创美·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 2020

FINANCIAL SUMMARY

- In 2020, the operating revenue of the Group was RMB 3,991.71 million, representing an increase of 14.28% as compared to RMB3,492.78 million in 2019.
- In 2020, the net profit of the Group amounted to RMB 40.56 million, representing an increase of 1.00% as compared to RMB 40.15 million in 2019.
- In 2020, the Group's net profit attributable to the shareholders of parent company was RMB 40.56 million, representing an increase of 1.00% as compared to RMB 40.15 million in 2019.
- In 2020, the Group's basic and diluted earnings per share was RMB 0.3755 as compared to RMB 0.3718 in 2019.
- The Board recommends the distribution of a final dividend of RMB 0.2 per share (tax inclusive) for the year ended 31 December 2020.

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 2020, together with the comparative figures for the year ended 31 December 2019.

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2020

		Notes	**2020** **RMB**	2019 RMB
I.	**Total operating revenue**		**3,991,710,524.36**	3,492,782,912.20
	Including: operating revenue	*4*	**3,991,710,524.36**	3,492,782,912.20
II.	**Total operating cost**		**3,922,377,617.39**	3,431,518,842.44
	Including: operating cost	*4*	**3,751,305,696.45**	3,269,110,594.14
	Taxes and surcharges		**6,965,203.94**	7,757,682.47
	Selling expenses		**85,915,907.96**	77,398,582.55
	Management expenses		**45,758,488.87**	46,505,776.94
	Finance costs	*6*	**32,432,320.17**	30,746,206.34
	Including: Interest expenses		**30,856,814.90**	29,450,085.83
	Interest income		**4,021,645.59**	3,624,533.27
	Add: Other gains		**681,362.66**	457,060.50
	Investment income (“–” for loss)		**—**	99.25
	Impairment loss of credit (“–” for loss)		**–15,244,009.95**	–4,245,401.56
	Impairment loss of assets (“–” for loss)		**–3,001,808.91**	–3,024,633.91
	Gains on disposal of assets (“–” for loss)		**18,110.52**	–45,128.34
III.	**Operating profit** (“–” for loss)		**51,786,561.29**	54,406,065.70
	Add: Non-operating revenue		**3,093,405.99**	706,361.40
	Less: Non-operating expenses		**137,587.54**	67,606.81
IV.	**Total profit** (“–” for loss)		**54,742,379.74**	55,044,820.29
	Less: Income tax expense	*7*	**14,186,414.31**	14,891,464.77
V.	**Net profit** (“–” for loss)		**40,555,965.43**	40,153,355.52
	(1) By continuity of operations		**40,555,965.43**	40,153,355.52
	1. Net profit from continuing Operation		**40,555,965.43**	40,153,355.52
	2. Net profit from discontinued Operation		**—**	—
	(2) By ownership		**40,555,965.43**	40,153,355.52
	1. Net profit attributable to the owners of parent company		**40,555,965.43**	40,153,355.52
	2. Profit or loss of minority shareholders		**—**	—
VI.	**Total comprehensive income**		**40,555,965.43**	40,153,355.52
	Total comprehensive income attributable to the shareholders of parent company		**40,555,965.43**	40,153,355.52
	Total comprehensive income attributable to minority shareholders		**—**	—
VII.	**Earnings per share**			
	Basic and diluted earnings per share	*8*	**0.3755**	0.3718

CONSOLIDATED BALANCE SHEET
As at 31 December 2020

	Notes	**31 December 2020** ***RMB***	31 December 2019 *RMB*
Current assets			
Monetary funds		**590,322,268.07**	506,308,452.64
Bills receivables	*10*	**20,639,970.00**	22,252,167.66
Trade receivables	*11*	**717,554,454.07**	712,261,600.46
Account receivable financing	*12*	**25,799,692.96**	–
Prepayments		**253,766,373.02**	212,710,994.97
Other receivables		**12,839,764.71**	12,117,039.54
Inventories		**585,008,876.72**	515,162,428.39
Other current assets		**45,377,379.28**	37,890,955.07
Total current assets		**2,251,308,778.83**	2,018,703,638.73
Non-current assets			
Fixed assets		**354,551,660.22**	191,387,488.54
Construction in progress		**1,496,742.97**	110,584,639.14
Right-of-use assets		**16,451,641.00**	15,392,876.84
Intangible assets		**152,191,599.87**	153,080,960.03
Goodwill		**6,024,104.16**	3,127,688.00
Long-term deferred expenses		**8,085,530.37**	5,503,512.35
Deferred income tax assets		**9,292,634.77**	6,027,070.73
Total non-current assets		**548,093,913.36**	485,104,235.63
Total assets		**2,799,402,692.19**	2,503,807,874.36

