



創美藥業股份有限公司

CHARMACY PHARMACEUTICAL CO.,LTD.

(A joint stock limited liability company established in the People's Republic of China)

Stock Code: 2289

ANNUAL REPORT

2018



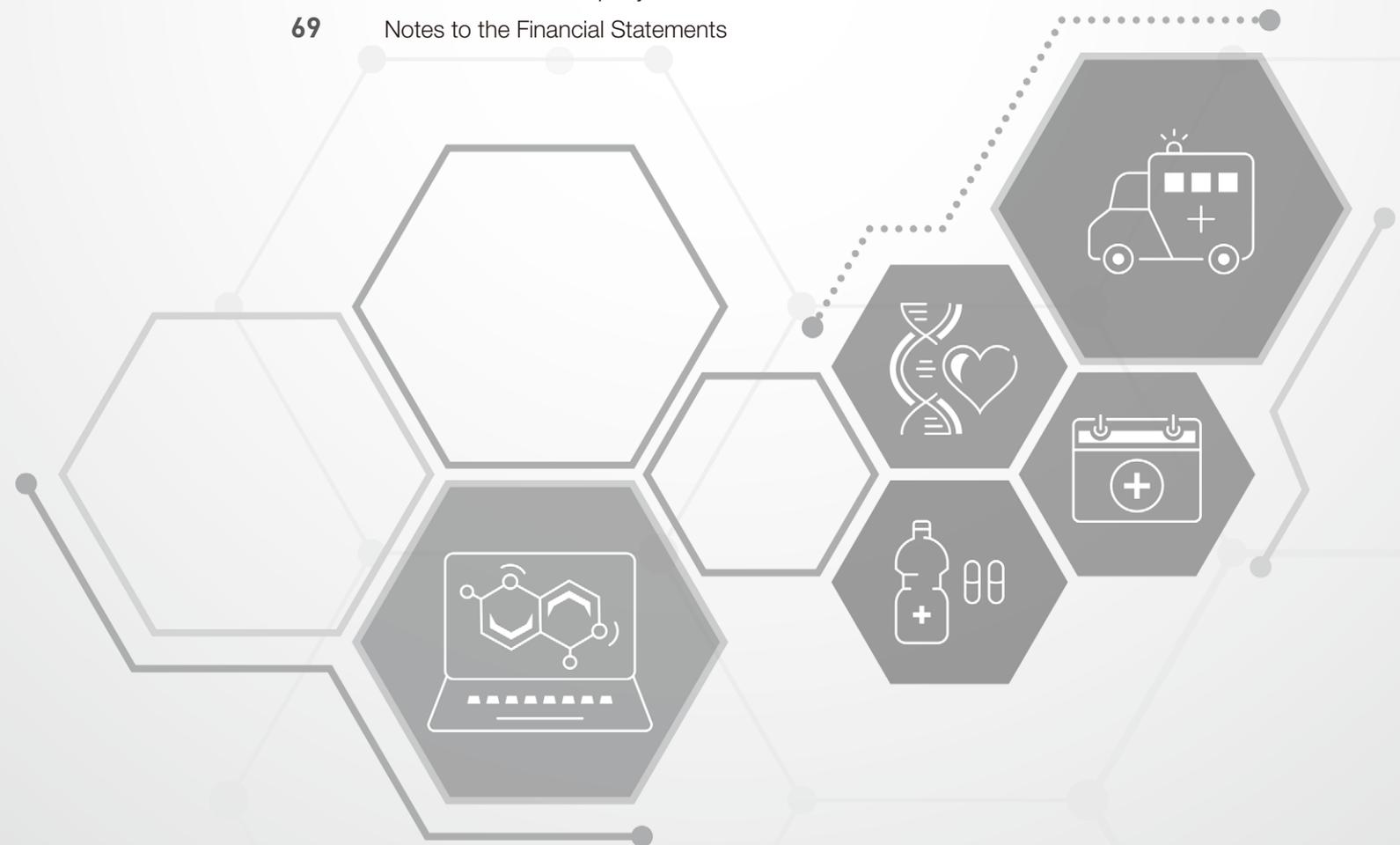
ABOUT US

Charmacy Pharmaceutical Co., Ltd. (stock code: 2289.HK) is principally engaged in the pharmaceutical distribution business. It mainly distributes western medicine, Chinese patent medicine and healthcare products to downstream distributors and retail terminals, as well as provides consultation service on pharmaceutical products. Founded in eastern Guangdong in 2000, over the past 19 years of rapid development, it has become one of the leading pharmaceutical distributors in the Southern China region. The Company adheres to the development strategy of “Intensive Engagement in Guangdong Province and Extensive Coverage across Surrounding Areas”, and has built logistics centers in Shantou, Foshan, Zhuhai and Guangzhou, all equipped with professional transportation teams, and has a highly efficient delivery mechanism of delivering pharmaceutical products three times per day for customers within a radius of 10 kilometers, twice per day for customers within a radius of 50 kilometers and once per day for those within a 250-kilometers’ radius. In addition, the Company has a modern information system that covers the entire supply chain for pharmaceutical distribution, including procurement, sales, warehousing, transportation and delivery. Apart from that, the Company operates its own B2B e-commerce platform “Charmacy e-Medicine” (創美e藥), a platform for customers to place orders online, make inquiries and payment and many more. In 2017, the Company ranked 38th among top 100 wholesalers nationally, in respect of principal business. According to the Market Research Report of the Chinese Pharmaceutical Industry (2017) (《中國醫藥行業市場研究報告》(2017)), in respect of sales scale, the Company ranked 7th among the pharmaceutical distribution businesses in Guangdong Province and second among private enterprises.

With its good reputation and quality services, the Company obtained the 2017-2018 “Gold Ant” Service Award (「金螞蟻」服務獎) for the Chinese logistics industry, an award conferred by the Organizing Committee of China International Logistics Equipment and Technology Exhibition (Guangzhou) (中國(廣州)國際物流裝備與技術展組委會) in May 2018, and the Company was awarded the “Model Enterprise of Trustworthiness in Guangdong Province “ (廣東省誠信示範企業) (seven consecutive years from 2011 to 2017), the “Top 500 Enterprises in Guangdong Province” (廣東省企業500強), the “Top 100 Private Enterprises” (民營企業100強), the “Top 100 Enterprises of Logistics Industry” (流通業100強) and the “Outstanding Enterprise of Guangdong Province for the 40th Anniversary of Reform and Development”(改革開放40周年廣東省優秀企業), respectively, by the Guangdong Provincial Enterprise Confederation (廣東省企業聯合會) and the Guangdong Entrepreneur Association (廣東省企業家協會) from June to September 2018. In December 2018, the Company was also awarded the Honorary Certificate of “Excellent Enterprise Developed alongside with China’s Reform and Opening up” (與改革開放共同成長優秀企業) by the Longhu District Committee of Chinese Communist Party and the Longhu District People’s Government. In February 2019, the Company was honored with the “2018 Enterprise Branding Credit Jingding Award” (2018企業品牌信用金鼎獎) by the Guangdong Credit Association.

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Corporate Information

DIRECTORS

Executive Directors

Yao Chuanglong (姚創龍)
Zheng Yuyan (鄭玉燕)
Lin Zhixiong (林志雄)

Non-executive Director

Li Weisheng (李偉生)

Independent Non-executive Directors

Wan Chi Wai Anthony (尹智偉)
Zhou Tao (周濤)
Guan Jian (關鍵) (also known as Guan Suzhe (關蘇哲))

SUPERVISORS

Zhang Ling (張玲)
Zheng Xiyue (鄭禧玥)
Lin Zhijie (林志杰)

COMPANY SECRETARY

Lin Zhixiong (林志雄)

AUDIT COMMITTEE

Wan Chi Wai Anthony (尹智偉) (*Chairman*)
Zhou Tao (周濤)
Guan Jian (關鍵) (also known as Guan Suzhe (關蘇哲))

NOMINATION COMMITTEE

Zhou Tao (周濤) (*Chairman*)
Yao Chuanglong (姚創龍)
Guan Jian (關鍵) (also known as Guan Suzhe (關蘇哲))

REMUNERATION COMMITTEE

Zhou Tao (周濤) (*Chairman*)
Wan Chi Wai Anthony (尹智偉)
Lin Zhixiong (林志雄)

RISK MANAGEMENT COMMITTEE

Yao Chuanglong (姚創龍) (*Chairman*)
Lin Zhixiong (林志雄)
Wan Chi Wai Anthony (尹智偉)

STRATEGIC DEVELOPMENT COMMITTEE

Yao Chuanglong (姚創龍) (*Chairman*)
Zheng Yuyan (鄭玉燕)
Zhou Tao (周濤)

AUTHORISED REPRESENTATIVES

Zheng Yuyan (鄭玉燕)
Lin Zhixiong (林志雄)

AUDITOR

ShineWing Certified Public Accountants (Special General Partnership)

LEGAL ADVISORS

Chungs Lawyers (as to Hong Kong law)
Beijing Dentons Law Offices, LLP (Shenzhen) (as to PRC law)

REGISTERED OFFICE AND HEADQUARTERS

No. 235, Song Shan North Road,
Longhu District, Shantou City,
Guangdong Province, PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

40/F, Sunlight Tower,
248 Queen's Road East,
Wanchai, Hong Kong

PRINCIPAL BANKS

China Guangfa Bank Co., Ltd. (Shantou Branch)
Industrial and Commercial Bank of China Limited (Shantou Branch)

H SHARE REGISTRAR

Computershare Hong Kong Investor Services Limited

COMPANY WEBSITE

www.chmyy.com

STOCK CODE

2289.HK



Chairman's Statement

Dear Shareholders,

On behalf of the board (the “**Board**”) of directors (the “**Directors**”) of Charmacy Pharmaceutical Co., Ltd. (stock code: 2289.HK) (the “**Company**”), I would like to present the audited consolidated results for the year ended 31 December 2018 (the “**Reporting Period**”) of the Company and its subsidiaries (the “**Group**” or “**us**” or “**we**” or “**Charmacy**”).

BUSINESS OVERVIEW

The Company is principally engaged in the pharmaceutical distribution business. As part of the pharmaceutical circulation industry, the Company, with its focus on non-tendering markets, mainly distributes western medicine, Chinese patent medicine and healthcare products to downstream distributors and such retail terminals as pharmacies, clinics and private hospitals. It also provides consultation service on pharmaceutical products. As of 31 December 2018, the Company had operated as many as 11,493 products. Founded in 2000, over the past 19 years of rapid development, it has become one of the leading pharmaceutical distributors in the Southern China region. The Company adheres to the development strategy of “Intensive Engagement in Guangdong Province and Extensive Coverage across Surrounding Areas”, and has built logistics centers in Shantou, Foshan, Zhuhai and Guangzhou, all equipped with professional transportation teams, and has a highly efficient delivery mechanism of delivering pharmaceutical products three times per day for customers within a radius of 10 kilometers, twice per day for customers within a radius of 50 kilometers and once per day for those within a 250-kilometers’ radius. The Company has a modern information system that covers the entire supply chain for pharmaceutical distribution, including procurement, sales, warehousing, transportation

and delivery. Apart from that, the Company operates its own B2B e-commerce platform “Charmacy e-Medicine” (創美e藥) (www.cmyynet.com), a platform for customers to place orders online, make inquiries and payment and many more. In 2016, the Company ranked 38th among top 100 wholesalers nationally, in respect of principal business. According to the Market Research Report of the Chinese Pharmaceutical Industry (2017) (《中國醫藥行業市場研究報告》(2017)), in respect of sales scale, the Company ranked 7th among the pharmaceutical distribution businesses in Guangdong Province and second among private enterprises. In May 2018, the Company obtained the 2017-2018 “Gold Ant” Service Award (「金螞蟻」服務獎) for the Chinese logistics industry, the Company was awarded the “Model Enterprise of Trustworthiness in Guangdong Province (廣東省誠信示範企業) (seven consecutive years from 2011 to 2017), the “Top 500 Enterprises in Guangdong Province” (廣東省企業500強), the “Top 100 Private Enterprises” (民營企業100強), the “Top 100 Enterprises of Logistics Industry” (流通業100強) and the “Outstanding Enterprise of Guangdong Province for the 40th Anniversary of Reform and Development” (改革開放40週年廣東省優秀企業), respectively by the Guangdong Provincial Enterprise Confederation (廣東省企業聯合會) and the Guangdong Entrepreneur Association (廣東省企業家協會) from June to September 2018. In December 2018, the Company was also awarded the Honorary Certificate of “Excellent Enterprise Developed alongside with China’s Reform and Opening up” (與改革開放共同成長優秀企業) by the Longhu District Committee of Chinese Communist Party and the Longhu District People’s Government. In February 2019, the Company was honored with the “2018 Enterprise Branding Credit Jingding Award” (2018企業品牌信用金鼎獎) by the Guangdong Credit Association.

PERFORMANCE FOR THE YEAR 2018

The Group’s operating revenue decreased by 3.92% from RMB4,095.84 million in 2017 to RMB3,935.25 million in 2018, while its gross profit increased by 13.30% from RMB209.86 million in 2017 to RMB237.76 million in 2018. The Group’s gross profit margin was up from 5.12% in 2017 to 6.04% in 2018. The Group’s net profit attributable to the shareholders of parent company increased by 1.50%, from RMB44.76 million in 2017 to RMB45.43 million in 2018.



Chairman's Statement

PROSPECT

In recent years, with the successive implementation such as the medical reform policies and Two-Invoice system, the further promotion of “the Opinion on Internet + Healthcare Development”, Purchase in Quantity, “Three Medical System” Reform and Hierarchical Diagnosis and Treatment, there are huge development opportunities in the non-tendering pharmaceutical market. In addition, with the acceleration of the aging population, the increase in the residents’ awareness of healthcare, the growing demand for medical health, and with the continuous deepening of the reform on the healthcare system, the pharmaceutical market share will gradually shift from the hospital channels to the pharmaceutical retail terminal.

Charmacy Pharmaceutical healthcare will follow the development trend of the pharmaceutical market, continuing to tap into the growth potential of the non-tendering pharmaceutical market, and adhere to the market strategy of “Intensive Engagement in Guangdong Province and Extensive Coverage across Surrounding Areas”, and develop the pharmaceutical retail terminal network in Guangdong Province and its surrounding areas, strive to elevate the operating efficiency of its pharmaceutical supply chain and reduce the cost of pharmaceutical distribution, in a bid to become the most competitive service provider in the medical and healthcare industry in China.

APPRECIATION

Lastly, I would like to take this opportunity to express my utmost gratitude to the management and staff of the Company for their development and contribution. I would also like to express my gratitude to all our Shareholders for their trust and support.

Charmacy Pharmaceutical Co., Ltd.

Yao Chuanglong

Chairman

Shantou, PRC, 25 March 2019



Financial Summary

	2018	For the year ended 31 December			
		2017	2016	2015	2014
Results	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Operating revenue	3,935,246	4,095,835	3,669,781	3,396,333	3,014,603
Total profit	63,655	59,857	76,081	56,468	43,600
Net profit attributable to the Shareholders of parent company	45,433	44,760	56,458	41,773	33,567
Basic and diluted earnings per Share (expressed in RMB per share)	0.42	0.41	0.52	0.52	0.42

	2018	As at 31 December			
		2017	2016	2015	2014
Financial Position	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Total assets	2,353,980	2,471,830	2,111,570	2,094,695	1,551,766
Total liabilities	1,877,242	2,008,423	1,668,801	1,686,785	1,309,194
Equity of Shareholders	476,737	463,407	442,769	407,911	242,572
Net assets per Share (as stated in RMB per Share)	4.41	4.29	4.10	3.78	3.03

Management Discussion and Analysis





Management Discussion and Analysis

INDUSTRY OVERVIEW

During the course of the “13th Five Year Plan”, with the successive implementation of medical reform policies (including control on medical insurance fees, zero medicine mark-up in public hospitals, the limitation of drug proportion, Two-Invoice system, reform of medical payment methods and the further promotion of the opinion on “Internet + Healthcare”, Purchase in Quantity, “Three Medical System” Reform and Hierarchical Diagnosis and Treatment, the pharmaceutical distribution industry faced new opportunities and challenges.

Pharmaceutical wholesale enterprises’ sales scale increased steadily and the growth rate slowed down under the economic downturn

The growth of gross domestic product (“GDP”) has been decreasing year by year, with GDP growth rate of 6.6% in 2018. Sales growth of large pharmaceutical wholesale enterprises slowed down. In 2017, the income from principal activities of the top 100 pharmaceutical wholesale enterprises increased by 8.4% year on year, and the growth rate dropped by 5.6%.





Management Discussion and Analysis

Slight decline in the concentration of the pharmaceutical wholesale enterprises

From the perspective of market share, the income from principal activities of the top 100 pharmaceutical wholesale enterprises in 2017 accounted for 70.7% of the total size of the pharmaceutical market within the PRC for the same period, representing a year-on-year decrease of 0.2%. The concentration declined slightly.

Effective from 2016, the new edition of “Good Supply Practice for Pharmaceutical Products” (《藥品經營質量管理規範》) achieves effective control of the whole pharmaceutical industry chain, putting forward higher requirements for the industry. Under the impetus of the “VAT Program” and the Two-Invoice System policy, large-scale pharmaceutical wholesale enterprises had to continue to enhance their own business capability by way of external expansion through mergers and reorganizations and internal growth through actively developing the end-market. Industry concentration will increase as a result.

New changes in drug distribution patterns

On 17 March 2018, the Plan for Restructuring State Council (the “State Council”) (中國國務院機構改革方案) was approved at the first meeting of the 13th National People’s Congress of the PRC, under which the National Health Commission and the National Healthcare Security Administration, the National Medical Products Administration were established, forming a new regulatory system. Among which, the main responsibilities of the National Healthcare Security Administration are: to organize the formulation of unified medical insurance catalogues and payment standards for medicines, medical consumables, medical service items and medical service facilities etc. for urban and rural areas to establish a dynamic adjustment mechanism, and formulate rules for negotiating access to medical insurance catalogues and organize such implementation to organize the formulation of policies on prices of medicines and medical consumables and fees for medical service items and medical service facilities etc., and establish a reasonable and dynamical system to determine and adjust medical service price for medical insurance payment, and promote the establishment of market-led price formation mechanism for social medical service price, and establish price information monitoring and information release system; to formulate and supervise the implementation of bidding and procurement policies for drugs and medical consumables, and guide the construction of bidding and procurement platform for drugs and medical consumables and so on.

On 28 April 2018, the General Office of the State Council issued the “Opinions on Promoting the Development of “Internet + Healthcare” (《關於促進「互聯網+醫療健康」發展的意見》) which put forward the improvement of “Internet +” drug supply and protection services. Medical institutions and drug operating enterprises may entrust qualified third-party organizations for such distribution in terms of prescriptions for common and chronic diseases issued online after checking and verifying by pharmacists. The industry can explore the interconnection and real-time sharing of prescription information and drug retail consumption information in medical and health institutions, and promote the standardized development of drug network sales and medical logistics distribution and others.

On 1 November 2018, the “National Catalogue of Essential Drugs” (2018 Version) (《國家基本藥物目錄》(2018年版)) came into effect. The number of varieties increased from 520 to 685, highlighting the demand for basic medicines in respect of common diseases, chronic diseases, and serious harm diseases with heavy burdens and public health and others.



Management Discussion and Analysis

On 15 November 2018, with the consent of the National Medical Security Administration, the “Document on Centralized Procurement of Drugs in 4+7 Cities” (《4+7城市藥品集中採購文件》) (the “**Purchase in Quantity**”) was officially released on Sunshine Medical Procurement All-in-One (上海陽光醫藥採購網). The Central Committee for Comprehensive Deepening Reform (中央全面深化改革委員會) has approved the pilot program for centralized drug procurement, which cover 11 cities, namely Beijing, Tianjin, Shanghai, Chongqing, Shenyang, Dalian, Xiamen, Guangzhou, Shenzhen, Chengdu and Xi’an (the “**4 + 7 Cities**”). The Office of Joint Procurement (the “**Office of Joint Procurement**”) was established by the representatives of the pilot areas as the working organization to implement centralized procurement on behalf of the public medical institutions in the pilot area. The daily work and specific implementation were undertaken by Shanghai Drug Centralized Bidding and Procurement Office (上海市醫藥集中招標採購事務管理所).

On 17 December 2018, the Office of Joint Procurement publicized the selection results of 4 + 7 Cities drug centralized procurement. As compared with the lowest purchase price of the same kind of drugs in the pilot cities in 2017, the average price of the proposed selection decreased by 52%. Despite the significant decrease in the prices of the drugs winning the bid, the sales increased greatly. Purchase in Quantity helps to relief the burden of medical treatment and promote full competition in the pharmaceutical market.

The Separation of Doctors from the Provision of Medicine, Hierarchical Diagnosis and Treatment and Expansion of Drug Catalogue at the Basic Level are new opportunities for the pharmaceutical distribution industry and primary medical institutions. The further implementation of the policies of Control on Medical Insurance Fees and “Internet + Healthcare”, “Three Medical System” reform of the combination of medical treatment, medical insurance and medicine can help to promote the construction of an orderly hierarchical diagnosis and treatment pattern and meet people’s increasing demand for health care. This enables the Group to draw on its sales network in the end-market and capture new growth drivers.

Increase in demand for medical health due to acceleration of aging population

By the end of 2017, there were 241 million people aged 60 and above in the PRC, accounting for 17.3% of the total population. By the end of 2018, there were 249 million people aged 60 and above in the PRC, accounting for 17.9% of the total population.

In the general public budget expenditure in 2018, the expenditure on medical health and family planning amounted to RMB1,570 billion, representing an increase of 8.5% as compared to 2017. The average number of residents’ visits to health care institutions increased from 5.4 in 2013 to 5.9 in 2017.

With the acceleration of aging population, the increase in awareness of health care and the expansion of disease spectrum, the demand for medical health will continue to climb.

Sources of the above data: National Statistical Bureau, <http://www.xinhuanet.com>, the “Report of Statistical Analysis on the Operation of Pharmaceutical Circulation Industry” (2017) (《藥品流通行業運行統計分析報告》(2017)), “Financial Income and Expenditure in 2018” (《2018年財政收支情況》), the “National Statistical Bulletin on Health and Family Planning Development in 2013” (《2013年我國衛生和計劃生育事業發展統計公報》), the “National Statistical Bulletin on the Development of Health in 2017” (《2017年我國衛生健康事業發展統計公報》).



Management Discussion and Analysis

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 then sell the products to distributor customers, retail pharmacy stores, and hospitals, clinics, health centres and others. In 2018, we followed the established operation target, continuing to explore the market in Southern China, with a focus on developing the business of distribution to end-customers.

As of 31 December 2018, our distribution network covered 7,776 customers, among which 732 were distributors, 5,195 were retail pharmacies and 1,849 were hospitals, clinics, health centres and others. As of 31 December 2017, our distribution network covered 7,355 customers, among which 782 were distributors, 4,777 were retail pharmacies and 1,796 were hospitals, clinics, health centres and others.

As of 31 December 2018, we had a total of 1,075 suppliers, of which 668 were pharmaceutical manufacturers and 407 were distributor suppliers. As of 31 December 2017, we had 1,066 suppliers, among which 687 were pharmaceutical manufacturers and 379 were distributor suppliers.

As of 31 December 2018, we distributed 11,493 products, which represented an increase of 263 products as compared to 2017.

	Number of products for the year ended 31 December	
	2018	2017
Products Category		
Western medicines	3,871	4,180
Chinese patent medicines	3,871	3,438
Healthcare products	206	197
Others	3,545	3,415
Total	11,493	11,230

Our B2B e-commerce platform, “Charmacy e-Medicine” (創美e藥) (<http://www.cmyynet.com/>) commenced full operation in December 2015. For the year ended 31 December 2018, our B2B e-commerce platform (“**e-commerce platform**”) had 5,638 active trading clients who are principally end-market customers such as retail pharmacy stores, clinic and health centers. The operating revenue contributed by e-commerce transactions through our B2B e-commerce platform was approximately RMB217.80 million.

The operating revenue of the Group in 2018 was RMB3,935.25 million, decreased by 3.92% as compared to last year. The gross profit margin was 6.04%, increased by 0.92 percentage point as compared to last year. The total expense ratio was 4.20%, representing an increase of 0.66 percentage point as compared to last year. Net profit amounted to RMB44.76 million, which represented an increase of 1.05% as compared to last year. Our net profit margin was 1.14%, increased by 0.06 percentage point as compared to last year.



Management Discussion and Analysis

Realising a logistics model featuring integrated network operation with the successful launch of SAP EWM and SAP TM Projects

The informatization program (Phase II) was launched on 1 January 2018. The program was initiated in March 2017 to invest in the implementation of modules of SAP EWM and SAP TM. By doing so, we seek to develop and enhance our warehousing management and transportation systems, and deliver visual management for warehousing and distribution by combining such systems with our supply chain collaboration platform. We have also established a logistics model featuring integrated network operation, breaking through the separate operations model among logistics and distribution centers and realise linkage among warehouses. In addition, we have delivered standardised operation in logistics and distribution, with a replicable operational model established. The Group has become the first firm equipped with SAP EWM and SAP TM in the Chinese pharmaceutical distribution industry.

Completion of the equity acquisition of Zhuhai Charmacy and Guangzhou Charmacy and to pursue the Group's strategic plans

In August 2018, the Group acquired the remaining 30% equity interest in and became the 100% controlling shareholder of Zhuhai Charmacy Pharmaceutical Limited (“**Zhuhai Charmacy**”). In October 2018, the Group acquired the remaining 10% equity interest in and became the 100% controlling shareholder of Guangzhou Charmacy Pharmaceutical Limited (“**Guangzhou Charmacy**”).

Establishment of Charmacy (Guangzhou) Pharmaceutical Sorting and Distribution Center to improve warehousing and delivery capabilities in the Pearl River Delta region

On 4 August 2018, the Group entered into a construction contract with Guangdong Jin Zhong Hai Construction Engineering Co., Ltd.* (廣東金中海建設工程有限公司) to carry out the construction of the distribution workshops for the construction project of Charmacy (Guangzhou) Pharmaceutical Sorting and Distribution Center. The location of the construction is at No. 33, Liyu Street, Dongyong Zhen, Nansha District, Guangzhou City, the PRC. The amount of consideration is approximately RMB95.5 million and is expected to be completed by the end of 2019. For details, please refer to the Company's announcement dated 4 August 2018.

PROSPECTS

The Group will be active in developing the pharmaceutical terminal retail network in Guangdong Province and its neighboring areas, with a view to increasing market share and operating revenue.

The Group will adhere to the market strategy of “Intensive Engagement in Guangdong Province and Extensive Coverage across Surrounding Areas”, and will establish a pharmaceutical retail terminal network to fully cover Guangdong Province and its neighboring areas.

The Group will continue to tap into the growth potential of the non-tendering pharmaceutical market and replicate its mature model for non-tendering market operation at a faster pace, strive to elevate the operating efficiency of its pharmaceutical supply chain and reduce the cost of pharmaceutical distribution, in a bid to become the most competitive service provider in the medical and healthcare industry in China.



Management Discussion and Analysis

FINANCIAL REVIEW

Operating revenue

	For the year ended 31 December	
	2018 RMB'000	2017 RMB'000
Principal business	3,906,600	4,061,633
Other business	28,646	34,202
Operating revenue	3,935,246	4,095,835

The operating revenue of the Group in 2018 was RMB3,935.25 million, representing a decrease of 3.92% as compared to last year.

Customer Type	For the year ended 31 December	
	2018 RMB'000	2017 RMB'000
Distributors	2,674,316	2,758,615
Retail pharmacy stores	1,133,835	1,214,657
Hospitals, clinics, health centers and others	98,449	88,361
Revenue from principal business	3,906,600	4,061,633

During 2018, our revenue from principal business was from product sales to (i) distributor customers; (ii) retail pharmacy stores; and (iii) hospitals, clinics, health centres and others. In 2018, over 97% of our revenue from principal business was derived from distributor and retail pharmacy stores.

Our revenue from principal business decreased in 2018, primarily because in response to the impact of the economic environment, The Group, adopted a relatively conservative marketing strategy to improve the quality of operations, and to ensure the safety of payment for goods, the Group has adopted appropriate control measures for some distributors, which resulted in a decline in operating revenue.



Management Discussion and Analysis

Operating cost, gross profit and gross profit margin

The operating cost of the Group decrease by 4.85% to RMB3,697.48 million for the year ended 31 December 2018 from RMB3,885.97 million for the year ended 31 December 2017. Such changes were in line with the change in operating revenue from sales of products.

The gross profit of the Group increased by 13.30% to RMB237.76 million for the year ended 31 December 2018 from RMB209.86 million for the year ended 31 December 2017. The gross profit margin of the Group increased to 6.04% for the year ended 31 December 2018 from 5.12% for the year ended 31 December 2017. The increase in the gross profit margin of the Group was primarily due to the fact that (i) the Ministry of Finance of the PRC and the State Administration of Taxation jointly adjusted the VAT rate, which reduced from 17% to 16% since 1 May 2018; and (ii) certain high gross profit products contributed to the increase in gross profit.

Selling expenses

For the year ended 31 December 2018, the Group's selling expenses amounted to RMB73.98 million, representing a 8.78% increase from RMB68.01 million for the year ended 31 December 2017. Such increase was caused by (i) the leasing of warehouses of Guangdong Charmacy and Zhuhai Charmacy which generated a total rental fee of RMB4.20 million, representing an increase of RMB2.42 million as compared to the year ended 31 December 2017; (ii) the Group increased the frequency of distribution to enhance customer service experience, resulting in the increase of transportation fee by RMB1.03 million; (iii) the new logistics equipment of Guangzhou Charmacy and warehouse renovation of Zhuhai Charmacy, resulted in an increase of RMB0.90 million in the depreciation and amortisation expenses; and (iv) the commencement of operation of Guangzhou Charmacy, where the expenses of low-value consumables such as plastic trays for storage increased by RMB0.60 million.

Management expenses

For the year ended 31 December 2018, the Group's management expenses amounted to RMB59.91 million, representing a 20.83% increase from RMB49.58 million for the year ended 31 December 2017, which was mainly because of (i) the termination of the A Share Listing project, the fees on engaging intermediaries for the A Share Listing project has been expensed, resulting in an increase of RMB5.74 million in the expenses on engaging agencies; and (ii) the amortisation of property and land use rights of Guangzhou Nansha, resulting in an increase of RMB2.91 million in the depreciation and amortisation expenses.

Finance costs

For the year ended 31 December 2018, the Group's finance costs amounted to RMB31.53 million, representing a 14.21% increase from RMB27.61 million for the year ended 31 December 2017, which was mainly because of the increase in (i) bank borrowing during the year as compared to that of 2017, resulting in an increase of RMB5.71 million in interest expenses; and (ii) the decrease in foreign exchange loss by RMB1.62 million as compared to the year ended 31 December 2017.

Income tax expense

For the year ended 31 December 2018, the Group's income tax expense amounted to RMB18.89 million, representing a 21.40% increase from RMB15.56 million for the year ended 31 December 2017, which was mainly caused by an increase in total taxable profit.



Management Discussion and Analysis

Net profit

The net profit of the Group increased by 1.05% to RMB44.76 million for the year ended 31 December 2018 from RMB44.29 million for the year ended 31 December 2017. In particular, the net profit attributable to the shareholders of parent company increased by 1.50% to RMB45.43 million for the year ended 31 December 2018 from RMB44.76 million for the year ended 31 December 2017. Net profit attributable to the shareholders of parent company recorded an increase mainly because of (i) the increase in the overall gross profit margin; and (ii) the increased amount in gross profit exceeded the overall increased amount in expenses.

Liquidity and financial resources

As at 31 December 2018, the cash and bank deposits of the Group amounted to RMB55.74 million, while the cash and bank deposits amounted to RMB75.10 million as at 31 December 2017.

As at 31 December 2018 and 31 December 2017, the Group recorded net current assets of RMB176.26 million and RMB96.43 million, respectively. As at 31 December 2018, the current ratio (based on the calculation of current assets divided by current liabilities) of the Group was 1.10 (2017: 1.05).

The bank borrowings of the Group as at 31 December 2018 were RMB477.9 million (short-term borrowings: RMB387.90 million, long-term borrowings: RMB90 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 any existing borrowings and/or other hedging instruments for hedging net foreign currency investments.

Bill receivables and trade receivables

As at 31 December 2018, the Group's bills receivables and trade receivables amounted to RMB827.97 million, representing a decrease of RMB142.28 million compared to those as at 31 December 2017. Such decrease was mainly due to our strengthened management for bills receivables and trade receivables, and enhance the effort to recover the receivables.

Bills payables and trade payables

As at 31 December 2018, the Group's bill payables and trade payables amounted to RMB1,343.42 million, representing a decrease of RMB65.19 million compared to those as at 31 December 2017. Such decrease was mainly due to a reduction in the goods payment paid to suppliers by way of bank acceptance bills issued by the Group as the issuer, which resulted in the decrease in bills payables.

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 mainly 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.



Management Discussion and Analysis

Interest rate risk

For the year ended 31 December 2018, the Group had no bank borrowings which bear interest at floating rate. (2017: Nil).

Capital management

Set out below is the Group's gearing ratios as at 31 December 2018 and 2017, respectively:

	31 December 2018	31 December 2017
Gearing ratio	46.96%	49.14%

Note: Gearing ratio is equal to net liabilities as at the end of the period divided by aggregate capital. 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 2018, the Group's capital commitment amounted to RMB60.29 million (2017: RMB8.93 million).

Employees' information

As at 31 December 2018, the Group had a total of 794 employees (including executive Directors), representing a decrease of 48 employees compared with the number of employees as at 31 December 2017. The total staff cost (including emoluments of directors and supervisors) was RMB68.34 million, as compared to RMB63.18 million for the year ended 31 December 2017, representing a growth rate of 8.17%. 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 investment 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 2018.

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.



Management Discussion and Analysis

Material acquisitions and disposals related to the subsidiary, associates and joint ventures

During the year ended 31 December 2018, the Group had no material acquisitions and disposals related to the subsidiary, associates and joint ventures.

Pledge of assets

As at 31 December 2018, the Group was granted a credit limit of RMB1,035.29 million by various banks, while the Group's utilized banking facilities totaled RMB865.92 million, which were secured by (i) property, plant and equipment held by the Group with a carrying amount of RMB160.72 million as at 31 December 2018; (ii) land use rights held by the Group with a carrying amount of RMB144.11 million as at 31 December 2018; and (iii) inventories with a carrying amount of RMB350.00 million as at 31 December 2018.

Contingent liabilities

As at 31 December 2018, the Group had no material contingent liabilities (2017: Nil).



Biographies of Directors, Supervisors and Senior Management

DIRECTORS AND SUPERVISORS

The table below sets out the information of the Directors and the supervisors (the “Supervisors”) as at the date of this report:

Name	Date of appointment	Age
Executive Directors		
Yao Chuanglong (姚創龍)	6 March 2000	49
Zheng Yuyan (鄭玉燕)	25 May 2015	44
Lin Zhixiong (林志雄)	25 May 2015	49
Non-executive Director		
Li Weisheng (李偉生)	10 June 2017	54
Independent Non-executive Directors		
Wan Chi Wai Anthony (尹智偉)	1 December 2015	43
Zhou Tao (周濤)	1 December 2015	35
Guan Jian (關鍵) (also known as Guan Suzhe (關蘇哲))	1 December 2015	49
Supervisors		
Zhang Ling (張玲)	25 May 2015	46
Zheng Xiyue (鄭禧玥)	25 May 2015	39
Lin Zhijie (林志杰)	5 September 2017	35



Biographies of Directors, Supervisors and Senior Management

Chairman and Executive Director

Mr. Yao Chuanglong (姚創龍), aged 49, is our Chairman, executive Director and Chief Executive Officer. He is responsible for the overall management of the Group, strategic planning and decision, formulation of annual business operation plan of the Group.

Mr. Yao obtained a certificate in postgraduate class on civil commercial law from China University of Political Science and Law (中國政法大學) in March 2004. Mr. Yao completed a class on selected on-job executive master of business administration course (在職工商管理碩士(EMBA)精選課程研修班) organised by the Sino-Foreign Management Research Institute of Sun Yat-sen University (中山大學中外管理研究中心) in the PRC in March 2004 and a course on “Advance Programme for Development of Leadership in Pharmaceutical Industry” (醫藥商業領導力發展高級研修班) in Zhejiang University (浙江大學) in the PRC in October 2007. Mr. Yao completed a course on “Advanced Programme on Business Management for Executives” (高級工商管理總裁研修班) in Tsinghua University (清華大學) in the PRC in July 2008 and a course on “Telaote Strategic Positing for Executives” (特勞特戰略定位總裁班) in Peking University (北京大學) in the PRC in September 2013. In November 2015, Mr. Yao completed a course on Internet Plus and Innovative E-commerce for Executives (互聯網+與電子商務創新總裁班) in Overseas Education College of Shanghai Jiao Tong University (上海交通大學海外教育學院).

Mr. Yao joined the Group in March 2000 as a general manager of the Company, overseeing the daily operation and formulation of the strategic development of the Company. Since July 2011, he has also served as the general manger and executive Director of Guandong Charmacy. Mr. Yao has been acting as the chairman of the Company since May 2015. He currently serves as the executive Director and general manager of Guangdong Charmacy, Zhuhai Charmacy and Shenzhen Charmacy.

Executive Directors

Ms. Zheng Yuyan (鄭玉燕), aged 44, is our executive Director, vice president and Chief Marketing Officer. She joined the Group in September 2003 and had served various positions in the Group including procurement officer, procurement director and sales director. Ms. Zheng was promoted in August 2015 as the vice president of the Group. She has been appointed as our Director since 25 May 2015. Ms. Zheng is mainly responsible for the marketing and products management of the Group, the arrangement and maintenance of the sales network of the Group as well as planning and guidance on the management of operating commodities of the Group. She currently serves as the executive Director and general manager of Guangzhou Charmacy.

