創美·CH'MEI

Charmacy Pharmaceutical Co., Ltd.
創美藥業股份有限公司

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

(Stock Code: 2289)

ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2023

FINANCIAL SUMMARY

- In 2023, the operating revenue of the Group was RMB4,403.63 million, representing an increase of 5.47% as compared to RMB4,175.28 million in 2022.
- In 2023, the net profit of the Group amounted to RMB51.34 million, representing a decrease of 43.25% as compared to RMB90.47 million in 2022.
- In 2023, the Group's net profit attributable to the shareholders of parent company was RMB51.34 million, representing a decrease of 43.25% as compared to RMB90.47 million in 2022.
- In 2023, the Group's net profit attributable to shareholders of the parent company after deducting non-recurring gains and losses was RMB50.04 million, representing an increase of 24.67% from RMB40.14 million in 2022.
- In 2023, the Group's basic and diluted earnings per share was RMB0.4754 compared to RMB0.8377 in 2022.
- The Board recommends the payment of a final dividend of RMB0.30 per share (tax inclusive) for the year ended 31 December 2023.

ANNUAL RESULTS

The board (the "**Board**") of directors (the "**Director(s)**") of Charmacy Pharmaceutical Co., Ltd. (the "**Company**" or "**we**") is pleased to announce the audited consolidated financial results of the Company and its subsidiaries (collectively referred to as the "**Group**") for the year ended 31 December 2023 (the "**Reporting Period**" or "**Year**"), together with the comparative figures for the year ended 31 December 2022.

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2023

Item	*Note*	2023 *RMB*	2022 *RMB*
I. Total operating revenue		**4,403,633,478.08**	4,175,279,039.20
Incl:Revenue	*4*	**4,403,633,478.08**	4,175,279,039.20
II. Total operating cost		**4,332,543,936.81**	4,113,291,002.67
Incl: Operating cost	*4*	**4,110,889,553.80**	3,903,521,213.18
Taxes and surcharges		**9,303,097.63**	10,073,659.26
Selling expenses		**122,467,089.60**	112,831,003.98
Management expenses		**47,532,938.44**	49,736,270.40
Research & development expenses			
Finance costs	*6*	**42,351,257.34**	37,128,855.85
Incl: Interest expenses		**40,790,342.89**	35,073,142.27
Interest income		**4,301,317.10**	4,601,780.21
Add: Other income		**11,263.47**	371,738.94
Investment income (“-” for loss)		**-100,000.00**	
Incl: Investment income from associates and joint ventures			
Financial assets measured at amortized cost are derecognized earnings		**-100,000.00**	
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)		**-492,054.34**	-3,530,457.97
Impairment loss of assets (“-” for loss)		**-4,361,225.47**	-3,148,303.99
Gains on disposal of assets (“-” for loss)		**47,339.87**	65,839,056.46
III. Operating profit (“-” for loss)		**66,194,864.80**	121,520,069.97
Add: Non-operating revenue		**1,322,095.37**	906,412.11
Less: Non-operating expenses		**97,396.20**	372,783.97
IV. Total profit (“-” for total loss)		**67,419,563.97**	122,053,698.11
Less: Income tax expense	*7*	**16,074,838.28**	31,581,741.59
V. Net profit (“-” for net loss)		**51,344,725.69**	90,471,956.52
(I) By continuity of operations		**51,344,725.69**	90,471,956.52
1.Net profit from continuing operation (“-” for net loss)		**51,344,725.69**	90,471,956.52
2.Net profit from discontinued operation (“-” for net loss)			
(II) By ownership		**51,344,725.69**	90,471,956.52
1.Net profit attributable to the shareholders of parent company (“-” for net loss)		**51,344,725.69**	90,471,956.52
2.Profit or loss of minority shareholders (“-” for net loss)			

Item	Note	2023 *RMB*	2022 *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		**51,344,725.69**	90,471,956.52
Total comprehensive income attributable to the shareholders of parent company		**51,344,725.69**	90,471,956.52
Total comprehensive income attributable to minority shareholders			
VIII. Earnings per share:			
(I) Basic earnings per share	*8*	**0.4754**	0.8377
(II) Diluted earnings per share	*8*	**0.4754**	0.8377

CONSOLIDATED BALANCE SHEET

As at 31 December 2023

Item	Note	31 December 2023 *RMB*	31 December 2022 *RMB*
Current assets:			
Monetary funds		**634,197,229.09**	492,673,555.44
Trading financial assets			
Derivative financial assets			
Bills receivables	*10*	**3,633,001.16**	5,329,945.37
Trade receivables	*11*	**961,718,850.06**	844,442,544.71
Account receivable financing	*12*		15,483,006.79
Prepayments		**382,948,695.69**	388,217,993.17
Other receivables		**12,075,916.66**	96,654,746.27
Incl: Interest receivable			
Dividends receivable			
Buying back the sale of financial assets			
Inventories		**775,841,635.16**	586,853,688.43
Contract assets			
Assets held for sale			
Non-current assets due within one year			
Other current assets		**41,584,593.72**	32,705,868.93
Total current assets		**2,811,999,921.54**	2,462,361,349.11
Non-current assets:			
Debt investment			
Other debt investment			
Long-term accounts receivable			
Long-term equity investments			
Other equity instrument investments			
Other non-current financial assets			
Investment properties			
Fixed assets		**294,721,220.12**	276,489,505.37
Construction in progress			
Right-of-use assets		**33,826,415.92**	17,590,155.87
Intangible assets		**76,722,809.78**	80,857,328.57
Development expenditure			
Goodwill		**6,024,104.16**	6,024,104.16
Long-term expenses to be amortized		**16,978,756.37**	16,338,602.59
Deferred income tax assets		**7,382,648.71**	6,803,910.58
Other non-current assets			
Total non-current assets		**435,655,955.06**	404,103,607.14
Total assets		**3,247,655,876.60**	2,866,464,956.25