	Notes	**31 December 2020** *RMB*	31 December 2019 *RMB*
Current liabilities			
Short-term borrowings		**535,919,072.17**	502,189,369.18
Bills payables	*13*	**938,611,254.96**	833,561,059.77
Trade payables	*14*	**569,826,535.10**	444,956,856.84
Receipts in advance		**–**	–
Contract liabilities		**5,013,052.93**	2,864,226.16
Salaries payable to employees		**5,788,619.82**	4,735,446.57
Tax payables		**58,549,342.70**	48,989,151.02
Other payables		**13,765,328.93**	11,798,422.22
Including: Interests payable		**–**	–
Non-current liabilities due within one year		**34,520,568.55**	29,164,198.86
Other current liabilities		**–**	–
Total current liabilities		**2,161,993,775.16**	1,878,258,730.62
Non-current liabilities			
Long-term borrowings		**118,455,570.44**	126,353,138.99
Lease liabilities		**15,331,202.41**	14,384,222.63
Deferred income		**761,767.49**	1,218,827.99
Deferred income tax liabilities		**311,457.13**	–
Total non-current liabilities		**134,859,997.47**	141,956,189.61
Total liabilities		**2,296,853,772.63**	2,020,214,920.23
Shareholders' equity			
Share capital		**108,000,000.00**	108,000,000.00
Capital reserve		**278,990,829.04**	278,990,829.04
Surplus reserve		**18,439,830.70**	15,732,626.03
Unallocated profits		**97,118,259.82**	80,869,499.06
Total equity attributable to the shareholders of parent company		**502,548,919.56**	483,592,954.13
Minority shareholders' interests		**–**	–
Total shareholders' interests		**502,548,919.56**	483,592,954.13
Total liabilities and shareholders' interests		**2,799,402,692.19**	2,503,807,874.36

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2020

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**") with effect 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 trading of pharmaceutical products and provision of related services.

The consolidated financial statements are presented in 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 2020, 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.

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 2020, 31 December 2020, 1 January 2020 to 31 December 2020, and 1 January 2019 to 31 December 2019, respectively, while the currency unit is RMB yuan.

(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.

4. OPERATING REVENUE AND OPERATING COST

Item	**Amount for the year**		Amount for last year	
	Revenue	**Cost**	Revenue	Cost
Principal business	**3,962,210,247.45**	**3,751,305,696.45**	3,472,157,546.80	3,269,110,594.14
Other businesses	**29,500,276.91**	**–**	20,625,365.40	–
Total	**3,991,710,524.36**	**3,751,305,696.45**	3,492,782,912.20	3,269,110,594.14

5. SEGMENT INFORMATION

Information would be reported to the chief executive officer of the Group, being the chief operating decision maker, for the purposes of resource allocation and assessment of segment performance. The chief executive officer of the Company considers that there is only one operating and reportable segment for the Group: 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 2020 and 2019.

6. FINANCE COSTS

Item	**Amount for the year**	Amount for last year
Interest expenses	**30,856,814.90**	29,450,085.83
Less: Interest income	**4,021,645.59**	3,624,533.27
Add: Foreign exchange loss	**-16,477.44**	909.48
Add: Handling fees	**4,731,031.39**	3,945,182.92
Add: Interest on lease liabilities	**882,596.91**	974,561.38
Total	**32,432,320.17**	30,746,206.34

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	**17,166,327.46**	15,483,626.04
Corporate income tax in Mainland China	**17,166,327.46**	15,483,626.04
Profit tax in Hong Kong, PRC	**–**	–
Deferred income tax expenses	**-2,979,913.15**	-592,161.27
Total	**14,186,414.31**	14,891,464.77

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 year	**54,742,379.74**
Income tax expenses calculated at statutory/applicable tax rate	**13,685,594.94**
Effect of non-deductible costs, expenses and losses	**163,619.93**
Effect of deductible temporary differences or deductible losses on deferred income tax assets not recognized in the current year	**337,199.44**
Income tax expenses	**14,186,414.31**

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 for 2020 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	8.26	0.3755	0.3755
Net profit attributable to the shareholders of parent company (excluding non-recurring profit and loss)	7.46	0.3392	0.3392

9. DIVIDEND

The Board proposed the distribution of a final dividend of RMB0.2 (tax inclusive) per share for the year ended 31 December 2020 (2019: RMB0.2), subject to the Company's shareholders' approval on the forthcoming annual general meeting.

10. BILLS RECEIVABLES

(1) Classification of bills receivables

Item	**Balance as at the end of the year**	Balance as at the beginning of the year
Bank acceptance bills	**-**	6,926,740.66
Commercial drafts	**20,700,000.00**	15,370,000.00
Subtotal	**20,700,000.00**	22,296,740.66
Less: Provision for bad debt	**60,030.00**	44,573.00
Total	**20,639,970.00**	22,252,167.66

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

Item	**Pledged amount as at the end of the year**
Bank acceptance bills	**–**
Commercial drafts	**5,700,000.00**
Total	**5,700,000.00**

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

Item	**Amount derecognised as at the end of the year**	Amount not derecognised as at the end of the year
Bank acceptance bills	**–**	–
Commercial drafts	**–**	15,000,000.00
Total	**–**	15,000,000.00

(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	Lifetime expected credit loss rate (%)	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**
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**

Classification	Balance as at the beginning of the year				
	Book balance		Provision for bad debt		
	Amount	Percentage (%)	Amount	Lifetime expected credit loss rate (%)	Book value
Bad debt provision made on individual basis	–	–	–	–	–
Bad debt provision made on a collective basis	22,296,740.66	100.00	44,573.00	0.20	22,252,167.66
Aging portfolio	15,370,000.00	68.93	44,573.00	0.29	15,325,427.00
Low risk portfolio	6,926,740.66	31.07			6,926,740.66
Total	22,296,740.66	100.00	44,573.00	–	22,252,167.66