In December 2008, Ms. Zheng obtained a Master of Business Administration degree in the Postgraduate School of Renmin University of China (中國人民大學研究生院) in the PRC. Ms Zheng completed a course of “Training Programme for Executives Master of Business Administration Courses” (EMBA課程總裁研修班) organised by Lingnan School of Sun Yat-sen University (中山大學嶺南學院) in the PRC in August 2013 and a course of “Telaote Strategic Positing for Executives” (特勞特戰略定位總裁班) organised by Peking University (北京大學) in the PRC in November 2013. In November 2015, Ms. Zheng completed a course on Internet Plus and Innovative E-commerce for Executives (互聯網+與電子商務創新總裁班) in Overseas Education College of Shanghai Jiao Tong University (上海交通大學海外教育學院).



Biographies of Directors, Supervisors and Senior Management

Mr. Lin Zhixiong (林志雄), aged 49, is our executive Director, company secretary and Chief Financial Officer. He is responsible for the financial management, preparation of the three committee meetings, equity management information disclosure management and investor relationship management affairs of the Group.

Mr. Lin graduated from Hunan Institute of Finance and Economics (湖南財經學院) in the PRC with a bachelor degree in economics studies, majoring in finance planning and statistics in July 1992. He also completed a course of “Telaote Strategic Positing for Executives” (特勞特戰略定位總裁班) organised by Peking University (北京大學) in the PRC in November 2013 and obtained a postgraduate diploma on “Corporate Finance and Investment Management” from the University of Hong Kong School of Professional and Continuing Education in May 2015. And he obtained a postgraduate diploma in “Integrated and Practicing Management” from the University of Hong Kong School of Professional and Continuing Education in September 2017. Mr. Lin was an accountant accredited by the Ministry of Finance in the PRC in May 1997.

Prior to joining the Group, Mr. Lin worked in Shantou International Trust Investment Limited (汕頭國際信託投資公司), a company engaging in financing and investment activities, as an accounting and financial manager from July 1992 to December 2001, responsible for financial management and accounting, tax planning and financing. During January 2002 to March 2010, he worked in Guangdong Deming Investment Group Limited (廣東德明投資集團公司) (currently known as Shantou Deming Packaging Group Limited (汕頭市德明包裝實業集團有限公司)), a company engaging in the production and sales of tobacco, and held the position of financial director and was responsible for the financial management and accounting, tax planning, financing and investment management. Mr. Lin joined the Group in March 2010 as the financial director of the Group.

Non-executive Director

Mr. Li Weisheng (李偉生), aged 54, has been our non-executive Director since June 2017. Mr. Li is a pharmacist-in-charge. In 1989, Mr. Li graduated from Guangdong Pharmaceutical University (formerly known as Guangdong Pharmaceutical Institute) with a bachelor’s degree in medicine, majoring in preventive healthcare.

Mr. Li worked in Guangzhou Pharmaceutical Trading Co., Ltd. (廣州醫藥進出口有限公司) from July 1989 to November 2011, and was the deputy general manager of Guangzhou Pharmaceutical Baiyunshan Hong Kong Company Limited from November 2011 to December 2015. He has been the general manager and a director of Guangzhou Pharmaceutical Baiyunshan Hong Kong Company Limited since December 2015 and May 2018. He has also been a supervisor of Guangzhou Baiyunshan Qi Xing Pharmaceutical Co., Ltd. (廣州白雲山奇星藥業有限公司) since July 2015, the chairman of Guangzhou Pharmaceutical Baiyunshan Macau Company Limited (廣藥白雲山澳門有限公司) since January 2018, and a director of Guangzhou Baiyunshan Guang Hua Pharmacy Co., Ltd. (廣州白雲山光華製藥股份有限公司) since February 2018.



Biographies of Directors, Supervisors and Senior Management

Independent non-executive Directors

Mr. Wan Chi Wai Anthony (尹智偉), aged 43, was appointed as our independent non-executive Director on 1 December 2015.

Mr. Wan graduated from the Hong Kong University of Science and Technology in November 1997 with a bachelor degree in business administration (accounting). Mr. Wan graduated from the University of London with a bachelor degree in laws in August 2003 through distance learning. He further obtained the Postgraduate Certificate in Laws in June 2004 from the University of Hong Kong.

Mr. Wan was admitted as a member of the Hong Kong Institute of Certified Public Accountants in January 2002 and a Fellow of the Association of Chartered Certified Accountants in May 2006. Mr. Wan was also admitted as a solicitor of the High Court of Hong Kong in September 2006.

Prior to joining the legal field, Mr. Wan worked in the financial, accounting and audit industry, including as a senior associate in PricewaterhouseCoopers, an accounting and audit firm, during August 1997 and May 2001; an accounting manager in Wellink Services Limited, a company engaging in investment business, during October 2001 and January 2002; and an assistant manager in finance in MLC (Hong Kong) Limited, an insurance company, during April 2002 and September 2003. Since 2004, Mr. Wan has worked in various local and international law firms, specialising in the practice of corporate finance transactions including Hong Kong listings and mergers and acquisitions. From October 2006 to July 2007 and January 2008 to November 2008, Mr. Wan was a corporate finance associate in Herbert Smith Freehills. He was an assistant solicitor in Reed Smith Richards Butler from March 2010 to November 2010 and an associate in Morrison & Foerster from December 2010 to May 2012. Mr. Wan joined Clifford Chance in May 2012 as a senior associate and left as a consultant in April 2015. From May 2015 to May 2016, he worked as the partner and head of the Hong Kong corporate and securities practice of Vivien Teu & Co in association with Llinks Law Offices (通力律師事務所), a law firm in Hong Kong. In May 2016, Mr. Wan joined King & Wood Mallesons, as a partner for its corporate and securities practice. He has been an independent non-executive director of HM International Holdings Limited (stock code: 8416) since 15 December 2016 and an independent non-executive director of Dafy Holdings Limited (stock code: 1826) since 12 January 2018.

Mr. Zhou Tao (周濤), aged 35, was appointed as our independent non-executive Director on 1 December 2015.

Mr. Zhou graduated from Peking University (北京大學) in the PRC with a bachelor's degree in law in July 2005. He is a qualified practising lawyer in the PRC.

Since July 2005, Mr. Zhou has been working as a lawyer in Grandway Law Offices (北京國楓律師事務所), a law firm in the PRC and is currently a partner of Grandway Law Offices.



Biographies of Directors, Supervisors and Senior Management

Mr. Guan Jian (關鍵) (also known as Guan Suzhe (關蘇哲)), aged 49, was appointed as our independent non-executive Director on 1 December 2015.

Mr. Guan graduated from Chinese People's Liberation Army University of International Relationships (中國人民解放軍國際關係學院) with a bachelor degree in English in July 1991 and from China Europe International Business School (中歐國際工商學院) in the PRC with a master degree in business administration in November 1997. In August 2014, Mr. Guan was appointed as a guest professor by Shanghai Jiao Tong University Continuing Education School (上海交通大學繼續教育學院) in the PRC.

Mr. Guan worked as a sales director in Yihaodian (一號店), a company engaging in business administration, responsible for marketing, sales and operational management in May 2008. During the period from July 2009 to August 2010, he was the vice president of Shanghai Haolijia Electronics Commerce Limited (上海好麗家電子商務有限公司), a company engaging in the business of marketing, sales and training, responsible for the business management. Since July 2011, he has been working as the chief executive officer of Mankedao (Shanghai) Information Technology Limited (慢客島(上海)網絡科技有限公司), overseeing the general management. Since 2 June 2015, he has been the executive director and president of Shanghai New Focus Investment Development Limited (上海新關點投資發展有限公司), responsible for integrated corporate management and currently acts as the supervisor of Sichuan Womijia Network Technology Limited* (四川我迷家網絡科技有限公司). Mr. Guan has been the consultant of China Telecom Corporation Limited Jiangsu electronics channel operations centre (中國電信股份有限公司江蘇電子渠道營運中心).

Supervisors

Ms. Zhang Ling (張玲), aged 46, was appointed as the chairlady of the Board of Supervisors on 25 May 2015.

Ms. Zhang graduated from Beijing Wuzi University (北京物資學院) in the PRC with a bachelor degree in international trade in July 1994. She obtained a master degree in industrial economics from Shantou University (汕頭大學) in the PRC in June 2005 and a doctorate degree in accounting from Xiamen University (廈門大學) in the PRC in December 2009. On 21 December 2017, she obtained the certificate of Chartered Global Management Accountant (CGMA) and certificate of member of The Chartered Institute of Management Accountants (ACMA).

From March 2000 to September 2002, Ms. Zhang was the assistant to general manager in the Company, responsible for overseeing financial and administrative matters. Since January 2010, she has been an associate professor in Shantou University Business School (汕頭大學商學院) in the PRC. Since December 2016, she has been an independent director of C.K.J Professional Dental Hospital Group Limited* (深圳市愛康健齒科集團股份有限公司).

Ms. Zheng Xiyue (鄭禧玥), aged 39, was appointed as our employee representative Supervisor on 25 May 2015.

Ms. Zheng graduated from China Central Radio and TV University (中央廣播電視大學) in the PRC with a bachelor degree in accounting in July 2009. She has also completed a course on "Executive Master of Business Administration (EMBA) Programme for Executives" in Market Economy Academy of Peking University (北京大學民營經濟研究學院) in the PRC in April 2010. In February 2017, she obtained a graduate diploma in "Integrated Marketing Communications" (整合營銷傳播) from the Hong Kong University School of Professional and Continuing Education.

Ms. Zheng joined the Group in July 2001 and held positions including accounting officer and manager of settlement department. She is currently the Deputy Chief Marketing Officer and is responsible for providing assistance to our Chief Marketing Officer in the operation of our sales centre. She also acts as the supervisor of Guangdong Charmacy, Zhuhai Charmacy, Ghuangzhou Charmacy and Shenzhen Charmacy.



Biographies of Directors, Supervisors and Senior Management

Mr. Lin Zhijie (林志杰), aged 35, is our chief logistics officer. He became a supervisor of the Company since September 2017. Mr. Lin graduated from the Science and Technology College of Jiangxi University of Traditional Chinese Medicine* (江西中醫學院科技學院) in the PRC in July 2007, majoring in pharmaceuticals formulation.

Mr. Lin joined our Group in January 2007 and has been responsible for transportation and logistics arrangements of our Group, including the planning of budget for transportation.

SENIOR MANAGEMENT

Mr. Zhang Weijia (張偉佳), aged 36, was appointed as our vice president and director of Operation and Maintenance Support Center on 11 January 2019. He is in charge of the Group's Human Resources Center, Operation and Maintenance Support Center and President Office to assist the President in formulating, standardizing and optimizing the Group's development strategy.

Mr. Zhang graduated from Liaoning University of Science and Technology in July 2006, majoring in computer science and technology, and obtained a bachelor's degree in engineering. In July 2006, he obtained the Advanced Computer Skills Certificate.

Mr. Zhang was the Strategic Development Director and Executive Member of the Strategic Committee from August 2006 to February 2013 at Chinaking Development Holding Limited. From May 2013 to March 2015, he served as deputy general manager of Guangdong Oumer Industrial and Commercial CO., LTD. From April 2015 to February 2018, he was the head of the Big Data Research Institute in Shantou City Peer Network Technology Co., Ltd (汕頭市同行網路科技有限公司). From May 2018 to January 2019, he served as President Assistant and Officer of the President Office of Charmacy Pharmaceutical Co., Ltd. and Director of the Operation and Maintenance Support Center since October 2018.

Ms. Liu Yingyu (劉映玉), aged 39, was appointed as our Quality Director on 7 March 2019, and is responsible for the medicine quality management of the Company.

Ms. Liu graduated from Xinyang Health School of Henan Province (河南省信陽衛生學校) in July 2000, majoring in nursing. She graduated from Shantou University in January 2015 with a major in pharmacy. She graduated from Guangzhou University of Chinese Medicine in January 2018, majoring in traditional Chinese medicine. She was awarded the Chinese Pharmacist Junior Certificate in May 2009, the Pharmacy Intermediate Certificate in March 2012, and the Licensed Pharmacist Qualification Certificate in January 2014.

Ms. Liu was the manager of Guangdong Province Kangzhixuan Chain Co., Ltd. (康之選連鎖有限公司) from October 2000 to March 2004. She served as the quality controller of Shantou City Charmacy Pharmaceutical Co., Ltd. from April 2004 to July 2014. From August to April 2015, she worked as a quality control manager in Shantou City Xiangyue Pharmaceutical Co., Ltd (汕頭市翔躍藥業有限公司). From April 2015 to March 2019, she worked as a Quality Control Manager at our Company, responsible for quality control.

COMPANY SECRETARY

Mr. Lin Zhixiong (林志雄), aged 49, is our company secretary. Biographical details of Mr. Lin are set out in the paragraph headed "Executive Directors" in this section.



Corporate Governance Report

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 Rules Governing the Listing of Securities on the Stock Exchange (the “**Listing Rules**”) for the year ended 31 December 2018, 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.

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 securities transaction 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 2018.



Corporate Governance Report

MEMBERS OF THE BOARD

Composition

Currently, the Board consists of seven Directors (“**Directors**”), of which three are executive Directors, one is non-executive Director and three are independent non-

executive Directors. The composition of the Board is as follows:

Directors	Age	Position	Duration of service contract/ letter of appointment
Mr. Yao Chuanglong	49	Chairman, executive Director and Chief Executive Officer	28 May 2018 to 27 May 2021
Ms. Zheng Yuyan	44	Executive Director, vice president and Chief Marketing Officer	28 May 2018 to 27 May 2021
Mr. Lin Zhixiong	49	Executive Director, company secretary and Chief Financial Officer	28 May 2018 to 27 May 2021
Mr. Li Weisheng	54	Non-executive Director	28 May 2018 to 27 May 2021
Mr. Wan Chi Wai Anthony	43	Independent non-executive Director	28 May 2018 to 27 May 2021
Mr. Zhou Tao	35	Independent non-executive Director	28 May 2018 to 27 May 2021
Mr. Guan Jian (also known as Guan Suzhe)	49	Independent non-executive Director	28 May 2018 to 27 May 2021

The Company elected directors at the annual general meeting of the second session of the Board held on 28 May 2018, which includes (1) Mr. Yao Chuanglong, Ms. Zheng Yuyan and Mr. Lin Zhixiong as executive Directors; (2) Mr. Li Weisheng as non-executive Director; and (3) Mr. Wan Chi Wai Anthony, Mr. Zhou Tao and Mr. Guan Jian (also known as Guan Suzhe) as independent non-executive Directors. The Directors of the second session of the Board will serve for a term of three year. The term of office of the executive Directors, non-executive Director and independent non-executive Directors will take effect from the date of approval at the annual general meeting to the date of election of the new board of directors.

Save as the relationship disclosed in the section “Biographies of Directors, Supervisors and Senior Management” and the working relationship in the Company, there is no relationship among the Directors, Supervisors and senior management regarding the financial, business, family or other material aspects.

Details for each of the Directors’ profile are set out on pages 17 to 22 in the section “Biographies of Directors, Supervisors and Senior Management”.



Corporate Governance Report

The Board meeting

The regular Board meeting shall be convened at least four times a year, representing once a quarter. Other

board meetings shall be convened when necessary for the discussion of the overall strategy and financial performance of the Company's operation. During the year ended 31 December 2018, the Company convened 10 Board meetings. Their details are as follows:

Name	Position	Number of Meetings Attended/Available for Attendance
Mr. Yao Chuanglong	Chairman, executive Director and Chief Executive Officer	10/10
Ms. Zheng Yuyan	Executive Director, vice president and Chief Marketing Officer	10/10
Mr. Lin Zhixiong	Executive Director, company secretary and Chief Financial Officer	10/10
Mr. Li Weisheng	Non-executive Director	10/10
Mr. Wan Chi Wai Anthony	Independent non-executive Director	10/10
Mr. Zhou Tao	Independent non-executive Director	10/10
Mr. Guan Jian (also known as Gunan Suzhe)	Independent non-executive Director	10/10

The Company has three independent non-executive Directors, which is more than one-third of the number of Directors in the Board. Among them, Mr. Wan Chi Wai Anthony has the appropriate professional qualification.

All Directors have access to the advice and services of the company secretary with a view to ensuring that the Board procedures, all applicable rules and regulations are followed.

Appropriate notification will be sent to each Director in advance prior to the regular meetings and other meetings. Meeting agendas and other relevant information are provided to the Directors prior to the Board meetings. All Directors would be inquired for the agenda for Board meetings and other additional matters.

The comment made by the Directors at the meetings and both draft and final versions of the minutes will be sent to all Directors. Minutes of Board meetings are kept by the secretary of the meetings.



Corporate Governance Report

General meeting

During the year ended 31 December 2018, the Company held three general meetings. Their details are as follows:

Date	Location	Meeting
28 May 2018	3rd Floor, No. 235 Song Shan North Road, Longhu District, Shantou City, Guangdong Province, the People's Republic of China	2017 Annual General Meeting
5 September 2018	3rd Floor, No. 235 Song Shan North Road, Longhu District, Shantou City, Guangdong Province, the People's Republic of China	2018 First Extraordinary General Meeting
14 December 2018	3rd Floor, No. 235 Song Shan North Road, Longhu District, Shantou City, Guangdong Province, the People's Republic of China	2018 Second Extraordinary General Meeting

The Attendance of the Directors

Name	Position	Number of Meetings Attended/ Available for Attendance
Mr. Yao Chuanglong	Chairman, executive Director and Chief Executive Officer	3/3
Ms. Zheng Yuyan	Vice president, executive Director and Chief Marketing Officer	3/3
Mr. Lin Zhixiong	Executive Director, company secretary and Chief Financial Officer	3/3
Mr. Li Weisheng	Non-executive Director	3/3
Mr. Wan Chi Wai Anthony	Independent non-executive Director	1/3
Mr. Zhou Tao	Independent non-executive Director	2/3
Mr. Guan Jian (also known as Gunan Suzhe)	Independent non-executive Director	2/3

Note: due to business engagements, Mr. Wan Chi Wai Anthony, Mr. Zhou Tao and Mr. Guan Jian could not attend the 2017 annual general meeting; due to business engagements, Mr. Wan Chi Wai Anthony could not attend the 2018 first extraordinary general meeting.



Corporate Governance Report

RESPONSIBILITIES OF THE BOARD AND MANAGEMENT

The Board is primarily responsible for monitoring and managing the Company's affairs, including the adoption of long-term strategies, appointment of and supervision on senior management, to ensure that the operations of the Group are conducted in accordance with its own objectives. The Board is also responsible for determining the Company's corporate governance policies which include: (i) the preparation of and review on the Company's corporate governance policies and practices; (ii) the review and regulation on the training and continuous professional development of Directors and senior management; (iii) the review and regulation on the code of conduct and compliance manual (if any) applicable to employees and Directors; and (iv) the review on the Company's disclosure in the Corporate Governance Report. The Board has discharged its duties in respect of the corporate governance function mentioned above during 2018.

While the Board retains full responsibility for guiding and monitoring the Company in discharging its duties, certain responsibilities are delegated to various Board committees which have been established by the Board to deal with different aspects of the Company's affairs. Unless otherwise specified in their respective written terms of reference as approved by the Board, these Board committees are governed by the Company's articles of association (the "**Articles of Association**") as well as the Board's policies and practices (in so far as the same are not in conflict with the provisions contained in the Articles of Association). With the new composition of members of the risk management committee, nomination committee, remuneration committee, strategic development committee and the audit committee, the independent non-executive Directors will be able to effectively devote their time to perform the duties required by each of the Board committees.

The Board has also delegated the responsibility of implementing its strategies and the daily operation to the management of the Company under the leadership of the executive Directors. Clear guidance has been made as to the matters that should be reserved to the Board for its decision which include matters on, inter alia, capital, finance and financial reporting, internal controls, communication with Shareholders, Board membership, delegation of authority and corporate governance.

The Board acknowledges its responsibility for the preparation of the financial statements which give a true and fair view of the state of affairs of the Group. The Financial Statements set out on pages 55 to 68 were prepared on the basis set out in note IV to the Financial Statements. Financial results of the Group are announced in a timely manner in accordance with statutory and/or regulatory requirements. The declaration of reporting responsibility issued by the external auditor of the Company on the Company's Financial Statements is set out in the Auditor's Report on page 50.

The Company has no non-compliance with rules 3.10(1), (2) and 3.10A of the Listing Rules. Except as disclosed in the section "Biographies of Directors, Supervisors and Senior Management" above, there is no financial, business, family or other material relationship among members of the Board.

CONFIRMATION OF INDEPENDENCE OF THE INDEPENDENT NON-EXECUTIVE DIRECTORS

Each of the independent non-executive Directors has made an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules. The Company is of the view that all independent non-executive Directors are independent in accordance with the terms of the independence guidelines set out in Rule 3.13 of the Listing Rules.



Corporate Governance Report

CONTINUOUS PROFESSIONAL DEVELOPMENT OF THE DIRECTORS

During the year ended 31 December 2018, all Directors have been given relevant guidance materials and participated related training regarding the duties and responsibilities of being a Director, the relevant laws and regulations applicable to the Directors, duty of disclosure of interests and business of the Group. Such guidance materials and relevant overview will be provided

immediately to the Directors who are newly appointed. Continuing briefings and professional development for the Directors will be arranged whenever necessary.

All Directors have provided record of training attendance and the Company will continue to arrange or provide training in accordance with paragraph A.6.5 of the Code Provisions.

In the year 2018, continuing professional development participated by the Directors is summarized as follows:

Directors	Training in relation to corporate governance, regulatory developments and other relevant professional topics
Executive Directors	
Yao Chuanglong (<i>Chairman</i>)	✓
Zheng Yuyan	✓
Lin Zhixiong	✓
Non-executive Director	
Li Weisheng	✓
Independent non-executive Directors	
Wan Chi Wai Anthony	✓
Guan Jian (also known as Guan Suzhe)	✓
Zhou Tao	✓

APPOINTMENT, RE-ELECTION AND DISMISSAL

All independent non-executive Directors have entered into letters of appointment or agreements with the Company for a specific term of three years, subject to re-election.

In accordance with the Articles of Association, Directors are elected at the general meeting with a term of three years from the effective date of being elected. Directors may offer themselves for re-election if their terms expire. The chairman is elected and removed by the majority votes from all Directors, with a term of three years and may offer himself/herself for re-election. The removal of any Directors with an unexpired term is allowed at the general meeting by way of ordinary resolutions, provided that it is complied with the requirements of related laws and administrative regulations.

NON-EXECUTIVE DIRECTOR

The current term of Mr. Li Weisheng, the Company's incumbent non-executive Director started on 28 May 2018 and will terminate upon the conclusion of the current session of the Board.

INDEPENDENT NON-EXECUTIVE DIRECTOR

The current term of Mr. Wan Chi Wai Anthony, Mr. Zhou Tao and Mr. Guan Jian, the Company's incumbent independent non-executive Directors started on 28 May 2018 and will terminate upon the conclusion of the current session of the Board.

NOMINATION COMMITTEE

The Company established a nomination committee (the "Nomination Committee") on 26 November 2015 with written terms of reference in compliance with paragraph A.5.2 of the Code Provisions. Its terms of reference are available on the websites of the Company and the Stock Exchange.



Corporate Governance Report

The primary duties of the Nomination Committee are to review the structure, size and composition of the Board on regular basis; identify individuals qualified to become Board members; assess the independence of independent non-executive Directors; and make recommendations to the Board on matters relating to the appointment or re-election of Directors. The Nomination Committee comprises three members, two of them are independent non-executive Directors, namely Mr. Zhou Tao (Chairman) and Mr. Guan Jian and one of them is executive Director, namely Mr. Yao Chuanglong.

For the year ended 31 December 2018, the Nomination Committee convened a meeting on 21 March 2018 to review the structure, size and composition of the Board and review the independence of independent non-executive Directors and nominate candidates for the second session of the Board of the Company. All the members of the Nomination Committee, including Mr. Yao Chuanglong, Mr. Zhou Tao and Mr. Guan Jian, attended the above meeting.

The Company has adopted the director nomination policy for the appointment of the members of the Board. Taking into account of the board diversity policy, the appointment of the members of the Board will be based on a number of objective criteria to consider the candidates suitably qualified to become board members. The selection criteria used to evaluate candidates include:

- personal character and integrity;
- education background and qualifications (including the professional qualifications, skills and knowledge related to the Company's business and corporate strategies);
- willingness and ability to devote sufficient time to perform the duties of the Directors;
- contribution of different aspects of diversity to the Board, including but not limited to gender, age, race, cultural and education background, professional experiences, skills, knowledge, and terms of services;
- requirements for independent non-executive Directors of the Board under the Listing Rules; and
- any other conditions determined by the Board from time to time.

For the purpose of nomination procedure, any Board member can nominate or invite candidates to hold directorship for the consideration of the Nomination Committee. When identifying suitable candidates for directorship, the Nomination Committee will carry out the selection process by making reference to the

skills, experience, education background, professional knowledge, personal integrity and time commitments of the proposed candidates, and also the Company's needs and other relevant laws and statutory requirements and regulations required for the positions. All candidates must be able to meet the standards as set forth in Rules 3.08 and 3.09 of the Listing Rules. A candidate who is to be appointed as an independent non-executive Director should also meet the independence criteria set out in Rule 3.13 of the Listing Rules. For the re-appointment of retiring Directors, the Nomination Committee will review the overall contribution and performance of the candidates during their terms of services (including the frequency of attendance at various meetings, the level of participation and performance of duties). Qualified candidates will then be recommended to the Board and the Shareholders' meeting for approval. The Nomination Committee will review the director nomination policy in due course to ensure its effectiveness.

REMUNERATION COMMITTEE

The Company established a remuneration committee (the "**Remuneration Committee**") pursuant to a resolution of the Board passed on 26 November 2015 and the requirement of Rules 3.25 and 3.26 of the Listing Rules and its written terms of reference were adopted. The written terms of reference of the Remuneration Committee were adopted in compliance with paragraph B.1.2 of the Code Provisions. Its terms of reference are available on the websites of the Company and the Stock Exchange.

The primary duties of the Remuneration Committee are to make recommendation to the Board on the overall remuneration policy and structure relating to all Directors and senior management of the Group and ensure none of the Directors determine their own remuneration. The remuneration of executive Directors are determined based on the skills, knowledge, individual performance and contributions, the scope of responsibility and duties of such Directors, taking into consideration of the Company's results performance and prevailing market conditions. The remuneration policy of independent non-executive Directors is to ensure that the independent non-executive Directors are adequately compensated for their efforts and time dedicated to the Company's affairs including their participation in respective Board committees. The remuneration of independent non-executive Directors are determined with reference to their skills, experience, knowledge, duties and market trends. As at 31 December 2018, the Remuneration Committee consists of three members, two of them are independent non-executive Directors, namely Mr. Zhou Tao (chairman) and Mr. Wan Chi Wai Anthony and one of them is executive Director, namely Mr. Lin Zhixiong.

According to the Code Provision B.1.5, the remuneration paid to the directors, supervisors and senior management by the Group based on the remuneration benchmark for the year ended 31 December 2018 is as follows:

Remuneration benchmark	Number of individuals
Nil to RMB50,000	3
RMB50,001 to RMB250,000	2
RMB250,001 to RMB500,000	1
Above and including RMB500,001	3

Details of remuneration of Directors are set out in note X.(IV).1 to the Financial Statements.



Corporate Governance Report

For the year ended 31 December 2018, the Remuneration Committee held one meeting on 21 March 2018 to review the overall remuneration policy for the Directors, supervisors and senior management, determine such policies and propose them to the Board. The meeting was attended by all the members of the Remuneration Committee, including Mr. Zhou Tao (chairman), Mr. Wan Chi Wai Anthony and Mr. Lin Zhixiong.

The Remuneration Committee has adopted the model that it will review the proposals made by the management on the remuneration of executive Directors and senior management and make recommendation to the Directors. The Board will have final authority to approve the remuneration recommendations made by the Remuneration Committee.

AUDIT COMMITTEE

The Company established an audit committee (the “**Audit Committee**”) pursuant to a resolution of the Board passed on 26 November 2015 with written terms of reference and the requirement of Rules 3.21 and 3.22 of the Listing Rules. The written terms of reference of the Audit Committee were adopted in compliance with paragraphs C.3.3 and C.3.7 of the Code Provisions. Its terms of reference are available on the websites of the Company and the Stock Exchange.

The Audit Committee reports to the Board and has held regular meetings since its establishment 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 external auditor, review the financial statements and material advice in respect of financial reporting and overseas internal control of the Company. As at the date of this annual report, 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.

As at the date of this annual report, the Audit Committee reviewed with the management of the Company the accounting principles and practices adopted by the Group, and discussed internal controls and financial reporting matters. The Audit Committee also discussed and reviewed the annual results for the year ended 31 December 2018 of the Company with the external auditor of the Company.

For the year ended 31 December 2018, the Audit Committee held two meetings on 21 March 2018 and 23 August 2018. On both occasions, the Audit Committee reviewed, amongst others, the Group’s annual results for the year ended 31 December 2017 and the interim results for the six months ended 30 June 2018, and believed that the preparation of such results was in compliance with applicable accounting standards and the Listing Rules, in addition to reviewing the changing of the accounting policies adopted for preparing the Company’s financial statements and the re-appointment of auditors. The above two meetings were attended by all the members of the Audit Committee, including Mr. Wan Chi Wai Anthony, Mr. Zhou Tao and Mr. Guan Jian.

The Audit Committee was aware about the Group’s existing system for risk management and internal control and noted that the system would be subject to annual review.

For the year ended 31 December 2018, the Board has not taken a different view from the Audit Committee on the selection, appointment, designation or dismissal of external auditor.

RISK MANAGEMENT COMMITTEE

The Company established a risk management committee (the “**Risk Management Committee**”) pursuant to a resolution of the Board passed on 26 November 2015 with written terms of reference. Its terms of reference are available on the websites of the Company and Stock Exchange.



Corporate Governance Report

The primary duties of the Risk Management Committee are to review the general goals and fundamental policies of our risk and compliance management, internal control and risk management and internal audit functions and made recommendations to our Board on the same. As of 31 December 2018, the Risk Management Committee comprises three members, namely Mr. Yao Chuanglong, our Chairman and executive Director, Mr. Lin Zhixiong, our executive Director and Mr. Wan Chi Wai Anthony, our independent non-executive Director. Mr. Yao Chuanglong is the chairman of our Risk Management Committee.

For the year ended 31 December 2018, the Risk Management Committee held one meeting on 21 March 2018 where the Risk Management Committee reviewed the strategy, policy and guideline of the Company's risk management, the effectiveness of the Group's risk management and internal control systems, and the adequacy of resources. The meeting was attended by all the members of the Risk Management Committee, including Mr. Yao Chuanglong, Mr. Lin Zhixiong and Mr. Wan Chi Wai Anthony.

THE STRATEGIC DEVELOPMENT COMMITTEE

The Company established the Strategic Development Committee (the "**Strategic Development Committee**") pursuant to a board resolution passed on 10 June 2017, and determined its terms of reference in writing.

The Strategic Development Committee is mainly responsible for studying the overall development strategies for the Company, major investment and financing plans, and other material issues that influence the development of the Company, and making recommendations to the Board. As of 31 December 2018, the Strategic Development Committee consisted of three members, namely Mr. Yao

Chuanglong as the Chairman and executive Director, Ms. Zheng Yuyan as an executive Director, and Mr. Zhou Tao as an independent non-executive Director. Mr. Yao Chuanglong serves as the Chairman of the Strategic Development Committee.

For the year ended 31 December 2018, the Strategic Development Committee held one meeting on 21 March 2018, on which the study was out on the development strategies and future development plans of the Company. All the members of the Strategic Development Committee, including Mr. Yao Chuanglong, Ms. Zhen Yuyan and Mr. Zhou Tao, attended the meeting.

BOARD DIVERSITY POLICY

The Board adopted the following board diversity policy:

With a view of achieving a sustainable and balanced development, the Company sees increasing diversity of the Board as an essential element in supporting the attainment of its strategic objectives and its sustainable development. All the appointments made by the Board will be based on meritocracy, and candidates will be adequately considered against objective criteria, together with the benefit to the Board made by the board diversity policy. Selection of Board members will be based on a range of board diversity perspectives, including but not limited to gender, age, cultural and educational background, professional experience, skills, knowledge and length of service. The ultimate decision will be based on the specific demand for talents in various stages of the business development and strategic planning of the Company, and also the merits and contribution to be made by the selected candidates. The composition of the Board (including gender, age and length of service) will be disclosed in the Corporate Governance Report annually.

The Board members are diversified and classified in accordance with the following categories:

Position	Executive Directors	3
	Non-executive Director	1
	Independent non-executive Directors	3
Gender	Male	6
	Female	1
Age	30-39	1
	40-49	5
	50-59	1
Country/Region	Mainland China	6
	Hong Kong, China	1
Education level	Bachelor degree	3
	Master degree	4
Professional Experiences	Accounting	2
	Law	2
	Business Administration	3
Terms of Services in the Board	0-3 years	1
	4-6 years	6
Market/Industry Experiences	Pharmaceutical	3
	Investment management	1
	E-commerce	1



Corporate Governance Report

AUDITOR'S REMUNERATION

During the year, the Company engaged ShineWing Certified Public Accountants (Special General Partnership) as the external auditor of the Company. The fees in respect of audit services provided by ShineWing Certified Public Accountants (Special General Partnership) for the year ended 31 December 2018 amounted to RMB0.8 million (tax exclusive).

DIRECTORS' RESPONSIBILITY FOR FINANCIAL REPORTING IN RESPECT OF THE FINANCIAL STATEMENTS

The Directors acknowledge that it is their responsibility to prepare accounts of the Group and other financial disclosures required under the Listing Rules and the Company's management will provide information and explanation to the Board to enable it to make informed assessments of the finance and other decisions.

The Directors are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern.

The statement of the auditors of the Company in respect of their reporting responsibilities on the Company's financial statements for the year ended 31 December 2018 is set out in the "Auditors' Report" contained in this annual report.

JOINT COMPANY SECRETARY

For the year ended 31 December 2018, Mr. Lin Zhixiong and Ms. Ng Wing Shan, being our joint company secretaries, are primarily responsible for the company secretarial work of the Group. Ms. Ng Wing Shan is an assistant vice president of SWCS Corporate Services Group (Hong Kong) Limited and her major contact of the Company is Mr. Lin Zhixiong, an executive Director and joint company secretary.

Pursuant to Rule 3.29 of the Listing Rules, for the year ended 31 December 2018, Ms. Ng and Mr. Lin each have attended no less than 15 hours of relevant professional training.

Ms. Ng resigned as the joint company secretary of the Company on 28 January 2019. The Stock Exchange had confirmed that Mr. Lin Zhixiong meets the requirements of a company secretary under Rule 3.28 of the Listing Rules and he has served as the sole company secretary of the Company since 28 January 2019.

SYSTEM OF INTERNAL CONTROL AND RISK MANAGEMENT

The Board acknowledges its responsibility for the system of internal control and risk management; the Audit Committee assists the Board in performing its duty of monitoring and corporate governance, which covers the finance, operation, compliance, risk management and internal control of the Company, as well as performing the function of internal audit. Assisted by the Audit Committee and the Risk Management Committee, the Board is responsible for effectively maintaining the system of internal control and risk management, to safeguard the Group's assets and the shareholders' interests. The system aims to manage (not eliminate) the risks that may cause the failure to fulfill business objectives, and can only provide reasonable (not absolute) assurance against major mistakes, losses or fraud.

Composed of a robust organizational structure and comprehensive policies and procedures, the system of internal control and risk management of the Company covers all its operating departments, with clear specification of the duties of all business and functional departments, to ensure effective checks and balances. The structure of risk management and internal control of the Company includes the following parts:

The Board

As the ultimate decision-maker on internal control and management, the Board is responsible for assessing and determining the nature and extent of the Company's risks, to help it deliver its business strategies and achieve its business objectives. The Board is also responsible for establishing, improving, and effectively implementing the Company's system of internal control and risk management, as well as supervising the management in its design, implementation and monitoring of the system.

The Risk Management Committee and the Audit Committee

The Board authorizes its Risk Management Committee to review and approve the risk management policies and guidance of the Company, make decisions on risk level and preference as well as relevant resource allocation, and review the effectiveness and resources of the Group's internal control system at least annually.

The Board authorizes the Audit Committee to review the Company's financial control, internal control and risk management systems at least annually, discuss with the management on the internal control system, ensure that the management has performed its duty to establish an effective internal control system (taking into account, amongst others, the sufficiency of the Company's resources, staff qualifications and experience in auditing and finance, and the sufficiency of staff training courses and relevant budgets), and review the Group's financial and accounting policies and practice.



Corporate Governance Report

The Board of Supervisors

As the supervisory body for internal control and management, the Board of Supervisors is responsible for supervising the Board and the management in establishing and implementing internal control.

The Management

The management is responsible for leading the development and daily operation of the Company's internal control, as well as its coordination and management, identifying, assessing and managing the risks that potentially affects important operational procedures, timely responding to and following the matters on risk management and internal control raised by the internal auditor, and confirming to the Board and the Audit Committee as to whether the system of risk management and internal control is effective.

The Company has also established a corresponding mechanism for risk management, which provides the framework and scope of risk management, business objectives, risk assessment process, and the process of regular assessment and monitoring.