Item	Note	31 December 2023 *RMB*	31 December 2022 *RMB*
Current liabilities:			
Short-term borrowings		**587,994,113.46**	513,251,685.23
Trading financial liabilities			
Derivative financial liabilities			
Bills payables	*13*	**936,487,754.65**	876,775,586.87
Trade payables	*14*	**659,073,566.35**	632,791,945.43
advance receipts			
Contract liabilities		**19,490,768.05**	13,528,877.69
Salaries payable to employees		**9,688,286.53**	13,346,444.66
Tax payables		**55,950,428.80**	94,155,794.37
Other payables		**341,051,900.01**	105,824,075.61
Incl: Interest payable			
Dividends payable			
Liabilities held for sale			
Non-current liabilities due within one year		**6,587,383.36**	4,154,632.64
Other current liabilities		**2,533,799.78**	1,758,754.11
Total current liabilities		**2,618,858,000.99**	2,255,587,796.61
Non-current liabilities:			
Long-term borrowings			
Bonds payable			
Incl: preferred stock			
perpetual note			
Lease liabilities		**30,390,117.80**	15,754,772.11
Long-term payables			
Long-term payroll payable			
Accruals and provisions			
Deferred income			
Deferred income tax liabilities		**600,901.51**	60,256.92
Other non-current liabilities			
Total non-current liabilities		**30,991,019.31**	15,815,029.03
Total liabilities		**2,649,849,020.30**	2,271,402,825.64
Shareholders' equity:			
Share capital		**108,000,000.00**	108,000,000.00
other equity instruments			
Incl: preferred stock			
perpetual note			
Capital reserve		**278,990,829.04**	278,990,829.04
Less: Treasury stock			
Other comprehensive income			
Special reserve			
Surplus reserve		**29,661,138.05**	28,186,051.87
General Risk Preparation			
Unallocated profits		**181,154,889.21**	179,885,249.70
Total equity attributable to the shareholders of parent company		**597,806,856.30**	595,062,130.61
Minority interests			
Total shareholders' interests		**597,806,856.30**	595,062,130.61
Total liabilities and shareholders' interests		**3,247,655,876.60**	2,866,464,956.25

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2023

1. GENERAL

Charmacy Pharmaceutical Co., Ltd. (the "**Company**") was established as an enterprise owned by the whole people (全民所有制企業) in the People's Republic of China (the "**PRC**" or "**China**") under the name of Shantou Pharmaceutical Supplies Company* (汕頭市醫藥聯合公司物資站) on 18 February 1984. Pursuant to an approval granted by relevant PRC authorities on 28 May 2015, the Company was transformed into a joint stock company with limited liability and changed its name to Charmacy Pharmaceutical Co., Ltd. (創美藥業股份有限公司). The shares of the Company have been listed on the main board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") 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's financial statements are based on the actual transactions and events that have occurred, in accordance with the Accounting Standards for Enterprises (《企業會計準則》) and their application guidelines, interpretations and other relevant provisions issued by the Ministry of Finance of the PRC (collectively referred to as "**Accounting Standards for Enterprises**"), the China Securities Regulatory Commission ("**CSRC**") Rules for the Preparation of Information Disclosure of Companies Offering Securities to the Public No. 15 – General Provisions on Financial Reporting (Revised in 2023) and related regulations, as well as the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**") of the relevant provisions of the disclosure.

(2) Going concern

The Group, having evaluated its ability to continue as a going concern for the 12 months since 31 December 2023, did not find any event or condition which may cast significant doubt on the going concern ability. The financial statements are presented on a going concern basis.

3. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(1) Declaration on compliance with Accounting Standards for Enterprises

The financial statements comply with the requirements of the Accounting Standards for Enterprises, and reflect the financial position of the Company and the Group as at 31 December 2023, as well as the operating results and cash flow of 2023 in a true, accurate and complete manner.

(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

On 30 November 2022, the Ministry of Finance issued Interpretation No. 16 of Accounting Standards for Business Enterprises (the "**Interpretation No. 16**"), which standardizes the accounting treatment of the initial recognition exemption of deferred income tax related to assets and liabilities arising from individual transactions.

Interpretation No. 16 revises the scope of the initial recognition exemption for deferred income tax in Accounting Standard for Business Enterprises No. 18 - Income Tax, clarifying that Accounting Standard for Business Enterprises No. 18 - Income Tax does not apply to individual transactions that are not a business combination, the transaction does not affect neither the accounting profit nor the taxable income (or deductible loss) when the transaction occurs, and the assets and liabilities initially recognized result in the same amount of taxable temporary differences and deductible temporary differences Provisions regarding exemption from the initial recognition of deferred tax liabilities and deferred tax assets. The provisions came into force on 1 January 2023 and can be implemented in advance. Effective from 1 January 2023, the Group has adopted the retrospective adjustment method for individual transactions that occurred between the beginning of the earliest period in which the financial statements were presented and 31 December 2022, and has restated the comparative annual financial statements. The specific impacts are listed below:

1) Effect on the beginning of the comparison period

	Consolidated statements			**Parent company statements**		
Affected items	**Before adjustment 31 December 2021**	**The amount of the adjustment**	**After adjustment 1 January 2022**	**Before adjustment 31 December 2021**	**The amount of the adjustment**	**After adjustment 1 January 2022**
Surplus reserve	21,080,432.34	47,567.08	21,127,999.42	21,080,432.34	47,567.08	21,127,999.42
Unallocated profits	96,030,718.25	440,627.38	96,471,345.63	18,200,740.51	428,103.71	18,628,844.22
Total equity attributable to the shareholders of parent company	504,101,979.63	488,194.46	504,590,174.09	—	—	—
Total shareholders' interests	504,101,979.63	488,194.46	504,590,174.09	429,485,660.35	475,670.79	429,961,331.14

2) Impact on the comparative year

Affected items	Consolidated statements（2022） Before adjustment	The amount of the adjustment	After adjustment	Parent company statements（2022） Before adjustment	The amount of the adjustment	After adjustment
Income tax expense	31,673,359.34	-91,617.75	31,581,741.59	23,608,534.62	-92,278.23	23,516,256.39
Net profit	90,380,338.77	91,617.75	90,471,956.52	70,488,246.25	92,278.23	70,580,524.48
Incl：Net profit attributable to the shareholders of parent company	90,380,338.77	91,617.75	90,471,956.52	—	—	—

3) Impact on the beginning of the Reporting Period on the statement

Affected items	Consolidated statements Before adjustment 31 December 2022	The amount of the adjustment	After adjustment 1 January 2023	Parent company statements Before adjustment 31 December 2022	The amount of the adjustment	After adjustment 1 January 2023
Deferred income tax assets	6,224,098.37	579,812.21	6,803,910.58	1,102,912.65	567,949.02	1,670,861.67
Surplus reserve	28,129,256.97	56,794.90	28,186,051.87	28,129,256.97	56,794.90	28,186,051.87
Unallocated profits	179,362,232.39	523,017.31	179,885,249.70	81,640,162.13	511,154.12	82,151,316.25
Total equity attributable to the shareholders of parent company	594,482,318.40	579,812.21	595,062,130.61	—	—	—
Total shareholders' interests	594,482,318.40	579,812.21	595,062,130.61	499,973,906.60	567,949.02	500,541,855.62

（6） Changes of significant accounting estimates

There was no change in the Group's key accounting estimates during 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 2023, 31 December 2023, 1 January 2023 to 31 December 2023, and 1 January 2022 to 31 December 2022, 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	**4,347,522,184.54**	**4,110,889,553.80**	4,140,664,410.05	3,903,521,213.18
Other businesses	**56,111,293.54**		34,614,629.15	
Total	**4,403,633,478.08**	**4,110,889,553.80**	4,175,279,039.20	3,903,521,213.18

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 2023 and 2022.

