use, medicines in the list of basic medicines, varieties centrally purchased by the state and medicines covered by medical insurance will benefit from this market opportunity earlier and to a greater extent. The promulgation of the Notice will definitely change the existing chronic disease diagnosis and treatment and prescription administration mode, and bring about changes in the whole medical service chain, the pharmaceutical industry chain and the technology development chain.

During the 14th Five-Year Plan period, the pharmaceutical distribution industry has been undergoing high-quality development, reshaping the new pattern of competition in pharmaceutical distribution

In October 2021, the Ministry of Commerce issued the Guiding Opinions on Promoting the High-quality Development of the Pharmaceutical Distribution Industry During the 14th Five-Year Plan Period (hereinafter referred to as the "**Guiding Opinions**"), which clarifies the development direction of the pharmaceutical distribution industry in the next five years and provides important guidance for the whole industry to achieve high-quality development. The Guiding Opinions clearly points out that the pharmaceutical distribution industry is an important part of national medical and health undertakings and health industry, and is also an important industry related to people's health and life. According to the Guiding Opinions, the development of the pharmaceutical distribution industry shall be linked with the general requirements of the economic and social development plan and the business development plan of the 14th Five-Year Plan of the Chinese Communist Party and the state; the pharmaceutical distribution industry shall be developed to be more digital, more intelligent, more intensive and more international, so as to improve the security of pharmaceutical supply, ensure the quality and safety of pharmaceuticals and meet people's health needs. According to the Guiding Opinions, the overall development goal is that by 2025, the pharmaceutical distribution industry will meet people's health needs in China's new development stage, and the modern pharmaceutical distribution system will function better thanks to leading innovation, technology empowerment, urban and rural coverage, balanced layout, coordinated development, safety and convenience.

Driven by the policies including the "Two-Invoice System" and the state's centralised procurement, enterprises in the whole pharmaceutical distribution industry are constantly exploring innovative service concepts and service modes to provide differentiated value-added services according to customers' different needs. Meanwhile, many enterprises actively explore digital transformation, strengthen the upgrade and application of intelligent and automated logistics technology and intelligent equipment, and continuously enhance the cross-regional supply chain and logistics coordination ability, and constantly explore sub-warehouse construction and multi-warehouse operation, so as to improve the operational efficiency and competitiveness of the whole industry chain.

Business transformation of pharmaceutical companies and distributors driven by the changes in the pharmaceutical market to promote the development of non-tendering market and third-party logistics business

In the "Control on Medical Insurance Fee" policy led downwards, centralised medicine procurement directly reduces drug prices and narrows the profit margin across the whole value chain of pharmaceutical products. The operating pressure on pharmaceutical distribution force companies to transform their business models. Furthermore, the change in the medication of public medical organisations has further reduced the profit of industrial enterprises in the pharmaceutical sector. On the other hand, the advancement of the tiered diagnosis and treatment system has come with the accelerated expansion of the end market to county areas, expanding the share in the retail end market.

Under the new industry environment, enterprises in the pharmaceutical distribution industry which focus on the business of public hospitals will transform and upgrade their business model as they gradually shift their roles from "distribution" to "delivery" and have to face the competitions of new third-party logistics service providers. Manufacturers that fail to win the tenders in centralised procurement will turn to the pharmaceutical retail market and increase the investment and promotion in the retail market, pharmaceutical distributors with a solid retailer base will be increasingly favoured by pharmaceutical companies to strengthen their advantage in market expansion.

In the field of pharmaceutical logistics, cloud computing, big data and Internet of Things ("**IoT**") technology have been widely used as support to promote the integration of resources of upstream and downstream links of the supply chain, and facilitate the integration of "logistics, information flow and capital flow" so as to establish a diversified and collaborative pharmaceutical supply chain system. National and regional pharmaceutical distribution companies are increasingly focused on transforming into pharmaceutical supply chain solution service providers, and gradually setting up a full-chain delivery system from pharmaceutical manufacturers to patients through self-operated logistics service providers or cooperation with third-party social logistics service providers. Pharmaceutical distribution enterprises are accelerating the expansion of third-party logistics business, and they leverage the advantages of their logistics network to provide pharmaceutical manufacturers with nationwide and regional third-party pharmaceutical logistics services with synergic storage effect.