Note 1: For the aging portfolio comprising the amounts of the commercial drafts held as at the end of the period and the commercial drafts discounted as at the end of the 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 in the year

Category	Balance as at the beginning of the year	Changes in the year Accrued	Recovered or reversed	Written back or written off	Balance as at the end of the year
Commercial drafts	44,573.00	15,457.00	–	–	60,030.00
Total	44,573.00	15,457.00	–	–	**60,030.00**

11. TRADE RECEIVABLES

Name of item	**Balance as at the end of the year**	Balance as at the beginning of the year
Trade receivables	**746,721,441.41**	730,049,894.39
Less: Provision for bad debt	**29,166,987.34**	17,788,293.93
Net	**717,554,454.07**	712,261,600.46

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

	Balance as at the end of the year				
	Book balance		**Provision for bad debt**		
Classification	**Amount**	**Percentage (%)**	**Amount**	**Lifetime expected credit loss rate (%)**	**Book value**
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**
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**

	Balance as at the beginning of the year				
	Book balance		Provision for bad debt		
Classification	Amount	Percentage (%)	Amount	Lifetime expected credit loss rate (%)	Book value
Provision for bad debt made on individual basis	18,542,550.87	2.54	12,918,423.63	69.67	5,624,127.24
Provision for bad debt made on a collective basis	711,507,343.52	97.46	4,869,870.30	0.68	706,637,473.22
Aging portfolio	711,507,343.52	97.46	4,869,870.30	0.68	706,637,473.22
Total	730,049,894.39	100.00	17,788,293.93	–	712,261,600.46

(2) Accounts 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 recognized 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	**695,596,183.09**	**93.15**	**2,159,815.83**	688,345,188.22	94.29	2,117,508.29
1 to 2 years	**29,112,315.62**	**3.90**	**6,821,027.12**	27,446,105.74	3.76	4,448,569.09
2 to 3 years	**7,754,342.27**	**1.04**	**5,927,543.96**	6,229,802.08	0.85	3,193,418.20
More than 3 years	**14,258,600.43**	**1.91**	**14,258,600.43**	8,028,798.35	1.10	8,028,798.35
Total	**746,721,441.41**	**100.00**	**29,166,987.34**	730,049,894.39	100.00	17,788,293.93

(3) No amounts were past due but not impaired as at the balance sheet date.

(4) Provisions for bad debts accrued and reversed (or recovered) in the year

Balance as at the beginning of the year	Changes in the year				Balance as at the end of the year
	Accrued	The impact of the change in the scope of the merge	Recovered or reversed	Written back or written off	
17,788,293.93	11,368,591.58	10,101.83	-	-	29,166,987.34

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

12. ACCOUNTS 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	**938,611,254.96**	829,061,059.77
Commercial drafts	**-**	4,500,000.00
Total	**938,611,254.96**	833,561,059.77

As at the end of the year, the age of the aforementioned bills payables of the Group was within 1 year.

14. TRADE PAYABLES

(1) Trade payables

Item	**Balance as at the end of the year**	Balance as at the beginning of the year
Loans	**550,254,913.32**	432,594,542.27
Equipment costs	**13,371,029.16**	12,132,400.27
Customer resources costs	**6,200,592.62**	-
Project maintenance costs	-	229,914.30
Total	**569,826,535.10**	444,956,856.84

(2) Aging analysis of trade payables

Below is an aging analysis of trade payables based on transaction date as at 31 December 2020:

Age	**Balance as at the end of the year**	Balance as at the beginning of the year
Within 1 year	**567,810,738.30**	438,811,912.47
1 to 2 years	**890,901.02**	5,763,433.44
2 to 3 years	**757,753.60**	55,427.76
More than 3 years	**367,142.18**	326,083.17
Total	**569,826,535.10**	444,956,856.84

MANAGEMENT DISCUSSION AND ANALYSIS INDUSTRY

OVERVIEW

The “13th Five-Year Plan” period is an important stage for building a well-off prosperous society in an all-round way and accomplishing the strategic goal of “Healthy China”, in which pharmaceutical supervision is upgraded and the effect of the “Three Medical Linkage (三醫聯動)” linkage is shown. With the full implementation of policies such as the “Two-Invoice System (兩票制)” and “Zero Mark-up for Medicines (藥品零加成)”, the structure of pharmaceutical distribution market, channel layout and supply chain relationship have undergone profound changes. Focusing on the “Control on Medical Insurance Fee (醫保控費)”, the implementation of policies such as “Purchase in Quantity* (帶量採購)” and “Diagnosis Related Group (“DRG”) Payment (疾病診斷相關分組(DRGs)付費)” improves the utilisation efficiency of medical insurance funds, reduces the burden of patients and accelerates the changes in structure of clinical drugs. Driven by new technologies and new momentum, the “Internet +” policy will reshape the ecological landscape of the pharmaceutical distribution industry and achieve high-quality development.