6. FINANCE COSTS

Item	Amount for the year	Amount for last year
Interest expenses	**40,790,342.89**	35,073,142.27
Incl: bank borrowings and others	**39,646,148.30**	34,257,509.72
Interest expense on lease liabilities	**1,144,194.59**	815,632.55
Less: Interest income	**4,301,317.10**	4,601,780.21
Add: Foreign exchange gains and losses	**362,701.11**	749,260.81
Add: Others	**5,499,530.44**	5,908,232.98
Total	**42,351,257.34**	37,128,855.85

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	**16,112,931.82**	30,079,790.87
— Corporate income tax in Mainland China	**16,112,931.82**	30,079,790.87
— Profit tax in Hong Kong, PRC		
Deferred income tax expenses	**-38,093.54**	1,501,950.72
Total	**16,074,838.28**	31,581,741.59

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	**67,419,563.97**
Income tax expenses calculated at applicable tax rate	**16,854,890.99**
The impact of different tax rates applied to subsidiaries	
Adjust the impact of income taxes for previous periods	**-210,306.81**
Impact of non-taxable income	
Effect of non-deductible costs, expenses and losses	**74,442.23**
Use of deductible losses that have not been previously confirmed for deferred EIT assets	**-19,566.05**
Effect of deductible temporary differences or deductible losses on deferred income tax assets not recognised in the year	**-624,622.08**
Income tax expenses	**16,074,838.28**

8. RETURN ON NET ASSETS AND EARNINGS PER SHARE

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	8.67	0.4754	0.4754
Net profit attributable to the shareholders of parent company (excluding non-recurring profit and loss)	8.45	0.4633	0.4633

9. DIVIDEND

The Board proposed the distribution of a final dividend of RMB0.30 (tax inclusive) per share for the year ended 31 December 2023 (2022: RMB0.45 (tax inclusive) per share), subject to the Company's shareholders' approval at the forthcoming annual general meeting.

10. BILLS RECEIVABLES

(1) Bills receivable are listed by category

Item	Balance as at the end of the year	Balance as at the beginning of the year
Bank acceptance bills		
Commercial drafts	**3,645,761.32**	5,348,665.70
Subtotal	**3,645,761.32**	5,348,665.70
Less: Provision for bad debt	**12,760.16**	18,720.33
Total	**3,633,001.16**	5,329,945.37

(2) 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	**Proportion (%)**	**Amount**	**Provision ratio (%)**	**Book value**
Bad debt provision made on individual basis					
Bad debt provision made on a collective basis	**3,645,761.32**	**100.00**	**12,760.16**	**0.35**	**3,633,001.16**
Incl: Aging portfolio	**3,645,761.32**	**100.00**	**12,760.16**	**0.35**	**3,633,001.16**
Total	**3,645,761.32**	**100.00**	**12,760.16**	**—**	**3,633,001.16**

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	5,348,665.70	100.00	18,720.33	0.35	5,329,945.37
Incl: Aging portfolio	5,348,665.70	100.00	18,720.33	0.35	5,329,945.37
Total	5,348,665.70	100.00	18,720.33	—	5,329,945.37

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

Name	Balance as at the end of the year		
	Book balance	Provision for bad debt	Provision ratio (%)
Aging portfolio	**3,645,761.32**	**12,760.16**	**0.35**
Total	**3,645,761.32**	**12,760.16**	—

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.

(3) 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	18,720.33	**-5,960.17**				**12,760.16**
Total	18,720.33	**-5,960.17**				**12,760.16**

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

Item	Pledged amount as at the end of the year
Commercial drafts	**3,400,000.00**
Total	**3,400,000.00**

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

(6) The Group did not have any bills receivable actually written off during the year.

11. TRADE RECEIVABLES

Name of item	**Balance as at the end of the year**	Balance as at the beginning of the year
Trade receivables	**982,891,686.13**	865,013,450.04
Less: Provision for bad debt	**21,172,836.07**	20,570,905.33
Net	**961,718,850.06**	844,442,544.71

(1) 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	**956,817,773.59**	838,690,868.18
1 to 2 years	**10,258,740.50**	10,677,499.45
2 to 3 years	**1,254,876.36**	1,380,979.86
More than 3 years	**14,560,295.68**	14,264,102.55
Total	**982,891,686.13**	865,013,450.04

(2) 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	**17,125,410.33**	**1.74**	**16,915,061.23**	**98.77**	**210,349.10**
Provision for bad debt made on a collective basis	**965,766,275.80**	**98.26**	**4,257,774.84**	**0.44**	**961,508,500.96**
Incl: Aging portfolio	**965,766,275.80**	**98.26**	**4,257,774.84**	**0.44**	**961,508,500.96**
Total	**982,891,686.13**	**100.00**	**21,172,836.07**	**—**	**961,718,850.06**

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

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	**956,299,254.40**	**3,347,047.38**	**0.35**
1 to 2 years	**9,467,021.40**	**910,727.46**	**9.62**
2 to 3 years			
Over 3 years			
Total	**965,766,275.80**	**4,257,774.84**	—

(3) Provision for bad debts accrued, recovered or reversed in trade receivable during the 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	16,525,274.67	**1,144,368.27**	**552,722.02**	**201,859.69**		**16,915,061.23**
Provision for bad debt made on a collective basis	4,045,630.66	**212,144.18**				**4,257,774.84**
Total	20,570,905.33	**1,356,512.45**	**552,722.02**	**201,859.69**		**21,172,836.07**

The amount of bad debt provision recovered or reversed this year is all small amounts, and there is no significant recovery or reversal.

(4) Accounts receivable actually written off during the year

Item	Write-off amount
Accounts receivable actually written off	**201,859.69**

The accounts receivable written off this year are all small payments, and there is no significant write-off of accounts receivable.