Total national health expenditures are on a rise and retail pharmacies continue to expand their shares in the end market

Total national health expenditures are rising year after year, accounting for 7.1% of the GDP in 2020. There is still big growth potential.

According to the data of MENET, in 2020, the pharmaceutical sales in the six major markets of the three major terminals amounted to RMB1,643.7 billion, representing a decrease of 8.5% compared to that in 2019, of which, suffering the least from the pandemic, the retail pharmacy stores recovered faster. The retail pharmacy stores terminal recorded a growth rate of 3.2% in sales revenue with a market share of 26.3% in 2020, representing an increase of 2.9 percentage points as compared to that in 2019.

Sales rebounded along with an increasing concentration ratio in the pharmaceutical distribution enterprises and the scale of sales has expanded steadily

The year of 2020 saw a steady growth of the sales of China's pharmaceutical distribution market, of which the sales of the medicine retail market was RMB511.9 billion, up by 10.1% year-on-year, with an increase of 0.2 percentage points year-on-year in the growth rate.

From the perspective of market share, the concentration of pharmaceutical wholesale enterprises went up. In 2020, the top 100 pharmaceutical wholesale enterprises accounted for 73.7% of the total national pharmaceutical market in the same period, up 0.4 percentage points year-on-year. However, from the perspective of sales growth, large pharmaceutical wholesale enterprises slowed down. In 2020, the main business revenue of the top 100 pharmaceutical wholesale enterprises grew by 2.5% year-on-year, with the growth rate dropping by 12.2 percentage points.

Health management throughout the life cycle has been implemented to continuously promote the construction of a healthy China

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

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

Sources of the above information: data of the Southern Medical Economic Research Institute of the National Medical Products Administration; MENET; National Statistical Bulletin on the Development of Health Industry in 2020 (《2020年我國衛生健康事業發展統計公報》); Annual Report on China's Pharmaceutical Distribution Industry (2020) (《中國藥品流通行業發展報告》(2020)); Statistical Bulletin on the Development of National Medical Security Undertakings in 2020(《2020年全國醫療保障事業發展統計公報》).

BUSINESS REVIEW

Our principal business is pharmaceutical distribution in the PRC, with most of our operating revenue derived from pharmaceutical distribution. We procure pharmaceutical products from pharmaceutical manufacturers and distributor suppliers and sell the products to distributor customers, retail pharmacy stores, hospitals, clinics, health centres and others.

In 2021, we followed the operation target set, and continued to explore Guangdong market in depth and gradually expand our operation to surrounding areas, with a focus on developing the business with retail end-customers. As at 31 December 2021, our distribution network covered 12,625 customers, among which 700 were distributors, 7,981 were retail pharmacy stores and 3,944 were hospitals, clinics, health centres and others, representing an increase of 1,710 in the number of customers, including the increase of 53 distributors, 978 retail pharmacy stores, and 679 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 2021, we had a total of 1,157 suppliers, of which 666 were pharmaceutical manufacturers and 491 were distributor suppliers, representing an increase of 15 suppliers compared to last year. As at 31 December 2021, we had distributed 13,501 types of products, representing an increase of 1,673 types of products compared to last year.

Product Category	**Number of products for the year ended of 31 December**	
	2021	2020
Western medicines	**4,826**	4,300
Chinese patent medicines	**5,088**	4,497
Healthcare products	**247**	172
Others	**3,340**	2,859
Total	**13,501**	11,828

Official operation of the Shenzhen subsidiary will increase the market share in Shenzhen

The Company's wholly-owned subsidiary Shenzhen Charmacy Pharmaceutical Co., Ltd. ("**Shenzhen Charmacy**") officially started its operation in June 2021. It has established cooperative relations with more than 200 customers. According to the unaudited single-month statement, Shenzhen Charmacy has achieved monthly profit in December 2021.