With the introduction of the updated “Good Supply Practice for Pharmaceutical Products (新版藥品經營質量管理規範)” and the “Pharmaceutical Administration Law (藥品管理法)” of the People’s Republic of China, pharmaceutical distributors face the twin challenge of tighter supervision and higher supply chain standards. However, the sweeping promotion of the Chinese medical reform policy is gradually standardising the pharmaceutical distribution industry, with some small- and medium-sized distributors acquired or phased out, while large ones adjusting their business structures and enhancing the quality and benefits of overall operations through transformation and merger and acquisitions. The pharmaceutical distribution industry is continuously increasing concentration in the midst of tightened supervision plus policy effect.

Impact of COVID-19 (“**pandemic**” or “**COVID-19 pandemic**” **) on the pharmaceutical industry**

During the COVID-19 pandemic period, the National Health Commission of the PRC issued and continued to update the “Treatment Plans of Pneumonia caused by the Novel Coronavirus Infection” (《新型冠狀病毒感染的肺炎診療方案》), which provided clear guidance on both Chinese and Western medical treatments and medicines during each stage of the illness. As such, the use of relevant anti-virus drugs and Chinese medicines has driven the growth of the sales revenue from the manufacture of chemical drugs and the production of Chinese medicines. It is crucial to secure the transportation of pandemic prevention drugs and materials. Pharmaceutical distribution enterprises utilise the nationwide sales channels to maximise the integration and allocation of market resources, providing medical materials for pandemic prevention and control. By bridging pharmaceutical companies or warehouses storing anti-virus supplies and the virus-hit areas, pharmaceutical distributors have played an important part in supporting the fight against the pandemic and ensuring stability amid the COVID-19 pandemic and strengthened their role in the public health system, fully displaying the industry’s value and social responsibility.

In order to support the fight against the pandemic and meet the growing demand for pandemic prevention drugs and medical supplies, the PRC government has issued a series of preferential tax policies with loose monetary environment and targeted financing support in an urgent manner to reduce the tax pressure of pharmaceutical enterprises, ensure the financing needs of pharmaceutical enterprises for pandemic prevention and control while reducing their financing costs, and maximise the support for pharmaceutical enterprises to resume work and production.

The pandemic gave a boost to the "Internet + Healthcare" initiative, continuously pushing up the growth of the Direct to Patient (DTP) market. According to the Guideline on Promoting "Internet +" Health Services in the Time of Novel Coronavirus (關於推進新冠肺炎疫情防控期間開展"互聯網+"醫保服務的指導意見) jointly issued by the National Healthcare Security Administration and the National Health Commission of China on 2 March 2020, online consultation services provided by qualified Internet-based medical organizations to treat common and chronic diseases of patients with medical insurance may be covered by the medical insurance fund. The National Medical Products Administration released the "Regulation on Online Sales of Pharmaceutical Products (Opinion Soliciting Draft) (藥品網絡銷售監督管理辦法（徵求意見稿）)" by on 12 November 2020 for public comment , which proposes to give a green light to online sales of prescription drugs provided the source of electronic prescriptions is genuine and reliable. During the fight against COVID-19 pandemic in 2020, Internet healthcare provided a more convenient and safer access to medical resources than the traditional route of visiting hospital, while reducing the number of people gathering in one place. Besides, Internet healthcare and "prescription drug outflow" will greatly drive the expansion of the non-tender market and the transformation and upgrade of the pharmaceutical distribution industry.

Total national health expenditures are on a rise. Grassroots public hospitals and retail pharmacies are expanding their shares in the end market.

Total national health expenditures are rising year after year, accounting for 6.6% of GDP in 2019. There is still big growth potential.

According to the data of MENET, in 2019, the pharmaceutical sales in the six major markets of the three major terminals amounted to RMB1,795.5 billion, representing an increase of 4.8% compared to 2018, of which, the retail pharmacy stores terminal recorded a growth rate of 7.1% in sales revenue with a market share of 23.40%, representing an increase of 0.5 percentage point as compared to 2018; and the public primary healthcare terminal recorded a growth rate of 8.2% in sales revenue with a market share of 10.00%, representing an increase of 0.3 percentage point as compared to 2018.

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

With the implementation of "Control on Medical Insurance Fee (醫保控費)", centralised medicine procurement directly reduces drug prices and also narrows the profit margin across the whole value chain of pharmaceutical products. The operating pressure on pharmaceutical distribution has brought about a change in the business model of the pharmaceutical industry. The change in the medication of public medical organisations has further reduced the profit of industrial enterprises in the pharmaceutical sector. Meanwhile, 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. The transformation of business model has become an inevitable result of the shift in role of distributors which focus on public hospital businesses from "distribution" to "delivery" and the need to face the competitions of new third-party logistics service providers. The products that did not award 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 favored by pharmaceutical companies to strengthen their advantage in market expansion.

In the field of pharmaceutical logistics, cloud computing, big data and Internet of Things technology have been widely used as support, and the integration of "logistics, information flow and capital flow" has been promoted through the integration of resources of upstream and downstream links of the supply chain, 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 set up a full-chain distribution system from pharmaceutical manufacturers to patients through self-operated logistics service providers or cooperation with third-party social logistics service providers. Pharmaceutical distribution enterprises will accelerate the expansion of third-party logistics business, and leverage the advantages of their logistics network to provide pharmaceutical manufacturers with nationwide and regional third-party pharmaceutical logistics services with synergic storage effect.