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	**936,487,754.65**	876,775,586.87
Total	**936,487,754.65**	876,775,586.87

Note 1: The total amount of bills payable due and unpaid at the end of the year is RMB 726,093.41, and the reason for the unpaid due is that 30 December 2023 and 31 December 2023 are statutory holidays, resulting in the bills payable with a maturity date of 30 December 2023 cannot be released, and it has been fully released subsequently on 2 January 2024

Note 2: 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） Presentation of trade payables

Item	Balance as at the end of the year	Balance as at the beginning of the year
Loans	**656,543,625.36**	631,927,855.43
Equipment costs	**2,529,940.99**	864,090.00
Total	**659,073,566.35**	632,791,945.43

（2） There were no significant accounts payable that were more than one year old during the year.

（3） Aging presentation of trade payables

Below is an aging analysis of trade payables based on transaction date as at 31 December 2023:

Age	Balance as at the end of the year	Balance as at the beginning of the year
Within 1 year	**657,001,244.78**	627,284,478.84
1 to 2 years	**775,097.42**	4,226,813.06
2 to 3 years	**542,337.03**	755,347.04
More than 3 years	**754,887.12**	525,306.49
Total	**659,073,566.35**	632,791,945.43

MANAGEMENT DISCUSSION AND ANALYSIS

INDUSTRY OVERVIEW

In recent years, China's economic growth and improving living standards have led to an increasing demand of medical and healthcare services throughout society, and the market expansion in the pharmaceutical distribution end driven by the demand in the pharmaceutical consumption end has laid the market foundation for the development of the pharmaceutical distribution industry in China. The implementation and deepening of various tasks in China's medical reform, combined with the strong empowerment from digital technology development and intensified all-around supervision in the pharmaceutical industry, is driving China's pharmaceutical distribution industry towards high-quality development. Furthermore, with the increasing regulation and management of the hospital pharmacy market at the policy level and the further development of non-hospital market for retail pharmacies, pharmaceutical distributors are playing an increasingly vital role in the industry chain and the market concentration of pharmaceutical distribution industry is increasing, accelerating the transition from resource competition to capacity competition.

The Overall Pharmaceutical Distribution Market Is Steadily Growing and the Industry Concentration Is Continuously Increasing

According to the statistics of the Ministry of Commerce of the People's Republic of China (**the** "**Ministry of Commerce**"), the top 100 pharmaceutical distribution enterprises accounted for more than 75.2% of China's total pharmaceutical market size in the same period, with a year-on-year growth rate of 0.7%, and they accounted for 96.1% of China's total pharmaceutical wholesale market size in the same period in 2022. Forward Industry Research Institute predicted that the market size of China's pharmaceutical distribution industry will exceed RMB4 trillion by 2028 when calculated with a compound growth rate of 7%.

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

In recent years, China has issued a series of policies such as "prescription outflow", "electronic prescription circulation" and "Internet-based pharmaceutical sales". These polices aim to shift the main focus of pharmaceutical sales from hospitals, clinics and other medical institutions to retail pharmacies. The market position of retail pharmacies has gradually become prominent, bringing considerable growth to the sales of prescribed drugs. Statistics from MENET showed that the market sales of retail pharmacy terminals (physical pharmacies + online pharmacies) exceeded RMB900 billion in 2023, with a year-on-year growth rate of 6.5%. The market share of retail pharmacy terminals is increasing annually and reached 29% in 2022, a year-on-year increase of 2.1 percentage points. The share of non-hospital market for pharmaceutical distribution is gradually increasing.

Overall, sales in the pharmaceutical distribution markets are steadily growing nationwide, and the retail market is continuously expanding. This demonstrates improving industry concentration, expanding professional services, and standardised Internet-based sales management. The industry is moving towards high-quality development as a whole.

Diversification, Digital and Intelligent Transformation in the Pharmaceutical Logistics Field Is Accelerated

2023 witnessed the advent of many shining cutting-edge technologies, including artificial intelligence, which injected new vitality into social and economic development, accelerated the digital, intelligent and diversified growth of the pharmaceutical distribution industry, and facilitated the deeper integration of "Internet + pharmaceutical distribution". In the digital and intelligent era, the change of national and regional pharmaceutical distributors to solution providers in the pharmaceutical supply chain becomes a more apparent trend. They facilitate the integration of "logistics, information flow, and capital flow", build and continue to improve a diversified and collaborative pharmaceutical supply chain system, deliver differentiated products/services, and provide efficient third-party pharmaceutical logistics services from multiple linked warehouses on national and regional scales by fully leveraging the advantages of their own logistics network, strengthening their ability to provide on-demand customised services on a large scale, and integrating upstream and downstream resources throughout the supply chain.

In October 2023, the National Medical Products Administration released the Guidance on Constructing Standardised Modern Pharmaceutical Logistics (Draft for Comments), with the aim of promoting the development of standardised newly established pharmaceutical wholesale enterprises and third-party modern pharmaceutical logistics enterprises that are commissioned to store and transport pharmaceuticals. In the future, the traditional pharmaceutical supply chain will undergo unprecedented significant restructuring and market reshuffling. This will result in higher service requirements for logistics and warehousing, logistics costs, efficiency improvement, pharmaceutical regulatory traceability, service diversification and much more, in order to drive the digital and intelligent upgrade of pharmaceutical logistics.

Specification for Logistics Service of Medicinal Product (GB/T 30335-2023), which came into force on 7 September 2023, was proposed and centrally managed by the National Logistics Standardisation Technical Committee (SAC/TC269) and drafted by several organisations including the China Federation of Logistics & Purchasing. The release and implementation of this standard helps further standardise the logistics service operations of enterprises and guides enterprises in providing customised logistics services and achieving the digital and intelligent transformation and upgrade of logistics, which can further promote the healthy and orderly development of the pharmaceutical logistics industry and ensure the quality and safety of pharmaceuticals.

High-quality Development of Pharmaceutical Distribution Industry Is Supported by Various Relevant Policies in Guangdong

According to Guangdong Provincial Development and Reform Commission's notice in December 2022 on issuance of the Program for Building a Modern Distribution System in Guangdong Province During the 14th Five-Year Plan Period, efforts will be made to improve logistics enterprises' professional service level, cultivate and strengthen pharmaceutical logistics enterprises, innovate pharmaceutical distribution models, refine pharmaceutical logistics standards, enhance urban and rural distribution systems, and improve pharmaceutical distribution efficiency and overall quality control level. According to the Program, Guangzhou is supported in building a national centre for modern logistics and distribution of pharmaceuticals, a data processing centre for online pharmaceutical platforms, and a hub of national pharmaceutical retail chain headquarters. According to the data from Guangdong Provincial Medical Products Administration, there were 64,716 pharmacies in Guangdong Province in 2022, 48% of which were chain pharmacies. The total circulation of pharmaceuticals in Guangdong Province reached RMB281 billion, ranking first in the country.