The risk assessment of the Company is mainly composed by five fundamental processes, namely risk management concepts and risk acceptance level establishment, goals formulation, risk identification, risk analysis and risk response. The Company conducts risk assessment on regular basis and classifies risks based on different Company's goals, including strategic environmental risk, procedural risk (business operation risk, financial risk, authorization risk, information and technology risk, and comprehensive risk) and strategic decision information risk. The Company identifies risks and selects suitable risk response plan in accordance with the results of risk analysis, and in consideration of the cause of the risks, through analyzing all kinds of risk. It also identifies and controls the potential risk acceptance abilities and limits of the Company in a timely manner during the risk assessment process, assesses the risks that the Company may expose to, and takes specific countermeasures so as to enhance the Company's risk-resisting ability. By a comparison of risk assessment results, the Company ranks the priority of its risks and determines its risk management strategies and internal control procedures, to curb, prevent or reduce risks.

The Board has conducted its annual review of the effectiveness of the system of internal control and risk management as at 31 December 2018, discovered no material defect in internal control, and considered the existing system to be effective and adequate. The Company also had adequate resources, staff qualifications, training courses and budgets in its accounting, internal audit and financial reporting functions.

DISCLOSURE OF INSIDE INFORMATION

The Group has established a policy regarding the disclosure of inside information, which sets out the procedures and internal control measures of the handling and dissemination of inside information in a timely manner in compliance with the Securities and Futures Ordinance. The policy and its effectiveness would be reviewed on a regular basis.

The procedures for handling and publishing inside information and the internal control measures are as follows:

The Company's information disclosure is led and managed by the Board. The chairman of the Board is the first person who responsible for the implementation of the information disclosure management system of the Company. The secretary to the Company is responsible for coordinating and organizing the specific matters of the Company's information disclosure under the leadership of the Board of the Company. The general office of the Board is the competent authority for daily management of information disclosure. All functional departments, branches and subsidiaries of the Company will designate special contact person for significant information, and report relevant information disclosure materials to the general office of the Board.

The Company's information disclosure documents primarily include periodic reports, interim reports, and various types of documents disclosed in accordance with the requirements of relevant regulatory authorities. The announced information shall be disclosed in the media designated by the relevant regulatory authorities. The Company may also disclose information in other media as required, but it shall ensure that the disclosures are consistent and the time of disclosure by the designated media is not later than the non-designated media. Save for the principle regulation of information disclosure, employees of the Company shall not receive any interviews related to the Company without authorization.

The Board shall take necessary measures to keep the information insiders within the minimum scope before information disclosure. Before the inside information is disclosed in accordance with laws, any information insider shall not disclose or divulge the information, use the information for insider trading, or manipulate the trading prices of the securities and its derivatives with others. When an employee leaves the Company, he or she shall hand over the relevant inside information of the Company and must not disclose the above information.



Corporate Governance Report

SHAREHOLDERS' RIGHTS

Convening an extraordinary general meeting by the Shareholders

Two or more Shareholders who are jointly holding more than 10% (including 10%) of Shares with voting rights at the meeting proposed to be held shall be entitled to request the Board to convene an extraordinary general meeting or class meeting upon signing one or several written requests with the same format and content, and stating the subject of the meeting. If the Board agrees to convene an extraordinary general meeting or class meeting, it shall issue a notice of meeting within 5 days upon making the Board decision. The Board shall convene an extraordinary general meeting or class general meeting as soon as possible upon receiving the aforesaid written requests. If the Board does not issue a notice of meeting within 30 days upon receiving the aforesaid written requests, Shareholders who made such request may convene the meeting by themselves within four months after the Board has received such request, and the procedures for convening the meeting shall be as similar as possible to those for convening a general meeting by the Board.

Proposals put forward at the general meeting

Shareholders severally or jointly holding more than 3% of Shares of the Company may submit written provisional proposals to the convener 10 days before a general meeting is convened. The convener shall serve a supplementary notice of general meeting within two days after receipt of such proposal and announce the contents of provisional proposals.

Making enquiry to the Board

Shareholders who request related information or ask for information shall provide the Company with the written documents proving their types of Company's Shares and the number of Shares being held. The Company would provide related information in accordance with the request of Shareholders after verifying the identity of Shareholders and receiving reasonable fees.

Contact Details

Shareholders may send their enquiries or requests as mentioned above to the following:

Address: Company Secretary, Lin Zhixiong, No. 235 Song Shan North Road, Longhu District, Shantou City, Guangdong Province, PRC (For the attention of Company Secretary)

Fax: 86-0754-82752026

Email: linzhixiong@charmacy.cn

For the avoidance of doubt, Shareholder(s) must deposit and send the original duly signed written requisition, notice or statement, or enquiry (as the case may be) to the above address and provide their full name, contact details and identification in order to give effect thereto. Shareholders' information may be disclosed as required by law.

Shareholders may call the Company at 86-0754-88109272 for any assistance.

CONSTITUTIONAL DOCUMENT

On the 2017 annual general meeting convened on 28 May 2018, the Company approved the amendments to its articles of association and scope of operation to fit into the demand of its business development. Save for the above, there was no material change in the Articles of the Company during 2018.

INVESTOR RELATIONS AND COMMUNICATION

The Board recognizes the importance of good communications with all Shareholders. The Company believes that maintaining a high level of transparency is a key to enhance investor relations. The Company is committed to a policy of open and timely disclosure of corporate information to its Shareholders and public investors.

The Company updates its Shareholders on its latest business developments and financial performance through its corporate publications including annual reports and public announcements. Extensive information about the Company's business for the year ended 31 December 2018 has been provided in this annual report. While the annual general meeting provides a valuable forum for direct communication between the Board and its Shareholders, the Company also maintains its website (<http://www.chmyy.com>) to provide an alternative communication channel for the public and its Shareholders. All corporate communication and Company's latest updates are available on the Company's website.

By the year ended 31 December 2018, there was no material change in the Company's legal documents.



Directors' Report

The Board of the Company are pleased to present 2018 annual report together with the Financial Statements of the Group for the year ended 31 December 2018.

PRINCIPAL BUSINESS AND BUSINESS REVIEW

The principal business of the Company is pharmaceutical products distribution in the PRC. The principal activities of the subsidiary of the Company are set out in note VIII of the Financial Statements. Business review during the Reporting Period and discussion on the future business development of the Group are set out in the Management Discussion and Analysis on pages of 7 to 11 of this annual report; Performance analysis of the Group within the year based on key financial performance indicators are set out in the Management Discussion and Analysis on pages 12 to 16 of this annual report.

USE OF PROCEEDS

The Company was successfully listed on 14 December 2015. The net proceeds from the Global Offering (the “**Global Offering**”) of the Company are approximately RMB158.91 million, after deducting the underwriting commissions and other estimated expenses payable by the Company in connection with the Global Offering.

In order to increase the effectiveness of the proceeds from the Global Offering, the Board has resolved to re-allocate the use of proceeds at the board meetings held on 21 March 2017 and 20 July 2017, respectively, and were approved by the Company on the AGM held on 10 June 2017, and the first extraordinary general meeting on 5 September 2017. The actual usage of the proceeds as of 31 December 2018 after re-allocation are detailed below (excluding exchange gains and losses, interest income, etc.):

Planned use	Budgeted amount (RMB million)	Budgeted amount after the use of proceeds changed on 10 June 2017 and 5 September 2017	Actual usage amount by the year ended 31 December 2018
		(RMB million)	(RMB million)
To strengthen, expand and integrate our existing distribution network and capabilities	55.62	36.30	36.30
To enhance and promote our B2B e-commerce platform	15.89	9.88	9.88
To repay bank borrowings	47.67	47.67	47.67
To acquire pharmaceutical distribution business in Southern China region	23.84	36.00	36.00
For working capital and general corporate purposes	15.89	15.89	15.89
Additional use			
Used for the establishment of Shenzhen Company	–	13.17	13.17
Total	158.91	158.91	158.91

The proceeds from the Global Offering has been fully utilised.



Directors' Report

RESULTS AND DIVIDENDS

The Group's annual results for the year ended 31 December 2018 and its financial positions as at 31 December 2018 are set out in the Financial Statements on pages 55 to 68.

The Board recommends the distribution of a final dividend of RMB0.30 per share for the year ended 31 December 2018 (tax inclusive), which is subject to approval by the shareholders of the Company at the annual general meeting (the "AGM") to be convened on 3 June 2019 and, if approved, will be paid on or before 8 July 2019. The dividend of domestic shares will be paid in RMB, whereas that of H shares will be paid in HK\$. 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.

DIVIDEND POLICY

The Company may distribute dividends by way of cash or shares. The distribution of dividends is proposed by the Board in its discretion after the approval of the Shareholders. The policy on the declaration or payment of any dividends in the future and the amount of dividends are depended on a number of factors, including the Company's operating results, cash flows, financial positions, operating and capital expenditure requirements, distributable profits determined in accordance with PRC GAAP, the Company's articles of association, the Company Law of the PRC and any other relevant laws and regulations of the PRC, and other factors that the Directors of the Company considered to be relevant.

The profits of the Company after paying relevant taxes are distributed in the following order: (1) covering the losses; (2) withdrawing the statutory surplus reserve; (3) withdrawing the discretionary surplus reserve; and (4) paying the ordinary shares dividends.

The Company shall withdraw 10% of profit after tax as statutory surplus reserve. If the accumulated amount of statutory surplus reserve has reached 50% of the registered capital, it can no longer be withdrawn. The discretionary surplus reserve is additionally withdrawn from the Company's profits after the withdrawal of statutory surplus reserve in accordance with the resolution at the general meeting.

The Company shall not distribute dividends or carry out other distributions in the form of dividends until it has covered the losses and withdrawn statutory reserve. The Company's dividends are not subject to any interest, unless it does not distribute the relevant dividends to the Shareholders on its dividend payable date.

LAST FIVE-YEAR FINANCIAL SUMMARY

A financial summary of the results, assets and liabilities of the Group for the last five years ended 31 December 2014 to 31 December 2018 is set out on page 5. This summary does not form part of the Financial Statements.

SHARE CAPITAL

Details of changes in share capital of the Company for the year ended 31 December 2018 are set out in note VI. 23 to the Financial Statements.

UNALLOCATED PROFITS AT THE END OF THE YEAR

As at 31 December 2018, the Group's unallocated profits amounted to RMB76.08 million. Details of the movements in the unallocated profits of the Group in 2018 are set out in note VI. 26 to the Financial Statements.

PRINCIPAL RISKS AND UNCERTAINTIES

(1) Suppliers and the quality of products provided

As a pharmaceutical distributor, the Group has limited or no control over the operation and quality of products of the suppliers. The suppliers may not always be able to provide products which are satisfied with the quality standard of the Group and with no defects.

As such, in the case that there are no damage in packaging and relevant documentation including inspection report that are properly attached, the Group would not be able to know whether there are any problem in the internal quality of the products and hence could be subject to administrative punishment for selling interior drugs if the suppliers of the Group fail to supply goods that meet the quality standard.

Complemented by information system, the Company has established a strict verification system for suppliers and product quality and internal control system for drug quality in accordance with GSP so as to ensure that the internal control system could be effectively implemented. Meanwhile, the Company has entered into an Agreement on Quality Assurance of Pharmaceutical Products with suppliers, pursuant to which it was agreed that suppliers shall be responsible for the quality of products provided by it during the term of the agreement and all loss arising thereby shall be borne by suppliers.

(2) Low gross profit margin and net profit margin

As a pharmaceutical distributor, the Group has low profit margins. Any increase in procurement cost or decrease in selling price would therefore significantly affect our profits. In addition, we earn purchase discounts directly or indirectly from our manufacturer suppliers and such purchase discounts are significant to our gross profit. If there is a decrease in the amount of purchase discounts received which result in a decrease in gross profit margin and net profit margin, the results of operation of the Group may be adversely affected.

The Company increased its gross profit margin continuously through the following ways: 1) actively expand the terminal network of retail pharmacy stores, clinics and health centers; 2) while continuing to optimize the product structure, strengthen the cooperation with well-known domestic as well as international manufacturers, expand the variety and scale of primary distribution products and obtain higher commercial discounts from suppliers; 3) in order to strengthen our product portfolio, continued to introduce quality products which are easy to sell and has high gross profit margin, including Chinese medical drink and pill, healthcare products and medical device; and 4) initiatively weed out products with low gross profit margin and inventory turnover.

MAJOR RELATIONSHIP WITH EMPLOYEES, CUSTOMERS AND SUPPLIERS

The Group believes that the core staff of the Group is the key to the future development of the Group. The Group is able to maintain its market competitiveness with their knowledge of the industry and the understanding of market as well as their sincere services. The Group puts great emphasis on individual ability enhancement and career development of staff and provides corresponding training courses for the staff.

The Group maintains a close and stable relationship with existing and potential customers and suppliers. As a bridge between the pharmaceutical manufacturers and the customers, the Group is familiar with the market trend and the diversified demand of customers, which would extend the sales network coverage for the pharmaceutical manufacturing enterprises in a more cost effective way. Enriched product portfolio would be able to be provided for satisfying different demand of customers and ensuring a stable supply in a timely manner.

MAJOR CUSTOMERS AND SUPPLIERS

The aggregate sales attributable to the Group's five largest customers were 11.66% of the Group's operating revenue for the year ended 31 December 2018, and sales to the largest customer accounted for 2.89% of the Group's total turnover during the year thereof. The aggregate purchases attributable to the Group's five largest suppliers were 33.43% of the Group's total procurement cost for the year ended 31 December 2018, and purchases from the largest supplier accounted for 19.70% of the Group's total procurement cost during the year thereof.



Directors' Report

The largest supplier of the Group is a subsidiary of Guangzhou Baiyunshan Pharmaceutical Holdings Company Limited. To the knowledge of the Directors, Guangzhou Pharmaceutical Baiyunshan Hong Kong Company Limited, the wholly-owned subsidiary of Guangzhou Baiyunshan Pharmaceutical Holdings Company Limited, owned more than 5% of the issued share capital of the Company as at the date of this annual report. Save for the above, to the best knowledge of the Directors, none of the Directors, their associates or any Shareholders who own more than 5% of the Company's issued share capital had any beneficial interests in any of the Group's five largest customers or suppliers during the year.

SUBSIDIARY

Details of the subsidiary of the Company for the year ended 31 December 2018 are set out in note VIII to the Financial Statements.

FIXED ASSETS

Details of changes in fixed assets of the Group during the year of 2018 are set out in Note VI.7 to the financial statements.

BORROWINGS

Particulars of borrowings of the Group as at 31 December 2018 are set out in note VI.13 and 21 to the Financial Statements. As at 31 December 2018, the Group's property, plant and equipment, prepaid land use right and inventories with total carrying amount of approximately RMB654.83 million have been pledged to secure banking facilities granted to the Group (2017: approximately RMB552.59 million).

ENVIRONMENTAL PROTECTION

The Group, with its long-term focus on protecting the environment, is committed to making contribution to environmental protection. Apart from its strict compliance with the PRC laws and regulations on environmental protection, the Group tries to minimize its environmental impact during business operations and remind its staff of following such minimization practice. Furthermore, the Group has adopted the diesel vehicles that comply with the National IV emission standard in pharmaceutical logistics and the control of electricity and water consumption during operation; the Group also has other measures in place, such as reducing paper consumption, to mitigate the environmental impact.

COMPLIANCE WITH LAWS AND REGULATIONS

As the Company incorporated and operates its business in mainland China, the operation and management are strictly regulated by relevant laws and regulations in the mainland. Meanwhile, as the Company is listed on the Main Board of the Hong Kong Stock Exchange, it is subject to the relevant regulations. Due to the certain differences in relevant laws and regulations between two places, the Company could be bound in various areas such as corporate governance, information disclosure, dividend policy, merger and acquisition, and related transactions. The Board is concerned about the policies and practices to comply with the requirements of laws and regulations in relation to the Group. The Group has engaged, legal advisors to PRC and Hong Kong laws to ensure the transactions and business of the Group are conducted subject to the applicable laws. The Group has included the related laws and regulations into the internal management system in order to supervise the staff to comply on an ongoing basis. The Group has strictly complied with relevant laws and regulations in 2018.

SERVICE CONTRACTS WITH DIRECTORS AND SUPERVISORS

The Directors of the Company who held office during the year and up to the date of this report are:

Executive Directors

Yao Chuanglong (*Chairman*)
Zheng Yuyan
Lin Zhixiong

Non-executive Director

Li Weisheng

Independent non-executive Directors

Wan Chi Wai Anthony
Zhou Tao
Guan Jian (also known as Guan Suzhe)

Each of the executive Directors has entered into a service contract with the Company for a term of three years from the 28 May 2018 and subject to termination by not less than three months' notice in writing served by either party on the other.

Each of the independent non-executive Directors has entered into a letter of appointment with the Company on 28 May 2018 for a term of three years from 28 May 2018 and subject to termination by not less than three months' notice in writing served by either party on the other.

Mr. Li Weisheng, a non-executive Director has entered into a service contract appointment letter with the Company on 28 May 2018 for a term of three years from 28 May 2018 until termination by not less than three months' notice in writing served by either party.

None of the Directors has a service contract which is not determinable by the Company or any of its subsidiaries within one year without payment of compensation, other than statutory compensation.

The Company has received annual confirmation on independence from each of the independent non-executive Directors pursuant to Rule 3.13 of the Listing Rules and all of them are considered to be independent.

The Supervisors of the Company who hold office during the year and up to the date of this report are as follows:

Supervisors

Zhang Ling (*Chairlady*)
Zheng Xiyue
Lin Zhijie

The Board of Supervisors of the Company held four meetings during 2018. Details of the meetings and events conducted by the Board of Supervisors during 2018 are set out in the Board of Supervisors' report of this annual report. The term of the first session of the Board expired on 25 May 2018, the second session of the board of supervisors, independent supervisors, and shareholder representative supervisors were re-elected at the annual general meeting on 28 May 2018, and the re-election of the employee representative supervisor of second session of the board of supervisors at the representative congress held on 28 May 2018.

Each of the Supervisors has entered into a service contract on 28 May 2018 with the Company for a term of three years from 28 May 2018 and may be re-elected.

No Supervisor has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.



Directors' Report

EMOLUMENTS OF THE DIRECTORS, SUPERVISORS AND EMPLOYEES

Details of the emoluments of Directors and Supervisors and the five highest paid individual of the Company are set out in note X.(IV).1 and 2 to the Financial Statements.

The emoluments of the Directors are recommended by the Remuneration Committee of the Company and approved by the Board, as authorized by Shareholders in the annual general meeting of the Company, having regard to their time commitment and responsibilities in the Group, the salaries paid by comparable companies, employment conditions elsewhere in the Group and performance-based remuneration. No Directors are involved in deciding their own remuneration.

REMUNERATION POLICY

The Group's remuneration policies are formulated on the performance of individual employee and on the basis of the salary trends in PRC, and will be reviewed regularly. Subject to its profitability, the Group may also distribute discretionary bonus to its employees as an incentive for their contribution to the Group.

DIRECTORS AND SUPERVISORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

Save as otherwise disclosed, there was no material transaction, arrangement or contract of significance to which the Company or its holding company or any of its subsidiary was a party and in which a Director or Supervisor (or its connected entities) directly or indirectly had a material interest subsisted at the end of the year or at any time during the year.

MANAGEMENT CONTRACTS

Other than the service contracts of the Directors, the Company has not entered into any contract with any individual, firm or body corporate to manage the whole or any substantial part of any business of the Company during 2018.

BIOGRAPHIES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Biographical details of the Directors, Supervisors and senior management of the Group are disclosed in the section headed "Biographies of Directors, Supervisors and Senior Management" on pages 17 to 22 of this annual report.

DEED OF NON-COMPETITION BY CONTROLLING SHAREHOLDER

To better safeguard the Group from any potential competition, Mr. Yao Chuanglong has entered into the deed of non-competition with the Company whereby Mr. Yao Chuanglong irrevocably and unconditionally, undertakes with the Company that with effect from the Listing Date and for as long as our H Shares remain listed on the Stock Exchange and (i) Mr. Yao is, directly or indirectly, interested in not less than 30% of our Shares in issue; or (ii) Mr. Yao Chuanglong remains as our executive Director, Mr. Yao Chuanglong shall, and shall procure that his associates shall:

- (a) not directly or indirectly engage, participate or hold any right or interest in or render any services to or otherwise be involved in any business in competition with or likely to be in competition with the existing business activities of the Group or any business activities which the Group may undertake in the future;
- (b) not take any direct or indirect action which constitutes an interference with or a disruption to the business activities of the Group including, but not limited to, solicitation of customers, suppliers and staff of the Group;

- (c) keep our Board informed of any matter of potential conflicts of interests between Mr. Yao Chuanglong (including his associates) and the Group, in particular, a transaction between Mr. Yao Chuanglong (including his associates) and the Group; and
- (d) provide as soon as practicable upon the Company's request a written confirmation in respect of compliance by it with the terms of the deed of non-competition and their respective consent to the inclusion of such confirmation in the Company's annual report and all such information as may be reasonably requested by the Company for its review.

In addition, Mr. Yao Chuanglong hereby irrevocably and unconditionally, undertakes that if any new business opportunity relating to any products and/or services of the Group (the "**Business Opportunity**") is made available to him or his associates (other than members of the Group), he will direct or procure the relevant associate to direct such Business Opportunity to the Group with such required information to enable the Group to evaluate the merits of the Business Opportunity.

Mr. Yao Chuanglong shall provide or procure his associates to provide all such reasonable assistance to enable the Group to secure the Business Opportunity. If he (or his associates) plans to participate or engage in any new activities or new business which may, directly or indirectly, compete with the existing business activities of the Group, he shall give the Company a first right of refusal to participate or engage in the Business Opportunity and will not participate or engage in these activities unless with the prior written consent of the Company. None of Mr. Yao Chuanglong and his associates (other than members of the Group) will pursue the Business Opportunity unless the Group decides not to pursue the Business Opportunity because of commercial reasons. Any decision of the Company will have to be approved by our independent non-executive Directors taking into consideration the prevailing business and financial resources of the Group, the financial resources required for the Business Opportunity and, where necessary, any expert opinion on the commercial viability of the Business Opportunity. Mr. Yao Chuanglong further irrevocably and unconditionally undertakes that he will (i) provide to the Group all information necessary for the enforcement of the undertakings contained in the deed of non-competition; and (ii) confirm to the Company on an annual basis as to whether he complies with such undertakings.

The deed of non-competition will cease to have any effect on the earliest of the date on which:

- (a) the Company becomes wholly-owned by Mr. Yao Chuanglong and/or his associates;
- (b) the aggregate beneficial shareholding (whether direct or indirect) of Mr. Yao Chuanglong and/or his associates in the Shares in issue falls below 30% of the number of Shares in issue and Mr. Yao Chuanglong shall cease to be our executive Director; or
- (c) the H Shares cease to be listed on the Stock Exchange.

Mr. Yao Chuanglong, the controlling shareholder, has confirmed to the Company of his compliance with the deed of non-competition provided to the Company for the year ended 31 December 2018.

The independent non-executive Directors of the Company had reviewed the status of compliance and received confirmation by the controlling shareholders of the Company and, on the basis of such confirmation, are of the view that the controlling shareholders of the Company have complied with the deed of non-competition and such deed of non-competition has been enforced by the Company in accordance with its terms.



Directors' Report

CONNECTED TRANSACTIONS

We had not conducted any transactions which constitute non-exempt continuing connected transactions within the meaning of the Listing Rules for the year ended 31 December 2018.

Details of connected party transactions entered into in the ordinary course of business of the Group during the Reporting Period are set out in note X.(II) to the Financial Statements. Save as disclosed above, no connected party transactions set out in note X.(II) to the Financial Statements constitute discloseable connected transactions or continuing connected transactions under the Listing Rules. The Company has complied with the disclosure requirements under Chapter 14A of the Listing Rules in respect of its connected transactions and continuing connected transactions.

INTERESTS OR SHORT POSITIONS OF THE DIRECTORS, SUPERVISORS AND CHIEF EXECUTIVES IN THE SHARES, UNDERLYING SHARES, AND DEBENTURES

As at 31 December 2018, the interests of the Directors, Supervisors and Chief Executives in the Shares, underlying Shares and debentures of the Company, its members of the Group and/or any of its associated corporations (as defined in Part XV of the Securities and Futures Ordinance (“SFO”)) as recorded in the register required to be kept under Section 352 of the SFO or as notified to the Company and the Stock Exchange pursuant to the Model Code were as follows:

Name of Director	Capacity/ Nature of interest	Class and number of Shares	Approximate shareholding percentage in the relevant class of Shares ⁽¹⁾	Approximate shareholding percentage of the total issued share capital of our Company ⁽²⁾
Mr. Yao Chuanglong	Beneficial owner	59,000,000 Domestic Shares (L)	73.75%	54.63%
Mr. Lin Zhixiong	Interest of a controlled corporation	3,200,000 Domestic Shares (L) ⁽³⁾	4.00%	2.96%

The letter “L” denotes a person’s long position (as defined under Part XV of the SFO) in the Share.

Notes:

- (1) The calculation is based on the total number of 80,000,000 domestic shares in issue of the Company as at 31 December 2018.
- (2) The calculation is based on the total number of 108,000,000 Shares in issue of the Company as at 31 December 2018.
- (3) These Shares are held by Shantou Meizhi Investment Management Limited Partnership (汕頭市美智投資管理合夥企業(有限合夥)) (“**Meizhi Investment**”). As Mr. Lin Zhixiong is the general partner of Meizhi Investment, he is deemed to be interested in the Shares of the Company held by Meizhi Investment under the SFO.

Save as disclosed above, as at 31 December 2018, none of the Directors, Supervisors and chief executives of the Company has any other interests or short positions in the Shares, underlying Shares or debentures of the Company, its members of the Group or any of its associated corporations (as defined in Part XV of the SFO) which have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which he/she is taken or deemed to have under such provisions of the SFO) or which are required to be entered in the register referred to therein pursuant to section 352 of the SFO or which are required pursuant to the Model Code.

DIRECTORS' AND SUPERVISORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in the section headed "Interests or Short Positions of the Directors, Supervisors and Chief Executives in the Shares, Underlying Shares, and Debentures", at no time during the year 2018, the Company, any of its subsidiaries or fellow subsidiaries was a party to any arrangement to enable the Directors and Supervisors to acquire benefits by means of acquisition of shares in, or debentures of, the Company or any other body corporate, or any Directors, Supervisors or their spouses or children under 18 years of age was granted any right to subscribe for Shares or debentures of the Company or any other body corporate or exercised any such right.

INTERESTS AND/OR SHORT POSITIONS OF THE SUBSTANTIAL SHAREHOLDERS IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY

As at 31 December 2018, so far as the Directors are aware, the following persons/entities (other than any Directors or chief executives of the Company) had or deemed to have an interest or short position in the Shares or underlying Shares of the Company which fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or which had entered in the register required to be kept by the Company pursuant to section 336 of the SFO:

Name of shareholder	Nature and capacity of interest	Class and number of securities	Approximate shareholding percentage in the relevant class of Shares ⁽¹⁾	Approximate shareholding percentage of the total issued share capital ⁽²⁾
Ms. You Zeyan	Interest of spouse	59,000,000 Domestic Shares (L) ⁽³⁾	73.75%	54.63%
Ms. Wu Binhua	Beneficial owner	5,400,000 Domestic Shares(L)	6.75%	5.00%
Ms. Liu Jigui	Beneficial owner	5,400,000 Domestic Shares(L)	6.75%	5.00%
Guangzhou Pharmaceutical Baiyunshan Hong Kong Company Limited	Beneficial owner	7,906,500 H Shares (L) ⁽⁴⁾	28.24%	7.32%
Guangzhou Baiyunshan Pharmaceutical Holdings Company Limited	Interest in controlled corporation	7,906,500 H Shares (L) ⁽⁴⁾	28.24%	7.32%
Guangzhou Pharmaceutical Holdings Limited (廣州醫藥集團有限公司)	Interest in controlled corporation	7,906,500 H shares (L) ⁽⁴⁾	28.24%	7.32%
Kingworld Medicines Health Management Limited	Beneficial owner	2,302,000 H shares (L) ⁽⁵⁾	8.22%	2.13%



Directors' Report

Name of shareholder	Nature and capacity of interest	Class and number of securities	Approximate shareholding percentage in the relevant class of Shares ⁽¹⁾	Approximate shareholding percentage of the total issued share capital ⁽²⁾
Kingworld Medicines Group Limited	Interest in controlled corporation	2,302,000 H shares (L) ⁽⁵⁾	8.22%	2.13%
Mr. Wang Yonghui	Beneficial owner	3,488,000 H Shares (L)	12.46%	3.23%
Deutsche Bank Aktiengesellschaft	Beneficial owner/ Person having a security interest in shares	4,546,500 H shares (L) 1,500 H shares(S)	16.24% 0.005%	4.21% 0.001%
Asian Equity Special Opportunities Portfolio Master Fund Limited	Beneficial owner	5,130,000 H shares (L) ⁽⁶⁾	18.32%	4.75%
RAYS Capital Partners Limited	Investment manager	5,534,000 H shares (L) ⁽⁶⁾	19.76%	5.12%
RUAN David Ching Chi	Interests in controlled corporation	5,534,000 H shares (L) ⁽⁶⁾	19.76%	5.12%

The letter "L" refers to a person's long position (as defined under Part XV of the SFO) in the Shares.

The letter "S" refers to a person's short position (as defined under Part XV of the SFO) in the Shares.

Notes:

- (1) The calculation is based on the total number of 80,000,000 domestic shares in issue and the total number of 28,000,000 H shares in issue of the Company as at 31 December 2018.
- (2) The calculation is based on the total number of 108,000,000 Shares in issue of the Company as at 31 December 2018.
- (3) Ms. You Zeyan is the spouse of Mr. Yao Chuanglong, the Chairman and executive Director of the Company, and is deemed to be interested in these Shares under the SFO.
- (4) These shares are held by Guangzhou Pharmaceutical Baiyunshan Hong Kong Company Limited. As Guangzhou Pharmaceutical Baiyunshan Hong Kong Company Limited is a wholly-owned subsidiary of Guangzhou Baiyunshan Pharmaceutical Holdings Company Limited, which in turn is held by Guangzhou Pharmaceutical Holdings Limited as to 45.23%. Guangzhou Baiyunshan Pharmaceutical Holdings Company Limited and Guangzhou Pharmaceutical Holdings Limited are deemed to be interested in the shares of the Company held by Guangzhou Pharmaceutical Baiyunshan Hong Kong Company Limited.
- (5) These shares are held by Kingworld Medicines Health Management Limited. As Kingworld Medicines Health Management Limited is a wholly-owned subsidiary of Kingworld Medicines Group Limited, Kingworld Medicines Group Limited is deemed to be interested in the shares of the Company held by Kingworld Medicines Health Management Limited.
- (6) These shares are held by Asian Equity Special Opportunities Portfolio Master Fund Limited. Since Asian Equity Special Opportunities Portfolio Master Fund Limited is a wholly-owned subsidiary of RAYS Capital Partners Limited and 95.24% interest of RAYS Capital Partners Limited is held by Mr. RUAN David Ching Chi, RAYS Capital Partners Limited and RUAN David Ching Chi are deemed to be interested in the Shares of the Company held by Asian Equity Special Opportunities Portfolio Master Fund Limited.

Save as disclosed herein, our Directors are not aware of any person who will, as at 31 December 2018, have an interest or short position in Shares or underlying Shares which would fall to be disclosed to our Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or be directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of our Group.

Save as disclosed above, as at 31 December 2018, none of the Directors was aware that any other persons/entities (other than any Directors or chief executives of the Company) had an interest or short position in the Shares or underlying Shares of the Company, its members of the Group or associated corporations which fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or which had entered in the register required to be kept by the Company pursuant to section 336 of the SFO.

COMPETITIONS AND CONFLICTS OF INTERESTS

For the year ended 31 December 2018, save as disclosed in the Prospectus, none of the Directors or substantial Shareholders of the Company or any of their respective associates conducted any business which competes, or is likely to compete, with the business of the Group or had any other conflicts of interests with the Group.

INDEMNITY OF DIRECTORS

A permitted indemnity provision (as defined in section 469 of the Hong Kong Companies Ordinance (Cap. 622)) for the benefit of the Directors of the Company is currently in force.

MATERIAL CONTRACTS

For the year ended 31 December 2018, the Company and its subsidiaries did not enter into any contracts of significance with any controlling shareholders or any of its subsidiaries.

CONTROLLING SHAREHOLDERS' INTERESTS IN CONTRACTS

There was no contract of significance or contract of significance for provision of services, to which the Company or any of its subsidiaries was a party and in which any controlling shareholder or its subsidiaries had a material interest subsisted at the end of the year or at any time during the year.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

For the year ended 31 December 2018, the Company and its subsidiary did not purchase, sell or redeem any of the listed securities of the Company.

TAX REDUCTION

Directors were not aware any details concerning the tax reduction due to any Company's securities held by the Shareholders.



Directors' Report

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Articles of Association of the Company or the PRC's law applicable to the incorporation place of the Company.

SUFFICIENT PUBLIC FLOAT

According to the information publicly available to the Company and so far as the Directors are aware, the Company had maintained the public float stipulated under the Listing Rules as at the date of this annual report.

CHARITY DONATION

During the year ended 31 December 2018, the Company and its subsidiaries actively participated in public charities and donating RMB0.15 million in total.

WITHDRAWAL OF APPLICATION FOR THE PROPOSED A SHARE OFFERING

References are made to the announcements of the Company dated 14 December 2017 and 15 December 2017 in relation to the acceptance of the Company's application for the initial public offering and listing of the A shares on the Shenzhen Stock Exchange (the "A Share Offering") by China Securities Regulatory Commission (the "CSRC"). In view of the needs of business development of the Company, after due consideration and discussion with the professional parties involved in the proposed A Share Offering, the Company has submitted the application to withdraw its application for the proposed A Share Offering on 28 September 2018 from CSRC. Details are set out in the announcement dated on 28 September 2018 of the Company.

SIGNIFICANT EVENT AFTER THE REPORTING PERIOD

According to the general mandate approved at the general meeting on 14 December 2018, the Company intended to further issue no more than 5.6 million overseas-listed foreign invested shares of nominal value of RMB1 each. On 20 February 2019, the China Securities Regulatory Commission issued the "Securities Regulatory Commission Permission [2019] No. 221 (證監許可[2019]221號文)" and approved such matter. Further announcement will be made by the Company to disclose the update of the matter in accordance with the applicable laws and regulation as and when appropriate.

CORPORATE GOVERNANCE REPORT

The details of the corporate governance practices of the Group are set out in the corporate governance report on pages 23 to 34 of this annual report.

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 3 June 2019, the register of members of the Company will be closed from 3 May 2019 to 3 June 2019 (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 2 May 2019.

AGM

The AGM will be held on 3 June 2019. The Shareholders should refer to the circular to be issued by the Company on 18 April 2019 regarding the details of the AGM and the enclosed AGM notice and proxy form.

AUDIT COMMITTEE

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 financial statements for the year ended 31 December 2018.

AUDITORS

The Company will propose a resolution to appoint ShineWing Certified Public Accountants (Special General Partnership) as the auditor of the Group for the year of 2019 at the forthcoming annual general meeting.

By order of the Board

Charmacy Pharmaceutical Co., Ltd.

Yao Chuanglong

Chairman and Executive Director

Shantou, PRC, 25 March 2019



Board of Supervisors' Report

In 2018, the Board of Supervisors fully performed its supervisory duties on members of the Board, managers and other senior executives of the Company as authorised at the general meeting in accordance with the Company laws of the PRC (the “**Company Law**”) and the Articles.

DAILY WORK OF THE BOARD OF SUPERVISORS

On 21 March 2018, it considered and approved the proposal on the work report of the Board of Supervisors of the Company for 2017, the Financial Statements for 2017, the result announcement for 2017, the Annual Report for 2017, payment of 2017 final dividend recommended by the Board and the nomination of candidates for the second session of the Board of Supervisors of the Company.

On 28 May 2018, it considered and approved the proposal of the Company on the election of Ms. Zhang Ling as the chairman of the second session of the Board of Supervisors.

On 20 July 2018, it considered and approved the relevant proposals on the extend in the validity of application for the issuance of A shares, the extend in the validity of the authority of the Board.

On 23 August 2018, it considered and announced the proposal on the 2018 Interim Financial Statements, the 2018 Interim Results Announcement, and the 2018 Interim Report.

LAWFUL OPERATION OF THE COMPANY

The Board of Supervisors of the Company attended all meetings of the Board during the year, and fully performed its supervisory duties on the lawful production and operation of the Company. It earnestly performed its duties of supervision and inspection, and effectively discharged its supervisory duties on the development strategies and the significant decisions of the Company on a timely basis, thus exerting its functions in a better way and fully delivering its duties in the development of the Company during the year.

In the opinion of the Board of Supervisors:

1. In 2018, with care and strong support from all the Shareholders of the Company, as well as the diligent work of all its staff, the operation of the Company was in compliance with the Company Law and the Articles of Association, and the procedures for making decisions on production and operation of the Company are lawful and normative, thus making satisfactory achievements in the business.
2. During the Reporting Period, each member of the Board, manager and other senior executives of the Company diligently performed his/her jobs and duties in the Company and, for the benefit of the Company, strictly observed relevant laws, regulations and the Articles of Association, and regulated the work procedures for production, operation and management of the Company, thereby protecting the interest of the Company and its shareholders.

INSPECTION ON FINANCIAL STATUS OF THE COMPANY

The Board of Supervisors has reviewed the 2018 Audit Report for submission. In the opinion of the Board of Supervisors, the financial report of the Company reflects its financial position and operating results that are complete, objective and fair. The annual operating results of the Company have been audited by ShineWing Certified Public Accountants (Special General Partnership) who has also issued an audit report which is true, objective and fair.