Whole life cycle health management model to comprehensively promote the "Healthy China"

The "Healthy China 2030 Planning Outline" (《「健康中國 2030」規劃綱要》) published in 2016 marked the elevation of the full life cycle health concept to the national strategic level for the first time. In 2020, China further emphasises that the concept of health management throughout the full life cycle should be implemented throughout the city planning, construction and management of every parts in the whole process. This health management model will create a high quality, highly efficient and high-growth healthcare industry which meets the development needs of the society. China's 14th Five-Year Plan (2021-25) 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 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 governance over those factors. The increasing demand of the public for health and the gradually improved health spending awareness of the residents have come with the exploration into the whole life cycle management model of drugs. Fully leveraging on new technologies such as Internet-based medical care and big data, this endeavor causes the medical service system to provide all the people with a full package of medical solutions integrating prevention, treatment, rehabilitation and health management in a bid to advance the pharmaceutical industry's healthy development and the volume expansion of the end market.

Sources of the above information: MENET (Note: The three terminal markets do not include private medical institutions), Annual Report on China's Pharmaceutical Distribution Industry (2020) (《中國藥品流通行業發展報告》（2020）)

Note: Total health expenditures include the government's health expenditure, social health expenditure, and personal health expenditure in cash; retail terminals consist of chain pharmacies, privately-owned pharmacies, health stations, clinics and community hospitals.

BUSINESS REVIEW

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

In 2020, we followed the operation target set, and continued to explore Guangdong market in depth and expand our coverage on surrounding areas, with a focus on developing the business with retail end-customers. We maintain close and good communication with customers, and provide customers with the most thoughtful services. As of 31 December 2020, our distribution network covered 10,915 customers, among which 647 were distributors, 7,003 were retail pharmacy stores and 3,265 were hospitals, clinics, health centres and others, representing an increase of 2,614 in the number of customers, including the increase of 2 distributors, the increase of 1,421 retail pharmacy stores, and the increase of 1,191 hospitals, clinics, health centres and others compared to last year.

In order to meet the different needs of customers and enhance customer adhesion, we strengthened cooperation with well-known domestic and overseas manufacturers, and expanded the variety and scale of first-level distribution products; continued to optimise product structure by introducing marketable, high-quality products with high profit margin to enrich product categories. As of 31 December 2020, we had a total of 1,142 suppliers, of which 677 were pharmaceutical manufacturers and 465 were distributor suppliers, representing an increase of 52 suppliers compared to last year. As of 31 December 2020, we distributed 11,828 types of products, representing an increase of 188 types of products compared to last year.

	Number of products for the year ended 31 December	
	2020	2019
Products Category		
Western medicines	**4,300**	3,850
Chinese patent medicines	**4,497**	4,328
Healthcare products	**172**	214
Others	**2,859**	3,248
Total	**11,828**	11,640

We actively promoted the diversion of terminal retail customers from offline to online, where they can place orders and make inquiries and payments through our own B2B e-commerce platform "Charmacy e-Medicine" ("**e-commerce platform**") (http://www.cmyynet.com/). We increased online promotion activities and continued to optimise and improve the user experience on PC terminal, WAP mobile terminal, and WeChat mini program. For the year ended 31 December 2020, our e-commerce platform had 7,787 active trading clients in total, who are principally end customers such as retail pharmacy stores, clinics and health centres, representing an increase of 1,538 compared to last year. In 2020, the operating revenue from our B2B e-commerce platform was approximately RMB254.45 million in total, representing an increase of RMB14.97 million compared to last year.

The operating revenue of the Group in 2020 was RMB3,991.71 million, representing an increase of 14.28% as compared to last year. The gross profit margin was 6.02%, representing a decrease of approximately 0.38 percentage point as compared to last year. The total expense ratio was 4.11%, representing a decrease of 0.32 percentage point as compared to last year. Net profit amounted to RMB40.56 million, which represented an increase of RMB0.40 million as compared to last year. Our net profit margin was 1.02%, representing a decrease of 0.13 percentage point as compared to last year.

Help frontline epidemic prevention and control, guarantee drug supply with all efforts

During the reporting period, there was an outbreak of the novel coronavirus disease (COVID-19) across the country. During the Spring Festival holiday, the Group arranged our employees to return to work in the front line of drug distribution before the end of the holiday, and expedited the distribution of pandemic prevention drugs and materials. As we have achieved comprehensive self-distribution in Guangdong Province, during the pandemic, we effectively ensured the normal supply of pandemic prevention drugs and materials in the pharmaceutical retail terminal market in Guangdong, and ensured the supply of pandemic prevention drugs and materials in the pandemic prevention and control front line. We strictly control the prices of pharmaceutical products supplied to ensure that the prices of epidemic prevention devices are stable as far as possible. We took practical actions to fulfill our social responsibility as a pharmaceutical company, and putting into practice the Group's corporate mission and responsibility of "Creating Healthy and Beautiful Life". During the reporting period, the Group supplied a total of approximately 19,86 million boxes of anti-viral products and related anti-influenza epidemic medicines, approximately 2.67 million bottles of disinfectant products and approximately 470,000 pieces of thermometers of various types to the pharmaceutical retail market in Guangdong.