The Several Regulations of Guangdong Medical Products Administration on Storage and Transportation Management of Pharmaceutical Wholesale Enterprises ("**New Regulations**") came into force on 1 July 2023. The New Regulations points out that existing wholesale enterprises can meet the original standards when applying for license renewal if they maintain the existing business, or they have to meet the relevant requirements in the New Regulations if they engage in new pharmaceutical storage and transportation business. The New Regulations addresses the "last mile" distribution of regional pharmacies and is of great significance to realising the effective and balanced coverage of pharmaceutical storage and transportation in urban and rural areas across the province. On the other hand, the New Regulations includes detailed standardisation requirements and technical indicators on the personnel, warehousing area, automatic transmission facilities and equipment, information management system and traceability system of enterprises. Pharmaceutical wholesale enterprises with modern logistics management capacity will have more advantages under the heightened regulatory requirements. After New Regulations came into force, the Group became the first "pharmaceutical wholesale enterprise newly engaging in storage and transportation business" to pass the inspection and acceptance of the competent authorities in Guangdong Province.

Pharmaceutical Producers Take Off in Non-hospital Market in the Context of Medical Reform and Distributors with Solid Foundations in the Retail Terminal Are Preferred

In recent years, with the further deepening of medical reform, various policies aimed at changing the situation wherein "a hospital subsidises its medical services with overly expensive drug prescriptions" have been issued one after another (such as "volume-based procurement", "hierarchical medical treatment", "dual channel" and "inclusion of pharmacies into the unified planning for outpatients"). As medical and pharmaceutical services are further separated, the hospital market is no longer the absolute focus and the balance is gradually tilting towards the non-hospital pharmaceutical market, which offers considerable blue ocean opportunities. MENET predicted that the non-hospital market, with a size of RMB1.60 trillion, will be equal to or even exceed the hospital market by 2029.

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

The Issuance of Measures for Quality Supervision and Administration of Distribution and Use of Medicinal Products Promotes All-round Enhancement of Quality Supervision and Administration of Distribution and Use of Medicinal Products

In September 2023, the State Administration for Market Regulation announced the No. 84 SAMR Order - Measures for Quality Supervision and Administration of Distribution and Use of Medicinal Products (the "**Measures for Distribution of Medicinal Products**"), which came into force on 1 January 2024. The Measures for Distribution of Medicinal Products mainly puts forward provisions on emphasising the primary responsibilities of enterprises distributing medicinal products, promoting the standardised development of modern pharmaceutical logistics, encouraging enterprises to optimising the allocation of warehousing resources, and refining the requirements of pharmaceutical retail and chain management. According to the Measures for Distribution of Medicinal Products, an entity carrying out medicinal product wholesale activities shall meet the following conditions: It has self-operated warehouses, business premises, facilities equipment commensurate with its business variety and scale, and there are modern logistics facilities and equipment to realise operation of medicinal product warehousing, transmission, sorting, shelving and delivery in its warehouses; it has a quality management system ensuring the quality of medicinal products and an information management system covering the whole process of distribution, quality management and traceability of medicinal products, and it satisfies the requirements of the quality management specifications for the distribution of medicinal products. This defines and clarifies the requirements on the self-operated warehouses of pharmaceutical wholesale enterprises at the national level and provides regulatory support for the existing regulatory model of local medicinal product regulatory departments.

Data sources: MENET; China Pharmaceutical Distribution Industry Development Report (2022); China Pharmaceutical Commerce; Guangdong Medical Products Administration; and 2022 Operational Statistical Analysis Report of Pharmaceutical Distribution Industry.

BUSINESS REVIEW

The Group's principal business is distributing pharmaceuticals in China, and the majority of its business revenue comes from pharmaceutical distribution. We procure pharmaceuticals from pharmaceutical producers and distribution suppliers, and provide sales services for distributors, retail pharmacies, as well as private hospitals, clinics, health stations and other types of customers.

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 2023, our distribution network covered 13,836 customers, among which 663 were distributors, 9,123 were retail pharmacy stores, and 4,050 were hospitals, clinics, health centres and others, representing an increase of 440 in the number of customers, including the decrease of 39 distributors, the increase of 440 retail pharmacy stores, and 39 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 2023, we had distributed 12,212 types of products, and we had a total of 1,146 suppliers, of which 638 were pharmaceutical manufacturers and 508 were distributor suppliers, representing an increase of 5 suppliers compared to last year.

Product Category	**Number of products for the year ended 31 December**	
	2023	2022
Chinese patent medicines	**4,582**	4,925
Western medicines	**4,518**	4,687
Others	**3,112**	3,340
Total	**12,212**	12,952

Create High-quality Pharmaceutical Marketing Ecosystem and Work Together with Upstream and Downstream of the Industry Chain to Achieve Win-win

By leveraging the advantages of a three-dimensional marketing network, the Group has built complete industry and business chains with brand pharmaceutical factories and downstream customers. The industry chain composed of interconnected and integrated upstream and downstream that we promote greatly helps upstream manufacturers reduce the difficulty in channel expansion, truly realises brand value and benefits, and is highly recognised by a number of pharmaceutical brands. Famous brands and pharmaceutical enterprises in the pharmaceutical industry, such as CR Sanjiu, Guangzhou Baiyunshan Guanghua, Nanjing Tongrentang, CR Jiangzhong, Medi'Care, Haleon, Zhongsheng Pharma, Xiangxue Pharmaceutical, and Lian Hua Feng, all benefit from our three-dimensional marketing network. At present, we constantly consolidate our product categories, expand our product lines, and combine diverse marketing strategies, such as co-brand marketing, node and occasion based marketing, differentiated promotion, and new launch trial. The aim is to strengthen resources linkage and sharing, open up diversified cooperation channels, help deepen the product awareness in customers, and facilitate efficient product circulation. It is the resources reshaping based on our three-dimensional marketing network that greatly helps our terminal partners increase their business revenue and gross profit, and as the cost management and other explicit indicators of our partners are significantly improved and enhanced, we truly realise the goal of delivering new performance growth.