Board of Supervisors' Report

INDEPENDENT OPINION OF THE BOARD OF SUPERVISORS ON CONNECTED TRANSACTIONS OF THE COMPANY

The Board of Supervisors is of the view that the Group had no connected transaction in 2018 which were subject to the reporting, annual review, announcement and independent shareholders' approval requirements as set out in Chapter 14A of the Listing Rules.

REVIEW OF THE BOARD OF SUPERVISORS ON THE INTERNAL CONTROL SELF-ASSESSMENT REPORT

The Board of Supervisors has conducted a review on the Company, and considered that the Company has established an appropriate internal control system in all important aspects and the internal control management system has operated effectively, thus ensuring its consistent implementation and normal production and operation.

IMPLEMENTATION OF RESOLUTIONS PASSED AT THE GENERAL MEETINGS

The members of the Board of Supervisors had no objection to the contents of resolutions submitted to the general meetings. The Board of Supervisors supervised the implementation of resolutions passed at the general meetings, and considered that the Board was able to implement the relevant resolutions earnestly.

Being confident of the Company's development prospects, the Board of Supervisors will remain consistent in performing its supervisory function for the operation of the Company and safeguarding its interest and that of the Shareholders as a whole.

Zhang Ling

Chairlady of the Board of Supervisors

Shantou, PRC, 25 March 2019



Auditor's Report

信永中和
ShineWing

信永中和会计师事务所

ShineWing
certified public accountants

北京市东城区朝阳门北大街8号
富华大厦A座9层

9th Floor, Block A, Fu Hua Mansion
No.8, Chao Yang Men Bei Da Jie,
Dong Cheng District,
Beijing, 100027, P.R.China

联系电话: +86(010)6554 2288
telephone: +86(010)6554 2288

传真: +86(010)6554 7190
facsimile: +86(010)6554 7190

TO THE MEMBERS OF CHARMACY PHARMACEUTICAL CO., LTD.

I. AUDIT OPINION

We have audited the financial statements of Charmacy Pharmaceutical Co., Ltd. (hereinafter referred to as Charmacy Pharmaceutical Company), which comprise the consolidated balance sheet and balance sheet of the parent company as at 31 December 2018, and the consolidated income statement and income statement of the parent company, consolidated statement of cash flow and statement of cash flow of the parent company and consolidated statement of changes in shareholders' equity and statement of changes in shareholders' equity of the parent company for the year then ended, and relevant notes to the financial statements.

In our opinion, the accompanying financial statements are prepared, in all material respects, in accordance with the requirements under the Accounting Standards for Enterprises, which give a fair view of the consolidated financial position and financial position of the parent company of Charmacy Pharmaceutical Company as at 31 December 2018 and the consolidated results of operation and cash flows and results of operation and cash flows of the parent company for the year 2018.

II. BASIS FOR FORMING AUDIT OPINION

We conducted our audit in accordance with China's Auditing Standards for the Certified Public Accountants. Our responsibilities under those standards are further described in the section headed "CERTIFIED PUBLIC ACCOUNTANTS' RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS" in the Auditor's Report. We are independent of Charmacy Pharmaceutical Company in accordance with the Code of Professional Ethics for China's Certified Public Accountants and we have fulfilled our other ethical responsibilities in respect of professional ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

III. KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of the greatest significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our audit opinion thereon, and we do not provide a separate opinion on these matters.

1. Impairment of trade receivables

Key audit matter	How the matter was addressed in our audit
<p>As set out in the Note VI.2.2 to the consolidated financial statements of Charmacy Pharmaceutical Company, as of 31 December 2018, trade receivables balance amounted to RMB805,660,100, provision for bad debts amounted to RMB13,587,500 and the carrying amount of trade receivables amounted to RMB792,072,700. As the carrying amount of trade receivables accounts for a relatively high proportion of assets, there would be a material impact on the financial statements if the trade receivables cannot be recovered on schedule or fail to be recovered. Therefore, we regard the recoverability of trade receivables as a key audit matter.</p>	<p>The main procedures we performed are as follows:</p> <ol style="list-style-type: none"> 1) tested the management's internal control relating to the daily management of trade receivables and assessment on their recoverability as at the end of the period; 2) reviewed the relevant consideration and objective evidence of impairment test on trade receivables by the management, and attached importance to the management's adequate identification of impaired items; 3) selected samples of trade receivables for which bad debts was separately provided, and reviewed the basis and reasonableness of the management's estimation on the expected lifetime loss; 4) as for trade receivables with provision made for bad debts based on credit risk characteristic groups by management, reviewed the expected credit loss rate appraised by the management after taking account of, amongst others, the historical default profile of trade receivables, current credit risk exposure and the forecast analysis on future economic condition, and reviewed the reasonableness of the provision for credit impairment of trade receivables accordingly; 5) taking into account the checks on the subsequent recovery of amounts, evaluated the appropriateness of the provision for bad debts determined by the management.



Auditor's Report

III. KEY AUDIT MATTERS (Continued)

2. Impairment of inventories

Key audit matter	How the matter was addressed in our audit
<p>As set out in the Note VI.5 Inventories to the consolidated financial statements of Charmacy Pharmaceutical Company, as of 31 December 2018, the balance of inventories amounted to RMB475,164,500, the provision for impairment of inventories amounted to RMB2,641,600 and the carrying amount of inventories amounted to RMB472,522,900. Inventories are measured at the lower of cost and net realizable value. The Management determined the provision for impairment of inventories based on the stock age and the level of approaching expiry date, taking into consideration the actual sales of inventories.</p> <p>We regard the impairment of inventories as a key audit matter due to the significance of the amount of inventories and the involvement of significant judgment by the management.</p>	<p>The main audit procedures we performed are as follows:</p> <ol style="list-style-type: none"> 1) tested the management's internal control relating to the validity period and stock-in time of inventories in the SAP system; 2) performed the inventory-taking supervision procedure to check the quantity and condition of inventories; 3) obtained the list of inventories of year-end stock age and approaching expiry date, to conduct analytical review on the inventories in storage for a longer period of time; made full provision for impairment of inventories which will expire within 180 days; 4) obtained the table of subsequent sales performance of inventories as at the end of period, to test the accuracy of calculation of such provision for impairment of inventories.

IV. OTHER INFORMATION

The Management of Charmacy Pharmaceutical Company (hereinafter referred to as the "Management") is responsible for the other information. The other information comprises the information covered in the 2018 annual report of Charmacy Pharmaceutical Company, other than the financial statements and our auditor's report thereon.

Our audit opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that should there be any material misstatement of the other information, we are required to report that fact. We have nothing to report in this regard.

V. RESPONSIBILITIES OF THE MANAGEMENT AND THOSE CHARGED WITH GOVERNANCE FOR THE FINANCIAL STATEMENTS

The Management is responsible for the preparation of the financial statements that give a true and fair view in accordance with the requirements under the Accounting Standards for Enterprises, and for the design, performance and maintenance of necessary internal control which renders the financial statements free from any material misstatement caused by fraud or error.

In preparing the financial statements, the Management is responsible for assessing the ability of Charmacy Pharmaceutical Company to continue as a going concern, disclosing, as applicable, the matters relating to going concern and using the going concern basis of accounting unless the Management either intends to liquidate Charmacy Pharmaceutical Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the financial reporting process of Charmacy Pharmaceutical Company.

VI. CERTIFIED PUBLIC ACCOUNTANTS' RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our audit opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are generally considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of our audit in accordance with the Auditing Standards, we exercise professional judgment and maintain professional scepticism throughout the audit. Meanwhile, we also perform the following work:

- (1) Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our audit opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the overriding of internal control.
- (2) Obtain an understanding of internal control in relation to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control.
- (3) Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management.



Auditor's Report

VI. CERTIFIED PUBLIC ACCOUNTANTS' RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS (Continued)

- (4) Conclude on the appropriateness of the Management's use of the going concern basis of assumption and, based on the audit evidence obtained, whether a material uncertainty exists in relation to events or conditions that may cast significant doubt on the ability of Charmacy Pharmaceutical Company to continue as a going concern. If we conclude that a material uncertainty exists, the Accounting Standards require us to draw attention in our auditor's report to the relevant disclosures in the financial statements or, if such disclosures are inadequate, to express our qualified opinion. Our conclusions are based on the available information up to the date of our auditor's report. However, future events or conditions may cause Charmacy Pharmaceutical Company to cease to continue as a going concern.
- (5) Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- (6) Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within Charmacy Pharmaceutical Company, to express an audit opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit, and remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any deficiencies worthy of concern in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant professional ethical requirements regarding independence, and communicate with them on all the relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, relevant precautionary measures.

From the matters communicated with those charged with governance, we determine those matters that were of the greatest significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless laws or regulations preclude public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our audit report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

ShineWing Certified Public Accountants (Special General Partnership)

Chinese Certified Public Accountant: **Pan Chuanyun** (Project partner)

Chinese Certified Public Accountant: **Wang Yaming**

Beijing, China
25 March 2019



Consolidated Balance Sheet

As at 31 December 2018

Prepared by: CHARMACY PHARMACEUTICAL CO., LTD.

Unit: RMB

Items	Note	31 December 2018	31 December 2017
Current assets:			
Monetary funds	VI.1	428,601,291.24	512,413,395.71
Bills receivables and trade receivables	VI.2	827,972,997.67	970,254,308.36
Including: Bills receivables		35,900,330.74	87,683,853.38
Trade receivables		792,072,666.93	882,570,454.98
Prepayments	VI.3	196,342,436.27	149,275,256.35
Other receivables	VI.4	11,833,686.15	9,674,650.78
Inventories	VI.5	472,522,915.24	431,592,426.38
Other current assets	VI.6	24,810,498.20	30,031,737.79
Total current assets		1,962,083,824.77	2,103,241,775.37
Non-current assets			
Fixed assets	VI.7	193,761,724.83	115,377,277.17
Construction in progress	VI.8	23,788,389.90	81,967,801.27
Intangible assets	VI.9	159,338,325.77	160,723,843.55
Goodwill	VI.10	3,127,688.00	4,593,625.31
Long-term expenses to be amortised	VI.11	6,244,160.99	1,201,796.75
Deferred income tax assets	VI.12	5,635,562.76	4,723,418.55
Total non-current assets		391,895,852.25	368,587,762.60
Total assets		2,353,979,677.02	2,471,829,537.97
Current liabilities			
Short-term borrowings	VI.13	387,900,000.00	522,900,000.00
Bills payables and trade payables	VI.14	1,343,420,220.04	1,408,606,842.33
Receipts in advance	VI.15	-	5,382,568.81
Contract liabilities	VI.16	1,879,275.48	-
Salaries payable to employees	VI.17	5,066,954.31	4,781,858.77
Tax payables	VI.18	37,441,066.12	50,867,274.80
Other payables	VI.19	9,658,239.15	13,751,047.42
Including: Interests payable		921,877.61	1,050,789.84
Other current liabilities	VI.20	457,060.50	520,000.00
Total current liabilities		1,785,822,815.60	2,006,809,592.13



Consolidated Balance Sheet

As at 31 December 2018

Items	Note	31 December 2018	31 December 2017
Non-current liabilities			
Long-term borrowings	VI.21	90,000,000.00	–
Deferred income	VI.22	1,218,827.99	1,612,948.99
Deferred income tax liabilities	VI.23	200,653.30	–
Total non-current liabilities		91,419,481.29	1,612,948.99
Total liabilities		1,877,242,296.89	2,008,422,541.12
Shareholders' equity			
Share capital	VI.23	108,000,000.00	108,000,000.00
Capital reserve	VI.24	278,990,829.04	282,204,487.50
Surplus reserve	VI.25	13,665,514.85	10,115,890.49
Unallocated profits	VI.26	76,081,036.24	55,797,710.73
Total shareholders' equity attributable to the shareholders of parent company		476,737,380.13	456,118,088.72
Minority interests		–	7,288,908.13
Total shareholders' equity		476,737,380.13	463,406,996.85
Total liabilities and shareholders' equity		2,353,979,677.02	2,471,829,537.97



Balance Sheet of the Parent Company

As at 31 December 2018

Prepared by: CHARMACY PHARMACEUTICAL CO., LTD.

Unit: RMB

Items	Note	Balance as at the end of the year	Balance as at the beginning of the year
Current asset:			
Monetary funds		205,670,048.69	254,783,149.75
Bills receivables and trade receivables	XIV. 1	449,164,446.99	595,016,206.30
Including: Bills receivables		20,425,445.47	47,581,534.98
Trade receivables		428,739,001.52	547,434,671.32
Prepayments		77,312,305.05	227,720,501.67
Other receivables	XIV.2	9,557,464.77	8,895,142.07
Including: Interest receivables		-	-
Dividends receivables		-	-
Inventories		153,350,632.54	144,573,781.02
Other current assets		7,632,347.07	9,275,042.10
Total current assets		902,687,245.11	1,240,263,822.91
Non-current assets:			
Long-term investments in equity interest	XIV. 3	216,510,000.00	186,000,000.00
Investment properties		208,929,644.60	99,927,176.78
Fixed assets		66,968,974.48	47,559,585.25
Construction in progress		23,788,389.90	81,967,801.27
Intangible assets		39,136,292.71	91,378,073.15
Long-term expenses to be amortized		6,049,024.93	1,050,416.67
Deferred income tax assets		1,637,023.63	1,462,961.78
Total non-current assets		563,019,350.25	509,346,014.90
Total assets		1,465,706,595.36	1,749,609,837.81



Balance Sheet of the Parent Company

As at 31 December 2018

Items	Note	Balance as at the end of the year	Balance as at the beginning of the year
Current liabilities:			
Short-term borrowings		181,100,000.00	336,900,000.00
Bill payables and trade payables		570,078,608.78	601,147,952.59
Receipts in advance		–	8,572,778.98
Contract liability		841,340.73	–
Salaries payable to employees		2,438,459.02	2,187,707.73
Tax payables		7,111,672.89	14,635,237.97
Other payables		182,328,744.27	368,254,634.42
Including: Interests payable		–	–
Dividends payable		–	–
Total current liabilities		943,898,825.69	1,331,698,311.69
Non-current liabilities:			
Long-term borrowings		90,000,000.00	–
Total non-current liabilities		90,000,000.00	–
Total liabilities		1,033,898,825.69	1,331,698,311.69
Shareholders' equity:			
Share capital		108,000,000.00	108,000,000.00
Capital reserve		282,204,487.50	282,204,487.50
Less: Treasury stock		–	–
Surplus reserve		13,665,514.85	10,115,890.49
Unallocated profits		27,937,767.32	17,591,148.13
Total shareholders' interests		431,807,769.67	417,911,526.12
Total liabilities and shareholders' interests		1,465,706,595.36	1,749,609,837.81



Consolidated Income Statement

For the year 2018

Prepared by: CHARMACY PHARMACEUTICAL CO., LTD.

Unit: RMB

Items	Note	2018	2017
I. Total operating revenue		3,935,245,977.18	4,095,835,450.18
Including: operating revenue	VI.27	3,935,245,977.18	4,095,835,450.18
II. Total operating cost		3,875,358,501.50	4,040,191,663.78
Including: operating cost	VI.27	3,697,481,989.00	3,885,972,976.78
Taxes and surcharges	VI.28	6,312,584.52	4,612,627.66
Selling expenses	VI.29	73,976,620.95	68,005,339.09
Management expenses	VI.30	59,905,246.94	49,576,119.01
Finance costs	VI.31	31,530,138.13	27,606,978.42
Including: Interest expenses		31,093,279.95	25,385,458.52
Interest income		3,177,895.88	3,377,080.73
Impairment loss of assets	VI.32	4,107,513.65	4,417,622.82
Impairment loss of credit	VI.33	2,044,408.31	–
Add: Other gains	VI.34	457,060.50	467,051.01
Gains on disposal of assets (“–” for loss)	VI.35	–40,522.27	–185,982.92
III. Operating profit		60,304,013.91	55,924,854.49
Add: Non-operating revenue	VI.36	3,611,103.89	4,077,127.40
Less: Non-operating expenses	VI.37	259,691.95	144,667.60
IV. Total profit		63,655,425.85	59,857,314.29
Less: Income tax expense	VI.38	18,893,432.91	15,562,441.59
V. Net profit		44,761,992.94	44,294,872.70
(I) According to operation continuity		44,761,992.94	44,294,872.70
1. Net profit from continuing operation		44,761,992.94	44,294,872.70
2. Net profit from discontinued operation		–	–
(II) According to ownership		44,761,992.94	44,294,872.70
1. Net profit attributable to the shareholders of parent company		45,432,949.87	44,759,911.86
2. Profit or loss of minority shareholders		–670,956.93	–465,039.16
VI. Total comprehensive income		44,761,992.94	44,294,872.70
Total comprehensive income attributable to the shareholders of parent company		45,432,949.87	44,759,911.86
Total comprehensive income attributable to minority shareholders		–670,956.93	–465,039.16
VIII. Earnings per share			
Basic and diluted earnings per share		0.4207	0.4144



Income Statement of the Parent Company

For the year 2018

Prepared by: CHARMACY PHARMACEUTICAL CO., LTD.

Unit: RMB

Items	Note	Amount for the year	Amount for last year
I. Operating revenue	XIV.4	1,603,236,297.38	1,644,119,714.18
Less: operating cost	XIV.4	1,499,974,987.63	1,555,693,792.27
Taxes and surcharges		4,722,457.62	3,543,302.94
Selling expenses		30,922,894.10	30,254,378.38
Management expenses		31,216,998.48	27,448,860.38
Finance costs		16,395,346.74	16,221,229.24
Including: Interest expenses		-	13,674,206.68
Interest income		-	1,704,177.18
Impairment loss of assets		1,068,246.75	-2,116,689.84
Impairment loss of credits		675,780.47	-
Add: Returns on investment	XIV.5	20,000,000.00	33,000,000.00
Including: Returns on investment in associates and joint ventures		-	-
Gains on disposal of assets (“-” for loss)		-44,802.29	-92,717.30
II. Operating profit		38,214,783.30	45,982,123.51
Add: Non-operating revenue		3,010,066.41	3,181,780.28
Less: Non-operating expenses		159,270.07	138,065.14
III. Total profit		41,065,579.64	49,025,838.65
Less: Income tax expense		5,569,336.09	4,315,274.00
IV. Net profit		35,496,243.55	44,710,564.65
(I) Net profit from continuing operation		35,496,243.55	44,710,564.65
(II) Net profit from discontinued operation		-	-
V. Total comprehensive income		35,496,243.55	44,710,564.65



Consolidated Statement of Cash Flow

For the year 2018

Prepared by: CHARMACY PHARMACEUTICAL CO., LTD.

Unit: RMB

Items	Note	Amount for the year	Amount for last year
I. Cash flow from operating activities:			
Cash received from sales of goods and rendering of services		3,366,910,150.60	3,368,338,888.08
Cash received relating to other operating activities	VI.39	9,351,215.71	17,744,746.05
Sub-total of cash inflow from operating activities		3,376,261,366.31	3,386,083,634.13
Cash paid for purchases of goods and receiving services		3,159,079,116.50	3,254,583,001.62
Cash paid to employees and on behalf of employees		68,051,189.09	63,255,083.66
Cash paid for various taxes		40,719,718.35	36,516,916.17
Cash paid relating to other operating activities	VI.39	59,259,943.14	64,688,766.84
Sub-total of cash outflow from operating activities		3,327,109,967.08	3,419,043,768.29
Net cash flow from operating activities		49,151,399.23	-32,960,134.16
II. Cash flow from investing activities:			
Net cash received from disposal of fixed assets, intangible assets and other long-term assets		157,070.00	177,010.00
Cash received relating to other investing activities	VI.39	-	2,186,078.94
Sub-total of cash inflow from investing activities		157,070.00	2,363,088.94
Cash paid for acquisition and construction of fixed assets, intangible assets and other long-term assets		97,726,342.44	125,625,449.03
Cash paid relating to other investing activities	VI.39	-	100,000.00
Sub-total of cash outflow from investing activities		97,726,342.44	125,725,449.03
Net cash flow from investing activities		-97,569,272.44	-123,362,360.09



Consolidated Statement of Cash Flow

For the year 2018

Items	Note	Amount for the year	Amount for last year
III. Cash flow from financing activities:			
Cash received from borrowings		692,100,000.00	750,400,000.00
Cash received relating to other financing activities	VI.39	1,871,555,799.44	2,035,960,898.61
Sub-total of cash inflow from financing activities		2,563,655,799.44	2,786,360,898.61
<hr/>			
Cash paid for repayment of debts		671,300,000.00	507,481,500.00
Cash payment for distribution of dividends and profits or interest payment		48,359,810.07	51,084,227.15
Including: Dividends and profits paid to minority interests by subsidiaries		-	-
Cash paid relating to other financing activities	VI.39	1,814,835,727.74	2,114,177,028.36
Sub-total of cash outflow from financing activities		2,534,495,537.81	2,672,742,755.51
Net cash flow from financing activities		29,160,261.63	113,618,143.10
<hr/>			
IV. Effect of change in exchange rates on cash and cash equivalents		-100,538.85	-1,768,006.55
<hr/>			
V. Net increase in cash and cash equivalents		-19,358,150.43	-44,472,357.70
Add: Opening balance of cash and cash equivalents for the period	VI.39	75,096,936.45	119,569,294.15
<hr/>			
VI. Closing balance of cash and cash equivalents for the period		55,738,786.02	75,096,936.45



Statement of Cash Flow of the Parent Company

For the year 2018

Prepared by: CHARMACY PHARMACEUTICAL CO., LTD.

Unit: RMB

Items	Note	Amount for the year	Amount for last year
I. Cash flow from operating activities:			
Cash received from sales of goods and rendering of services		1,389,543,127.49	1,394,047,768.82
Cash received relating to other operating activities		406,963,565.48	535,200,145.68
Sub-total of cash inflow from operating activities		1,796,506,692.97	1,929,247,914.50
Cash paid for purchases of goods and receiving services		1,360,999,699.38	1,615,336,882.15
Cash paid to employees and on behalf of employees		30,526,156.85	31,594,840.85
Cash paid for various taxes		21,594,671.75	20,795,386.40
Cash paid relating to other operating activities		292,645,407.11	303,078,337.90
Sub-total of cash outflow from operating activities		1,705,765,935.09	1,970,805,447.30
Net cash flow from operating activities		90,740,757.88	-41,557,532.80
II. Cash flow from investing activities:			
Cash received from returns on investments		20,000,000.00	33,000,000.00
Net cash received from disposal of fixed assets, intangible assets and other long-term assets		62,929.22	99,000.00
Sub-total of cash inflow from investing activities		20,062,929.22	33,099,000.00
Cash paid for acquisition and construction of fixed assets, intangible assets and other long-term assets		91,614,403.01	118,740,851.59
Cash paid for investment		9,710,000.00	-
Net cash paid for acquisition of subsidiaries and other business units		20,800,000.00	36,000,000.00
Sub-total of cash outflow from investing activities		122,124,403.01	154,740,851.59
Net cash flow from investing activities		-102,061,473.79	-121,641,851.59



Statement of Cash Flow of the Parent Company

For the year 2018

Items	Note	Amount for the year	Amount for last year
III. Cash flow from financing activities:			
Cash received from borrowings		408,800,000.00	510,400,000.00
Cash received relating to other financing activities		721,829,766.69	892,966,632.46
Sub-total of cash inflow from financing activities		1,130,629,766.69	1,403,366,632.46
IV. Cash flow from investing activities:			
Cash paid for repayment of debts		408,800,000.00	342,430,000.00
Cash payment for distribution of dividends and profits or interest payment		38,067,266.49	45,143,650.51
Cash paid relating to other financing activities		679,632,831.72	916,773,735.85
Sub-total of cash outflow from financing activities		1,126,500,098.21	1,304,347,386.36
Net cash flow from financing activities		4,129,668.48	99,019,246.10
IV. Effect of change in exchange rates on cash and cash equivalents			
		-100,538.85	-1,768,006.55
V. Net increase in cash and cash equivalents			
Add: Opening balance of cash and cash equivalents for the period		-7,291,586.28	-65,948,144.84
		40,966,972.93	106,915,117.77
VI. Closing balance of cash and cash equivalents for the period			
		33,675,386.65	40,966,972.93



Consolidated Statement of Changes in Shareholder's Equity

For the year 2018

Prepared by: CHARMACY PHARMACEUTICAL CO., LTD.

Unit: RMB

Items	For the current year					Total shareholders' equity
	Share capital	Capital reserve	Surplus reserve	Unallocated profits	Minority interests	
I. Closing balance for last year	108,000,000.00	282,204,487.50	10,115,890.49	55,797,710.73	7,288,908.13	463,406,996.85
Add: changes in accounting policies						
Correction of previous errors						
Business combinations under common control						
Others						
II. Opening balance for the year	108,000,000.00	282,204,487.50	10,115,890.49	55,797,710.73	7,288,908.13	463,406,996.85
III. Movement for the year ("-" for decrease)						
(I) Total comprehensive income		-3,213,658.46	3,549,624.36	20,283,325.51	-7,288,908.13	13,330,383.28
(II) Contribution of shareholders and capital reduction				45,432,949.87	-670,956.93	44,761,992.94
1. Shareholders' contribution to ordinary shares		-3,213,658.46			-6,617,951.20	-9,831,609.66
2. Capital contribution by holders of other equity instruments						
3. Share-based payment credited to shareholders' equity						
4. Others		-3,213,658.46			-6,617,951.20	-9,831,609.66
(III) Profit allocation			3,549,624.36	-25,149,624.36		-21,600,000.00
1. Appropriation of surplus reserve			3,549,624.36	-3,549,624.36		-
2. Appropriation of general risk provision						
3. Allocation to shareholders				-21,600,000.00		-21,600,000.00
4. Others						
(IV) Transfers within the shareholders' equity						
1. Transfer of capital reserve to share capital						
2. Transfer of surplus reserve to share capital						
3. Surplus reserve for making up losses						
4. Change in defined benefit plan carried forward to retained earnings						
5. Other comprehensive income carried forward to retained earnings						
6. Others						
(V) Specific reserve						
1. Appropriation for the year						
2. Use in the year						
(VI) Others						
IV. Closing balance for the year	108,000,000.00	278,990,829.04	13,665,514.85	76,081,036.24	-	476,737,380.13



Consolidated Statement of Changes in Shareholder's Equity

For the year 2018

Prepared by: CHARMACY PHARMACEUTICAL CO., LTD.

Unit: RMB

Items	For last year Equity attributable to shareholders of parent company				Minority interests	Total shareholders' equity
	Share capital	Capital reserve	Surplus reserve	Unallocated profits		
I. Closing balance for last year	108,000,000.00	281,215,559.50	5,644,834.02	47,908,855.34	-	442,769,248.86
Add: changes in accounting policies						
Correction of previous errors						
Business combination under common control						
Others						
II. Opening balance for the year	108,000,000.00	281,215,559.50	5,644,834.02	47,908,855.34	-	442,769,248.86
III. Movement for the year						
("-" for decrease)		988,928.00	4,471,056.47	7,888,855.39	7,288,908.13	20,637,747.99
(I) Total comprehensive income				44,759,911.86	-465,039.16	44,294,872.70
(II) Contribution of shareholders and capital reduction		988,928.00			7,753,947.29	8,742,875.29
1. Shareholders' contribution to ordinary shares					7,753,947.29	7,753,947.29
2. Capital contribution by holders of other equity instruments						
3. Share-based payment credited to shareholders' equity		988,928.00				
4. Others						
(III) Profit allocation			4,471,056.47	-36,871,056.47		-32,400,000.00
1. Appropriation of surplus reserve			4,471,056.47	-4,471,056.47		
2. Appropriation of general risk provision						
3. Allocation to shareholders				-32,400,000.00		-32,400,000.00
4. Others						
(IV) Transfers within the shareholders' equity						
1. Transfer of capital reserve to share capital						
2. Transfer of surplus reserve to share capital						
3. Surplus reserve for making up losses						
4. Change in defined benefit plan carried forward to retained earnings						
5. Other comprehensive income carried forward to retained earnings						
6. Others						
(V) Specific reserve						
1. Appropriation for the year						
2. Use in the year						
(VI) Others						
IV. Closing balance for the year	108,000,000.00	282,204,487.50	10,115,890.49	55,797,710.73	7,288,908.13	463,406,996.85



Statement of Changes in Shareholder's Equity of the Parent Company

For the year 2018

Prepared by: CHARMACY PHARMACEUTICAL CO., LTD.

Unit: RMB

Items	For the current year				Total shareholders' equity
	Share capital	Capital reserve	Surplus reserve	Unallocated profits	
I. Closing balance for last year	108,000,000.00	282,204,487.50	10,115,890.49	17,591,148.13	417,911,526.12
Add: Changes in accounting policies					
Correction of previous errors					
Others					
II. Opening balance for the year	108,000,000.00	282,204,487.50	10,115,890.49	17,591,148.13	417,911,526.12
III. Movement for the year ("–" for decrease)			3,549,624.36	10,346,619.19	13,896,243.55
(I) Total comprehensive income				35,496,243.55	35,496,243.55
(II) Contribution of shareholders and capital reduction					
1. Shareholders' contribution to ordinary shares					
2. Capital contribution by holders of other equity instruments					
3. Share-based payment credited to shareholders' equity					
4. Others					
(III) Profit allocation			3,549,624.36	-25,149,624.36	-21,600,000.00
1. Appropriation of surplus reserve			3,549,624.36	-3,549,624.36	
2. Allocation to shareholders				-21,600,000.00	
3. Others					
(IV) Transfers within the shareholders' equity					
1. Transfer of capital reserve to share capital					
2. Transfer of surplus reserve to share capital					
3. Surplus reserve for making up losses					
4. Change in defined benefit plan carried forward to retained earnings					
5. Other comprehensive income carried forward to retained earnings					
6. Others					
(V) Specific reserve					
1. Appropriation for the year					
2. Use in the year					
(VI) Others					
IV. Closing balance for the year	108,000,000.00	282,204,487.50	13,665,514.85	27,937,767.32	431,807,769.67



Statement of Changes in Shareholder's Equity of the Parent Company

For the year 2018

Prepared by: CHARMACY PHARMACEUTICAL CO., LTD.

Unit: RMB

Items	For the current year				Total shareholders' equity
	Share capital	Capital reserve	Surplus reserve	Unallocated profits	
I. Closing balance for last year	108,000,000.00	281,215,559.50	5,644,834.02	9,751,639.95	404,612,033.47
Add: Changes in accounting policies					
Correction of previous errors					
Others					
II. Opening balance for the year	108,000,000.00	281,215,559.50	5,644,834.02	9,751,639.95	404,612,033.47
III. Movement for the year ("–" for decrease)		988,928.00	4,471,056.47	7,839,508.18	13,299,492.65
(I) Total comprehensive income				44,710,564.65	44,710,564.65
(II) Contribution of shareholders and capital reduction		988,928.00			
1. Shareholders' contribution to ordinary shares					
2. Capital contribution by holders of other equity instruments					
3. Share-based payment credited to shareholders' equity		988,928.00			
4. Others					
(III) Profit allocation			4,471,056.47	-36,871,056.47	-32,400,000.00
1. Appropriation of surplus reserve			4,471,056.47	-4,471,056.47	
2. Allocation to shareholders				-32,400,000.00	-32,400,000.00
3. Others					
(IV) Transfers within the shareholders' equity					
1. Transfer of capital reserve to share capital					
2. Transfer of surplus reserve to share capital					
3. Surplus reserve for making up losses					
4. Change in defined benefit plan carried forward to retained earnings					
5. Other comprehensive income carried forward to retained earnings					
6. Others					
(V) Specific reserve					
1. Appropriation for the year					
2. Use in the year					
(VI) Others					
IV. Closing balance for the year	108,000,000.00	282,204,487.50	10,115,890.49	17,591,148.13	417,911,526.12



Notes to the Financial Statements

1 January 2018 to 31 December 2018

(Unless otherwise stated, notes to the financial statements are expressed in Renminbi Yuan)

I. GENERAL INFORMATION ABOUT THE COMPANY

1. General Information

As approved by Shantou Commission for Restructuring the Economic Systems, Shantou Economic Committee, Shantou Finance Bureau and Shantou State-owned Property Management Office with Circular [2000] No.6 of Shantou Reform Commission, Charmacy Pharmaceutical Co., Ltd (hereinafter referred to as “the Company” or “Charmacy Pharmaceutical Company”, together with its subsidiaries referred to as “the Group”) was restructured and established as a limited liability company by Shantou Medicine (Group) Limited (汕頭醫藥(集團)公司), Shantou Chuangmei Trading Limited (汕頭市創美貿易有限公司) and Shantou Chuangmei Advertising Limited (汕頭市創美廣告有限公司) with joint investments in 2000. The Company obtained the BUSINESS LICENSE OF THE ENTERPRISE LEGAL PERSON issued by Shantou Administration for Industry and Commerce on 6 March 2000. On 28 May 2015, the Company changed its name to Charmacy Pharmaceutical Co., Ltd. The registered address of the Company is No. 235 Song Shan North Road, Longhu District, Shantou City with a uniform social credit number of 91440500722414635C.

The Company operates in the pharmaceutical distribution industry and is mainly engaged in the distribution of pharmaceutical products. The business scope is: pharmaceutical business; medical device business; distribution of health products and food; freight transport business; domestic freight forwarder; third-party pharmaceutical products and medical devices logistics business; commodity information consultancy; management and planning service for pharmaceutical enterprises; logistics information consulting service; advertising business; lease of properties; distribution of sterilizing and bactericidal equipments and instruments, disinfectors, sanitary insecticides, cosmetics, sanitary products, detergent, daily provisions and chemical products (excluding hazardous chemicals); purchasing and initial processing of agricultural by-products, seafood and local specialties; private warehouses locating at 1F and 2F No. 235 Song Shan North Road, Shantou City (The business subject to approval by law can be operated after the same has been approved by relevant authorities).

The Company has the General Meeting, the Board of Directors, the Board of Supervisors and the General Manager. The Company has functional departments such as marketing center, operation and maintenance support center, logistics center and finance department.

II. SCOPE OF CONSOLIDATED FINANCIAL STATEMENTS

The scope of consolidated financial statements of the Group covers four wholly-owned subsidiaries, Guangdong Charmacy Pharmaceutical Co., Ltd. (廣東創美藥業有限公司) (hereafter referred to as “Guangdong Charmacy Company”), Shenzhen Charmacy Pharmaceutical Limited (深圳創美藥業有限公司) (hereafter referred to as “Shenzhen Charmacy Company”), Zhuhai Charmacy Pharmaceutical Limited (珠海創美藥業有限公司) (hereinafter referred to as “Zhuhai Charmacy Company”) and Guangzhou Charmacy Pharmaceutical Limited (廣州創美藥業有限公司) (hereafter referred to as “Guangzhou Charmacy Company”).

During the reporting period, the scope of consolidated financial statements of the Group further included Shenzhen Charmacy Company. For details, please refer to the relevant content as set out in “VII. CHANGES IN SCOPE OF CONSOLIDATION” and “VIII. INTERESTS IN SUBSIDIARIES” of this note.



Notes to the Financial Statements

1 January 2018 to 31 December 2018

(Unless otherwise stated, notes to the financial statements are expressed in Renminbi Yuan)

III. 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》) issued by the Ministry of Finance and relevant provisions (collectively referred to as “Accounting Standards for Enterprises”), the Preparation Rules for Information Disclosures by Companies Offering Shares to the Public No.15 – General Provisions on Financial Reporting (Revised in 2014) (《公開發行證券的公司信息披露編報規則第15號 – 財務報告的一般規定》(2014年修訂)) issued by China Securities Regulatory Commission, 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 set out in “IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES” in this note.

(2) Going concern

The Group, having evaluated its ability to continue as a going concern for the 12 months since 31 December 2018, 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.

IV. 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 relevant information such as the financial position, operating results and cash flows of the Company and the Group.

2. Accounting period

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

3. Business cycle

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

4. Functional currency

The Group adopts Renminbi as its functional currency.

5. Accounting methods for business combinations under common control and business combinations not under common control

The assets and liabilities obtained by the Group as the merging party in a business combination are measured at the combination-date carrying amount of the merged party in the consolidated statement of ultimate controller. The difference between the carrying amount of net assets obtained and the carrying amount of the combination consideration paid shall adjust additional paid-in capital; if the additional paid-in capital is not sufficient for offsetting, the retained earnings shall be adjusted.



Notes to the Financial Statements

1 January 2018 to 31 December 2018

(Unless otherwise stated, notes to the financial statements are expressed in Renminbi Yuan)

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

5. Accounting methods for business combinations under common control and business combinations not under common control (Continued)

The acquiree's identifiable assets, liabilities and contingent liabilities obtained in a business combination not under common control shall be measured at fair value at the acquisition date. The cost of combination is the sum of the fair value of cash and non-cash assets paid, liabilities incurred or assumed and equity securities issued by the Group for obtaining control of the acquiree at the acquisition date and all expenses incurred directly in the business combination (for the business combination is achieved in stages through multiple transactions, its cost of combination is the sum of costs of each single transaction). Where the cost of combination exceeds the acquirer's share of the fair value of the acquiree's identifiable net assets, the difference is recognized as goodwill; where the cost of combination is less than the acquirer's share of the fair value of the acquiree's identifiable net assets, the measurement of the fair values of all the identifiable assets, liabilities and contingent liabilities obtained in the business combination and the fair values of non-cash assets or equity securities issued as the consideration for combination are firstly reviewed. If, after that review, the cost of combination is still less than the acquirer's share of the fair value of the acquiree's identifiable net assets in the business combination, the difference shall be included in the consolidated non-operating revenue for the period.