During the reporting period, COVID-19 pandemic did not have a material impact on the Group's financial position and business results. The Group will continuously monitor the pandemic trend, assess its impact on the business and carry out active responses. If there's any material impact of COVID-19 pandemic on the Group's financial position and business results, the Group will publish an announcement in due course.

Guangzhou Pharmaceutical Sorting and Distribution Center officially commenced operation, further enhancing service capabilities in the Guangdong-Hong Kong-Macao Greater Bay Area (the "Greater Bay Area")

In the second half of 2020, Charmacy (Guangzhou) Pharmaceutical Sorting and Distribution Center* (創美藥業（廣州）醫藥分揀配送中心) was officially launched. This sorting and distribution center has a gross floor area of 38,489m^2 and a storage area of 32,155m^2, which greatly enhanced the Group's warehousing capacity and market competitiveness in the Greater Bay Area. The existing logistics base in Guangdong can store approximately 300,000 pieces of goods, and can fully meet the storage demand for the rapid growth of drug categories and quantity. By adopting advanced logistics solutions such as Automatic Storage and Retrieval System ("**AS/RS**"), Warehouse Control System ("**WCS**") and Pick-to-Light ("**PTL**") system, which, when combined with the Group's existing SAP system, we are able to realise visual management of warehouse distribution, establish an integrated logistics network operation mode, build an all-round, intelligent and digital pharmaceutical intelligent warehouse, and realise the synergic operation of each logistics center of the Group. Meanwhile, the expansion of the third-party logistics business of the Company can be promoted, and the Company's profitability be boosted.

Completion of Huizhou subsidiary's equity acquisition to tap the end market in Huizhou and Heyuan

The Group established a wholly-owned subsidiary, namely, Huizhou Charmacy Pharmaceutical Co., Ltd. *(惠州創美藥業有限公司), through equity acquisition in July 2020, and established a new logistics and delivery center spreading over 5,812.92㎡ and boasting a storage area of 3,937.6㎡ in Huizhou in November 2020. The acquisition is in line with the Group's development strategy of focusing on Guangdong and extending its reach into the surrounding areas. It is expected to help the Group tap deeply into the end market in Huizhou and Heyuan, enlarge the coverage of the drug retail network, and enhance the Company's market competitiveness and sales revenue.

Shenzhen subsidiary is under business preparation and intends to further expand coverage of terminals in Shenzhen

The preparation for establishing Shenzhen Charmacy Pharmaceutical Co., Ltd. *(深圳創美藥業有限公司) ("**Shenzhen Charmacy**"), a subsidiary wholly owned by the Company, was underway since December 2020. The establishment of the subsidiary is expected to be completed in the second quarter of 2021, and it will officially operate in the same quarter. Shenzhen Charmacy will further refine the distribution network in Shenzhen and surrounding areas and extend the business reach there to better serve terminal customers in Shenzhen and increase coverage in the city's retail end market. Thereby contributing to the advancement of the strategy "tapping the business potential in Guangdong and stimulating the business in surrounding areas", and raising the Company's revenue and elevate the Company's status in the whole market of South China.

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, 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. The Company's development strategy and long-term business objectives did not change from last year.

China will kick off its 14th Five-Year Plan in 2021. The year will also mark a turn in the country's changing pharmaceutical market landscape. In 2020, COVID-19 pandemic not only delivered a short-term impact on drug protection, but also accelerated the medical reform and had a far-reaching influence on the pharmaceutical industry. The implementation of the new national medical insurance catalog, the expansion of the volume-based procurement scheme, as well as the pilot of diagnosis-related group (DRG) payments in some cities, among other policy initiatives, will promote the change of the industry's sales models and the restructuring of the distribution channels. 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-tender market will progressively raise its share alongside the advancement of the medical reform, the government's increasing inputs into healthcare, the acceleration of aging and the enhancement of people's health awareness. This will contribute to the long-term growth of business. In such a context, we need to secure an edge in competition through timely aligning our business model with policy changes, seizing policy opportunities and searching for opportunities in the market, and facilitating refined management and high-quality development.

The advantages of internet healthcare have been highlighted under the background of COVID-19 pandemic, and the development of "Internet +" has been accelerated. We will capture the opportunity from the "Internet + Healthcare" initiative and the gradual implementation of hierarchical medical system during the expansion of the grassroots healthcare market. and continue to promote the innovation and reform of "Internet + Pharmaceutical Distribution". We will continuously upgrade and develop the functional application of the e-commerce platform, improve user transaction experience, empower the platform with technology and marketing innovation for more economic benefits, promote the better development of e-commerce business, and actively promote the standardisation, streamlining and intelligentisation of pharmaceutical distribution and delivery services to achieve low-cost and high-efficiency operation results. At the same time, the Group will explore new and more customer-oriented marketing models through the combination of online and offline traffic, cooperation with other sectors and multi-dimensional online promotions and build a new platform for communication with customers, so that customers can directly and thoroughly understand the enterprise and products in a more convenient way, allowing customers to benefit from high-quality services.