During the Reporting Period, due to its good reputation and high-quality services, the Company was awarded the 2022-2023 Top 100 Chinese Enterprises in Pharmaceutical Business by the Medical and Pharmaceutical Commercial Association of the All-China Federation of Industry and Commerce and received the 4th Golden Stone Award • 2023 Best Pharmaceutical Marketing Team from Saibailan.

Leverage Advantages in Logistics and Push Third-party Logistics Business to A New Level

During the Reporting Period, the Group successfully passed the inspection prescribed in the New Regulations and became the first "pharmaceutical wholesale enterprise newly engaging in storage and transportation business" to pass the inspection and acceptance of the competent authorities in Guangdong Province. The New Regulations sets higher and more stringent standards for the conduct of third-party pharmaceutical logistics business, and the requirements for automation and information technology application are significantly intensified. Meanwhile, it emphasises that the client should give priority to any contractor that has a high-quality management level and operational excellence capability when carrying out commissioning business. The Group is the first third-party pharmaceutical logistics enterprise in Guangdong Province to pass this authoritative review, which fully demonstrates that the regulatory authorities highly recognize our pharmaceutical logistics service and quality management levels. This also marks the entry of our third-party pharmaceutical logistics business into the fast lane of growth. In addition, the national standard Specification for Logistics Service of Medicinal Product (GB/T 30335-2023), which we participated in drafting, came into force in September 2023.

As a leading service provider in the modern pharmaceutical supply chain in South China, the Group has established medium and large modern pharmaceutical distribution centres in Shantou, Guangzhou, Zhuhai and Huizhou, where cold chain, refrigerated vehicles and intelligent warehousing equipment such as AS/RS systems, temperature and humidity monitoring systems, as well as intelligent temperature control systems are provided to ensure the quality and safety of pharmaceuticals during warehousing and distribution processes, greatly reduce labor, losses and other logistics costs, and meet the demand for different pharmaceutical services as much as possible. Meanwhile, the Group has introduced a supporting information management system and uses the advanced automation technology to schedule various logistics equipment in the system. It also provides visual equipment monitoring, real-time task monitoring and implementation feedback to detect and locate difficult problems in real time, thereby ensuring smooth warehousing and distribution work.

The Group owns complete logistics network and information system and provides consistent warehousing conditions under the GSP management standards. With Charmacy Pharmaceutical (Guangzhou) Medicine Sorting and Distribution Centre as the core warehouse, a leading regional logistics hub is built and collaborates with logistics centres in other regions to share inventory and distribution network advantages. This not only fully meets the warehousing demand of the Company's fast-growing pharmaceutical distribution business, but also integrates and utilises the warehousing spaces and the logistics distribution capability to provide other value-added services such as warehousing or transportation for the upstream and downstream sectors, which can generate additional revenue and enhance the profitability of the Group in all respects. As at 31 December 2023, the Group has built third-party pharmaceutical logistics commissioning business and other value-added services such as warehousing or transportation with multiple customers, such as manufacturers, commercial distributors and chain pharmacies, with the number of corresponding customers and corresponding revenue increasing by more than 36% and 72% year-on-year, respectively.

In 2023, based on the excellent warehousing and distribution system, the Group was awarded the 2022-2023 Outstanding Pharmaceutical Logistics Distribution Enterprise (for 3 consecutive years), the 2022-2023 Modern Pharmaceutical Logistics Technology Test Base (Centre) (for 2 consecutive years), the 2022-2023 Best Pharmaceutical Cold Chain Logistics Centre (Base) (for 5 consecutive years), the 2022-2023 Recommended Pharmaceutical Cold Chain Logistics Service Enterprise (for 4 consecutive years), the 2022-2023 Top 50 Enterprise with Pharmaceutical Third-party Modern Logistics Service Capability and the 2022-2023 Excellent Case for Integrated Smart Pharmaceutical Supply Chain Services from Yaolianquan Certification Centre. It was also awarded the 2022 China Pharmaceutical Supply Chain Prominent Enterprise and the 2022-2023 Top 10 Logistics Centres from the Pharmaceutical Logistics Branch of the China Federation of Logistics & Purchasing, as well as the 2022-2023 Golden Ant Innovation Award in China's Logistics Industry from the Organizing Committee of LET-a CeMAT ASIA Event (for 6 consecutive years).

Introduce Provincial State-owned Shareholder to Provide Strong Guarantee for High-quality Development

Jiangyao Group Co., Ltd. ("**Jiangyao Group**") achieve control over the Group during the Reporting Period and entered into a three-year loan framework agreement with the Group on 2 March 2023, the general meeting authorized the general manager to apply for financial assistance of no more than RMB 500 million per year from Jiangyao Group according to the needs of business development. Jiangyao Group and the Group focus on the aligned non-tendering pharmaceutical terminal market and achieve sound collaborative effects in the business field. Based on its trust and expectation in the Group, Jiangyao Group provides financial and resource support to help the Group expand its business scale and achieve the cooperation goal of complementing each other's advantages and realising win-win development. Through in-depth and long-term strategic cooperation, we could leverage the state-owned resources and industrial development advantages of Jiangyao Group to further increase our overall operation level and comprehensive competitiveness and to lay a solid foundation for the realisation of our high-quality development goal.

PROSPECTS

With the mission of "Creating Healthy and Beautiful Life" in mind and belief in the business philosophy of "Integrity, Altruism and Win-win Cooperation", we are committed to becoming the most competitive service provider in China's medical and healthcare industry by adhering to the market strategy of "Intensive Engagement in Guangdong Province and Extensive Coverage across Surrounding Areas".

Currently, China has entered the stage of high-quality development, and the 20th CPC National Congress has made comprehensive arrangements for continuously deepening the medical reform. With the accelerating aging of population, the all-round advancement of Healthy China construction, and the upgrade of resident health consumption, the pharmaceutical industry is required to accelerate the supply-side structural reform to better meet the people's demand for a better life. It is required to accelerate the quality, efficiency and driving force reforms for the medical and healthcare development and thereby support the construction of the new development paradigm featuring dual circulation, in which domestic and overseas markets reinforce each other, with the domestic market as the mainstay.

Guided by the idea of modernisation, China has carried out a deep reform of the business pattern in the pharmaceutical distribution industry, and the concentration of the pharmaceutical distribution industry will continue to increase in the future, which will be combined with the continuous empowerment of information technology to make transformation and upgrade a new normal in industry development. By then, the logistics services in the pharmaceutical distribution supply chain will be further improved. On the one hand, pharmaceutical wholesale enterprises will strive to optimize the network structure and service functions, accelerate the integrated development of "channel sink and urban-rural linkage", and improve their "last mile" service capacity in pharmaceutical supply. On the other hand, they will continue to leverage the empowerment of digital technology and channel advantages to help brand manufacturers with pharmaceutical marketing and promotion, warehousing and transportation management, brand marketing and so on.