6. Goodwill

The goodwill arising on a business combination shall be presented separately in the consolidated financial statements and measured at costs less accumulated provision for impairment. The goodwill is tested for impairment at least at the end of each year.

When conducting the impairment test for goodwill, the goodwill is tested together with the related asset group or portfolio of asset group. That is, the carrying amount of goodwill is reasonably allocated to the related asset group or portfolio of asset group which benefits from the synergies of the business combination since the acquisition date. Relevant impairment loss is recognized if the recoverable amount of asset group or portfolio of asset group which contains the allocated goodwill is less than its carrying amount. The amount of impairment loss is firstly used to offset against the carrying amount of goodwill allocated to that asset group or portfolio of asset group, and then will be offset against the carrying amount of other assets on a pro rata basis according to the proportion of carrying amount of all other assets (other than goodwill) within asset group or portfolio of asset group.

The recoverable amount is the higher of the fair value of an asset less costs of disposal and the present value of the future cash flows expected to be derived from the asset. The fair value of asset shall be determined according to the prices stipulated in a sales agreement in an arm's length transaction. If there is no sales agreement but active market for assets, fair value shall be determined according to the bid price of the asset. If there is no sales agreement or active market for assets, the fair value of assets shall be estimated based on the best available information. Disposal expenses include the legal costs, related taxes, carriage expenses related to asset disposal and the direct costs caused by the efforts to prepare the asset for its intended sales. The present value of expected future cash flows of an asset shall be determined by discounting the estimated future cash flows generated from the continuous use and ultimate disposal of assets at an appropriate discount rate.

The impairment loss of goodwill is charged to the profit or loss for the period when it incurred and will not be reversed in any subsequent periods.



Notes to the Financial Statements

1 January 2018 to 31 December 2018

(Unless otherwise stated, notes to the financial statements are expressed in Renminbi Yuan)

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

7. Preparation methods of consolidated financial statements

The Group includes all subsidiaries controlled by it and structured entities into the scope of consolidated financial statements

When preparing consolidated financial statements, if there is inconsistency on the accounting policies or accounting periods between the subsidiaries and the Company, necessary adjustments will be made to the financial statements of the subsidiaries based on the accounting policies or accounting periods of the Company.

All significant intra-group transactions, current balances and unrealized profits within the scope of consolidation shall be offset in preparing the consolidated statements. The shares of owners' equity in subsidiaries not attributable to the parent company and the shares of net loss or profit for the period, other comprehensive income and total comprehensive income attributable to minority interests shall be presented in the consolidated financial statements under the items of "minority interests, profit or loss of minority shareholders, other comprehensive income attributable to minority interests and total comprehensive income attributable to minority interests", respectively.

The operating results and cash flows of a subsidiary acquired from business combination under common control shall be included in the consolidated financial statements from the beginning of the period of the combination. When preparing the comparative consolidated financial statements, relevant items in the financial statements of the previous year will be adjusted as if the reporting entity formed after the combination had been in existence since the time when the ultimate controlling party gains control.

For equity of an investee under common control acquired in stages through multiple transactions, which results in business combination, supplementary disclosure to treatment methods in consolidated financial statements shall be made in the reporting period of acquiring the control. For instance, for equity of an investee under common control acquired in stages through multiple transactions, which results in business combination, it shall be adjusted in the preparation of consolidated financial statements as if it had been in existence as the current status since the time when the ultimate controlling party obtains the control. When preparing the comparative statements, relevant assets and liabilities of the combined party are included in the comparative statements of consolidated financial statements of the Group no earlier than the time when the Group and the combined party are under the common control of the ultimate controlling party, with the increase in net assets arising from the combination being adjusted against the relevant items under owners' equity in the comparative statements. In order to avoid repeated calculation of the value of the net assets of the combined party, the long-term equity investment held by the Group before the completion of the combination, as well as the relevant recognized profit or loss, other comprehensive income and other changes in net assets from the later of the day of acquiring the original equity or the day when the Group and the combined party are under the same ultimate control to the combination day shall be offset against the retained earnings at the beginning of the period and the profit or loss for the period in the comparative statements, respectively.

The operating results and cash flows of a subsidiary acquired from business combination not under common control shall be included in the consolidated financial statements since the date when the Group gains control. When preparing the consolidated financial statements, the financial statements of the subsidiary shall be adjusted based on the fair values of the identifiable assets, liabilities and contingent liabilities determined on the acquisition date.



Notes to the Financial Statements

1 January 2018 to 31 December 2018

(Unless otherwise stated, notes to the financial statements are expressed in Renminbi Yuan)

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

7. Preparation methods of consolidated financial statements (Continued)

For equity of an investee not under common control acquired in stages through multiple transactions, which results in business combination, supplementary disclosure to the treatment methods in consolidated financial statements shall be made in the reporting period of acquiring the control. For instance, for equity of an investee not under common control acquired in stages through multiple transactions, which results in business combination, the equity of the acquiree held before the acquisition date shall be remeasured at the fair value of the equity on the acquisition date when preparing the consolidated financial statements, with the balance between the fair value and its book value being included in the investment gains for the period. Except for other comprehensive income arising from changes as a result of remeasurement of net liabilities or net assets of the defined benefit plan of the investee, other comprehensive income under the equity method involving the equity of the investee held before the acquisition date and other changes in owners' equity excluding net profit or loss, other comprehensive income and profit distribution shall be converted into investment profit or loss for the period in which the acquisition date falls.

For the partial disposal of the Group's long-term equity investments in a subsidiary without losing control, the balance between the disposal price and the share of net assets (being calculated from the acquisition date or combination date) of the subsidiary enjoyed correspondingly in the disposal of the long-term equity investment shall be used to adjust the capital premium or share premium, or the retained earnings if the capital reserves are not sufficient for offsetting, in the consolidated financial statements.

Where the Group loses its control over the investee due to the partial disposal of equity investment or other reasons, the residual equity will be remeasured at the fair value thereof on the date when the control is lost in the preparation of the consolidated financial statements. The excess of the sum of the consideration obtained from the equity disposal and the fair value of the residual equity over the share of the net assets of the original subsidiaries (being calculated in proportion to the original shareholding percentage from the acquisition date or combination date) shall be included in the investment profit or loss for the period in which the control is lost, with goodwill being offset simultaneously. Other comprehensive income relating to the equity investment of the original subsidiaries shall be transferred to investment profit or loss for the period when the control is lost.

When the Group disposes of its equity investment in the subsidiaries in stages through multiple transactions till losing control, if various transactions for disposing of equity investment of subsidiaries till losing control belong to a package deal, each transaction shall be accounted for as a transaction that disposes of subsidiary with loss of control; nonetheless, before the loss of control, the balance between each disposal price and the share of net assets of such subsidiary enjoyed correspondingly in investment disposal is recognized as other comprehensive income in the consolidated financial statements and transferred to investment profit or loss for the period when the control is lost.

8. Cash and cash equivalents

Cash in the cash flow statements of the Group refers to cash on hand and the deposits ready for payment at any time. Cash equivalents in the cash flow statements represent the investment with a term less than 3 months, which are highly liquidated, easy to be converted into known amounts of cash and subject to an insignificant risk of change in value.



Notes to the Financial Statements

1 January 2018 to 31 December 2018

(Unless otherwise stated, notes to the financial statements are expressed in Renminbi Yuan)

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

9. Foreign currency business and translation of financial statements denominated in foreign currency

(1) Foreign currency transactions

For foreign currency transactions of the Group, the amount in foreign currency shall be translated into RMB at the spot exchange rate at the date when the transactions take place. As at the balance sheet date, foreign currency monetary items are translated into RMB using the spot exchange rate at the balance sheet date. Translation differences arising thereon are directly included in the profit or loss for the period, except that exchange differences arising from specific borrowings in foreign currency attributable to the construction or production of a qualifying asset for capitalization are dealt with based on the capitalization principle.

(2) Translation of financial statements denominated in foreign currency

Asset and liability items in the balance sheet denominated in foreign currency are translated at the spot rate prevailing at the balance sheet date. The owners' equity items, except for the "undistributed profits", are translated at the spot exchange rate when a business takes place. Income and expense items in the income statement are translated at the spot exchange rate at the date when the transaction takes place. The translation differences arising from the above translation of statements denominated in foreign currency are presented in other comprehensive income item. Cash flows dominated in foreign currency are translated using the spot rate at the date when the cash flow occurs. Effects on cash arising from the changes in exchange rate are presented separately in the cash flow statement.

10. Financial assets and financial liabilities

When the Group becomes a party to the financial instrument contract, a financial asset or financial liability will be recognized.

(1) Financial assets

1) Classification, recognition and measurement of financial assets

The Group classifies financial assets into financial assets at amortized cost, financial assets at fair value through other comprehensive income and financial assets at fair value through profit or loss based on its business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.

The Group will classify financial assets that meet the following conditions into financial assets measured at amortized cost: ① the financial assets are managed within a business model whose objective is achieved by collecting contractual cash flow; and ② the contractual terms of the financial assets give rise on specific dates to cash flows that are solely the payments of principal and interest on the principal amount outstanding. Such financial assets are initially measured at fair value with related transaction costs to be included in the initial recognition amount, and are subsequently measured at amortized cost. Except for those designated as hedged items, the difference between the initial amount and the maturity amount is amortized using the effective interest method, and the amortization, impairment, exchange gains or losses and gains or losses arising upon derecognition are included in the profit or loss for the period.



Notes to the Financial Statements

1 January 2018 to 31 December 2018

(Unless otherwise stated, notes to the financial statements are expressed in Renminbi Yuan)

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

10. Financial assets and financial liabilities (Continued)

(1) Financial assets (Continued)

1) Classification, recognition and measurement of financial assets (Continued)

The Group will classify financial assets that meet the following conditions into financial assets at fair value through other comprehensive income: ① the financial assets are managed within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets; and ② the contractual terms of the financial assets give rise on specific dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. Such financial assets are initially measured at fair value with related transaction costs to be included in the initial recognition amount. Except for those designated as hedged items, other gains or losses arising from such financial assets, other than credit impairment losses or gains, exchange gains or losses and interest on such financial assets calculated using the effective interest method, are recognized in other comprehensive income. Upon derecognition of the financial assets, the cumulative gains or losses previously included in other comprehensive income shall be transferred out and be included in the profit or loss for the period.

The Group recognizes interest income using the effective interest method. Interest income is calculated and determined by applying the effective interest rate to the carrying balance of the financial asset, except: ① for the purchased or internally generated credit-impaired financial assets, their interest income is calculated and determined based on amortized cost and credit-adjusted effective interest rate of such financial assets since the initial recognition; ② for the purchased or internally generated financial assets without credit-impairment but subsequently becoming credit-impaired, their interest income is calculated and determined based on amortized costs and effective interest rate of such financial assets in subsequent periods.

The Group designates the investments in equity instruments not held for trading as financial assets at fair value through other comprehensive income. Such designation cannot be revoked once made. The investments in equity instruments not held for trading designated as at fair value through other comprehensive income by the Group are initially measured at fair value with related transaction costs to be included in the initial recognition amount. Except for any received dividends (excluding those belonging to the recovery of the investment costs) which are included in the profit or loss for the period, other related gains or losses (including exchange gains and losses) are included in other comprehensive income and may not be transferred to the profit or loss for the period subsequently. Upon derecognition, the cumulative gains or losses previously included in other comprehensive income shall be transferred out and be included in retained earnings.

Other than the above financial assets classified as financial assets measured at amortized cost and financial assets at fair value through other comprehensive income, the Group classifies its financial assets as financial assets at fair value through profit or loss. Such financial assets are initially measured at fair value with related transaction costs to be directly included in profit or loss for the period. Gains or losses on such financial assets are included in profit or loss for the period.

Financial assets arising from contingent consideration recognized by the Group during the business combination not under common control, are classified as financial assets at fair value through profit or loss.



Notes to the Financial Statements

1 January 2018 to 31 December 2018

(Unless otherwise stated, notes to the financial statements are expressed in Renminbi Yuan)

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

10. Financial assets and financial liabilities (Continued)

(1) Financial assets (Continued)

2) Recognition and measurement of transfer of financial assets

The Group derecognizes financial assets if one of the following conditions is satisfied: ① the contractual rights to collect the cash flows from the financial asset expire; ② the financial asset has been transferred, and the Group has transferred substantially all the risks and rewards of ownership of the financial asset; and ③ the financial asset has been transferred, and the Group neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset, and it has not retained control over such financial asset.

If the transfer of an entire financial asset satisfies the conditions for derecognition, the difference between the carrying amount of the transferred financial assets and the sum of the consideration received from the transfer and the accumulative amount of the changes of the fair value originally included in other comprehensive income which shall be apportioned to the derecognized portion (where the contractual terms of the financial assets transferred give rise on specific dates to cash flows that are solely payments of principal and interest on the principal amount outstanding), are included into current profit or loss.

If the transfer of financial asset partially satisfies the conditions of derecognition, the entire carrying amount of the transferred financial asset is, between the portion which is derecognized and the portion which is not, apportioned according to their respective relative fair value, and the difference between the sum of the consideration received from the transfer and the accumulative amount of the changes of the fair value originally included in other comprehensive income which shall be apportioned to the derecognized portion (where the contractual terms of the financial assets transferred give rise on specific dates to cash flows that are solely payments of principal and interest on the principal amount outstanding the financial assets transferred are available-for-sale financial assets), and the apportioned entire carrying amount of the said financial assets are included into current profit or loss.



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IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

10. Financial assets and financial liabilities (Continued)

(2) Financial liabilities

1) Classification, recognition and measurement of financial liabilities

Financial liabilities of the Group are classified into financial liabilities at fair value through profit or loss and other financial liabilities at initial recognition.

Financial liabilities at fair value through profit or loss include held-for-trading financial liabilities and financial liabilities designated as measured at fair value through profit or loss at initial recognition. They are subsequently measured at fair value. Gains or losses arising from changes in fair value, as well as dividends and interest expenditure related to such financial liabilities are recorded in profit or loss for the period.

Other financial liabilities are subsequently measured at amortized cost by using the effective interest method. Except for the following items, the Group classifies its financial liabilities as those measured at amortized cost: ① financial liabilities at fair value through profit or loss, including held-for-trading financial liabilities (inclusive of derivatives of such financial liabilities) and financial liabilities designated as measured at fair value through profit or loss. ② financial liabilities arising from financial assets of which the transfer does not meet the conditions for derecognition or continuing involvements in the transferred financial assets. ③ financial guarantee contracts that do not fall within the range of ① or ②, and loan commitments that do not fall within the range of above ① and are at a rate less than the market interest rate.

Financial liabilities arising from contingent consideration recognized by the Group as the purchaser during the business combination not under common control, are accounted for at fair value through profit or loss.

2) Derecognition conditions of financial liabilities

When the present obligation of such financial liability was wholly or partially discharged, that financial liability or the discharged obligation shall be derecognised. If the Group and a creditor enter into an agreement to replace the existing financial liability with a new financial liability on substantially different terms, the existing financial liability shall be derecognized, whereas the new financial liability shall be recognized. Where the Group made substantial modifications to the terms of the existing financial liabilities in whole or in part, it derecognizes the existing financial liability in whole or in part and recognizes the financial liability with the revised terms as a new financial liability. The difference between the book value of the derecognized part of financial liability and the consideration paid is included in profit or loss for the period.



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IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

11. Receivables

The Group recognizes the lifetime expected loss for receivables at initial recognition by using the simplified approach. The Group will measure loss allowance based on the lifetime expected credit loss regardless of any significant financing activity.

If the expected credit losses of one individual financial asset cannot be estimated at a reasonable cost, the Group groups receivables according to credit risk characteristics and calculates expected credit losses on a grouping basis. The criteria for grouping are as follows:

Group I with relatively low unrecoverability risk, such as reserves, deposits, sureties and amounts due to/from related parties

Group II determined by aging analysis (i.e. within 1 year, 1 to 2 years, 2 to 3 years, and over 3 years)

For the grouped receivables, by making reference to the experience of historical credit losses and giving consideration to the current situation and the forecast of the future economic situation, the Group prepares a comparison table specifying the aging and the lifetime expected credit loss rates of such receivables to calculate the expected credit loss. The comparison table is based on the historical default rates of such receivables observed during their expected repayment period and is adjusted for the prospective projection. The observed historical default rates are updated on each reporting date and analyzed in light of any change of prospective projection.

12. Inventories

The Group's inventories mainly include goods in stock and goods sold. The inventories are recognized at the actual cost when acquired. Actual cost is determined using weighted average method when the inventories are consumed or issued. Low-value consumables are amortized using one-off write-off method.

At the balance sheet date, inventories are recognized at the lower of cost and net realizable value. If the cost of inventories is higher than the net realizable value for reasons like the inventories being damaged, becoming completely or partially obsolete or being sold at a price lower than cost, the provision for impairment loss of inventories shall be made at the difference between the net realizable value of the inventory and the cost on an item-by-item basis.

The net realizable value is determined based on the estimated selling price of such inventories after deducting its estimated selling costs and relevant taxes in the normal production and operation process of goods in stock.

The Group maintains a perpetual inventory system.



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IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

13. Contract assets

(1) *Recognition methods and standards of contract assets*

Contract assets represent the rights of the Group to receive consideration from customers (depending on factors other than the passage of time) for the transferred goods. If the Group sells two distinctive goods to customers, in the case that it has the right to receive customer's payment for the delivery of one of two goods while such right to payment is subject to the delivery of the other, the Group will present such right to payment as contract assets.

(2) *Determination methods and accounting methods for expected credit loss of contract assets*

For the determination methods for expected credit loss of contract assets, please see "11. Receivables" above.

As for accounting methods, in the event that the expected credit loss of contract assets calculated by the Group at the balance sheet date is higher than the current book value of the provision for the impairment of contract assets, the Group will recognize such difference as impairment loss which will be debited to "Impairment loss of credits" and credited to "Provision for the impairment of contract assets". Otherwise, the Group will recognize such difference as impairment gain and make an opposite accounting record.

When the Group suffers an actual credit loss and relevant contract assets are considered to be unrecoverable, conditional upon approval on write-off, such credit loss will be debited to "Provision for the impairment of contract assets" and credited to "Contract assets" at the write-off amount as approved. If the write-off amount is higher than the loss allowance provided for, such difference will be debited to "Impairment loss of credits".

14. Contract costs

(1) *Recognition methods for the amount of assets related to contract costs*

The Group's assets related to contract costs comprise contract performance cost and contract acquisition cost.

The cost incurred by the Group to perform a contract which does not fall under the scope of other Accounting Standards for Enterprises and meets all of the following conditions, is recognised as an asset as contract performance cost: such cost directly relates to an existing or expected contract, including direct labour, direct materials, manufacturing cost (or similar cost) or other costs expressly to be borne by customers and incidental only to the contract; such cost increases the resources of the Group for future performance obligations; and such cost is expected to be recoverable.

The incremental cost to obtain a contract of the Group which is expected to be recoverable is recognised as an asset as contract acquisition cost, provided that such asset is included in profit or loss for the period as incurred when the amortization period is no longer than one year. Incremental cost refers to the cost which will not be incurred by the Group had the contract had not been acquired, such as sales commissions. Other expenses incurred by the Group to obtain a contract (such as travel expenses to be incurred regardless of obtaining a contract or not and excluding the incremental cost expected to be recoverable) are included in profit or loss for the period as incurred, save for those expressly to be borne by customers.



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IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

14. Contract costs (Continued)

(2) *Amortization of assets related to contract costs*

The Group's assets related to contract costs are amortised on the same basis as those for the revenue from goods relating to such assets and included in profit or loss for the period.

(3) *Impairment of assets related to contract costs*

When recognizing the impairment loss of assets related to contract costs, the Group first recognizes the impairment loss for other assets related to the contract which are recognized according to other relevant Accounting Standards for Enterprises. Then, in the event that the book value of assets related to contract costs is higher than the excess of the remaining consideration expected to be obtained by the Group arising from the transfer of goods relating to such assets over the estimated cost to be incurred to transfer such goods, the provision for impairment shall be made for such excess and recognised as impairment loss of assets.

If the above-mentioned excess is higher than the book value of such assets as a result of any subsequent change of impairment factors in the previous period, the provision for impairment of assets previously made shall be reversed and included in profit or loss for the period as incurred to the extent that the book value of such assets upon reversal shall not be higher than that of such assets on the reversal date assuming no provision for impairment has been made.

15. Long-term equity investment

The long-term equity investment of the Group mainly refers to the investment in subsidiaries, investment in associates and investment in joint ventures.

The Group's basis for judgement in respect of common control is that all participating parties or a group of participating parties control such arrangement, and that policies on related business of such arrangement have to obtain unanimous agreement from all participating parties that collectively control such arrangement.

The Group directly or indirectly through its subsidiaries owns more than 20% (inclusive) but less than 50% of the voting right of the investee, which is usually deemed to have significant influence on the investee. For voting rights of less than 20% in the investee, significant influence over the investee will be judged by comprehensively taking into consideration of such facts and circumstances as dispatching representative to the Board or similar authority of the investee, or participating in the formulation process of financial and operation policies of the investee, or having major transactions with the investee, or sending management personnel to the investee or providing key technical information to the investee.

An investee that is under the control of the Group shall be deemed as a subsidiary of the Group. For long-term equity investment acquired through business combination under common control, the share of the book value of net assets of the combined party in the combined statement of the ultimate controlling party on the combination date shall be accounted for as the initial investment cost of the long-term equity investment. If the book value of net assets of the combined party on the combination date is negative, the cost of the long-term equity investment is determined as nil.



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IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

15. Long-term equity investment (Continued)

For equity in an investee under common control obtained in stages through multiple transactions, which results in business combination, supplementary disclosure to treatment methods of the long-term equity investment in the financial statements of the parent company shall be made in the reporting period of acquiring the control. For instance, for equity in an investee under common control obtained in stages through multiple transactions, which results in business combination, the Group will conduct accounting treatment on each transaction as one transaction which obtains control if the transactions belong to a package deal; if the transactions do not belong to a package deal, the share of the book value of net assets of the combined party in the combined financial statements of the ultimate controlling party upon the combination shall be deemed as the initial investment cost of the long-term equity investment on the combination date. The difference between the initial investment cost and the sum of the book value of long-term equity investment before the combination and the book value of newly-paid consideration for further acquisition of shares on the combination date shall be applied to adjust capital reserve. If the capital reserve is insufficient for offsetting, the retained earnings shall be offset.

For long-term equity investment obtained through business combination not under common control, combined cost shall be recognized as initial investment cost.

For equity in an investee not under common control obtained in stages through multiple transactions, which results in business combination, supplementary disclosure to treatment methods for long-term equity investment in financial statements of the parent company shall be made in the report period for acquiring the control. For instance, for equity in an investee not under common control obtained in stages through multiple transactions, which results in the business combination, the Group will conduct accounting treatment on each transaction as one transaction which obtains the control right if the transactions belong to a package deal. If the transactions do not belong to a package deal, the sum of the book value of equity investment held originally and additional investment costs shall be the initial investment cost whose calculation method is changed to cost method. If the equity held before the acquisition date is calculated by equity method, the related other comprehensive income originally calculated by equity method shall not be adjusted; and the accounting treatment shall be conducted as per the same basis as that of directly disposing of related assets or liabilities of the investee when disposing of the investment. If the equity held before the acquisition date is calculated by fair value in the investments in other equity instruments, the accumulative change in fair value originally included into other comprehensive income shall be transferred into the investment profit or loss for the period on the date of combination.

Apart from the long-term equity investments acquired through business combination mentioned above, for long-term equity investments acquired by cash payment, the investment cost is the actual amount of cash paid for the acquisition; for long-term equity investments acquired by issuing equity securities, the cost of investment is the fair value of the equity securities issued; for long-term equity investments invested by the investor, the investment cost is the agreed consideration under the investment contract or agreement.

The Group's investments in subsidiaries are accounted for using the cost method, and the investments in joint ventures and associates are accounted for using equity method.



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IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

15. Long-term equity investment (Continued)

For long-term equity investments for which the subsequent measurement is accounted for using the cost method, when additional investment is made, the book value of the long-term equity investment cost will be added according to the fair value of cost paid for additional investment and the related expenses incurred by related transactions. For cash dividend or profit declared and paid by the investee, it shall be recognized as its investment income for the period at the amount to which it entitles.

For long-term equity investment for which the subsequent measurement is accounted for using the equity method, the book value of long-term equity investment shall be increased or decreased accordingly according to the change in the owners' equity of the investee. In which, the attributable net profit or loss in the investee is recognized on the basis of the fair value of various identifiable assets in the investee at the time of acquisition and in accordance with the accounting policies and accounting period of the Group, based on the share attributable to the investor as calculated according to shareholdings, after elimination of the profit or loss for intra-group transactions with associates and joint ventures and after adjustment to the net profits of the investee.

On disposal of a long-term equity investment, the difference between the book value and the proceeds actually received shall be included in investment income for the period. If the long-term equity investment accounted for under the equity method is included in owners' equity due to the other changes in the owners' equity of the investee besides net profit and loss, the portion previously included in the owners' equity shall, when disposing of such long-term equity investment, be transferred to the profit or loss on investment for the period on a pro-rata basis.

Where the common control or significant influence over the investee is lost due to the partial disposal of equity investment, the residual equity after disposal will be calculated as per the investments in other equity instrument, the balance between the fair value and book value of such residual equity on the date when the common control or significant influence is lost shall be included in profit or loss for the period. Other comprehensive income recognized as a result of calculating original equity investment by equity method shall be accounted for on the same basis as that used by the investee to directly dispose of the relevant assets or liabilities when ceasing to use the equity method.

When the control over the investee is lost due to the partial disposal of long-term equity investment, for residual equity which still has common control or significant influence over the investee after disposal, it shall be accounted for under the equity method. Difference between the book value of equity disposed and the disposal consideration shall be included in investment income. Such residual equity shall be adjusted assuming that it is treated as being accounted for under the equity method since acquisition. For residual equity which cannot exercise common control or impose significant influence over the investee after disposal, it can be accounted for under relevant requirements for investments in other equity instrument, and the difference between book value of equity disposed and the disposal consideration shall be included in investment income, and the difference between fair value and the book value of residual equity on the date of loss of control shall be included in profit or loss on investment for the period.

For each transaction where equity is disposed by the Group in stages until loss of control and which does not belong to a package transaction, the accounting for each transaction shall be conducted separately. For the "package transaction", the accounting treatment shall be conducted on each transaction as the transaction that disposes of subsidiary with loss of control. However, before loss of control, the difference between disposal price for each transaction and the book value of corresponding long-term investment of the equity disposed of, shall be recognized as other comprehensive income, and, upon loss of control, shall be transfer to the profit or loss for the period when the control is lost.



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IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

16. Investment property

Investment property refers to those held by the Group for the purpose of rentals or capital appreciation, or both. Investment property of the Group includes the rented land use rights and rented buildings, etc. The Group shall measure the investment property by using the cost mode.

The investment property of the Group shall be depreciated or amortized on straight-line basis. The estimated useful life, net residual value rate and annual depreciation (amortization) rate of various investment properties are as follows:

No.	Category	Depreciation Period (year)	Estimated Residual Value Rate (%)	Annual Depreciation Rate (%)
1	Land use rights	remaining term upon transfer	0	–
2	Buildings and structures	30	5	3.17

17. Fixed assets

Fixed assets are tangible assets that are held for use in the production of goods, supply of labour, rental or operation management, with a unit value of more than \$2,000 and have a useful life of more than one accounting year. Fixed assets are recognized only when its related economic benefits are likely to flow into the Group and its cost could be reliably measured. Fixed assets are initially measured at cost and taking into account the effect of estimated costs of disposal.

For subsequent expenses related to fixed assets, if the economic benefits related to such fixed assets are likely to flow into the Group and its cost could be reliably measured, such expenses are included in the cost of fixed asset, and the book value of the replaced part will be derecognized. Save for the above, other subsequent expenses are included in profit or loss for the period in which they are incurred.



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IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

17. Fixed assets

Fixed assets are depreciated on straight-line basis over their useful life from the month after they are brought to working condition for the intended use. The useful life, estimated net residual value and annual depreciation rates of each category of fixed assets are as follows:

No.	Category	Depreciable Life (year)	Estimated Residual Value Rate (%)	Annual Depreciation Rate (%)
1	Buildings and structures	30	5	3.17
2	Machinery and equipment	10, 13, 15	0	10.00, 7.69, 6.67
3	Transportation facilities	8	0	12.5
4	Office equipment	3, 5	0	33.33, 20.00

Estimated net residual value is the amount that the Group would currently obtain from disposal of fixed asset after deducting the estimated costs of disposal, assuming such asset is out of its expected useful life and in the expected condition of ending its useful life.

A fixed asset is derecognized on disposal or when no economic benefits are expected from its use or disposal. When a fixed asset is sold, transferred, retired or damaged, the amount of any proceeds on disposal of the asset net of the book value and relevant taxes is included in profit or loss for the period.

The Group shall review the useful life, estimated net residual value and the depreciation method of a fixed asset at least at the end of each year, and account for any change as a change in accounting estimate.

18. Construction in progress

Construction in progress shall be transferred into fixed assets at the estimated value as per the project budget, construction prices or actual construction costs from the date when they are ready for intended use, and be depreciated from the next month and be adjusted for difference from the original value of fixed asset after the completion settlement procedures.

19. Borrowing costs

For borrowing costs incurred that are directly attributable to fixed asset, investment property and inventory which are ready for their intended use or sale after activities related to their acquisition, construction or production last for more than one year, capitalization shall commence when expenditures for the asset and borrowing costs have been incurred, and activities relating to the acquisition, construction or production of the asset that are necessary for the asset to be ready for its intended use or sale have begun; and capitalization shall be ceased when the acquired, constructed or produced qualifying asset for capitalization is ready for its intended use or sale, and borrowing costs subsequently incurred shall be recognized in profit or loss for the period. If acquisition, construction or production of a qualifying asset for capitalization is interrupted abnormally, and the interruption lasts for more than 3 months, the capitalization of borrowing costs shall be suspended until the acquisition, construction or production activities of the asset are resumed.



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IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

19. Borrowing costs (Continued)

Where borrowings are borrowed for a specific purpose, the amount of interest to be capitalized shall be the actual interest expense incurred on that borrowing for the period less any bank interest earned from depositing the unutilized borrowed funds in banks or any investment income on the temporary investment of those borrowings. Where borrowings are borrowed for general purpose, the amount to be capitalized is determined on multiplying the weighted average of the excess amount of accumulated asset expense over the amount of specific-purpose borrowings by capitalization rate of general-purpose borrowings occupied. The capitalization rate shall be determined based on the weighted average interest rates applicable to the general-purpose borrowings.

20. Intangible assets

The Group's intangible assets include land use right, software and software license, etc. Intangible assets are measured at the actual costs upon acquisition, of which the purchased intangible assets, actual paid cost and other relevant expenses are presented as the actual costs. For intangible assets invested by investors, the actual costs are determined according to the values specified in the investment contract or agreement, for the unfair values agreed in contract or agreement, the actual costs are determined at the fair value. For the intangible asset acquired from combination not under common control which is owned by the acquiree but is not recognized in the financial statements, it shall be recognized as intangible asset at its fair value upon the initial recognition of the acquiree's assets.

The land use right shall be evenly amortized over its remaining term when it is obtained from the date of transfer. The software and software use rights are amortized evenly by stages over the shortest of estimated useful life, beneficial term stipulated by contract and legal effective term. The amortization amount is credited into relevant asset cost and profit or loss for the period according to its beneficiaries. The Group reviews the estimated useful life and amortization method of intangible assets with limited useful life at the end of each year, and any changes will be treated as changes on accounting estimates.

21. Impairment of long term assets

The Company reviews items such as long term equity investments, investment properties, fixed assets and construction in progress measured by the cost model, productive biological assets measured by the cost model, oil and gas assets, intangible assets with definite useful life, etc. on each balance sheet date. The Group conducts impairment test when there is any indication of impairment. Goodwill and intangible assets with indefinite useful life are tested at the end of each year for impairment, whether indication of impairment exists or not.

If the book value of such asset exceeds its recoverable amount after impairment test, the difference is recognized as impairment loss. The above impairment losses shall not be reversed in subsequent accounting periods once recognized.

22. Long-term deferred expenses

Long-term deferred expenses of the Group include expenses for building renovation, renewal of RF insurance, and system maintenance, etc. Such expenses are amortized evenly over periods in which benefits are derived. If the long-term deferred expenses are no longer beneficial in subsequent accounting periods, the amortized value of the unamortized item is transferred in full to profit or loss for the period.



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IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

23. Contract liabilities

Contract liabilities reflect the Group's obligation to transfer goods to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer. Before the Group transfers goods to a customer, the customer has already paid the contract consideration, or the Group has obtained unconditional right to receive the contract consideration. At the earlier of the date of actual payment from the customer and the due date of payment, contract liabilities were recognized in accordance with the amount received or receivable.

24. Staff remuneration

Staff remuneration are all forms of rewards or compensations given by the Group in exchange for services rendered by employees or for the termination of employment relationship. Staff remuneration includes short-term remuneration, post-employment benefits, termination benefits and other long-term employee benefits.

Except for the compensation for terminating the relationship with employees, the Group shall recognize the staff remuneration payable as a liability during the accounting period in which an employee renders his/her service.

The Group participates in social security systems for employees operated by the government authorities according to the regulations, including basic pension insurance, medical insurance, housing provident fund and other social security systems. The corresponding expenses shall be included in the cost of related assets or profit or loss for the period when incurred.

When the Group terminates the employment relationship with employees before the expiry of the employment contracts or provides compensation as an offer to encourage employees to accept voluntary redundancy, if the Group has a formal plan for the termination of employment relationship or has made an offer for voluntary redundancy which will be implemented soon, and the Group cannot unilaterally withdraw the termination plan or the redundancy offer, the compensation payable arising from the termination of employment relationship with employees is recognized as expected liability and included in profit or loss for the period.

Short-term remuneration refers to the employee compensation other than post-employment benefits and termination benefits, which are required to be fully paid by the Group within 12 months after the end of the annual reporting period in which the employees rendered relevant services. In particular, short-term remuneration includes staff salaries, bonuses, allowances and subsidies, staff welfare payments, social insurance premiums including medical insurance premiums, work injury insurance premiums and maternity insurance premiums, housing provident fund, labour union expenses and staff education expenses, short-term paid leaves, short-term benefits sharing scheme, non-monetary welfare and other short-term remuneration. During the accounting period in which the employees render services, the Group recognizes the short-term remuneration payable as liabilities and includes them into relevant asset costs or expenses according to the beneficiaries of the services rendered by employees.

Post-employment benefit refers to all kinds of remunerations and benefits other than short-term remuneration and termination benefits that are provided by the Group after the retirement of the employees or termination of employment relation with the enterprises in exchange for services rendered by employees. The post-employment benefits include basic pension insurance, annuity, unemployment insurance, early retirement benefits and other post-employment benefits.



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IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

24. Staff remuneration (Continued)

The Group categorizes the post-employment benefits as defined contribution plan and defined benefit plan. Post-employment benefit refers to the agreement reached between the Group and its employees on the post-employment benefits or the rules or measures formulated by the Group for providing post-employment benefits for its employees. In which, defined contribution plan refers to the post-employment benefit plan under which the Group assumes no obligation of making further payment after depositing fixed amount to independent funds; defined benefit plan refers to the post-employment benefit plan other than defined contribution plan. Within the accounting period in which the employees render services to the Group, contributions payable under defined contribution plan are recognized as liabilities and accounted for in profit and loss or the cost of related assets for the period

Termination benefits are the compensation to employees when the Group terminates the employment relationship with employees before the expiry of the employment contracts or as an offer to encourage employees to accept voluntary redundancy. If the Group provides termination benefits to the employees, the liabilities arising from termination benefits will be recognized and included in profit or loss for the period at the earlier of the following dates: ① when the Group cannot unilaterally withdraw termination benefits for the employment termination plan or the redundancy offer; and ② when the Group recognizes the costs or expenses related to the reorganization involving in payment of termination benefits.

Other long-term employee benefits refer to the employee compensation except for short-term compensation, post-employment benefits and termination benefits.

25. Share-based payment

Equity-settled share-based payments in exchange for services rendered by employees are measured at the fair value of equity instruments granted to employees on the grant date. Where the amount of fair value is only vested after services for the pending period are completed or specific performance conditions are met, the amount of such fair value, based on the best estimates of the number of equity instruments that can be vested, is included in relevant costs or expenses using the straight-line method during the pending period, with increase in capital reserve accordingly.

Cash-settled share-based payment should be measured in accordance with the fair value of liability recognized based on the shares or other equity instruments and undertaken by the Group. If being vested immediately after the grant, the fair value of liability undertaken shall, on the date of grant, be included in relevant costs or expenses, and the liabilities shall be increased accordingly; if being vested only after services for the pending period are completed or after the specified performance conditions are met, on each balance sheet date within the pending period, the services obtained in the period shall, based on the best estimate of the vesting conditions, be included in relevant costs or expenses at the fair value of the liability undertaken by the Group, and the liabilities shall be adjusted accordingly.

On each balance sheet date and each settlement date prior to the settlement of the relevant liabilities, fair value of the liabilities shall be re-measured and the changes thereof shall be included in profit or loss for the period.

If the Group cancels the equity instruments granted in the pending period (except for those cancelled due to unfulfillment of the vesting conditions), such cancellation shall be treated as accelerated vesting as that share-based payment plan in the remaining pending period has fully met the vesting conditions; and the Group will recognize all expenses for the remaining pending period in the period when the equity instruments granted were cancelled.