As one of the most economically developed areas in China, Shenzhen is an important part of our deployments in the South China market because Shenzhen people have a high level of consumption and a strong awareness of preventive healthcare. According to the CMH data, there were more than 8,000 pharmacies in Shenzhen in 2019, of which 88.3% were chain pharmacies, making Shenzhen the city with the largest number of chain pharmacies in Guangdong Province. The Shenzhen market is characterised by fierce competition and huge potential. The Group's deep market base and advantageous position in Guangdong helps Shenzhen Charmacy rapidly expand its business and achieve profitability.

Shenzhen Charmacy has entrusted the Company's pharmaceutical sorting and delivery center in Guangzhou to carry out warehousing and delivery. This arrangement not only meets the demand for delivery of "multiple varieties, small batches and high frequency" and the high-efficiency delivery services of "delivering three times a day within a radius of 10 km, delivering twice a day within 50 km and delivering once a day within 250 km", but also greatly saves the warehousing and logistics cost in Shenzhen, which is conducive to the Group's strategy for thorough market tapping.

Shenzhen Charmacy will strive to increase the market share in Shenzhen and increase the Group's operating revenues and profits by further refining and penetrating Shenzhen's market network, and actively providing Shenzhen customers with product mixes in line with market needs and more thoughtful and meticulous services.

Increasingly greater advantages of the pharmaceutical sorting and delivery center in Guangzhou based on the service capacity of Guangdong-Hong Kong-Macao Greater Bay Area

As the province with the largest GDP in China, Guangdong Province ranks first in medical consumption and has huge consumption potential. Charmacy (Guangzhou) Pharmaceutical Sorting and Delivery Center ("**Guangzhou Center**") is located in Nansha District, Guangzhou City, and positioned as the central warehouse for the Pearl River Delta. With a building area of 38,489 square meters and a storage capacity of about 300,000 pieces of products, it can fully meet the storage needs from its own medicine category and rapid increase in quantity, and also meet the needs from the expansion of our Group's third-party logistics business. At present, our Group has been smoothly expanding its third-party logistics business, and has reached third-party logistics entrustment and cargo transportation service cooperation with over 70 manufacturers, commercial distributors and chain pharmacy customers in Guangdong Province.

Guangzhou Center is an important part of our Group's marketing strategy of "Intensive Engagement in Guangdong Province and Extensive Coverage across Surrounding Areas". By building a leading regional logistics center, our Group has greatly improved the processing efficiency, enhanced Guangzhou Center's capacity, and integrated medicine storage and transportation resources to achieve multi-warehouse collaboration. In terms of digitalisation, our Group has been using new technologies and new platforms, and building a smart medicine logistics system model to significantly improve the integrated and intelligent management of our Group's logistics through the use of our Group's existing SAP system, the cooperation with leading international software vendors and implementers, and the introduction of advanced logistics solutions, including AS/RS (Automated Storage and Retrieval System), WCS (Warehouse Control System) and PTL (Pick-to-Light System).

Guangzhou Center not only expands the terminal delivery network by giving full play to the advantages of our Group's customers, products, management and services, but also promotes the development of our Group's third-party logistics business and enhances our Group's profitability by providing more professional and convenient third-party logistics services for upstream suppliers and downstream customers. In addition, with our Group's mature operation mode, marketing team, and distribution channels that have been deeply cultivated for many years, our Group will gradually see a high-quality development trend with Guangzhou Center as the leader and the other four logistics centers progressing together.

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 the others and the general public and achieving win-win outcomes through cooperation. We follow the development strategy of focusing on “Intensive Engagement in Guangdong Province and Extensive Coverage across Surrounding Areas”, and commit ourselves to becoming the most competitive health and medical service provider in China.

2021 is the starting year of the 14th Five-Year Plan in China. It will also mark a turn in the changing pharmaceutical market landscape in the PRC. Looking ahead in 2022, the potential of China’s medical and health industry is expected to be released rapidly with the influence of the COVID-19 pandemic and under the background of China’s huge population base, aging population, technological innovation, deepening medical reform and other aspects.