Influenced by the policies such as separating medical and pharmaceutical services as well as accelerating and expanding the coverage of centralized procurement, the hospital pharmaceutical market share will gradually decrease, while the expansion of the non-hospital market has become a general trend, creating a trillion-scale non-market space. In the long term, with the deepening development of prescription outflow and Internet-based medical services, physical pharmacies and pharmaceutical e-commerce will advance side by side, complement each other, and leverage their respective advantages to serve consumers.

Faced with these industry development opportunities, we maintain a proactive, flexible and positive attitude, respond to national policy guidance, and strive to implement the relevant policies of the pharmaceutical industry in practice. We also seize policy and market opportunities, continuously promote the expansion of market network and service improvement, strengthen refined management, boost high-quality development, and ensure continuous improvement in competitiveness on the basis of consolidating our existing advantages.

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

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

II. Strengthen the Effect of Technological Empowerment and Accelerate the Digital Transformation of Enterprises

We will continue to explore the fields of "Internet + Medicine", digital transformation and artificial intelligence collaboration to build a complete technical system and achieve multi-dimensional automated management. We will inject value into people and unleash human efficiency by making plenty of manual repetitive work involving logical rules into automatic work, so as to leave our employees more time to create more innovative and competitive value and stimulate the endogenous power of the enterprise. We will speed up our business handling to provide better and more efficient service experience for our upstream and downstream customers. We will utilise observational data to realise in-depth analysis through 23 years of data and experience accumulation in the industry.

Based on our supply chain advantages, with the B2B e-commerce platform as the carrier, propelled by marketing and operation, and in combination with innovative technologies and tools, we will fully unleash the potential of "Internet +" to meet the demand for trading scenario iteration, realise resources integration, channel optimisation and the matching between supply and demand, empower upstream and downstream enterprises, and become a strategic partner and a reliable supporter to customers amid the fierce market competition.

III. Vertically Deepen and Expand the Strategic Cooperation with Brand Manufacturers

We will attach importance to strengthening cooperation with various brand manufacturers, strive to seize more growth opportunities for venturing into the non-tendering product market, enrich our product portfolio, consolidate our product advantages, and leverage the resources and advantages of the Group's pharmaceutical retail terminal network to provide all-round and diversified brand promotion, product implementation plan design, and support service guarantee for upstream suppliers.

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

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

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

We will leverage the resources and advantages of our state-owned shareholder to actively seek high-quality products and project cooperation both domestically and internationally, optimise the product supply chain of the Group, expand more profitable new businesses, and create a second growth curve. We will also introduce new technologies and concepts to further strengthen the Group's soft power and competitiveness, consolidate our leading position in the non-tendering pharmaceutical market in South China, and contribute to the innovation and development of the pharmaceutical distribution industry.

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

FINANCIAL REVIEW

Operating revenue

	For the year ended 31 December	
	2023	2022
	RMB'000	*RMB'000*
Principal business	**4,347,522**	4,140,664
Other businesses	**56,111**	34,615
Operating revenue	**4,403,633**	4,175,279

	For the year ended 31 December	
Customer type	**2023**	2022
	RMB'000	*RMB'000*
Distributors	**2,057,929**	1,922,097
Retail pharmacy stores	**2,110,773**	2,057,232
Hospitals, clinics, health centres and others	**178,821**	161,335
Revenue from principal business	**4,347,522**	4,140,664

During the Reporting Period, our revenue from principal business was derived from product sales to (i) distributor customers; (ii) retail pharmacy stores; and (iii) hospitals, clinics, health centres and others. During the Reporting Period, 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 2023 was RMB4,403.63 million, representing an increase of 5.47% from RMB4,175.28 million for the year ended 31 December 2022, which was mainly due to the Company adhered to the business positioning of non-tender market and the market strategy of "intensive engagement in Guangdong Province and extensive coverage across surrounding areas", winning the recognition and support of more brand manufacturers, obtaining more distribution rights and project cooperation opportunities for advantageous products, and on the other hand, the Company's product satisfaction rate and supply chain service have been recognised by customers, brand recognition has been further improved, and the principal business has shown good business performance.

Operating cost, gross profit and gross profit margin

The operating cost of the Group increased by 5.31% from RMB3,903.52 million for the year ended 31 December 2022 to RMB4,110.89 million for the year ended 31 December 2023, which was consistent with the increase in the operating revenue.

The gross profit of the Group increased by 7.72% from RMB271.76 million for the year ended 31 December 2022 to RMB292.74 million for the year ended 31 December 2023. The gross profit margin of the Group increased from 6.51% for the year ended 31 December 2022 to 6.65% for the year ended 31 December 2023, mainly due to the year-on-year increase in third-party logistics revenue of 72.05%, and the Company's active adjustment of product mix by replacing products with low gross profit margin with those with high gross profit margin.

Selling expenses

The selling expenses of the Group increased by 8.54% from RMB112.83 million for the year ended 31 December 2022 to RMB122.47 million for the year ended 31 December 2023. This was mainly due to an increase in the remuneration of marketing personnel and employees of RMB4.09 million and an increase of RMB2.08 million in transportation expenses due to the increase in performance.

Management expenses

The management expenses of the Group decreased by 4.43% from RMB49.74 million for the year ended 31 December 2022 to RMB47.53 million for the year ended 31 December 2023, which was mainly due to the disposal of the property located in Foshan Avenue North, Chancheng District, Foshan City in December 2022, resulting in a decrease in depreciation and amortisation expense of RMB4.24 million.

Finance costs

The finance costs of the Group increased by 14.07% from RMB37.13 million for the year ended 31 December 2022 to RMB42.35 million for the year ended 31 December 2023, mainly due to the increase of RMB74.74 million in new short-term borrowings during the Year compared with 2022, and the corresponding interest increased by RMB5.72 million year-on-year.