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IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

26. Recognition principle and measurement of income

Revenue is recognized when the Group satisfies the performance obligation in the contract by transferring the control over relevant goods or services to customers.

Where two or more performance obligations are included in a contract, at the commencement date of the contract, the Group will allocate the transaction price to each performance obligation on the proportion of the standalone selling prices of each distinct good or service promised, and measure the revenue based on the transaction price being allocated to each performance obligation.

The transaction price is the amount of consideration to which the Group expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties. The transaction price recognized by the Group shall not exceed the amounts that are most unlikely to have a significant reversal for accumulated recognized income when the relevant uncertainties are resolved. The amount which the Group expects to refund to the customer is recognized as liabilities and excluded from transaction price. Where the contract contains a significant financing component, the Group determines the transaction price as the amount payable in cash by a customer when he/she obtains the control of the goods or services. The difference between the transaction price and the consideration of the contract is amortized using effective interest method over the contract term. The Group will not consider a significant financing component in a contract if it expects, on the inception date of the contract, that the period between the obtaining of the control of the goods or services by a customer and the payment by the customer will be one year or less.

The Group satisfies a performance obligation over time if one of the following criteria is met; or otherwise, a performance obligation is satisfied at a point in time:

The customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs; the customer can control the services (or goods) provided during the Group's performance; the services (or goods) provided during the Group's performance does not create an asset with an alternative use and the Group has a right to payment for performance completed to date in the contract period.

For performance obligation satisfied over time, the Group recognizes revenue over time by the progress of the satisfaction of that performance obligation. When the progress of that performance obligation cannot be measured reasonably, but the Group expects to recover the costs incurred in satisfying the performance obligation, the Group recognizes revenue as the costs incurred until such time that it can reasonably measure the progress of the performance obligation.

For performance obligation satisfied at a point in time, the Group recognizes revenue at the point in time at which the customer obtains the control of relevant goods or services. To determine whether a customer has obtained the control of goods or services, the Group considers the following indicators:

The Group has a present right to payment for the goods or services; the Group has transferred physical possession of the goods to the customer;

The Group has transferred the legal title of the goods or the significant risks and rewards of ownership of the goods to the customer; the customer has accepted the goods or services.



Notes to the Financial Statements

1 January 2018 to 31 December 2018

(Unless otherwise stated, notes to the financial statements are expressed in Renminbi Yuan)

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

26. Recognition principle and measurement of income (Continued)

The rights of the Group to receive consideration from customers (depending on factors other than the passage of time) for the transferred goods or services is presented as contract assets which is provided for impairment on the basis of expected credit losses. The Group's unconditional right (only the passage of time is required) to consideration from customer is presented as receivables. The Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer is presented as contract liability.

The income of the Group includes income from the sales of goods, income from provision of advisory services. The following is the description of accounting policies regarding income from its principal activities:

The specific income recognition policy for the Group's products: the Group entered into a sales contract with the customer while the counterparty shall, within 3 days after receipt of the goods, inspects and accepts according to the product quality requirements and the GSP acceptance criteria. Overdue acceptance is deemed to constitute standard product. The fact that the goods provided are not in conformity with the order, damage, pollution, expiration, etc., shall be submitted to the Group within 3 days after the goods have been received, and detailed information shall be provided. If the responsibilities rest with the Company after verification, the return procedures will commence upon confirmation. Based on the above terms, the Group recognizes the income 3 days after the goods were shipped (which shall be deemed to have transferred the control thereof to the customer) for the sake of prudence.

The specific income recognition policies for the Group's service fees: income of the Company's other business is mainly the advisory service income from provision of brand promotion, product marketing, etc. for some pharmaceutical manufacturers and distributors. The advisory service fee is charged on the specific service content provided according to the service agreement signed, which is independent of the product procurement contract. The income will be recognized by the Company after the end of the evaluation period of provision of advisory service to the extent that payment from the customers is received or it is determined that the amount can be fully received.

27. Government grants

Government grants are monetary and non-monetary assets received by the Group from the government with no charge. Government grants shall be recognized when the attaching conditions thereto can be met and the grants can be received. The government grants of the Group include the government subsidies related to the assets and the revenue.

If a government grant is in the form of a monetary asset, it is measured at the amount received; If the grants are allocated in accordance with fixed quotas, or if there is sufficient evidence at the end of the year to show that the entity complies with the relevant conditions of financial supporting policies and it is expected to receive financial supporting funds, the grants shall be measured at the amount receivable; If a government grant is in the form of a non-monetary asset, it is measured at fair value, and if the fair value could not be reliably obtained, it is measured at its nominal amount (RMB1).

The government grants related to assets are recognized as deferred revenue and are amortized equally over the useful life of the relevant assets and included in the profit or loss for the period. When the government grants related to the revenue are used to make up the relevant expenses or losses incurred in subsequent periods, they shall be recognized as deferred revenue and shall be included in the profit or loss for the period during the period in which relevant expenses are recognized. When the government grants are used to make up the relevant expenses or losses incurred, they shall be directly included in the profit or loss for the period.



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(Unless otherwise stated, notes to the financial statements are expressed in Renminbi Yuan)

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

27. Government grants (Continued)

The government grants related to business activities of an enterprise are recognized as other income or a reduction of relevant costs and expenses in the light of the nature of such business. The government grants non-related to business activities of an enterprise are recognized as non-operating income or expense.

28. Deferred income tax assets and deferred income tax liabilities

Deferred income tax assets and deferred income tax liabilities of the Group are calculated and recognized based on the difference (temporary differences) between tax bases and carrying amounts of assets and liabilities. Deferred income tax asset is recognized for the deductible losses that are deductible against taxable profit in subsequent years in accordance with the requirements under tax laws. No deferred tax liability is recognized for temporary difference arising from initial recognition of goodwill. No deferred income tax assets or deferred income tax liabilities are recognized for a temporary difference arising from initial recognition of asset or liability due to a transaction other than a business combination, which affects neither accounting profit nor taxable profit (or deductible loss). At balance sheet date, deferred income tax assets and deferred income tax liabilities are measured at the applicable tax rates for the period when the asset is expected to be recovered or the liability is expected to be settled.

The Group shall recognize the deferred income tax assets to the extent that it is probable that future taxable profit will be available against which any deductible temporary difference, deductible loss or tax deduction can be utilized.

29. Leasing

The leasing business of the Group comprises leasing of warehouses and offices and so on.

If the Group is the lessee of financial lease, at the inception date of the lease, the lower of the fair value of the leased assets at the inception date of the lease and the present value of the minimum lease payment is accounted for as fixed assets acquired under financial lease, and the minimum lease payment is accounted for as long-term payables. The difference between such two values is accounted for as unrecognized financing cost.

As the lessor of financial lease, the Group shall recognise rental expense as relevant asset cost or profit or loss for the period on a straight-line basis over the lease terms.

30. Discontinued operation

Discontinued operation refers to a component of the Group which meets one of the following requirements and can be distinguish separately and has been already disposed of or classified as held-for-sale: (1) the component represents an independent major line of business or a major independent geographical area of operations; (2) the component is part of a plan for the contemplated disposal of an independent major line of business or a major independent geographical area of operations; (3) the component is a subsidiary acquired exclusively for the purpose of resale.



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(Unless otherwise stated, notes to the financial statements are expressed in Renminbi Yuan)

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

31. Changes of Significant Accounting Policies and Accounting Estimates

(1) Changes of Significant Accounting Policies

- ① The New Standards of Financial Instruments revised Accounting Standards for Enterprises No. 22 – Recognition and Measurement of Financial Instruments, Accounting Standards for Enterprises No. 23 – Transfer of Financial Assets and Accounting Standards for Enterprises No. 24 – Hedge Accounting issued by the Ministry of Finance in 2006, and Accounting Standards for Enterprises No. 37 – Presentation of Financial Instruments revised by the Ministry of Finance in 2014 (collectively “Original Standards of Financial Instruments”). In terms of the classification and measurement of financial assets, in accordance with the New Standards of Financial Instruments, an entity shall classify financial assets as the following three categories: “financial assets measured at amortised cost”, “financial assets measured at fair value through other comprehensive income” and “financial assets measured at fair value through profit or loss for the period” on the basis of the contractual cash flow characteristics of the financial assets and the entity’s business model for managing the financial assets. The original classifications of financial assets, such as loans and receivables, held-to-maturity investments and available-for-sale financial assets are no longer adopted. For investments in equity instruments, they are generally classified as financial assets measured at fair value through profit or loss for the period, and for investments in unquoted equity instruments, the entity is allowed to designate them as financial assets measured at fair value through other comprehensive income provided that such designation is irrevocable and the accumulated changes in fair value initially recorded in other comprehensive income cannot be carried forward to profit or loss for the period at disposal. The implementation of the New Standards of Financial Instruments has no material impact on the Group.
- ② In terms of the impairment of financial assets, the New Standards of Financial Instruments on impairment are applicable to financial assets measured at amortised cost or at fair value through other comprehensive income, trade receivables, contract assets and the specific but not withdrawn loan commitment. The New Standards of Financial Instruments require to replace the previous incurred credit loss model with the expected credit loss model. The new impairment model requires adoption of a three-phase model, credit loss provision is made based on expected credit losses within 12 months or during the entire life according to whether the credit risks of relevant items have been increased significantly since the initial recognition. There is simplified method for the trade receivables whereby impairment provision is allowed to be recognized according to the expected credit losses during the entire life all along. The Group calculated the cumulative amount affected by the first implementation of the New Standards of Financial Instruments by replacing previous occurred credit loss model with expected credit loss model, and there was no significant difference with previous recognized impairment provision. Therefore the implement of New Standards of Financial Instruments by the Group has neither significant effect to the retained profit and other comprehensive income on 1 January 2018 nor significant effect to 2018 and previous year’s financial statements.



Notes to the Financial Statements

1 January 2018 to 31 December 2018

(Unless otherwise stated, notes to the financial statements are expressed in Renminbi Yuan)

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

31. Changes of Significant Accounting Policies and Accounting Estimates (Continued)

(1) Changes of Significant Accounting Policies (Continued)

- ③ The Group implemented the New Revenue Standard since 1 January 2018. The New Revenue Standard introduced five-step method to revenue recognition measurement and added more guidelines in respect of specific transactions (or events). For details of the Group's accounting policies on revenue recognition and measurement, please refer to Note IV. The New Revenue Standard requires the cumulative amount affected by the first implementation of the New Revenue Standard shall be adjusted against the opening (i.e. 1 January 2018) balances of the retained profit and other related items in the financial statements, while the information of the comparative period shall not be adjusted. Pursuant to the requirements of the New Standard, the Group redefined the timing of revenue recognition. The implementation of the New Standard has no significant effect on 2018 and previous year's financial statements either after comparing with the previous revenue standard by testing.
- ④ The Group implemented the Notice on Revising and Issuing the Format of Financial Statements of General Enterprises for the year of 2018 (《關於修訂印發2018年度一般企業財務報表格式的通知》) (Cai Kuai [2018] No. 15, hereinafter referred to as the "Cai Kuai Document No. 15") issued by the Ministry of Finance on 15 June 2018 since the preparation of 2018 annual financial statement. Cai Kuai Document No. 15 has amended the reporting items in Balance Sheet and Income Statement by adding "bills receivables and trade receivables", "bills payables and trade payables", "research and development expenses", amending the reporting contents under the items of "other receivables", "fixed assets", "Construction in process", "other payables", "long-term payables", "management expenses", removed "bills payables", "trade payables", "dividend receivables", "interests receivables", "liquidation of fixed assets", "construction materials", "bills payables", "trade payables", "interests payables", "dividend payables" and "special payables", adding "among: interests expenses" and "interests income" under the item of "finance expenses", and adjusting the reporting position of part of the Income Statement. In respect of the change of above reporting items, the Group adopted retrospective adjustment approach for accounting treatment purposes and made adjustment to the previous year's comparing information retrospectively.

(2) Changes of Significant Accounting Estimates

There is no change in the significant accounting estimates of the Group for the reporting period.



Notes to the Financial Statements

1 January 2018 to 31 December 2018

(Unless otherwise stated, notes to the financial statements are expressed in Renminbi Yuan)

V. TAXATION

1. Main types of tax and tax rates

Type of Tax	Tax basis	Tax rate
VAT	Taxable income	3%, 6%, 10%, 11%, 16%, 17%
Urban maintenance and construction tax	Amount of actual payable turnover tax	7%
Education surcharge	Amount of actual payable turnover tax	3%
Local education surcharge	Amount of actual payable turnover tax	2%
Tax on land use	Land area	fixed rate
Property taxes	70% of original value of the properties or rental income	1.2% or 12%
Enterprise income tax	Amount of taxable income	25%

Note: Pursuant to the Article 15 of the Provisional Regulations on VAT of the PRC (《中華人民共和國增值稅暫行條例》) (Order No. 538 of the State Council of the People's Republic of China) and approved by the State Taxation Bureau in the countries where the companies of the Group are incorporated, the contraceptive products of the Group are exempt from VAT.

VI. NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS

For data in the financial statements as disclosed below, “beginning of the year” represents 1 January 2018, “end of the year” represents 31 December 2018, “the year” represents from 1 January 2018 to 31 December 2018, “previous year” represents from 1 January 2017 to 31 December 2017, and the monetary unit shall be RMB, unless specified otherwise.

1. Monetary funds

Items	Closing balance			Opening balance		
	Original currency	Exchange rate	RMB Equivalent	Original currency	Exchange rate	RMB Equivalent
Cash on hand			305,938.89			202,101.04
RMB	305,938.89	1.0000	305,938.89	202,101.04	1.0000	202,101.04
Cash in bank			55,432,847.13			74,894,835.41
RMB	55,047,444.86	1.0000	55,047,444.86	74,527,143.66	1.0000	74,527,143.66
HKD	439,856.51	0.8762	385,402.27	439,870.02	0.8359	367,691.75
Other monetary funds			372,862,505.22			437,316,459.26
RMB	372,862,505.22	1.0000	372,862,505.22	437,316,459.26	1.0000	437,316,459.26
Total			428,601,291.24			512,413,395.71

Note: The balance of utilized restricted funds for the issuance of bills business and loan business at the end of the period was RMB372,862,505.22. At the end of the period, total monetary funds deposited overseas was RMB395,813.65.



Notes to the Financial Statements

1 January 2018 to 31 December 2018

(Unless otherwise stated, notes to the financial statements are expressed in Renminbi Yuan)

VI. NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

2. Bills receivables and trade receivables

Item	Balance as at the end of the year	Balance as at the beginning of the year
Bills receivables	35,900,330.74	87,683,853.38
Trade receivables	792,072,666.93	882,570,454.98
Total	827,972,997.67	970,254,308.36

2.1 Bills receivables

(1) Classification of bills receivable

Item	Balance as at the end of the year	Balance as at the beginning of the year
Bank acceptance bills	31,924,545.23	49,483,853.38
Commercial drafts	3,975,785.51	38,200,000.00
Total	35,900,330.74	87,683,853.38

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

Item	Pledged amount as at the end of the year
Bank acceptance bills	30,393,653.82
Commercial drafts	
Total	30,393,653.82



Notes to the Financial Statements

1 January 2018 to 31 December 2018

(Unless otherwise stated, notes to the financial statements are expressed in Renminbi Yuan)

VI. NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

2. Bills receivables and trade receivables (Continued)

2.1 Bills receivables (Continued)

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

Item	Amount derecognized as at the end of the year	Amount not derecognized as at the end of the year
Bank acceptance bills Commercial drafts	355,412,974.47	
Total	355,412,974.47	

(4) Bills receivables discounted but not mature at the balance sheet date, as at the end of the year

Item	Amount derecognized as at the end of the year	Amount not derecognized as at the end of the year
Bank acceptance bills Commercial drafts	186,099,333.72	
Total	186,099,333.72	

(5) As at the end of the year, no bills were reclassified to trade receivables due to inability of the issuers to settle the bills.

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



Notes to the Financial Statements

1 January 2018 to 31 December 2018

(Unless otherwise stated, notes to the financial statements are expressed in Renminbi Yuan)

VI. NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

2. Bills receivables and trade receivables (Continued)

2.2 TRADE RECEIVABLES

Name of item	Balance as at the end of the year	Balance as at the beginning of the year
Trade receivables	805,660,132.30	894,355,187.94
Less: Provision for bad debts	13,587,465.37	11,784,732.96
Net amount	792,072,666.93	882,570,454.98

(1) *Aging analysis of trade receivables*

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 term is generally six months. As for commodity sales, the trade receivables and operating revenue is recognized and the age of which is calculated after the main risks and rewards related to the ownership of goods have been transferred to the buyers;

Age	Balance as at the end of the year			Balance as at the beginning of the year		
	Carrying amount	Percentage (%)	Provision for bad debts	Carrying amount	Percentage (%)	Provision for bad debts
Within 1 year	773,997,564.44	96.07	2,428,056.64	882,682,889.70	98.70	4,521,787.42
1 to 2 years	23,317,010.64	2.90	2,918,001.63	8,965,313.46	1.00	4,562,082.18
2 to 3 years	5,836,096.71	0.72	5,731,946.59	163,703.05	0.02	157,581.63
More than 3 years	2,509,460.51	0.31	2,509,460.51	2,543,281.73	0.28	2,543,281.73
Total	805,660,132.30	100.00	13,587,465.37	894,355,187.94	100.00	11,784,732.96



Notes to the Financial Statements

1 January 2018 to 31 December 2018

(Unless otherwise stated, notes to the financial statements are expressed in Renminbi Yuan)

VI. NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

2. Bills receivables and trade receivables (Continued)

2.2 TRADE RECEIVABLES (Continued)

(2) Classification of trade receivables

Classification	Balance as at the end of the year				Book value
	Carrying amount		Provision for bad debts		
	Amount	Percentage (%)	Amount	Lifetime expected credit loss rate (%)	
Bad debt provision made on individual basis	8,468,876.90	1.05	8,468,876.90	100.00	
Bad debt provision made on group basis	797,191,255.40	98.95	5,118,588.47	0.64	792,072,666.93
Account age combination	797,191,255.40	98.95	5,118,588.47	0.64	792,072,666.93
Total	805,660,132.30	100.00	13,587,465.37	-	792,072,666.93

Classification	Balance as at the beginning of the year				Book value
	Carrying amount		Provision for bad debts		
	Amount	Percentage (%)	Amount	Lifetime expected credit loss rate (%)	
Bad debt provision made on individual basis	11,594,985.28	1.30	7,361,450.71	63.49	4,233,534.57
Bad debt provision made on group basis	882,760,202.66	98.70	4,423,282.25	0.50	878,336,920.41
Account age combination	882,760,202.66	98.70	4,423,282.25	0.50	878,336,920.41
Total	894,355,187.94	100.00	11,784,732.96	-	882,570,454.98



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VI. NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

2. Bills receivables and trade receivables (Continued)

2.2 TRADE RECEIVABLES (Continued)

(2) Classification of trade receivables (Continued)

1) Bad debt provision for trade receivables made on individual basis

Company name	Balance as at the end of the year			Reasons for provision
	Trade receivables	Provision for bad debt	Lifetime expected credit loss rate (%)	
Guangdong Wei'er kang Pharmaceutical Co., Ltd. (廣東為爾康醫藥有限公司)	5,592,584.15	5,592,584.15	100.00	Default in overdue goods payment, weak repaying capability of the counterpart
Fujian Minzhe Pharmaceutical Co., Ltd. (福建省閩浙醫藥有限責任公司)	2,010,786.55	2,010,786.55	100.00	Court's ruling in favour of the Company, outstanding amounts due to weak repaying capability of the counterpart
Shenzhen Jinshoukang Pharmaceutical Co., Ltd. (深圳市金壽康藥業有限公司)	349,415.92	349,415.92	100.00	Default in overdue goods payment, weak repaying capability of the counterpart
Ningde Xianghe Pharmaceutical Chain Co., Ltd. (寧德市祥和醫藥有限責任公司)	271,939.56	271,939.56	100.00	No cooperation relationship subsisting, low expected recoverability
Jiangxi Jinsheng Medicine Limited (江西金盛醫藥有限公司)	104,626.38	104,626.38	100.00	No cooperation relationship subsisting, low expected recoverability
The First People's Hospital of Jinping District in Shantou (汕頭市金平區第一人民醫院)	65,488.50	65,488.50	100.00	No cooperation relationship subsisting, low expected recoverability
Chaozhou Central Hospital (潮州市中心醫院)	21,096.40	21,096.40	100.00	No cooperation relationship subsisting, low expected recoverability
People's Hospital of Longhu District in Shantou (汕頭市龍湖區人民醫院)	15,772.68	15,772.68	100.00	No cooperation relationship subsisting, low expected recoverability
The First Affiliated Hospital of Shantou University Medical College (汕頭大學醫學院第一附屬醫院)	15,340.34	15,340.34	100.00	No cooperation relationship subsisting, low expected recoverability
Shantou Chaoyang District Chinese Medicine Hospital (汕頭市湖陽區中醫醫院)	4,931.74	4,931.74	100.00	No cooperation relationship subsisting, low expected recoverability



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VI. NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

2. Bills receivables and trade receivables (Continued)

2.2 TRADE RECEIVABLES (Continued)

(2) Classification of trade receivables (Continued)

1) Bad debt provision for trade receivables made on individual basis (Continued)

Company name	Balance as at the end of the year			Reasons for provision
	Trade receivables	Provision for bad debt	Lifetime expected credit loss rate (%)	
People's Hospital of Chaonan District in Shantou (汕頭市潮南區人民醫院)	4,697.76	4,697.76	100.00	No cooperation relationship subsisting, low expected recoverability
Fujian Union Pharmaceutical Co., Ltd. (福建省協聯醫藥有限公司)	3,441.57	3,441.57	100.00	No cooperation relationship subsisting, low expected recoverability
Shantou Haojiang District Zhupu Hospital (汕頭市濠江區珠浦醫院)	1,846.52	1,846.52	100.00	No cooperation relationship subsisting, low expected recoverability
Zhejiang Tongtaitang Pharmaceutical Co., Ltd. (浙江同泰堂藥品有限公司)	1,759.50	1,759.50	100.00	No cooperation relationship subsisting, low expected recoverability
Joint Shantou International Eye Center of Shantou University and The Chinese University of Hong Kong (汕頭大學 - 香港中文大學聯合汕頭國際眼科中心)	1,395.33	1,395.33	100.00	No cooperation relationship subsisting, low expected recoverability
Jiangxi Xinde Pharmaceutical Co., Ltd. (江西信德醫藥有限公司)	1,034.90	1,034.90	100.00	No cooperation relationship subsisting, low expected recoverability
Others	2,719.10	2,719.10	100.00	No cooperation relationship subsisting, low expected recoverability
Total	8,468,876.90	8,468,876.90	100.00	



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VI. NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

2. Bills receivables and trade receivables (Continued)

2.2 TRADE RECEIVABLES (Continued)

(2) Classification of trade receivables (Continued)

2) Bad debt provision for trade receivables made on group basis

Age	Balance as at the end of the year		
	Trade receivables	Provision for bad debts	Lifetime expected credit loss rate (%)
Within 1 year	773,813,567.14	2,244,059.34	0.29
1 to 2 years	23,209,704.19	2,810,695.18	12.11
2 to 3 years	167,984.07	63,833.95	38.00
Total	797,191,255.40	5,118,588.47	-

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

(4) Provision for bad debts drawn 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	Recovered or reversed	Written back or written off	
11,784,732.96	3,257,053.61	1,217,645.30	236,675.90	13,587,465.37

Significant provision for bad debts recovered or reversed during the year:

Company name	Amount reversed (or recovered) during the year	Recovery method	Reason for reversal (or recovery) during the year
Huilai Ciyun Hospital of Traditional Chinese Medicine (惠來縣慈雲中醫院)	132,521.52	Bank receipts	Recovered in current period
Kangze Pharmaceutical Chains Co., Ltd. (康澤藥業連鎖有限公司)	115,133.15	Bank receipts	Recovered in current period
The First People's Hospital of Jinping District in Shantou (汕頭市金平區第一人民醫院)	72,908.95	Bank receipts	Recovered in current period
Shenzhen Jinshoukang Pharmaceutical Co., Ltd. (深圳市金壽康藥業有限公司)	60,122.90	Bank receipts	Recovered in current period



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VI. NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

2. Bills receivables and trade receivables (Continued)

2.2 TRADE RECEIVABLES (Continued)

(4) Provision for bad debts drawn and reversed (or recovered) in the year (Continued)

Company name	Amount reversed (or recovered) during the year	Recovery method	Reason for reversal (or recovery) during the year
Guangdong Shen Hua Pharmaceutical Co., Ltd. (廣東深華藥業有限公司)	59,622.45	Bank receipts	Recovered in current period
Kangmei Pharmaceutical Co., Ltd. (康美藥業股份有限公司)	59,048.95	Bank receipts	Recovered in current period
Jieyang Huikang Pharmaceutical Chain Co., Ltd. (揭陽市匯康醫藥連鎖有限公司)	57,307.53	Bank receipts	Recovered in current period
Guangdong Yingda'er Pharmaceutical Co., Ltd. (廣東英達爾藥業有限公司)	51,666.09	Bank receipts	Recovered in current period
Shenzhen Yidetang Pharmaceutical Co., Ltd. (深圳市一德堂醫藥有限公司)	44,459.02	Bank receipts	Recovered in current period
Guangdong Zhen Qun Pharmaceutical Co., Ltd. (廣東振群藥業有限公司)	43,252.27	Bank receipts	Recovered in current period
DaSenLin Pharmaceutical Group Company Limited (大參林醫藥集團股份有限公司)	40,511.64	Bank receipts	Recovered in current period
Guangdong Heng Xiang Medicament Co., Ltd (廣東恒祥醫藥有限公司)	38,969.90	Bank receipts	Recovered in current period
Shenzhen Nepstar Pharmaceutical Co., Ltd. (深圳市海王星辰醫藥有限 公司)	38,391.36	Bank receipts	Recovered in current period
Puning Lifeng Pharmaceutical Co., Ltd. (普寧市立豐藥業有限公司)	35,116.60	Bank receipts	Recovered in current period
Guangzhou Yifan Pharmaceutical Co., Ltd. (廣東揚帆藥業有限公司)	33,274.11	Bank receipts	Recovered in current period
Total	882,306.44	-	-



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VI. NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

2. Bills receivables and trade receivables (Continued)

2.2 TRADE RECEIVABLES (Continued)

(5) Trade receivables written off during the year

Item	Amount written off
Trade receivables written off	236,675.90

Significant trade receivables written-off:

Company name	Nature of trade receivables	Amount written off	Whether arised from related party transaction
Gansu Renweifeng Pharmaceutical Co., Ltd.	Payment for goods	236,675.90	No
Total		236,675.90	

(6) Details of top five closing balances of trade receivables classified by borrowers

Company name	Closing balance	Aging	Percentage of total closing balance of trade receivables (%)	Closing balance of provision for bad debts
Kangze Pharmaceutical Chains Co., Ltd. (康澤藥業連鎖有限公司)	51,501,161.60	Within 1 year	6.39	149,353.37
Guangdong Bangjian Pharmaceutical Chain Co., Ltd. (廣東邦健醫藥連鎖有限公司)	41,211,977.13	Within 1 year	5.12	119,514.73
Alibaba Health Pharmaceutical Limited (阿裏健康大藥房醫藥連鎖有限公司)	14,466,489.01	Within 1 year	1.80	41,952.82
Puning Lifeng Pharmaceutical Co., Ltd. (普寧市立豐藥業有限公司)	11,965,507.76	Within 1 year	1.49	34,699.97
Guangdong Shen Hua Pharmaceutical Co., Ltd. (廣東深華藥業有限公司)	10,334,534.49	Within 1 year	1.28	29,970.15
Total	129,479,669.99		16.08	375,491.04



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VI. NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

3. Prepayments

(1) Aging of prepayments

Items	Closing balance		Opening balance	
	Amount	Proportion (%)	Amount	Proportion (%)
Within 1 year	196,196,269.21	99.92	147,646,211.95	98.91
1-2 years	50,610.95	0.03	1,629,044.40	1.09
2-3years	95,556.11	0.05		
Total	196,342,436.27	100.00	149,275,256.35	100.00

(2) Details of top five closing balances of prepayments classified by payees

Company name	Closing balance	Aging	Percentage of total closing balance of prepayments (%)
Guangdong Jin Zhong Hai Construction Engineering Co., Ltd. (廣東金中海建設工程有限公司)	21,069,423.70	Within 1 year	10.73
Guangzhou Baiyunshan Pharmaceutical Marketing Co., Ltd. (廣州白雲山醫藥銷售有限公司)	19,864,704.64	Within 1 year	10.12
Xiangxue Pharmaceutical Co., Ltd. (廣州市香雪製藥股份有限公司)	16,643,516.89	Within 1 year	8.48
Guangzhou Pharmaceutical Import and Export Company Limited (廣州醫藥進出口有限公司)	10,011,120.00	Within 1 year	5.10
Foshan Winteam Pharmaceutical Sales Company Limited (佛山盈天醫藥銷售有限公司)	9,733,688.62	Within 1 year	4.96
Total	77,322,453.85		39.39



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VI. NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

4. Other receivables

Item	Balance as at the end of the year	Balance as at the beginning of the year
Interests receivable		
Dividend receivable		
Other receivables	11,833,686.15	9,674,650.78
Total	11,833,686.15	9,674,650.78

4.1 Other receivables

Item name	Balance as at the end of the year	Balance as at the beginning of the year
Other receivables	11,861,162.35	9,697,126.98
Less: Provision for bad debts	27,476.20	22,476.20
Net amount	11,833,686.15	9,674,650.78

(1) Aging analysis of other receivables

Age	Balance as at the end of the year			Balance as at the beginning of the year		
	Carrying amount	Percentage (%)	Provision for bad debts	Carrying amount	Percentage (%)	Provision for bad debts
Within 1 year	3,072,227.35	25.90		7,024,669.58	72.44	
1-2 years	6,146,044.80	51.82		1,391,319.20	14.35	
2-3 years	1,373,000.00	11.58		23,462.00	0.24	
Over 3 years	1,269,890.20	10.70	27,476.20	1,257,676.20	12.97	22,476.20
Total	11,861,162.35	100.00	27,476.20	9,697,126.98	100.00	22,476.20



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VI. NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

4. Other receivables (Continued)

4.1 Other receivables (Continued)

(2) Classification of other receivables

Classification	Balance as at the end of the year				
	Carrying amount		Provision for bad debts	Lifetime expected credit loss rate (%)	Book value
	Amount	Percentage (%)	Amount		
Provision for bad debts made on individual basis	27,476.20	0.23	27,476.20	100.00	-
Provision for bad debts made on group basis	11,833,686.15	99.77			11,833,686.15
Aging portfolio					
Portfolio with relatively low recovery risk	11,833,686.15	99.77			11,833,686.15
Total	11,861,162.35	100.00	27,476.20	-	11,833,686.15

Classification	Balance as at the beginning of the year				
	Carrying amount		Provision for bad debts	Lifetime expected credit loss rate (%)	Book value
	Amount	Percentage (%)	Amount		
Provision for bad debts made on individual basis	22,476.20	0.23	22,476.20	100.00	-
Provision for bad debts made on group basis	9,674,650.78	99.77			9,674,650.78
Aging portfolio					
Portfolio with relatively low recovery risk	9,674,650.78	99.77			9,674,650.78
Total	9,697,126.98	100.00	22,476.20	-	9,674,650.78



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VI. NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

4. Other receivables (Continued)

4.1 Other receivables (Continued)

(2) Classification of other receivables (Continued)

1) Bad debt provision for other receivables made on individual basis

Company name	Balance as at the end of the year			Reasons for provision
	Other receivables	Provision for bad debts	Lifetime expected credit loss rate (%)	
Qingyuan Runyue Pharmaceutical Co., Ltd.	5,000.00	5,000.00	100.00	The company has been deregistered
Li Jiewen	21,578.00	21,578.00	100.00	The employee has resigned, low expected recoverability
Zhengzhou Zhuofeng Pharmaceutical Co., Ltd.	898.20	898.20	100.00	No cooperation relationship subsisting, low expected recoverability
Total	27,476.20	27,476.20	-	

(3) Classification of other receivables by nature

Nature of amounts	Balance as at the end of the year	Balance as at the beginning of the year
Deposit	11,002,394.29	8,746,867.72
Reserve	857,869.86	949,361.06
Others	898.20	898.20
Total	11,861,162.35	9,697,126.98



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VI. NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

4. Other receivables (Continued)

4.1 Other receivables (Continued)

(4) Top 5 other receivables based on balances at the end of the year by debtors

Name of entity	Nature of amounts	Balance at the end of the year	Aging	Percentage of total other receivables (%)	Balance of provision for bad debts at the end of the year
Zhuhai City Jinming Medicine Co., Ltd	Deposit	5,600,000.00	1-2 years	47.21	
Shenzhen Kingworld Medicine Company Limited* (深圳市金活醫藥有限公司)	Deposit	1,471,200.00	Within 1 year	12.40	
Taiji Group Chongqing Fuling Pharmaceutical Plant Co., Ltd.	Deposit	1,050,000.00	2-3 years	8.85	
Fujian Nan'an Lianhuafeng Pharmaceutical Factory (福建省南安市蓮花峰藥廠)	Deposit	1,000,000.00	Over 3 years	8.43	
Guangzhou Pharmaceuticals Corporation* (廣州醫藥有限公司)	Deposit	450,000.00	Within 1 year	3.79	
Total		9,571,200.00		80.68	

* For identification purposes only



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VI. NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

5. Inventories

(1) Classification of inventories

Aging	Balance at the end of the year			Balance at the beginning of the year		
	Carrying amount	Provision for impairment	Book value	Carrying amount	Provision for impairment	Book value
Goods in stock	457,922,995.27	2,641,576.34	455,281,418.93	393,507,501.94	2,442,989.06	391,064,512.88
Goods sold	17,241,496.31		17,241,496.31	40,527,913.50		40,527,913.50
Total	475,164,491.58	2,641,576.34	472,522,915.24	434,035,415.44	2,442,989.06	431,592,426.38

(2) Provision for inventory impairment

Aging	Balance at the beginning of the year	Addition for the year		Reduction for the year		Balance at the end of the year
		provision	Others	Reverse or resale	Other transfer	
Goods in stock	2,442,989.06	2,641,576.34		2,442,989.06		2,641,576.34
Total	2,442,989.06	2,641,576.34		2,442,989.06		2,641,576.34

(3) Making provisions for inventory impairment

Item	Specific basis for determination of net realisable value	Reasons for reverse or resale during the year
Goods in stock	Fair values in market	Relevant goods in stock sold



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VI. NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

6. Other current assets

Item	Balance at the end of the year	Balance at the beginning of the year
Input tax to be credited	23,992,034.00	29,982,360.69
Expenses to be amortised	818,464.20	49,377.10
Others		
Total	24,810,498.20	30,031,737.79

7. Fixed assets

Item	Balance at the end of the year	Balance at the beginning of the year
Fixed assets	193,761,724.83	115,303,828.63
Liquidation of fixed assets		73,448.54
Total	193,761,724.83	115,377,277.17



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VI. NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

7. Fixed assets (Continued)

7.1 Fixed assets

(1) Breakdown of fixed assets

Item	Buildings and structures	Machinery and equipment	Transportation facilities	Office equipment	Total
I. Original book value					
1. Balance at the beginning of the year	107,339,200.51	38,944,353.56	13,496,669.44	12,019,494.83	171,799,718.34
2. Addition for the year	79,544,371.77	7,331,018.68	2,750,073.94	1,101,592.38	90,727,056.77
(1) Purchase		1,655,419.30	2,750,073.94	1,101,592.38	5,507,085.62
(2) Transfer from construction in-progress	79,544,371.77	5,675,599.38			85,219,971.15
(3) Addition as a result of business combination					
3. Reduction for the year		116,761.23	271,636.74	506,108.77	894,506.74
(1) Disposal or obsolescence		116,761.23	271,636.74	506,108.77	894,506.74
(2) Other reduction					
4. Balance at the end of the year	186,883,572.28	46,158,611.01	15,975,106.64	12,614,978.44	261,632,268.37
II. Accumulated depreciation					
1. Balance at the beginning of the year	25,962,397.31	16,759,414.44	3,579,000.75	10,195,077.21	56,495,889.71
2. Addition for the year	4,807,997.49	4,217,143.21	1,867,454.87	1,174,119.18	12,066,714.75
(1) Provision	4,807,997.49	4,217,143.21	1,867,454.87	1,174,119.18	12,066,714.75
(2) Addition as a result of business combination					
3. Reduction for the year		43,631.99	211,533.77	436,895.16	692,060.92
(1) Disposal or obsolescence		43,631.99	211,533.77	436,895.16	692,060.92
(2) Other reduction					
4. Balance at the end of the year	30,770,394.80	20,932,925.66	5,234,921.85	10,932,301.23	67,870,543.54
III. Impairment provision					
1. Balance at the beginning of the year					
2. Addition for the year					
3. Reduction for the year					
4. Balance at the end of the year					
IV. Book value					
1. Book value at the end of the year	156,113,177.48	25,225,685.35	10,740,184.79	1,682,677.21	193,761,724.83
2. Book value at the beginning of the year	81,376,803.20	22,184,939.12	9,917,668.69	1,824,417.62	115,303,828.63



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VI. NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

7. Fixed assets (Continued)

7.1 Fixed assets (Continued)

(1) Breakdown of fixed assets (Continued)

Note 1: Addition of fixed assets for the period included the amount of transfer from construction-in-progress of RMB85,219,971.15. Among the addition of accumulated depreciation for the period, RMB12,066,714.75 was provided for the period. Reduction for the period was a result of scrapped fixed assets which had lives of usage expired. At the end of the period, the original values of fixed assets that have been fully provided but were still in use amounted to RMB8,719,429.79.