The pharmaceutical distribution industry will have new development opportunities when China accelerates the establishment of a dual circulation development pattern in which domestic and foreign markets reinforce each other with the domestic market as the mainstay. The in-depth promotion of reform of medical care, medical insurance and pharmaceutical industry has speeded up the implementation of the “Healthy China” initiative. The medical reform represented by the “Two-Invoice System” and centralised procurement in large quantities leads to cost increase, profit decrease, and product structure adjustment in distribution enterprises which cover the bidding market and bring up opportunities to the third-party logistics service under the advantages of higher market concentration and greater product.

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

In the long run, China’s economy has both tenacity and growth potential, and the trend of steady progress will not change. Moreover, the non-tendering market will progressively raise its share alongside the advancement of the medical reform, the government’s increasing inputs into healthcare, the acceleration of ageing population and the enhancement of people’s health awareness. This will contribute to the long-term growth of our business.

In such context, we need to secure an edge in competition, earnestly study, deeply understand, and conscientiously implement the Guiding Opinions, positively grasp the policy opportunities and seek market opportunities to constantly push our market network development and improve our services, enhance our fine management, and achieve a high quality growth, so as to maintain a leading position in competition.

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

We will actively develop feasible promotion measures for “Internet + Healthcare”, and empower services through e-commerce platforms. We will grasp the opportunity arising from gradual implementation of regulations including “Internet + Healthcare” and the hierarchical medical system in the expansion of primary medical market, and constantly upgrade and develop the functions and applications of e-commerce platform. 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. We will actively promote standardised, streamlined, and intelligent pharmaceutical delivery service and constantly improve our service ability to achieve operation result efficiently with a low cost.

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

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

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

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

FINANCIAL REVIEW

Operating revenue

	For the year ended 31 December	
	2021	2020
	RMB'000	*RMB'000*
Principal business	**3,763,064**	3,962,210
Other businesses	**30,553**	29,500
Operating revenue	**3,793,618**	3,991,711

	For the year ended 31 December	
Customer type	**2021**	2020
	RMB'000	*RMB'000*
Distributors	**1,823,835**	1,906,411
Retail pharmacy stores	**1,792,830**	1,935,731
Hospitals, clinics, health centres and others	**146,399**	120,069
Revenue from principal business	**3,763,064**	3,962,210

During 2021, our revenue from principal business was derived from product sales to (i) distributor customers; (ii) retail pharmacy stores; and (iii) hospitals, clinics, health centres and others. During 2021, 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 2021 was RMB3,793.62 million, representing a decrease of 4.96% as compared to that for the year ended 31 December 2020., which was mainly because : (i) during the year ended 31 December 2021, due to the COVID-19 pandemic in Guangdong Province, retail pharmacies were subject to prevention and control measures such as restrictions on customer flow and sales, adversely affecting the customer flow and sales of pharmacies which dragged down our revenue; and (ii) in response to the economic environment, our Group adopted a relatively conservative marketing strategy to improve our quality of operations, and in order to ensure receipt of payment for our sales, we adopted appropriate control measures for some distributors during the year ended 31 December 2021, which resulted in the decline in our operating revenue.

Operating cost, gross profit and gross profit margin

The operating cost of the Group decreased by 5.20% from RMB3,751.31 million for the year ended 31 December 2020 to RMB3,556.40 million for the year ended 31 December 2021, which was consistent with the decrease in the operating revenue.

The gross profit of the Group decreased by 1.33% from RMB240.40 million for the year ended 31 December 2020 to RMB237.22 million for the year ended 31 December 2021. The gross profit margin of the Group increased from 6.02% for the year ended 31 December 2020 to 6.25% for the year ended 31 December 2021, primarily due to the Company's active adjustment of product mix by replacing part of products with low gross profit margin with those with high gross profit margin.