Income tax expenses

The income tax expenses of the Group decreased by 49.10% from RMB31.58 million for the year ended 31 December 2022 to RMB16.07 million for the year ended 31 December 2023. 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 43.25% from RMB90.47 million for the year ended 31 December 2022 to RMB51.34 million for the year ended 31 December 2023. Among them, the net profit attributable to the shareholders of parent company decreased by 43.25% from RMB90.47 million for the year ended 31 December 2022 to RMB51.34 million for the year ended 31 December 2023, primarily due to the Company's one-off after-tax gain of approximately RMB49 million from cash compensation for land resumption in 2022, which was not available in the Reporting Period. The Group's principal business showed good performance, with net profit attributable to shareholders of the parent company after deducting non-recurring gains and losses increasing by 24.67% compared with 2022.

Liquidity and financial resources

As at 31 December 2023, the cash and bank deposits of the Group amounted to RMB112.93 million, while the cash and bank deposits amounted to RMB68.86 million as at 31 December 2022.

As at 31 December 2023 and 31 December 2022, the Group recorded net current assets of RMB193.14 million and RMB206.77 million, respectively. As at 31 December 2023, the current ratio (based on the calculation of current assets divided by current liabilities) of the Group was 1.07 (2022: 1.09).

The bank borrowings of the Group as at 31 December 2023 amounted to RMB587.99 million (short-term borrowings: RMB587.99 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 2023, the Group's bill receivables, trade receivables and receivables financing amounted to RMB965.35 million, representing an increase of RMB100.10 million, increased by 11.57% year-on-year, from RMB865.26 million as at 31 December 2022. This was mainly due to the increase in operating income during the Year, which reflected the growth achieved by the Group in the market. The Group will continue to strengthen the management of accounts receivable, dynamically assess risks, and achieve efficient use of funds and liquidity management.

Bills payables and trade payables

As at 31 December 2023, the Group's bills payables and trade payables amounted to RMB1,595.56million, representing an increase of RMB85.99 million, increased by 5.70% year-on-year, from RMB1,509.57 million as at 31 December 2022, mainly due to the Group's increase in pharmaceutical reserves based on the market supply and demand of its products.

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 2023, the Group had no bank borrowings which bear interest at floating rate. (2022: Nil)

Capital management

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

	31 DECEMBER 2023	31 DECEMBER 2022
GEARING RATIO	**44.28%**	42.75%

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 2023, the Group did not have any capital commitment. (2022: Nil).

Employees' information

As at 31 December 2023, the Group had a total of 831 employees (including executive Directors) (2022: 817 employees), representing an increase of 14 employees compared with the number of employees as at 31 December 2022. The total staff cost (including emoluments of directors and supervisors) was RMB90.07 million, representing an increase of 7.32%, as compared to RMB83.92 million for the year ended 31 December 2022. 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 2023.

Future plans related to material investments and capital assets

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

Pledge of assets

As at 31 December 2023, the Group was granted a credit limit of RMB1,341.00 million by various banks, while the Group's utilised banking facilities totaled RMB1,012.42 million, which were secured by (i) property, plant and equipment held by the Group with a carrying amount of RMB222.22 million as at 31 December 2023; (ii) land use rights held by the Group with a carrying amount of RMB68.98 million as at 31 December 2023; and (iii) the Group's inventories with a carrying amount of RMB350.00 million as at 31 December 2023.

Assets subject to restrictions on ownership or use

As at 31 December 2023, the Group's restricted monetary funds amounted to RMB521.27 million, which served as deposit for bank acceptance bills and borrowings; the Group's restricted bills receivable and account receivable financing amounted to RMB3.39 million, which were restricted for being pledged to banks; the Group also pledged certain other assets totalling RMB641.20 million as guarantee for the Group's borrowings. Assets subject to restrictions on ownership or use totalled RMB1,165.86 million.

Contingent liabilities

As at 31 December 2023, the Group had no material contingent liabilities (2022: Nil).

Significant events after the Reporting Period

After the Reporting Period and as of the date of this announcement, there are no material matters that the Group is required to disclose.

DIVIDEND

The Board recommends the payment of a final dividend of RMB0.30 per share (tax inclusive) for the year ended 31 December 2023, which is subject to the approval by the shareholders of the Company at the annual general meeting to be convened on 20 May 2024 (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 RMB to Hong Kong dollars as announced by the PBOC during the 5 business days preceding the date of approval of the final dividend at the AGM. The final dividend is expected to be paid on 10 July 2024. 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.

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 20 May 2024, the register of members of the Company will be closed from 14 May 2024 to 20 May 2024 (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 13 May 2024.

CORPORATE GOVERNANCE PRACTICES

During the year ended 31 December 2023, the Company has been complying with the code provisions of the corporate governance code (the "**Codes**") set out in Appendix C1 to the Listing Rules， save for the deviation as stated below:

According to code provision C.2.1 of the Codes, the roles of the chairman and the chief executive officer shall be separate and shall not be performed by the same individual. Mr. Yao Chuanglong is the chief executive officer of the Company and has also served as the chairman of the Board since May 2015 due to his extensive experience in the pharmaceutical distribution industry. The Board considered that having the same individual as chairman of the Board and chief executive officer was beneficial in ensuring the unity of leadership of the Group and making the Group's overall strategic planning more effective and efficient.

Subsequently, for the purpose of the Company's operational and management needs, strengthening the division of responsibilities and improving the governance structure of the Company, the Board resolved on 31 May 2023 to elect Mr. Yan Jingbin, a non-executive Director, to replace Mr. Yao as the chairman of the Board. Therefore, since 31 May 2023, the above-mentioned deviation from the Code no longer exists.

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 of the Company 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 C3 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 2023.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

For the year ended 31 December 2023, the Company and its subsidiaries did not purchase, sell or redeem any of the listed securities of the Company.

AUDIT COMMITTEE AND REVIEW ON THE ANNUAL RESULTS

The audit committee of the Company (the "**Audit Committee**") consists of three members, including two independent non-executive Directors, Mr. Wan Chi Wai Anthony (Chairman) and Mr. Guan Jian, and a non-executive Director, Mr. Xu Fei. 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 2023.

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 2023 will be dispatched to shareholders of the Company and published on the above websites in due course.

By order of the Board
Charmacy Pharmaceutical Co., Ltd.
Yan Jingbin
Chairman

Shantou, the PRC, 28 March 2024

As at the date of this announcement, the executive Directors are Mr. Yao Chuanglong, Ms. Zheng Yuyan and Ms. Zhang Hanzi; the non-executive Directors are Mr. Yan Jingbin, Ms. Fu Zheng and Mr. Xu Fei; and the independent non-executive Directors are Mr. Wan Chi Wai Anthony, Mr. Li Hanguo and Mr. Guan Jian (also known as Guan Suzhe).

** For identification purpose only*