Note 2: At the end of the year, the Group had no temporary idle fixed assets.

Note 3: For the fixed assets mortgage, see Note VI, 40.

8. Construction in progress

Item	Balance at the end of the year	Balance at the beginning of the year
Construction in progress	23,788,389.90	81,967,801.27
Construction materials		
Total	23,788,389.90	81,967,801.27

8.1 Construction in progress

(1) Breakdown of construction-in-progress

Item	Balance at the end of the year			Balance at the beginning of the year		
	Carrying amount	Provision for impairment	Book value	Carrying amount	Provision for impairment	Book value
Construction of information based program	-		-	7,962,619.38		7,962,619.38
Guangzhou Nansha Logistic Center Project (廣州南沙物流中心項目)	3,624,597.06		3,624,597.06	73,555,723.05		73,555,723.05
Construction project of Guangzhou Pharmaceutical Sorting and Distribution Center	19,803,560.37		19,803,560.37			
Other sporadic constructions	360,232.47		360,232.47	449,458.84		449,458.84
Total	23,788,389.90		23,788,389.90	81,967,801.27		81,967,801.27



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VI. NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

8. Construction in progress (Continued)

8.1 Construction in progress (Continued)

(2) Changes in major construction-in-progress

Name of project	Balance at the beginning of the year	Addition for the year	Reduction for the year		Balance at the end of the year
			Transfer to the fixed assets	Other reductions	
Construction of information based program	7,962,619.38	46,862.24	2,876,068.37	5,133,413.25	
Guangzhou Nansha Logistic Center Project	73,555,723.05	11,470,014.74	81,401,140.73		3,624,597.06
Construction project of Guangzhou Pharmaceutical Sorting and Distribution Center		19,803,560.37			19,803,560.37
Other sporadic constructions	449,458.84	853,535.68	942,762.05		360,232.47
Total	81,967,801.27	32,173,973.03	85,219,971.15	5,133,413.25	23,788,389.90

(Continued)

Name of project	Budget (RMB0'000)	Percentage of accumulated investment in project to the budget (%)	Construction progress (%)	Accumulated amount of interest capitalized	Of which:		Source of funds
					the amount of interest capitalized for the year	Interest capitalization rate for the year (%)	
Construction of information based program	1,733.53	97.02	100.00				Raised funds and own funds
Guangzhou Nansha Logistic Center Project	8,752.11	93.01	93.01				Raised funds and own funds
Construction Project of Guangzhou Pharmaceutical Sorting and Distribution Center	9,550.40	20.74	20.74	1,964,428.66	1,964,428.66	5.39%	Loans from financial institutions
Other sporadic constructions	225.55	57.77	57.77				Raised funds and own funds
Total	20,261.59	-	-	1,964,428.66	1,964,428.66		

Note 1: Other reductions of RMB4,897,564.20 included in the intangible assets and cessation of development of RMB235,849.05 included in the management expenses.

Note 2: For conditions of pledged intangible assets, please see Note VI, 40.



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VI. NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

9. Intangible assets

(1) Details of intangible assets

Items	Land use rights	Computer software	Total
I. Original book value			
1. Balance at the beginning of the year	164,253,763.65	13,797,362.19	178,051,125.84
2. Addition for the year		4,990,758.84	4,990,758.84
(1) Purchase		93,194.64	93,194.64
(2) Transfer from construction in-progress		4,897,564.20	4,897,564.20
3. Reduction for the year		4,750.00	4,750.00
(1) Disposal		4,750.00	4,750.00
4. Balance at the end of the year	164,253,763.65	18,783,371.03	183,037,134.68
II. Accumulated amortization			
1. Balance at the beginning of the year	15,630,209.44	1,697,072.85	17,327,282.29
2. Addition for the year	4,510,419.99	1,864,075.40	6,374,495.39
(1) Provision	4,510,419.99	1,864,075.40	6,374,495.39
(2) Addition as a result of business combination			
3. Reduction for the year		2,968.77	2,968.77
(1) Disposal		2,968.77	2,968.77
4. Balance at the end of the year	20,140,629.43	3,558,179.48	23,698,808.91
III. Provision for impairment			
1. Balance at the beginning of the year			
2. Addition for the year			
(1) Provision			
3. Reduction for the year			
(1) Disposal			
4. Balance at the end of the year			
IV. Book value			
1. Book value at the end of the year	144,113,134.22	15,225,191.55	159,338,325.77
2. Book value at the beginning of the year	148,623,554.21	12,100,289.34	160,723,843.55

As at 31 December 2018, no intangible asset arose through the internal research and development of the Group.



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VI. NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

10. Goodwill

(1) *Original value of goodwill*

Name of investee	Balance at the beginning of the year	Addition for the year		Reduction for the year		Balance at the end of the year
		As a result of business combination	Others	Disposal	Others	
Zhuhai Charmacy Company	4,567,297.19					4,567,297.19
Guangzhou Charmacy Company	26,328.12					26,328.12
Total	4,593,625.31					4,593,625.31

(2) *Provision for impairment of goodwill*

Name of investee	Balance at the beginning of the year	Addition for the year		Reduction for the year		Balance at the end of the year
		Provision	Others	Disposal	Others	
Zhuhai Charmacy Company		1,465,937.31				1,465,937.31
Guangzhou Charmacy Company						
Total		1,465,937.31				1,465,937.31

The Group recognized the impairment loss of the goodwill asset group as the difference between the present value of the future net cash flow of the projected goodwill asset group and the carrying amount of the asset group.



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VI. NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

11. Long-term expenses to be amortized

Item	Balance at the beginning of the year	Addition for the year	Amortization for the year	Other reduction for the year	Balance at the end of the year
Installation expenses for the guard house and delivery platform	151,380.08		8,219.74		143,160.34
Zhuhai Charmacy warehouse installation project (珠海創美倉庫安裝工程)	1,050,416.67	5,599,760.61	601,152.35		6,049,024.93
Zhuhai canteen decoration project		62,370.87	10,395.15		51,975.72
Total	1,201,796.75	5,662,131.48	619,767.24		6,244,160.99

12. Deferred income tax assets and deferred income tax liabilities

(1) *Deferred income tax assets not offset*

Items	Balance at the end of the year		Balance at the beginning of the year	
	Deferred income tax assets	Deductible temporary differences	Deferred income tax assets	Deductible temporary differences
Provision for asset impairment	4,064,129.47	16,256,517.91	3,562,549.55	14,250,198.22
Government grants	418,972.12	1,675,888.49	533,237.25	2,132,948.99
Deductible losses	1,152,461.17	4,609,844.68	627,631.75	2,510,527.02
Total	5,635,562.76	22,542,251.08	4,723,418.55	18,893,674.23

(2) *Deferred income tax liabilities not offset*

Items	Balance at the end of the year		Balance at the beginning of the year	
	Deferred income tax liabilities	Taxable temporary differences	Deferred income tax liabilities	Taxable temporary differences
Unrealized internal sales gains and losses	200,653.30	802,613.19		
Total	200,653.30	802,613.19		



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VI. NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

13. Short-term borrowings

Types of borrowings	Balance at the end of the year	Balance at the beginning of the year
Secured borrowings ^{Note 2-Note 4}	231,400,000.00	242,500,000.00
Guaranteed borrowings ^{Note 5-Note 7}	101,500,000.00	168,500,000.00
Credit borrowings ^{Note 8}	40,000,000.00	89,900,000.00
Borrowings from discounted bills receivables ^{Note 9}	15,000,000.00	22,000,000.00
Total	387,900,000.00	522,900,000.00

Note 1: The Group has no short-term borrowings that have not yet been repaid after maturity. The repaid amount after the balance sheet date was RMB119,000,000.00.

Note 2: On 10 July 2018, Charmacy Pharmaceutical Company, using its existing and later pharmaceutical product inventories of not less than RMB110 million, its existing and later machinery and equipment of not less than RMB5 million, its self-owned property (No.65 North of Foshan Road, Chancheng District, Foshan City) valued at RMB241,844,000, the existing and later pharmaceutical product inventories of not less than RMB240 million and the existing and later machinery and equipment of not less than RMB20 million from Guangdong Charmacy Company as collateral, with Guangdong Charmacy Company as its guarantor, and China Guangfa Bank Co., Ltd. signed the Credit Line Contract (contract number: (2018) Shan Yin Zong Shou E Zi No.000047). As agreed in the Contract, the maximum exposure limit of the credit line was up to RMB200 million and the credit term was 12 months. The borrowing rate was the benchmark lending rate announced and implemented by the People's Bank of China applicable on the actual lending date for similar loan with an increase of 20% – 25%. As of 31 December 2018, Charmacy Pharmaceutical Company had borrowed RMB106.1 million from China Guangfa Bank within the credit line.

Note 3: On 10 July 2018, Charmacy Pharmaceutical Company, using its existing and later pharmaceutical product inventories of not less than RMB110 million, its existing and later machinery and equipment of not less than RMB5 million, its self-owned property (No.65 North of Foshan Road, Chancheng District, Foshan City) valued at RMB241,844,000, the existing and later pharmaceutical product inventories of not less than RMB240 million and the existing and later machinery and equipment of RMB20 million from Guangdong Charmacy Company as collateral, with Charmacy Pharmaceutical Company as its guarantor, and China Guangfa Bank Co., Ltd. signed the Credit Line Contract (contract number: (2018) Shan Yin Zong Shou E Zi No.000046). As agreed in the Contract, the maximum exposure limit of the credit line was up to RMB180 million and the credit period was 12 months. The borrowing rate was the benchmark lending rate announced and implemented by the People's Bank of China applicable on the actual lending date for similar loan with an increase of 20% – 25%. As of 31 December 2018, Guangdong Charmacy Company had borrowed RMB90.3 million from China Guangfa Bank within the credit line.

Note 4: Charmacy Pharmaceutical Company, using its self-owned properties and lands (the logistic distribution center, warehouse supporting buildings, dormitories and whole parcel of land at No.235 Song Shan North Road) valued at RMB58,399,000 as collateral and with Guangdong Charmacy Company as its guarantor, and Industrial and Commercial Bank of China Limited signed 2016 Charmacy Gao Di Zi No. 001 《2016年創美高抵字第001號》 and 2018 Guangdong Charmacy Bao Zi No. 001《2018年廣東創美保字001號》 for borrowings with a period of 12 months, and a borrowing rate of 5.0025% – 5.22% per annum. As of 31 December 2018, Charmacy Pharmaceutical Co., Ltd. had borrowed RMB35 million from ICBC within its credit line.

Note 5: On 12 June 2018, Guangdong Charmacy Company, with Charmacy Pharmaceutical Company as its guarantor, and China Merchants Bank Co., Ltd. signed the Credit Agreement (contract number: 757XY2018016718) and Irrevocable Letter of Guarantee of Maximum Amount (《最高額不可撤銷擔保書》) (contract number: 757XY201801671801). As agreed in the Contract, the maximum exposure limit of the credit line was RMB50 million, and the credit term was 12 months. The borrowing rate was the benchmark lending rate announced and implemented by the People's Bank of China applicable on the actual lending date for similar loan with an increase of 25% – 29%. As of 31 December 2018, Guangdong Charmacy Company had borrowed RMB37 million from China Merchants Bank within its credit line.



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VI. NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

13. Short-term borrowings (Continued)

Note 6: Guangdong Charmacy Company, with Charmacy Pharmaceutical Company as its guarantor, and Industrial and Commercial Bank of China Limited signed the Working Capital Loan Contracts (contract numbers: Gaoxin Sub-branch of Foshan Branch Bank 2017 Liudai Zi No. 088, with a borrowing period of 12 months, and a borrowing rate of 4.785% per annum; Gaoxin Sub-branch of Foshan Branch Bank 2018 Liudai Zi No. 0806, Gaoxin Sub-branch of Foshan Branch Bank 2018 Liudai Zi No. 0814, 0201300968-2018 (Gaoxin) Zi No. 00400, 0201300968-2018 (Gaoxin) Zi No. 00445, respectively, with the borrowing period of 12 months, and the borrowing rate of 5.4375% per annum). As of 31 December 2018, Charmacy Pharmaceutical Company had borrowed the aggregate amount of RMB29.5 million.

Note 7: On 15 December 2017, Guangdong Charmacy Company, with Charmacy Pharmaceutical Company as its guarantor, and CTBC Bank Co., Ltd. signed the Notice of Credit Conditions (《授信條件通知書》). As agreed in the Contract, the total credit line of Charmacy Pharmaceutical Company and Guangdong Charmacy Company shall not exceed RMB35 million. As of 31 December 2018, Guangdong Charmacy Company had borrowed RMB35 million from the trust bank within the credit line.

Note 8: On 2 August 2017, Charmacy Pharmaceutical Company and The Bank of East Asia (China) Limited signed the Renminbi Loan Contract (《人民幣貸款合同》) (contract number: 2017 Dongya (Rendai) Zi No. 59). As agreed in the Contract, the loan amount shall not exceed RMB40 million. The term of the loan was 5 years from the date of signing the contract. The borrowing rate was the benchmark lending rate announced and implemented by the People's Bank of China applicable on the actual lending date for similar loan with an increase of 30%. As of 31 December 2018, Charmacy Pharmaceutical Company had borrowed RMB40 million from BEA within its credit line.

Note 9: As of 31 December 2018, the Group had obtained a borrowing of RMB15 million by discounting its bills receivable.

14. Bill payables and trade payables

Category	Balance at the end of the year	Balance at the beginning of the year
Bill payables	778,925,488.11	928,824,897.42
Trade payables	564,494,731.93	479,781,944.91
Total	1,343,420,220.04	1,408,606,842.33

14.1 Bill payables

Classification of bills	Balance at the end of the year	Balance at the beginning of the year
Bank acceptance bills	778,925,488.11	928,824,897.42
Total	778,925,488.11	928,824,897.42

As the end of the year, the age of the Group's bill payables mentioned above was within 1 year.



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VI. NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

14. Bill payables and trade payables

14.2 Trade payables

(1) Trade payables

Item	Balance at the end of the year	Balance at the beginning of the year
Loans	563,275,976.07	445,909,395.68
Land costs		32,380,952.38
Project maintenance costs	1,218,755.86	1,491,596.85
Total	564,494,731.93	479,781,944.91

(2) Aging analysis of trade payables

Below is an aging analysis of trade payables based on transaction date as at 31 December 2018:

Age	Balance at the end of the year	Balance at the beginning of the year
Within 1 year	563,551,065.72	477,997,374.71
1 to 2 years	507,200.82	1,527,649.39
2 to 3 years	270,210.38	12,988.20
More than 3 years	166,255.01	243,932.61
Total	564,494,731.93	479,781,944.91

(3) Significant trade payables aged over 1 year

Name of entity	Balance at the end of the year	Reasons of outstanding or carrying forward
Tiancheng Traditional Chinese Medicine Co., Ltd. (廣東天誠中藥飲片有限公司)	100,189.09	Settlement period is not yet due
Guangdong Fuhui Pharmaceutical Co., Ltd. (廣東富暉藥業有限公司)	287,452.60	Settlement period is not yet due
Guizhou Deliangfang Pharmaceutical Co., Ltd. (貴州德良方藥業股份有限公司)	152,170.00	Settlement period is not yet due
Total	539,811.69	–



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VI. NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

15. Receipts in advance

Item	Balance at the end of the year	Balance at the beginning of the year
Payment for goods		5,382,568.81
Total		5,382,568.81

16. Contract liabilities

Item	Balance at the end of the year	Balance at the beginning of the year
Payment for goods	1,879,275.48	
Total	1,879,275.48	

As at 31 December 2018, the Group had no significant contract liabilities aged over 1 year.

17. Remuneration payable to employees

(1) Classification of remuneration payable to employees

Item	Balance at the beginning of the year	Addition for the year	Reduction for the year	Balance at the end of the year
Short-term remuneration	4,781,858.77	63,657,333.96	63,372,238.42	5,066,954.31
Post-employment benefits – defined contribution plan		4,678,950.67	4,678,950.67	
Termination benefits				
Total	4,781,858.77	68,336,284.63	68,051,189.09	5,066,954.31



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VI. NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

17. Remuneration payable to employees (Continued)

(2) Short-term remuneration

Item	Balance at the beginning of the year	Addition for the year	Reduction for the year	Balance at the end of the year
Salaries, bonuses, allowances and subsidies	4,599,319.57	52,621,553.16	52,392,102.24	4,828,770.49
Staff welfare payments		4,989,706.79	4,989,706.79	
Social insurance premiums		2,393,607.94	2,393,607.94	
Of which: medical insurance premium		2,053,268.99	2,053,268.99	
Industrial injury insurance premium		63,933.47	63,933.47	
Maternity insurance premium		276,405.48	276,405.48	
Housing provident fund		2,432,172.15	2,432,172.15	
Labor union expenses and staff education expenses	182,539.20	534,117.88	478,473.26	238,183.82
Others		686,176.04	686,176.04	
Total	4,781,858.77	63,657,333.96	63,372,238.42	5,066,954.31

(3) Defined contribution plan

The Group participated in social insurance plans operated by the government authorities according to the regulations. Pursuant to the plans, the Group made contributions to those plans in compliance with the relevant provisions of local government authorities. Apart from the aforesaid contributions, the Group assumed no further payment obligations. The corresponding expenses shall be credited to the profit or loss for the period or the cost of related assets when incurred.

The Group's contributions payable to pension insurance plan and unemployment insurance plan for the year are respectively as follows:

Item	Balance at the beginning of the year	Addition for the year	Reduction for the year	Balance at the end of the year
Basic pension insurance		4,506,378.94	4,506,378.94	
Unemployment insurance premium		172,571.73	172,571.73	
Total		4,678,950.67	4,678,950.67	

The Group's contribution payable to the defined contribution plan that the Group participated in amounted to RMB4,678,950.67, which was fully paid as at 31 December 2018.



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VI. NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

18. Tax payables

Item	Balance at the end of the year	Balance at the beginning of the year
VAT	36,052,003.47	45,325,386.55
Enterprise income tax	181,066.42	2,418,311.46
Individual income tax	64,812.82	1,580,817.02
Property taxes	823,118.32	823,118.34
Tax on land use	720.00	381,444.00
Stamp duty	171,701.77	148,960.34
Urban maintenance and construction tax	85,512.77	110,388.31
Education surcharge	36,648.33	47,309.27
Other taxes	25,482.22	31,539.51
Total	37,441,066.12	50,867,274.80

As at the end of the year, the Hong Kong income tax payable of nil is included in the tax payables.

19. Other payables

Item	Balance at the end of the year	Balance at the beginning of the year
Interest payables	921,877.61	1,050,789.84
Dividend payables		
Other payables	8,736,361.54	12,700,257.58
Total	9,658,239.15	13,751,047.42

19.1 Interest payables

Item	Balance at the end of the year	Balance at the beginning of the year
Interest payables for short-term borrowings	773,652.61	1,050,789.84
Interest payables for long-term borrowings	148,225.00	
Total	921,877.61	1,050,789.84



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VI. NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

19. Other payables

19.2 Other payables

(1) Classification of other payables by nature of payment

Nature of payment	Balance at the end of the year	Balance at the beginning of the year
Margin	2,262,217.65	7,330,984.95
Accrued intermediary expenses	4,362,625.32	3,393,009.00
Transportation costs	444,181.13	284,800.51
Others	1,667,337.44	1,691,463.12
Total	8,736,361.54	12,700,257.58

(2) Significant other payables aged over 1 year

Name of entity	Balance at the end of the year	Reasons of outstanding or carrying forward
Squire Patton Boggs	3,393,009.00	Settlement period is not yet due
Total	3,393,009.00	

20. Other current liabilities

(1) Classification of other current liabilities

Item	Balance at the end of the year	Balance at the beginning of the year
Deferred income from assets – related government grants carried forward within 1 year	457,060.50	520,000.00
Total	457,060.50	520,000.00



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VI. NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

20. Other current liabilities (Continued)

(2) Government grants

Government grant program	Balance at the beginning of the year	Addition of grant for the year	Included in other income for the period	Other changes	Balance at the end of the year	Asset-related/ Revenue-related
Government grants for logistics standardization program	520,000.00		457,060.50	394,121.00	457,060.50	Related to assets
Total	520,000.00		457,060.50	394,121.00	457,060.50	

Note: Other changes referred to a transferred-in amount of RMB394,121.00 due to the reclassification of deferred income (see Note VI. 22).

21. Long-term borrowings

(1) Classification of long borrowings

Types of borrowings	Balance at the end of the year	Balance at the beginning of the year
Secured borrowings	90,000,000.00	
Total	90,000,000.00	

Note: On 15 August 2018, Charmacy Pharmaceutical Co., Ltd. signed the Fixed Assets Loan Contract (《固定資產借款合同》) (contract number: 2018 (Nansha) Zi No. 00539) with the Nansha Branch in Guangdong Pilot Free Trade Zone of Industrial and Commercial Bank of China Limited. The loan under the contract was for the construction of Guangzhou Nansha Sorting and Distribution Centre project and replacement of the liabilities resulting from the project construction. Guangdong Charmacy Pharmaceutical Co., Ltd. provided joint and several liability guarantee in respect of the loan contract, with the contract number of 2018 Nansha (Bao) Zi No.0028. Meanwhile, Charmacy Pharmaceutical Co., Ltd. provided guarantee with its self-owned plants valued at RMB68,363,000, and dormitories valued at RMB21,818,000 (contract number: 2018 Nansha (Di) Zi No. 00539). The amount of loan agreed in the Contract was RMB180 million (withdrawn by batch, calculated from the date of first withdrawal), with a term of not more than 7 years which commence from the date of actual withdrawal. Charmacy Pharmaceutical Co., Ltd. was required to repay the loan from the effective date of the Contract to 20 August 2020. The borrowing rate was the benchmark lending rate announced and implemented by the People's Bank of China applicable on the actual lending date for similar loan with an increase of 10%. As of 31 December 2018, Charmacy Pharmaceutical Company had borrowed RMB90 million from the Nansha Branch in Guangdong Pilot Free Trade Zone of Industrial and Commercial Bank of China Limited.



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VI. NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

21. Long-term borrowings (Continued)

(2) Analysis of long-term borrowings' maturity date is as follows:

Item	Balance at the end of the year	Balance at the beginning of the year
1 to 2 years	13,636,363.60	
2 to 5 years	49,090,908.96	
Over 5 years	27,272,727.44	
Total	90,000,000.00	

Note: In accordance with the agreement, the repayment term of the long-term borrowings starts from 1.5 years after the commencement of the borrowing, and the repayment should be made equally on a quarter basis. Therefore, there is no long-term borrowings due within 1 year in the year.

22. Deferred income

(1) Classification of deferred income

Item	Balance at the beginning of the year	Addition for the year	Reduction for the year	Balance at the end of the year
Government grants	1,612,948.99		394,121.00	1,218,827.99
Total	1,612,948.99		394,121.00	1,218,827.99

(2) Government grant program

Government grant program	Balance at the beginning of the year	Addition of grant for the year	Included in other income for the year	Other changes	Balance at the end of the year	Asset-related/ Revenue-related
Government grants for logistics standardization program	1,612,948.99			394,121.00	1,218,827.99	Asset-related
Total	1,612,948.99			394,121.00	1,218,827.99	



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VI. NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

23. Share capital

Name of shareholders	Balance at the beginning of the year	Addition for the year	Reduction for the year	Balance at the end of the year
Yao Chuanglong	59,000,000.00			59,000,000.00
Meizhi Investment	3,200,000.00			3,200,000.00
Youran Investment	1,700,000.00			1,700,000.00
Zhichuang Investment	1,800,000.00			1,800,000.00
H-share Shareholders	28,000,000.00			28,000,000.00
Wu Binhua	5,400,000.00			5,400,000.00
Liu Jigui	5,400,000.00			5,400,000.00
Wu Wanping	3,500,000.00			3,500,000.00
Total	108,000,000.00			108,000,000.00

24. Capital reserve

Item	Balance at the beginning of the year	Addition for the year	Reduction for the year	Balance at the end of the year
Share premium	281,215,559.50		3,213,658.46	278,001,901.04
Other capital reserve	988,928.00			988,928.00
Total	282,204,487.50		3,213,658.46	278,990,829.04

Note: Changes in the share premium of capital reserve for the year are attributed to the acquisition of minority shareholders' equity in 2018. Details of which are set out in "VIII. Equity in other entities" of the notes.

25. Surplus reserve

Item	Balance at the beginning of the year	Addition for the year	Reduction for the year	Balance at the end of the year
Statutory surplus reserve	10,115,890.49	3,549,624.36		13,665,514.85
Total	10,115,890.49	3,549,624.36		13,665,514.85

Note: Additional statutory surplus reserve for the year was accrued by 10% of net profit of parent company.



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VI. NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

26. Undistributed profits

Item	Amount for the year	Amount for last year
Balance at the end of last year	55,797,710.73	47,908,855.34
Add: Adjustment to the opening balance of undistributed profit		
Balance at the beginning of the year	55,797,710.73	47,908,855.34
Add: Net profit attributable to the owners of the parent company for the year	45,432,949.87	44,759,911.86
Less: Appropriation of statutory surplus reserve	3,549,624.36	4,471,056.47
Dividends payable on ordinary shares	21,600,000.00	32,400,000.00
Dividends on ordinary shares converted to share capital		
Balance at the end of the year	76,081,036.24	55,797,710.73

On 28 May 2018, Charmacy Pharmaceutical held its Annual General Meeting and approved the Group's declaration of final dividend of RMB0.2 per share, totaling RMB21.6 million for the year ended 31 December 2017.

27. Operating revenue and operating cost

Item	Amount for the year		Amount for last year	
	revenue	cost	revenue	Cost
Principal businesses	3,906,599,642.74	3,697,481,989.00	4,061,633,057.77	3,885,972,976.78
Other businesses	28,646,334.44		34,202,392.41	
Total	3,935,245,977.18	3,697,481,989.00	4,095,835,450.18	3,885,972,976.78

28. Taxes and surcharges

Item	Amount for the year	Amount for last year
Stamp duty	2,014,822.24	1,728,904.77
Property taxes	2,605,233.95	1,133,925.20
Urban maintenance and construction tax	778,893.38	781,429.32
Education surcharge	556,352.46	558,163.81
Tax on land use	322,133.26	380,722.00
Vehicle and vessel tax	30,949.23	29,482.56
Environment protection tax	4,200.00	
Total	6,312,584.52	4,612,627.66



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VI. NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

29. Selling expenses

Item	Amount for the year	Amount for last year
Staff remuneration	44,736,534.32	43,667,997.86
Transportation costs	12,808,361.79	11,775,219.98
Office expenses	9,947,438.43	6,550,312.57
Depreciation and amortization	4,598,578.72	3,383,705.40
Promotion and advertising expenses	955,696.21	1,327,434.73
Business entertainment expenses	416,656.07	635,490.43
Travelling expenses	400,896.92	613,209.33
Others	112,458.49	51,968.79
Total	73,976,620.95	68,005,339.09

30. Management expenses

Item	Amount for the year	Amount for last year
Staff remuneration	23,599,750.31	19,507,988.00
Office expenses	10,605,632.58	11,861,215.77
Depreciation and amortization	14,462,398.66	10,764,556.76
Expenses on engaging intermediary agencies	9,513,026.46	4,013,372.46
Of which: Auditor's remuneration	800,000.00	382,264.14
– Audit service expenses	800,000.00	300,000.00
– Other service expenses		82,264.14
Share-based payment		988,928.00
Travelling expenses	336,439.21	703,662.67
Business entertainment expenses	187,908.84	456,027.91
Promotion and advertising expenses	6,559.23	73,113.44
Loss on inventory	1,026,423.31	1,004,237.78
Others	167,108.34	203,016.22
Total	59,905,246.94	49,576,119.01

Note: The sharp increase in expenses on engaging intermediary agencies for the year compared with the same period was due to the one-off agency fees for the reporting period included in the profit and loss in current period with an amount of RMB5,740,100, when Charmacy Pharmaceutical Company applied to the China Securities Regulatory Commission for the termination of A Share IPO filing in September 2018.



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VI. NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

31. Finance costs

Item	Amount for the year	Amount for last year
Interest expenses	31,093,279.95	25,385,458.52
Less: Interest income	3,177,895.88	3,377,080.73
Add: Loss on foreign exchange	122,685.03	1,741,945.41
Add: Handling fees	3,492,069.03	3,856,655.22
Total	31,530,138.13	27,606,978.42

32. Impairment loss of assets

Item	Amount for the year	Amount for last year
Loss on bad debts		1,974,633.76
Loss on impairment of inventories	2,641,576.34	2,442,989.06
Impairment loss on goodwill	1,465,937.31	
Total	4,107,513.65	4,417,622.82

33. Impairment loss of credit

Item	Amount for the year	Amount for last year
Loss on bad debts	2,044,408.31	
Total	2,044,408.31	



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VI. NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS

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34. Gains on disposal of assets

Item	Amount for the year	Amount for last year	Amounts included in non-recurring profit and loss for the year
Gains on disposal of non-current assets	-40,522.27	-185,982.92	-40,522.27
Of which: Gains on disposal of non-current assets that are not classified as held for sale	-40,522.27	-185,982.92	-40,522.27
Of which: Gains on disposal of fixed assets	-40,522.27	-185,982.92	-40,522.27
Total	-40,522.27	-185,982.92	-40,522.27

35. Other gains

Item	Amount for the year	Amount for last year	Sources & basis
Transfer-out of logistics program grant	457,060.50	467,051.01	Notice of the Bureau of Commerce of Foshan City on the Organization and Application of Logistics Standardization Pilot Program of Foshan City in 2015 (Fo Shangwu Fu Han<2015>182)
Total	457,060.50	467,051.01	

36. Non-operating income

(1) Breakdown of non-operating income

Item	Amount for the year	Amount for last year	Amounts included in non-recurring profit and loss for the year
Government grants	3,352,631.00	3,764,446.82	3,352,631.00
Others	258,472.89	312,680.58	258,472.89
Total	3,611,103.89	4,077,127.40	3,611,103.89



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VI. NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

36. Non-operating income (Continued)

(2) Breakdown of government grants

Item	Amount for the year	Amount for last year	Sources & basis	Asset-related/ Revenue-related
Incentive funds for listing of enterprises		2,000,000.00	Notice on the Pre-issuance of the 2nd Batch of Incentive Funds for Listing of Enterprises in 2017 (《關於預下達2017年企業上市獎勵資金(第二批)的通知》)(Shan Shi Cai Jin [2017] No.10)	Revenue-related
Incentive funds for listing of enterprises		1,000,000.000	Notice on the Pre-issuance of the 6th Batch of Incentive Funds for Listing of Enterprises in 2017 (Shan Shi Cai Jin [2017] No. 68)	Revenue-related
Receipt of "Top 100 Enterprise" Incentive Funds for 2016 from Economy and Technology Promotion Bureau of Chancheng District		616,076.00	Notice of Economy and Technology Promotion Bureau of Chancheng District, Foshan City on the Organization and Application of "Top 100 Enterprise" Incentive Funds for 2016 (《佛山市禪城區經濟和科技促進局關於組織申報2016年度“百企爭先”獎勵的通知》)(Chan Jing Han <2017> No. 92)	Revenue-related
Employment stabilization subsidy financed by unemployment insurance of Shantou City	80,856.00	79,664.00	Implementation Measures on Employment Stabilization Work under the Support of the Unemployment Insurance of Shantou City (《汕頭市失業保險支持企業穩定崗位工作實施辦法》)	Revenue-related
Receipt of employment stabilization subsidy for 2014 and 2015		65,706.82	Document of the Department of Human Resources and Social Security of Foshan (Fo Ren She <2016> No.165)	Revenue-related



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VI. NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

36. Non-operating income (Continued)

(2) Breakdown of government grants (Continued)

Item	Amount for the year	Amount for last year	Sources & basis	Asset-related/ Revenue-related
Notice on Payment of Project Funds in Relation to the Special Funds (for the Statistics and Monitoring of Domestic Trade Circulation) from the Central Treasury for Promoting the Development of the Service Sector of 2016 《關於撥付2016年中央財政服務業發展專項資金(內貿流通統計監測)項目資金的通知》		3,000.00	Notice on Payment of Project Funds in relation to the Special Funds (for the Statistics and Monitoring of Domestic Trade Circulation) from the Central Treasury for Promoting the Development of the Service Sector of 2016 (Shan Shi Cai Gong [2017] No. 83)	Revenue-related
Special funds for the development of industry and information technology	736,000.00		Notice on the Issuance of the 1st Batch of Provincial Special Funds for the Development of Industry and Information Technology (for Promoting the Development of Private Sector) of 2017 (Shan Long Cai [2017] No.84)	Revenue-related
The Program of Special Funds (Incentive Grant for Listing Financing) for Promoting the Development of Private Sector of 2018	1,950,000.00		Notice of Guangdong Economic and Information Technology Commission on the Issuance of the Program of Economy Promoting Special Funds (for the Development of Private Sector and SME) of 2018	Revenue-related



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VI. NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

36. Non-operating income (Continued)

(2) Breakdown of government grants (Continued)

Item	Amount for the year	Amount for last year	Sources & basis	Asset-related/ Revenue-related
Receipt of "Top 100 Enterprise" Incentive Funds	585,775.00		Notice of Economy and Technology Promotion Bureau of Chancheng District, Foshan City on the Organization and Application of "Top 100 Enterprise" Incentive Funds of 2017 (《佛山市禪城區經濟和科技促進局關於組織申報2017年度“百企爭先”獎勵的通知》)	Revenue-related
Total	3,352,631.00	3,764,446.82		

(3) Others

The non-operating income of the Group for the year includes gains on disposal of property of RMB0.00. (Last year: RMB0.00).

37. Non-operating expenses

Item	Amount for the year	Amount for last year	Amounts included in non-recurring profit and loss for the year
External donation	220,334.00	71,388.09	220,334.00
Others	39,357.95	73,279.51	39,357.95
Total	259,691.95	144,667.60	259,691.95



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VI. NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

38. Income tax expenses

(1) *Income tax expenses*

Item	Amount for the year	Amount for last year
Current income tax calculated in accordance with the tax laws and relating requirements	19,604,923.82	17,317,005.48
– PRC	19,604,923.82	17,317,005.48
– Hong Kong		
Deferred income tax expenses	-711,490.91	-1,754,563.89
Total	18,893,432.91	15,562,441.59

There is no Hong Kong profits tax as the Group has no taxable income in Hong Kong for the year.

(2) *Adjustment process for accounting profits and income tax expenses*

Item	Amount for the year
Total combined profits for the year	63,655,425.85
Income tax expenses calculated at the statutory/applicable tax rate	15,913,856.46
Effect of non-deductible cost, expenses and loss	2,613,092.12
Others	366,484.33
Income tax expenses	18,893,432.91

Note: Others are the provision for impairment of goodwill made for Zhuhai Charmacy Company at consolidation level. The temporary differences may not be reversed in the foreseeable future, as the Company has no plan to dispose or liquidate its subsidiary companies in the foreseeable future. Therefore, such temporary differences is not recognised as taxable temporary differences.



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VI. NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

39. Items of the Statement of Cash Flows

(1) *Other cash received/paid relating to operating/investing/financing activities*

1) *Other cash received relating to operating activities*

Item	Amount for the year	Amount for last year
Government grant	3,352,631.00	6,364,446.82
Interest income	195,947.69	282,568.25
Inter-company current accounts	4,772,485.55	10,220,396.52
Staff reserves	697,480.69	546,585.34
Others	332,670.78	330,749.12
Total	9,351,215.71	17,744,746.05

2) *Other cash paid relating to operating activities*

Item	Amount for the year	Amount for last year
Transportation costs	14,735,904.83	12,650,175.53
Inter-company current accounts	7,497,977.13	11,424,537.25
Office expenses	11,248,518.99	8,399,060.92
Repair and Maintenance expenses	1,090,157.16	3,809,062.88
Expenses on engaging agencies	4,589,480.75	8,652,940.35
Staff borrowings	4,934,193.54	5,546,655.51
Utilities	6,405,516.71	4,194,301.30
Handling fees	2,947,365.26	2,463,562.46
Telecommunication fees	1,345,895.60	1,469,563.19
Travelling expenses	721,734.00	1,192,696.36
Business entertainment expenses	683,308.14	1,168,132.11
Promotion and advertising expenses	213,696.10	744,079.94
Marketing expenses	725,662.47	688,291.98
Others	2,120,532.46	2,285,707.06
Total	59,259,943.14	64,688,766.84



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VI. NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

39. Items of the Statement of Cash Flows (Continued)

(1) *Other cash received/paid relating to operating/investing/financing activities* (Continued)

3) *Other cash received relating to investing activities*

Item	Amount for the year	Amount for last year
Recovery of bank financial products		100,000.00
Receipt of net cash from subsidiaries		2,086,078.94
Total		2,186,078.94

4) *Other cash paid relating to investing activities*

Item	Amount for the year	Amount for last year
Investment in bank financial products		100,000.00
Total		100,000.00

5) *Other cash received relating to financing activities*

Item	Amount for the year	Amount for last year
Receipt of bank acceptance margin	1,867,364,795.10	2,032,866,386.13
Interest income on margin	2,981,948.19	3,094,512.48
Receipt of borrowing margin	1,209,056.15	
Total	1,871,555,799.44	2,035,960,898.61

6) *Other cash paid relating to financing activities*

Item	Amount for the year	Amount for last year
Payment of bank acceptance margin	1,800,819,897.21	2,111,246,615.99
Handling fees for financing	1,005,830.53	1,730,412.37
Borrowing margin	3,300,000.00	1,200,000.00
Cash paid for acquiring minority equity interest	9,710,000.00	
Total	1,814,835,727.74	2,114,177,028.36



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VI. NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

39. Items of the Statement of Cash Flows (Continued)

(2) Supplementary information to the Combined Statement of Cash Flows

Item	Amount for the year	Amount for last year
1. Reconciliation of net profit to cash flows from operating activities:		
Net profit	44,761,992.94	44,294,872.70
Add: Provision for impairment on assets	4,107,513.65	4,417,622.82
Impairment loss of credit assets	2,044,408.31	
Depreciation of fixed assets, depletion of oil and gas assets, depreciation of productive biological assets	12,066,714.75	9,662,228.70
Amortization of intangible assets	6,374,495.39	4,459,331.86
Amortization of long-term deferred expenses	619,767.24	26,701.60
Loss on disposal of fixed assets, intangible assets and other long-term assets (“-” for gains)	40,522.27	185,982.92
Loss on retirement of fixed assets (“-” for gains)		
Gain or loss arising from changes in fair value (“-” for gains)		
Finance costs (“-” for gain)	29,117,162.29	24,021,358.41
Investment loss (“-” for gain)		
Decrease in deferred income tax assets (“-” for increase)	-912,144.21	-1,760,487.84
Increase in deferred income tax liabilities (“-” for decrease)	200,653.30	
Decrease in inventories (“-” for increase)	-41,129,076.14	-80,598,031.10
Decrease in receivables from operating activities (“-” for increase)	47,346,572.78	-157,763,293.39
Increase in payables from operating (“-” for decrease)	-55,487,183.34	120,093,579.16
Others		
Net cash flow from operating activities	49,151,399.23	-32,960,134.16
2. Non-cash significant investing and financing activities:		
Conversion of debt into capital		
Convertible corporate bonds due within one year		
Fixed asset under finance lease		
3. Net change in cash and cash equivalents:		
Cash balance at the end of the year	55,738,786.02	75,096,936.45
Less: cash balance at the beginning of the year	75,096,936.45	119,569,294.15
Add: balance of cash equivalents at the end of the year		
Less: balance of cash equivalents at the beginning of the year		
Net increase in cash and cash equivalents	-19,358,150.43	-44,472,357.70

Note: During the Reporting Period, by discounting its commercial drafts, the Group raised RMB53 million and RMB43.8 million in 2017 and 2018, respectively.