We will strengthen risk management, improve business quality, seize the opportunities arising from the expansion of the primary medical market, 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 search for long-term strategic cooperation with pharmaceutical producers and 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. What's more, using the pharmaceutical retail terminal network resources and data of the Group, we will provide upstream suppliers with across-the-board brand promotions and product launch programs.

In alignment with the trends of simplified supply chains and fragmented order needs of end users, we will utilise the Company's automated, intelligent and IoT technologies to actively raise the efficiency of dismounting and sorting. We will continue to strengthen the building of modern and professional pharmaceutical logistics capabilities, actively explore the application of intelligent logistics technologies, integrate transportation resources to ramp up delivery service capabilities, optimise the multi-warehouse network layout adopting integrated operation in Guangdong Province, and implement refined management of logistics costs. As Charmacy (Guangzhou) Pharmaceutical Sorting and Distribution Centre has commenced operation , leveraging on its strong logistic and warehousing capabilities, the Group's warehousing and sorting scale will be expanded, and multi-warehouse collaboration by integrating pharmaceutical warehousing and transportation resources will be attained, to further unleash our advantages in customers, products, management and services and better expand the terminal distribution network. 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 warehousing and third-party logistics services, so as to enhance the Group's market competitiveness and profitability.

We will continue to tap into the growth potential of the pharmaceutical non-tender market, accelerate the duplication of the mature non-tender pharmaceutical market operation model, strive to elevate the operating efficiency of our pharmaceutical supply chain, optimise the portfolio of pharmaceutical products and customer service experience, and reduce the cost of pharmaceutical distribution, striving 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	
	2020	2019
	RMB'000	*RMB'000*
Principal business	**3,962,210**	3,472,158
Other business	**29,500**	20,625
Operating revenue	**3,991,711**	3,492,783

The operating revenue of the Group in 2020 was RMB3,991.71 million, representing an increase of 14.28% as compared to last year.

	For the year ended 31 December	
	2020	2019
Customer Type	***RMB'000***	*RMB'000*
Distributors	**1,906,411**	1,775,333
Retail pharmacy stores	**1,935,731**	1,582,398
Hospitals, clinics, health centers and others	**120,069**	114,426
Revenue from principal business	**3,962,210**	3,472,158

During 2020, 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 2020, over 97% of our revenue from principal business was derived from distributor customers and retail pharmacy stores.

Our revenue from principal business increased by 14.28% in 2020, the reasons are as follows: from the perspective of companies' contribution to income: (i) the wholly-owned subsidiary Guangzhou Charmacy Pharmaceutical Co., Ltd. (廣州創美藥業有限公司) passed the initial cultivation period, and its income grew significantly as compared with the that in the same period in previous year, with its contribution to the operating income increased by RMB215.50 million; (ii) the wholly-owned subsidiary Guangdong Charmacy Pharmaceutical Co., Ltd. (廣東創美藥業有限公司) got its contribution to the operating income increased by RMB191.70 million; from the perspective of products' contribution to income, (i) the outbreak of COVID-19 pandemic led to an increase in sales of relevant products; (ii) the number of first-class medicine varieties was increased, the sales amount of first-level medicine varieties increased by RMB438.71 million as compared with that in the same period in previous year, among which RMB169.37 million were attributable to the newly-added first-level medicine varieties and the varieties which were upgraded to first-level medicine in this year.

Operating cost, gross profit and gross profit margin

The operating cost of the Group increased by 14.75% to RMB3,751.31 million for the year ended 31 December 2020 from RMB3,269.11 million for the year ended 31 December 2019. Such change was in line with the change in operating revenue from sales of products.

The gross profit of the Group increased by 7.48% to RMB240.40 million for the year ended 31 December 2020 from RMB223.67 million for the year ended 31 December 2019. The gross profit margin of the Group decreased to 6.02% for the year ended 31 December 2020 from 6.40% for the year ended 31 December 2019. The decrease was mainly due to the surge in manufacturer's price of pandemic prevention products, while the Group responded to the national call to maintain the price stability of the epidemic drugs and materials, and the gross profit margin of the epidemic-related drugs and materials decreased.

Selling expenses

The selling expenses of the Group increased by 11.00% to RMB85.92 million for the year ended 31 December 2020 from RMB77.40 million for the year ended 31 December 2019, the reasons are as follows: (i) with the increase of marketing and logistics personnel, the salary of employees increased by RMB2.34 million; (ii) with the development of terminal business, the corresponding market maintenance cost increased by RMB2.55 million; (iii) with the growth of overall income in 2020 and the normal operation of Guangzhou Pharmaceutical Sorting and Distribution Center in the second half of 2020, the transportation cost increased by RMB1.65 million; (iv) with the use of Guangzhou Pharmaceutical Sorting and Distribution Center and the supporting logistics equipment, the depreciation increased by RMB0.65 million.

Management expenses

The management expenses of the Group decreased by 1.61% to RMB45.76 million for the year ended 31 December 2020 from RMB46.51 million for the year ended 31 December 2019, the main reason is that, owing to the support policy provided by the PRC government in response to COVID-19 in 2020, the social security contribution payable by large enterprises during January-June and that payable by SMEs during January-December were halved, so that the social security contribution was decreased by RMB630 thousand as compared with that in the same period in previous year.