Selling expenses

The selling expenses of the Group increased by 20.27% from RMB85.92 million for the year ended 31 December 2020 to RMB103.33 million for the year ended 31 December 2021, primarily because (i) fixed assets in the construction of Guangzhou Pharmaceutical Sorting and Distribution Center were carried forward and fully automated logistics equipment was fully used, resulting in an increase of depreciation expense of RMB8.01 million; (ii) terminal business was developed, resulting in an increase of the corresponding market maintenance cost of RMB5.33 million; (iii) the Company's wholly-owned subsidiaries Huizhou Charmacy Pharmaceutical Co., Ltd. ("**Huizhou Charmacy**") and Shenzhen Charmacy explored the regional terminal markets, resulting in an increase of the staff cost of RMB4.09 million; and (iv) the increase of gasoline price and the increase of customers in the Pearl River Delta terminal market in 2021 led to the increase of distribution routes, and the preferential policy for the road and bridge toll relief was not enjoyed during the pandemic, resulting in an increase of the transportation cost of RMB2.09 million.

Management expenses

The management expenses of the Group increased by 6.04% from RMB45.76 million for the year ended 31 December 2020 to RMB48.52 million for the year ended 31 December 2021, which was mainly due to the increase of RMB2.41 million in employee compensation as a result of the deployment of personnel to enrich Huizhou Charmacy and Shenzhen Charmacy and the loss of entitlement to the preferential policy for the payment of social insurance during the COVID-19 pandemic.

Finance costs

The finance costs of the Group increased by 30.38% from RMB32.43 million for the year ended 31 December 2020 to RMB42.29 million for the year ended 31 December 2021, primarily because (i) with construction project of Guangzhou Pharmaceutical Sorting and Distribution Center carried forward as fixed assets, after the capitalisation of loan interest came to an end, the subsequent loan cost was recognised in current profit and loss, resulting in an increase by RMB6.67 million in financial expenses; and (ii) discounting of bills receivable increased, resulting in an increase of RMB2.85 million in discounting interest expense.

Income tax expenses

The income tax expenses of the Group decreased by 30.73% from RMB14.49 million for the year ended 31 December 2020 to RMB9.83 million for the year ended 31 December 2021, and the current income tax expenses were recognised and the deferred income tax assets and liabilities were adjusted according to the accounting standards.

Net profit

The net profit of the Group decreased by 42.91% from RMB40.56 million for the year ended 31 December 2020 to RMB23.15 million for the year ended 31 December 2021. In particular, the net profit attributable to the shareholders of parent company decreased by 42.91% from RMB40.56 million for the year ended 31 December 2020 to RMB23.15 million for the year ended 31 December 2021.

Liquidity and financial resources

As at 31 December 2021, the cash and bank deposits of the Group amounted to RMB144.23 million, while the cash and bank deposits amounted to RMB113.77 million as at 31 December 2020.

As at 31 December 2021 and 31 December 2020, the Group recorded net current assets of RMB79.30 million and RMB89.32 million, respectively. As at 31 December 2021, the current ratio (based on the calculation of current assets divided by current liabilities) of the Group was 1.04 (2020: 1.04).

The bank borrowings of the Group as at 31 December 2021 were RMB786.69 million (short-term borrowings: RMB668.04 million, long-term borrowings: RMB118.65 million, including long-term borrowings due within one year: RMB31.78 million). All the bank borrowings bear fixed interest rates. The carrying amount of the bank borrowings is presented in RMB, and is approximate to the fair value. The Group did not use any financial instruments for hedging purposes or did not have any existing borrowings and/or other hedging instruments for hedging net foreign currency investments.

Bill receivables, trade receivables and receivables financing

As at 31 December 2021, the Group’s bill receivables, trade receivables and receivables financing amounted to RMB731.26 million, representing a decrease of RMB32.73 million, decreased by 4.28% year-on-year, compared to those as at 31 December 2020. The decline was in line with the decline in operating income.

Bills payables and trade payables

As at 31 December 2021, the Group’s bills payables and trade payables amounted to RMB1,342.63 million, representing a decrease of RMB165.81 million compared to those as at 31 December 2020, primarily due to the decrease in drug purchases in 2021, the accounts payable and notes payable were decreased accordingly.

Treasury policy

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

Foreign currency exchange risk

The transactions of the Group are denominated in RMB, and most of the assets and all liabilities of the Group are denominated in RMB. The foreign exchange risk that the Group has to bear is extremely low. For the year ended 31 December 2021, the Group did not use any financial instruments for hedging the foreign currency risk.

Interest rate risk

For the year ended 31 December 2021, the Group had no bank borrowings which bear interest at floating rate. (2020: Nil)

Capital management

Set out below are the Group's gearing ratios as at 31 December 2021 and 31 December 2020, respectively:

	31 December 2021	31 December 2020
Gearing ratio	**56.03%**	53.25%

Note: Gearing ratio is equal to net liabilities divided by aggregate capital as at the end of the period. Net liabilities represent total borrowings deducted by cash and cash equivalents; and aggregate capital is the sum of net liabilities and total equity.

Capital commitment

As at 31 December 2021, the Group's capital commitment amounted to nil. (31 December 2020: Nil).

Employees' information

As at 31 December 2021, the Group had a total of 837 employees (including executive Directors), representing a decrease of 66 employees compared with the number of employees as at 31 December 2020. The total staff cost (including emoluments of directors and supervisors) was RMB74.99 million, as compared to RMB68.49 million for the year ended 31 December 2020, representing an increase of 9.49%. 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 held no material investment, acquisition or disposal in the equity interests of any other company for the year ended 31 December 2021.

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 2021, the Group had no material acquisitions and disposals related to subsidiaries, associates and joint ventures.

Pledge of assets

As at 31 December 2021, the Group was granted a credit limit of RMB1,489.80 million by various banks, while the Group's utilised banking facilities totaled RMB1,139.21 million, which were secured by (i) property, plant and equipment held by the Group with a carrying amount of RMB272.48 million as at 31 December 2021; (ii) land use rights held by the Group with a carrying amount of RMB131.15 million as at 31 December 2021; and (iii) the Group's inventories with a carrying amount of RMB350.00 million as at 31 December 2021.

Contingent liabilities

As at 31 December 2021, the Group had no material contingent liabilities (2020: Nil).

Significant events after the reporting period

You Zeyan, Wu Binhua, Liu Jigui and Wu Wanping, the domestic shareholders of the Company (collectively referred to as the "**Domestic Shareholders**"), entered into a share transfer agreement with Jiangxi Jiangzhong Pharmaceutical Commercial Operation Co., Ltd.* (江西江中醫藥商業運營有限責任公司) (" **Jiangzhong Yishang**") on 6 January 2022, under which the Domestic Shareholders agreed to transfer the shares held by them, representing approximately 26.90% of total share capital issued by the Company to Jiangzhong Yishang. Jiangzhong Yishang became the second largest shareholder of the Company.

DIVIDEND

The Board does not recommend the payment of a final dividend for the year ended 31 December 2021 (2020: RMB0.2 per share (tax inclusive)).

CLOSURE OF REGISTER OF MEMBERS

For the purpose of determining the entitlement of the members of the Company to attend the AGM to be held on 6 June 2022, the register of members of the Company will be closed from 31 May 2022 to 6 June 2022 (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 30 May 2022.

CORPORATE GOVERNANCE PRACTICES

The Company had been complying with the code provisions (the "**Code Provisions**") set out in the Corporate Governance Code contained in Appendix 14 to the Rules Governing the Listing of Securities (the "**Listing Rules**") on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") for the year ended 31 December 2021, save for the deviation as stated below:

Pursuant to the Code Provision C.2.1, the responsibilities between the chairman and chief executive officer should be separated and should not be performed by the same individual. Mr. Yao Chuanglong, our chief executive officer, is also 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.

On 1 January 2022, the amendments to the Corporate Governance Code contained in Appendix 14 to the Listing Rules (the "**New CG Code**") came into effect and the requirements under the New CG Code will apply to corporate governance reports for financial year commencing on or after 1 January 2022. 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 have complied with the required standard as set out in the Model Code for the year ended 31 December 2021.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

For the year ended 31 December 2021, 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, reappointment 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 2021.

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 2021 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 2022

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

** For identification purpose only*