Finance costs

The finance costs of the Group increased by 5.48% to RMB32.43 million for the year ended 31 December 2020 from RMB30.75 million for the year ended 31 December 2019, the main reason is that the borrowings from bank in 2020 were increased as compared with those in 2019, the interest expenses were increased by RMB1.41 million.

Income tax expense

The income tax expenses of the Group decreased by 4.73% to RMB14.19 million for the year ended 31 December 2020 from RMB14.89 million for the year ended 31 December 2019, and the current income tax expenses were recognized and the deferred income tax assets and liabilities were adjusted according to the accounting standards.

Net profit

The net profit of the Group increased by 1.00% to RMB40.56 million for the year ended 31 December 2020 from RMB40.15 million for the year ended 31 December 2019. In particular, the net profit attributable to the shareholders of parent company increased by 1.00% to RMB40.56 million for the year ended 31 December 2020 from RMB40.15 million for the year ended 31 December 2019.

Liquidity and financial resources

As at 31 December 2020, the cash and bank deposits of the Group amounted to RMB113.77 million, while the cash and bank deposits amounted to RMB40.15 million as at 31 December 2019.

As at 31 December 2020 and 31 December 2019, the Group recorded net current assets of RMB89.32 million and RMB140.44 million, respectively. As at 31 December 2020, the current ratio (based on the calculation of current assets divided by current liabilities) of the Group was 1.04 (2019: 1.07).

The bank borrowings of the Group as at 31 December 2020 were RMB686.21 million (short-term borrowings: RMB535.92 million, long-term borrowings: RMB150.29 million, including the long-term borrowings due within one year: RMB31.84 million). All the bank borrowings were provided by the banks within the PRC, which 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.

Notes receivable, accounts receivable and receivables financing

As at 31 December 2020, the amount of notes receivable, accounts receivable and receivables financing of the Group was increased by RMB29.48 million as compared with that as at 31 December 2019 and reached RMB763.99 million, a year-on-year growth of 4.01%, lower than the growth of operating income which is 14.28%.

Bills payables and trade payables

As at 31 December 2020, the Group's bill payables and trade payables amounted to RMB1,508.44 million, representing an increase of RMB229.92 million compared to those as at 31 December 2019. The reason is due to the increase in drug purchases in 2020, the accounts payable and notes payable were increased 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 minimize 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 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 2020, the Group had no bank borrowings which bear interest at floating rate. (2019: Nil).

Capital management

Set out below is the Group's gearing ratios as at 31 December 2020 and 2019, respectively:

	31 December 2020	31 December 2019
Gearing ratio	**53.25%**	55.99%

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 2020, the Group had no capital commitment (2019: RMB32.52 million).

Employees' information

As at 31 December 2020, the Group had a total of 903 employees (including executive Directors), representing an increase of 107 employees compared with the number of employees as at 31 December 2019. The total staff cost (including emoluments of directors and supervisors) was RMB68.49 million, as compared to RMB66.96 million for the year ended 31 December 2019, representing an increase of 2.29%. 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.

Material investments, 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 2020.

Future plans related to the 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 2020, the Group had no material acquisitions and disposals related to subsidiaries, associates and joint ventures.

Pledge of assets

As at 31 December 2020, the Group was granted a credit limit of RMB1,462.51 million by various banks, while the Group's utilised banking facilities totaled RMB1,139.45 million, which were secured by (i) property, plant and equipment held by the Group with a carrying amount of RMB284.98 million as at 31 December 2020; (ii) land use rights held by the Group with a carrying amount of RMB135.47 million as at 31 December 2020; and (iii) the Group's inventories with a carrying amount of RMB350.00 million as at 31 December 2020.

CONTINGENT LIABILITIES

As at 31 December 2020, the Group had no material contingent liabilities (2019: Nil).

DIVIDEND

The Board recommends the distribution of a final dividend of RMB0.20 per share for the year ended 31 December 2020 (tax inclusive), which is subject to the approval by the shareholders of the Company at the annual general meeting (the "**AGM**") to be convened on 31 May 2021 and, if approved, will be paid on or before 15 July 2021. The dividend of domestic shares will be paid in RMB, whereas that of H shares will be paid in HKD. The Company will publish a circular in respect of, among others, the record date of H share dividend payment and the relevant dates when the registration of the H shares of the Company will be closed, when appropriate.

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 31 May 2021, the register of members of the Company will be closed from 26 May 2021 to 31 May 2021 (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 25 May 2021.

CORPORATE GOVERNANCE PRACTICES

The Company had been complying with the code provisions (the "**Code Provisions**") set out in the Corporate Governance Code contained in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**") for the year ended 31 December 2020, save for the deviation as stated below:

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

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 2020.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

For the year ended 31 December 2020, the Company and its subsidiaries did not purchase, sell or redeem any of the listed securities of the Company.

SIGNIFICANT EVENT AFTER THE REPORTING PERIOD

As of the date of this announcement, the Group had no significant events after the reporting period.

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 of the Company, 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 audited consolidated financial statements for the year ended 31 December 2020.

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 2020 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, 26 March 2021

As at the date of this announcement, the executive Directors of the Company 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*