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VI. NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

39. Items of the Statement of Cash Flows (Continued)

(3) Cash and cash equivalents

Item	Balance at the end of the year	Balance at the beginning of the year
Cash	305,938.89	202,101.04
Of which: cash on hand	305,938.89	202,101.04
Bank deposits readily available for payment	55,432,847.13	74,894,835.41
Other monetary funds readily available for payment		
Cash equivalents		
Of which: bonds investment due within three months		
Balance of cash and cash equivalents at the end of the year	55,738,786.02	75,096,936.45
Of which: Restricted cash and cash equivalents used by the parent company or the subsidiaries of the Group		

40. Assets with restricted ownership and rights of use

Item	Book value at the end of the year	Reasons of Restriction
Monetary funds	372,862,505.22	Bank acceptance bill margin, borrowing margin
Bills receivable	30,393,653.82	Pledge and bills discounting security
Fixed assets	160,715,039.42	security
Intangible assets	144,113,134.22	security
Inventories	350,000,000.00	security

41. Monetary items in foreign currencies

(1) Monetary items in foreign currencies

Item	Balance in foreign currency at the end of the year	Exchange rate	Equivalent RMB balance at the end of the year
Monetary funds			385,402.27
Of which: Hong Kong Dollars	439,856.51	0.8762	385,402.27



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VI. NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

42. Government grants

(1) *Basic information about government grants*

Type	Amount	Item reported	Amount included in profit and loss for the period
The Program of Special Funds (Incentive Grant for Listing Financing) for Promoting the Development of Private Sector of 2018	1,950,000.00	Non-operating income	1,950,000.00
Special funds for the development of industry and information technology	736,000.00	Non-operating income	736,000.00
Receipt of "Top 100 Enterprise" Incentive Funds	585,775.00	Non-operating income	585,775.00
Employment stabilization subsidy financed by unemployment insurance of Shantou City	80,856.00	Non-operating income	80,856.00
Release of subsidies granted for logistics projects	457,060.50	Other gains	457,060.50

VII. CHANGES IN SCOPE OF CONSOLIDATION

On 2 January 2018, the Company invested RMB20.80 million to establish a wholly-owned subsidiary, Shenzhen Charmacy Pharmaceutical Limited (深圳創美藥業有限公司).



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VIII. INTERESTS IN OTHER ENTITIES

1. Interests in subsidiaries

(1) Composition of the corporation

Name of subsidiary	Place of principal operation	Place of registration	Nature of business	Registered Capital	Proportion of shareholding (%)		Method of acquisition
					Direct	Indirect	
Guangdong Charmacy Company	Pearl River Delta	Foshan	Pharmaceutical distribution	RMB150 million	100		Established by investment
Zuhai Charmacy Company	Pearl River Delta	Zuhai	Pharmaceutical distribution	RMB3.6 million	100		Business combination not under common control
Guangzhou Charmacy Company	Pearl River Delta	Guangzhou	Pharmaceutical distribution	RMB20 million	100		Business combination not under common control
Shenzhen Charmacy Company	Pearl River Delta	Shenzhen	Pharmaceutical distribution	RMB20.8 million	100		Established by investment

2. Changes in ownership interest in subsidiaries without losing control of subsidiaries

(1) Changes in ownership interest in subsidiaries

Types of transactions	Company name	Time	Percentage of transactions	Proportion of shareholding at the end of the year	Note
Acquisition of minority equity interests	Zuhai Charmacy Company	August 2018	30%	100%	Note 1
Acquisition of minority equity interests	Guangzhou Charmacy Company	October 2018	10%	100%	Note 2

Note 1: The Company previously held 70% equity interest in its subsidiary Zuhai Charmacy Company. In August 2018, the company entered into an equity transfer agreement with Mr. Zheng Shuibiao (鄭水標), one of our former minority shareholder, for the acquisition of 30% equity interests in its subsidiary Zuhai Charmacy. Upon completion of this acquisition, the Company holds 100% equity interest in Zuhai Charmacy.

Note 2: The Company previously held 90% equity interest in its subsidiary Guangzhou Charmacy Company. In October 2018, the company entered into an equity transfer agreement with Mr. Wang Weibin (王偉斌), one of our former minority shareholders, for the acquisition of 10% equity interest in its subsidiary Guangzhou Charmacy. Upon completion of this acquisition, the Company holds 100% equity interest in Guangzhou Charmacy.



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VIII. INTERESTS IN OTHER ENTITIES (Continued)

2. Changes in ownership interest in subsidiaries without losing control of subsidiaries

(Continued)

(2) *Effect of changes in ownership interest in subsidiaries on equity*

Item	Zhuhai Charmacy Company	Guangzhou Charmacy Company
Cash	7,710,000.00	2,000,000.00
Fair value of non-cash assets		
Total acquisition cost/disposal consideration	7,710,000.00	2,000,000.00
Less: share of net assets of subsidiary based on the proportion of equity interest acquired/ disposed of	5,063,171.92	1,433,169.62
Difference	2,646,828.08	566,830.38
Of which: adjustment to capital reserves	2,646,828.08	566,830.38

IX. RISKS RELATED TO FINANCIAL INSTRUMENTS

The Group's major financial instruments include borrowings, receivables, payables, held for trading financial assets, held for trading financial liabilities, etc. Details of these financial instruments are set out in Note VI. The risks associated with these financial instruments and the risk management policies adopted by the Group on how to mitigate these risks are set out below. The management of the Group manages and monitors these exposures to ensure such risks are contained within a prescribed scope.

1. Objective and policies of various risks management

The Group engages in risk management with the aim of achieving an appropriate balance between risk and return, where the negative effects of risks against the operating results of the Group are minimized, and to maximize the interest of Shareholders and other stakeholders. Based on such risk management objectives, the fundamental strategy of risk management of the Group is to ascertain and analyse all types of risk exposures of the Group, establish appropriate risk tolerance thresholds, carry out risk management procedures and perform risk monitoring on all kinds of risks in a timely and reliable manner, thus containing risk exposures within a prescribed scope.



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IX. RISKS RELATED TO FINANCIAL INSTRUMENTS (Continued)

1. Objective and policies of various risks management (Continued)

(1) Market risk

1) Foreign exchange risk

Foreign exchange risk is the risk arising from changes in fair value or future cash flows of financial instrument resulted from changes in exchange rate. The Group's foreign exchange risk relates mainly to Hong Kong Dollars. Except for the proceeds from the H Share offering, payment of H Share dividends and minor expenses incurred in the Hong Kong Special Administrative Region, other main business activities of the Group are settled in RMB. As at 31 December 2018, the changes in the fair value or future cash flows from the assets and liabilities of the balance of the account denominated in HK\$ due to changes in exchange rates may have impact on the Group's operating results as set out in the flowing table.

Item	Balance at the end of the year	Balance at the beginning of the year
Monetary fund – HK\$	385,402.27	367,691.75

The Group closely monitors the effect of exchange rate on the Group.

2) Interest rate risk

The major liabilities of the Group with interest rate risk include short-term borrowings and long-term borrowings. The Group has no foreign currency borrowings.

3) Other price risks

As it has no available-for-sale financial assets and financial assets at fair value through profit or loss, the Group has no such price risk.

(2) Credit risk

As at 31 December 2018, the maximum credit risk exposure that might incur financial losses to the Group was mainly attributable to the losses of financial assets due to a contractual failure of counterparty to perform its obligations. Specifically, such losses include:

The carrying amount of financial assets recognized in the consolidated balance sheet. For financial assets at fair value, the carrying amount reflects the risk exposure, but not the maximum risk exposure, which will vary with the changes in future fair value.

In order to mitigate credit risk, the Group established special departments to determine credit limits and perform credit approval, and carries out other monitoring procedures to ensure necessary measures are taken to collect overdue debts. Besides, the Group reassesses the recovery of each receivable items on an individual basis at each balance sheet date, so as to ensure sufficient provision for doubtful debts is made for amounts that are not recoverable. As such, the management of the Group believes that the credit risks assumed by the Group has been significantly mitigated.



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IX. RISKS RELATED TO FINANCIAL INSTRUMENTS (Continued)

1. Objective and policies of various risks management (Continued)

(2) Credit risk (Continued)

The Group's liquidity is deposited in banks with higher credit rating, so the credit risk of the liquidity is lower.

The Group has adopted necessary policies to ensure that all the trade customers have good credit history.

(3) Liquidity risk

In managing liquidity risk, the Group maintains cash and cash equivalents at a level deemed sufficient by the management of the Group and keeps monitoring, so as to satisfy the operating needs of the Group and minimize the influence from the fluctuation of cash flows. The management of the Group monitors the utilization of bank borrowings and makes sure the related borrowing agreements are complied with.

Analysis of financial assets and financial liabilities of the Group by maturity of undiscounted contractual cash flows is set out as follows:

Item	Book value	Within 1 year	1 to 5 years	Over 5 years	Total
Monetary funds	428,601,291.24	428,601,291.24			428,601,291.24
Bills and trade receivables	827,972,997.67	827,972,997.67			827,972,997.67
Other receivables	11,833,686.15	11,833,686.15			11,833,686.15
Other current assets	24,810,498.20	24,810,498.20			24,810,498.20
Short-term borrowings	387,900,000.00	387,900,000.00			387,900,000.00
Bill and trade payables	1,343,420,220.04	1,343,420,220.04			1,343,420,220.04
Contract liability	1,879,275.48	1,879,275.48			1,879,275.48
Salaries payable to employees	5,066,954.31	5,066,954.31			5,066,954.31
Interest payables	921,877.61	921,877.61			921,877.61
Other payables	9,658,239.15	9,658,239.15			9,658,239.15
Other current liabilities	457,060.50	457,060.50			457,060.50
Long-term borrowings	90,000,000.00		62,727,272.56	27,272,727.44	90,000,000.00

2. Fair value

The fair value of financial assets and financial liabilities is determined in accordance with the following method:

The fair value of financial assets and financial liabilities with standard terms and conditions and in active markets are determined by reference to the prevailing bid and ask prices in the corresponding active market;

The fair value of other financial assets and financial liabilities (other than derivative instruments) are determined by the general pricing model based on the discounted future cash flow method or recognized by observable current market transaction prices;



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IX. RISKS RELATED TO FINANCIAL INSTRUMENTS (Continued)

2. Fair value (Continued)

The fair value of the derivative is determined by quoted price in active markets.

The management of the Group considers that the carrying amounts of financial assets and financial liabilities measured at amortized cost in the financial statements approximate to the fair value of such assets and liabilities.

X. RELATED PARTIES AND RELATED PARTY TRANSACTIONS

(I) Relationship with related parties

1. Controlling shareholder and ultimate controller

(1) Controlling shareholder and ultimate controller

Name of controlling shareholder and ultimate controller	Nationality	Percentage of shareholding in the Company (%)	Percentage of voting rights in the Company (%)
Yao Chuanglong	Chinese	54.63	54.63

(2) Registered capital of controlling shareholder and its changes

Controlling shareholder	Balance at the beginning of the year	Increase in this year	Decrease in this year	Balance at the end of the year
Yao Chuanglong	59,000,000.00			59,000,000.00

(3) Shares or interests held by controlling shareholder and its changes

Controlling shareholder	Shareholding amount		Percentage of shareholding (%)	
	Balance at the end of the year	Balance at the beginning of the year	Percentage at the end of the year	Percentage at the beginning of the year
Yao Chuanglong	59,000,000.00	59,000,000.00	54.63	54.63



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X. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (Continued)

(I) Relationship with related parties (Continued)

2. Subsidiaries

For details of subsidiaries, please see “VII. 1. (1) Composition of the corporation” under these notes.

3. Other related parties

Name of other related party	Relationship with the Company
Youran Investment	Holding 1.57% equity interest in the Company, a shareholding platform that is mainly consisted of employees of the Company
Zhichuang Investment	Holding 1.67% equity interest in the Company, a shareholding platform that is mainly consisted of employees of the Company
Meizhi Investment	Holding 2.96% equity interest in the Company, a shareholding platform that is mainly consisted of employees of the Company and an enterprise in which Lin Zhixiong, our executive Director, secretary of the Company and Chief Financial Officer, serves as a general partner
Guangzhou Baiyunshan Pharmaceutical Holdings Co., Ltd.(廣州白雲光華製藥股份有限公司) (hereinafter referred to as “Baiyunshan” (白雲山股份)) and its holding subsidiaries and joint ventures <i>Note 1</i>	Guangzhou Pharmaceutical Baiyunshan Hong Kong Company Limited (hereinafter referred to as “Baiyunshan Hong Kong”), a subsidiary of Baiyunshan and a strategic investor of the Company, holds 7,906,500 H shares of the Company, representing 7.32% of the total share capital of the Company. Due to the close business association between the Company and Baiyunshan and its subsidiaries, the shareholding percentage of Baiyunshan Hong Kong controlled by it in the Company has exceeded 5%, and it has appointed a Director, Li Weisheng in 2017 to the Company. Based on the principle of substance over form, the Company deemed Baiyunshan and its holding subsidiaries and joint ventures as related parties
Guangzhou Baiyunshan Guang Hua Pharmacy Co., Ltd.* (廣州白雲山光華製藥股份有限公司)	An enterprise in which our non-executive Director Li Weisheng holds a directorship
Guangzhou Pharmaceutical Baiyunshan Macau Company Limited (廣藥白雲山澳門有限公司)	An enterprise in which Li Weisheng, the non-executive Director, serves as the chairman of the Board
Zheng Yuyan, Lin Zhixiong, Li Weisheng, Wan Chi Wai, Zhou Tao, Guan Jian, Zhang Ling, Zheng Xiyue, Lin Zhijie, Wan Xiao hua	Directors, Supervisors and Senior Management of the Company
Wu Binhua, Liu Jigu	Natural person shareholders directly holding more than 5% of the Company's shares
Shenzhen Lafang Investment Management Co., Ltd. (深圳市拉芳投資管理有限公司)	An enterprise in which Wu Binhua, a shareholder holding more than 5% of shares, serves as general manager



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X. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (Continued)

(I) Relationship with related parties (Continued)

3. Other related parties (Continued)

Name of other related party	Relationship with the Company
Shenzhen Yijing Investment Co., Ltd. (深圳市億璟投資有限公司)	An enterprise in which Wu Binhua, a shareholder holding more than 5% of shares, serves as general manager
King & Wood Mallesons (金杜律師事務所)	An enterprise in which Wan Chi Wai, the independent non-executive Director, serves as partner
Grandway Law Offices (國楓律師事務所)	An enterprise in which Zhou Tao, the independent non-executive Director, serves as partner
HM International Holdings Limited	An enterprise in which Wan Chi Wai, the independent non-executive Director, serves as the independent non-executive Director
Dafy Holdings Limited (達飛控股有限公司)	An enterprise in which Wan Chi Wai, the independent non-executive Director, serves as the independent non-executive Director
C.K.J Professional Dental Hospital Group Limited (深圳市愛康健齒集團股份有限公司)	An enterprise in which Zhang Ling, the Supervisor, serves as the independent non-executive Director
Shanghai New Focus Investment Development Limited (上海新關點投資發展有限公司)	An enterprise in which Guan Jian, the independent non-executive Director, holds 70% of shares and serves as the executive Director
Mankedao (Shanghai) Information Technology Limited (慢客島(上海)網絡科技有限公司)	An enterprise in which Guan Jian, the independent non-executive Director, holds 100% of shares and serves as the executive Director

Note 1: The details of the relationship among Guangzhou Baiyunshan Pharmaceutical Holdings Co., Ltd. (hereinafter referred to as "Baiyunshan") and its holding subsidiaries and joint ventures are as follows:

Company name	Related party relationships with Baiyunshan
Shenzhen Guangyao Liankang Pharmaceutical Company Limited* (深圳廣藥聯康醫藥有限公司)	A holding company of Baiyunshan
Zhuhai Guang Yao Kangming Pharmaceutical Co., Ltd.* (珠海廣藥康鳴醫藥有限公司)	A holding company of Baiyunshan
Foshan GPC Jianze Pharmaceutical Co., Ltd.* (佛山市廣藥健擇醫藥有限公司)	A holding company of Baiyunshan
Guangzhou Guo Ying Pharmaceutical Co., Ltd.* (廣州國盈醫藥有限公司)	A holding company of Baiyunshan
Guangzhou Xin Te Pharmaceutical Co., Ltd.* (廣州欣特醫藥有限公司)	A holding company of Baiyunshan
Guangzhou Jianmin Pharmaceutical Company Limited (廣州健民醫藥有限公司)	A holding company of Baiyunshan
Guangzhou Pharmaceutical Co., Ltd. Da Zhong Pharmaceutical Sales Branch* (廣州醫藥有限公司大眾藥品銷售分公司)	A holding company of Baiyunshan



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(Unless otherwise stated, notes to the financial statements are expressed in Renminbi Yuan)

X. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (Continued)

(I) Relationship with related parties (Continued)

3. Other related parties (Continued)

Note 1: (Continued)

Company name	Related party relationships with Baiyunshan
Guangzhou Baiyunshan Qi Xing Pharmaceutical Co., Ltd.* (廣州白雲山奇星藥業有限公司)	A holding company of Baiyunshan
Hutchison Whampoa Guangzhou Baiyunshan Pharmaceutical Co., Ltd.* (廣州白雲山和黃醫藥有限公司)	A joint venture of Baiyunshan
Guangzhou Baiyunshan Ming Xing Pharmaceutical Co., Ltd.* (廣州白雲山明興製藥有限公司)	A holding company of Baiyunshan
Guangzhou Baiyunshan Chen Li Ji Pharmaceutical Factory Co., Ltd.* (廣州白雲山陳李濟藥廠有限公司)	A holding company of Baiyunshan
Guangzhou Baiyunshan Guang Hua Pharmacy Co., Ltd.* (廣州白雲山光華製藥股份有限公司)	A holding company of Baiyunshan
Guangzhou Baiyunshan Pan Gao Shou Pharmaceutical Co., Ltd.* (廣州白雲山潘高壽藥業股份有限公司)	A holding company of Baiyunshan
Guangzhou Baiyunshan Tian Xin Pharmaceutical Co., Ltd.* (廣州白雲山天心製藥股份有限公司)	A holding company of Baiyunshan
Guangzhou Baiyunshan Xing Qun Pharmaceutical Co., Ltd.* (廣州白雲山星群(藥業)股份有限公司)	A holding company of Baiyunshan
Guangzhou Baiyunshan Pharmaceutical Marketing Co., Ltd.* (廣州白雲山醫藥銷售有限公司)	A holding company of Baiyunshan
Guangzhou Baiyunshan Zhong Yi Pharmaceutical Company Limited* (廣州白雲山中一藥業有限公司)	A holding company of Baiyunshan
Guangzhou Cai Zhi Lin Pharmaceutical Co., Ltd.* (廣州采芝林藥業有限公司)	A holding company of Baiyunshan
Guangzhou Pharmaceutical Import and Export Company Limited* (廣州醫藥進出口有限公司)	A holding company of Baiyunshan
Guangzhou Pharmaceuticals Corporation* (廣州醫藥有限公司)	A holding company of Baiyunshan
Guangzhou Baiyunshan Jing Xiu Tang Pharmaceutical Co., Ltd.* (廣州白雲山敬修堂藥業股份有限公司)	A holding company of Baiyunshan
Guangzhou Baiyunshan Hutchison Whampoa Chinese Medicine Co., Ltd.* (廣州白雲山和記黃埔中藥有限公司)	A joint venture of Baiyunshan
Guangzhou Wang Lao Ji Pharmaceutical Co., Ltd.* (廣州王老吉藥業股份有限公司)	A joint venture of Baiyunshan
Guangzhou Baiyunshan Pharmaceutical Holdings Co., Ltd. Guangzhou Baiyunshan He Ji Gong Pharmaceutical Factory* (廣州白雲山醫藥集團股份有限公司白雲山何濟公制藥廠)	A holding company of Baiyunshan
Guangzhou Cai Zhi Lin Corporation Bei Shang Chinese Raw Medicine Co., Ltd.* (廣州采芝林北商藥材有限公司)	A holding company of Baiyunshan
Guangzhou Chinese Medicine Corporation Chinese Medical Drink and Pill Factory* (廣州市藥材公司中藥飲片廠)	A holding company of Baiyunshan



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(Unless otherwise stated, notes to the financial statements are expressed in Renminbi Yuan)

X. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (Continued)

(II) Related party transactions

1. Details of related party transactions

Name of related party	Types of related party transactions	Pricing method and decision-making procedure for related party transactions	For the year 2018	For the year 2017
1.Sales and rendering of services				
Guangzhou Cai Zhi Lin Pharmaceutical Co., Ltd.	Sales of goods	Determined after negotiation by reference to market rates	24,761,743.87	16,368,901.52
Guangzhou Pharmaceuticals Corporation	Sales of goods	Determined after negotiation by reference to market rates	3,711,035.75	4,607,264.71
Foshan GPC Jianze Pharmaceutical Co., Ltd.	Sales of goods	Determined after negotiation by reference to market rates	230,933.95	275,723.54
Guangzhou Pharmaceutical Co., Ltd. Da Zhong Pharmaceutical Sales Branch	Sales of goods	Determined after negotiation by reference to market rates	370,087.40	1,552,030.76
Guangzhou Cai Zhi Lin Corporation Bei Shang Chinese Raw Medicine Co., Ltd.	Sales of goods	Determined after negotiation by reference to market rates	207,682.36	161,830.79
Guangzhou Guo Ying Pharmaceutical Co., Ltd.	Sales of goods	Determined after negotiation by reference to market rates		16,746.23
Guangzhou Jianmin Pharmaceutical Company Limited	Sales of goods	Determined after negotiation by reference to market rates	984,243.85	
Guangzhou Baiyunshan Pan Gao Shou Pharmaceutical Co., Ltd.	Rendering of services	Determined after negotiation by reference to market rates	9,433.96	
Zhuhai Guang Yao Kangming Pharmaceutical Co., Ltd.	Sales of goods	Determined after negotiation by reference to market rates	1,667.24	



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X. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (Continued)

(II) Related party transactions (Continued)

1. Details of related party transactions (Continued)

Name of related party	Types of related party transactions	Pricing method and decision-making procedure for related party transactions	For the year 2018	For the year 2017
Guangzhou Xin Te Pharmaceutical Co., Ltd.	Sales of goods	Determined after negotiation by reference to market rates		5,846,153.85
Shenzhen Guangyao Liankang Pharmaceutical Company Limited	Sales of goods	Determined after negotiation by reference to market rates	71,660.18	
Shenzhen Guangyao Liankang Pharmaceutical Company Limited	Rendering of services	Determined after negotiation by reference to market rates		28,438.29
2. Sales and rendering of services				
Guangzhou Pharmaceuticals Corporation	Procurement of goods	Determined after negotiation by reference to market rates	412,759,909.25	379,839,876.44
Guangzhou Cai Zhi Lin Pharmaceutical Co., Ltd.	Procurement of goods	Determined after negotiation by reference to market rates	54,262,834.84	110,289,185.45
Guangzhou Baiyunshan Pharmaceutical Marketing Co., Ltd.	Procurement of goods	Determined after negotiation by reference to market rates	41,581,113.54	38,800,340.84
Guangzhou Wang Lao Ji Pharmaceutical Co., Ltd.	Procurement of goods	Determined after negotiation by reference to market rates	40,589,079.26	37,065,339.36
Guangzhou Guo Ying Pharmaceutical Co., Ltd.	Procurement of goods	Determined after negotiation by reference to market rates	21,593,397.01	36,048,263.55



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(Unless otherwise stated, notes to the financial statements are expressed in Renminbi Yuan)

X. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (Continued)

(II) Related party transactions (Continued)

1. Details of related party transactions (Continued)

Name of related party	Types of related party transactions	Pricing method and decision-making procedure for related party transactions	For the year 2018	For the year 2017
Guangzhou Pharmaceutical Import and Export Company Limited	Procurement of goods	Determined after negotiation by reference to market rates	58,746,686.27	38,478,119.61
Guangzhou Baiyunshan Xing Qun Pharmaceutical Co., Ltd.	Procurement of goods	Determined after negotiation by reference to market rates	29,034,970.66	33,607,777.81
Guangzhou Baiyunshan Pan Gao Shou Pharmaceutical Co., Ltd.	Procurement of goods	Determined after negotiation by reference to market rates	24,055,634.68	24,175,640.70
Guangzhou Baiyunshan Pharmaceutical Holdings Co., Ltd. Guangzhou Baiyunshan He Ji Gong Pharmaceutical Factory	Procurement of goods	Determined after negotiation by reference to market rates	16,197,502.19	13,853,181.32
Guangzhou Baiyunshan Chen Li Ji Pharmaceutical Factory Co., Ltd.	Procurement of goods	Determined after negotiation by reference to market rates	15,912,401.97	17,377,149.85
Guangzhou Baiyunshan Zhong Yi Pharmaceutical Company Limited	Procurement of goods	Determined after negotiation by reference to market rates	-22,132,147.74	-783,763.25
Guangzhou Baiyunshan Tian Xin Pharmaceutical Co., Ltd.*	Procurement of goods	Determined after negotiation by reference to market rates	19,509,594.43	14,004,460.76
Guangzhou Baiyunshan Hutchison Whampoa Chinese Medicine Co., Ltd.*	Procurement of goods	Determined after negotiation by reference to market rates	7,017,061.17	9,872,599.82
Guangzhou Baiyunshan Qi Xing Pharmaceutical Co., Ltd.	Procurement of goods	Determined after negotiation by reference to market rates	3,875,411.77	4,885,310.66



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(Unless otherwise stated, notes to the financial statements are expressed in Renminbi Yuan)

X. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (Continued)

(II) Related party transactions (Continued)

1. Details of related party transactions (Continued)

Name of related party	Types of related party transactions	Pricing method and decision-making procedure for related party transactions	For the year 2018	For the year 2017
Guangzhou Baiyunshan Guang Hua Pharmacy Co., Ltd.	Procurement of goods	Determined after negotiation by reference to market rates	3,043,700.28	2,225,641.04
Guangzhou Xin Te Pharmaceutical Co., Ltd.	Procurement of goods	Determined after negotiation by reference to market rates	2,299,395.22	2,615,988.72
Foshan GPC Jianze Pharmaceutical Co., Ltd	Procurement of goods	Determined after negotiation by reference to market rates	1,494,735.53	1,355,972.13
Guangzhou Baiyunshan Ming Xing Pharmaceutical Co., Ltd.	Procurement of goods	Determined after negotiation by reference to market rates	-58,651.64	
Hutchison Whampoa Guangzhou Baiyunshan Pharmaceutical Co., Ltd.	Procurement of goods	Determined after negotiation by reference to market rates	77,075.21	

Note 1: The above amount of procurement excludes rebates from the upstream manufacturers and suppliers.

Note 2: The Company changed the channel of procurement of goods from Guangzhou Baiyunshan Zhong Yi Pharmaceutical Company Limited* to Guangzhou Pharmaceutical Import and Export Company Limited*, but the channel of rebates still in Guangzhou Baiyunshan Zhong Yi Pharmaceutical Company Limited*, in 2017, the procurement therefore in Guangzhou Baiyunshan Zhong Yi Pharmaceutical Company Limited* were negative for the year of 2017 and 2018.

* For identification purposes only



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1 January 2018 to 31 December 2018

(Unless otherwise stated, notes to the financial statements are expressed in Renminbi Yuan)

X. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (Continued)

(III) Related party balances

Name of item	Balance at the end of the year	Balance at the beginning of the year
Trade receivables		
Guangzhou Cai Zhi Lin Pharmaceutical Co., Ltd.	7,728,161.80	2,508,868.30
Guangzhou Pharmaceuticals Corporation	1,465,202.32	3,071,738.62
Guangzhou Jianmin Pharmaceutical Company Limited	646,421.91	
Guangzhou Pharmaceutical Co., Ltd. Da Zhong Pharmaceutical Sales Branch	306,648.00	1,681,200.00
Guangzhou Cai Zhi Lin Corporation Bei Shang Chinese Raw Medicine Co., Ltd.	34,352.28	10,526.01
Foshan GPC Jianze Pharmaceutical Co., Ltd	12,615.51	26,310.30
Guangzhou Guo Ying Pharmaceutical Co., Ltd.		3,566.88
Shenzhen Guangyao Liankang Pharmaceutical Company Limited		24,861.80
Prepayments		
Guangzhou Baiyunshan Pharmaceutical Marketing Co., Ltd	20,493,542.01	9,774,336.69
Guangzhou Pharmaceutical Import and Export Company Limited	10,011,636.55	18,289,866.32
Guangzhou Baiyunshan Zhong Yi Pharmaceutical Company Limited	5,451,511.50	2,190,068.55
Guangzhou Baiyunshan Pan Gao Shou Pharmaceutical Co., Ltd.	3,995,345.04	6,980,828.50
Guangzhou Baiyunshan Chen Li Ji Pharmaceutical Factory Co., Ltd.	3,491,492.56	2,167,540.93
Guangzhou Wang Lao Ji Pharmaceutical Co., Ltd.	2,655,427.28	3,193,442.84
Guangzhou Baiyunshan Xing Qun Pharmaceutical Co., Ltd.	1,606,079.54	9,533,548.70
Guangzhou Baiyunshan Pharmaceutical Holdings Co., Ltd. Baiyunshan He Ji Gong Pharmaceutical Factory	925,781.41	58,475.61
Guangzhou Baiyunshan Hutchison Whampoa Chinese Medicine Co., Ltd.	671,093.40	631,912.41
Guangzhou Baiyunshan Tian Xin Pharmaceutical Co., Ltd.	87,117.99	
Guangzhou Baiyunshan Ming Xing Pharmaceutical Co., Ltd.	58,651.64	
Guangzhou Baiyunshan Guang Hua Pharmacy Co., Ltd.	37,241.38	306,000.00
Guangzhou Baiyunshan Qi Xing Pharmaceutical Co., Ltd.		470,272.50
Other receivables		
Guangzhou Wang Lao Ji Pharmaceutical Co., Ltd.	150,000.00	100,000.00
Guangzhou Baiyunshan Jing Xiu Tang Pharmaceutical Co., Ltd.	20,000.00	20,000.00
Guangzhou Baiyunshan Hutchison Whampoa Chinese Medicine Co., Ltd.	20,000.00	20,000.00
Guangzhou Pharmaceuticals Corporation	450,000.00	



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1 January 2018 to 31 December 2018

(Unless otherwise stated, notes to the financial statements are expressed in Renminbi Yuan)

X. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (Continued)

(III) Related party balances (Continued)

Name of item	Balance at the end of the year	Balance at the beginning of the year
Trade payables		
Guangzhou Pharmaceuticals Corporation	82,420,564.88	67,410,275.73
Guangzhou Cai Zhi Lin Pharmaceutical Co., Ltd.	15,859,533.12	27,196,494.09
Guangzhou Guo Ying Pharmaceutical Co., Ltd.	6,109,644.92	6,128,721.96
Guangzhou Baiyunshan Tian Xin Pharmaceutical Co., Ltd.	674,162.38	1,228,288.81
Foshan GPC Jianze Pharmaceutical Co., Ltd.	444,122.40	138,622.00
Guangzhou Baiyunshan Qi Xing Pharmaceutical Co., Ltd.	317,887.84	
Guangzhou Baiyunshan Chen Li Ji Pharmaceutical Factory Co., Ltd.	62,575.70	
Guangzhou Xin Te Pharmaceutical Co., Ltd.		459,504.62
Guangzhou Baiyunshan Zhong Yi Pharmaceutical Company Limited		15,390.02
Bill payables		
Guangzhou Pharmaceuticals Corporation	83,705,001.15	95,130,505.80
Guangzhou Baiyunshan Pharmaceutical Marketing Co., Ltd.	23,548,089.77	22,000,520.00
Guangzhou Wang Lao Ji Pharmaceutical Co., Ltd.	14,691,780.73	13,680,112.03
Guangzhou Pharmaceutical Import and Export Company Limited	10,412,782.73	14,053,477.28
Guangzhou Baiyunshan Pan Gao Shou Pharmaceutical Co., Ltd.	10,008,000.00	13,109,638.80
Guangzhou Cai Zhi Lin Pharmaceutical Co., Ltd.	9,948,460.46	14,631,804.85
Guangzhou Baiyunshan Tian Xin Pharmaceutical Co., Ltd.	8,432,485.68	8,693,913.47
Guangzhou Baiyunshan Chen Li Ji Pharmaceutical Factory Co., Ltd.	8,404,553.20	8,519,375.65
Guangzhou Baiyunshan Hutchison Whampoa Chinese Medicine Co., Ltd.	2,318,482.96	3,411,678.40
Guangzhou Guo Ying Pharmaceutical Co., Ltd.	2,214,609.64	5,495,673.81
Guangzhou Baiyunshan Xing Qun Pharmaceutical Co., Ltd.	2,084,700.00	12,415,841.92
Guangzhou Baiyunshan Pharmaceutical Holdings Co., Ltd.		
Baiyunshan He Ji Gong Pharmaceutical Factory	1,392,900.00	327,767.50
Guangzhou Baiyunshan Guang Hua Pharmacy Co., Ltd.	1,350,000.00	1,230,000.00
Guangzhou Baiyunshan Qi Xing Pharmaceutical Co., Ltd.	918,580.00	1,253,334.51
Foshan GPC Jianze Pharmaceutical Co., Ltd.	152,900.00	204,200.00
Guangzhou Chinese Medicine Corporation Chinese Medical Drink and Pill Factory		38,056.00
Other payables		
Yao Chuanglong		53,640.00



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(Unless otherwise stated, notes to the financial statements are expressed in Renminbi Yuan)

X. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (Continued)

(IV) DIRECTORS', SUPERVISORS' AND EMPLOYEES' EMOLUMENTS

1. Details of the emoluments of directors and supervisors are as follows:

Item	Salaries and allowances	Social insurance, housing fund and pension	Bonuses	Share-based payment	Total
Amounts for the year					
Executive Directors					
Yao Chuanglong	649,000.00	64,885.62	1,000.00		714,885.62
Lin Zhixiong	485,000.00	49,729.64	1,000.00		535,729.64
Zheng Yuyan	504,860.00	31,522.68	800.00		537,182.68
Subtotal	1,638,860.00	146,137.94	2,800.00		1,787,797.94
Non-executive directors					
Li Weisheng					
Subtotal					
Supervisors					
Zheng Xiyue	156,323.92	24,493.62	400.00		181,217.54
Lin Zhijie	260,480.00	31,670.46	1,000.00		293,150.46
Zhang Ling	40,000.00				40,000.00
Subtotal	456,803.92	56,164.08	1,400.00		514,368.00
Independent non-executive directors					
Wan Chi Wai, Anthony	122,320.80				122,320.80
Guan Jian	50,000.00				50,000.00
Zhou Tao	50,000.00				50,000.00
Subtotal	222,320.80				222,320.80
Total	2,317,984.72	202,302.02	4,200.00		2,524,486.74



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1 January 2018 to 31 December 2018

(Unless otherwise stated, notes to the financial statements are expressed in Renminbi Yuan)

X. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (Continued)

(IV) DIRECTORS', SUPERVISORS' AND EMPLOYEES' EMOLUMENTS (Continued)

1. Details of the emoluments of directors and supervisors are as follows: (Continued)

Item	Salaries and allowances	Social insurance, housing fund and pension	Bonuses	Share-based payment	Total
Amounts for last year					
Executive directors					
Yao Chuanglong	649,996.00	62,180.30	1,000.00		713,176.30
Lin Zhixiong	435,746.00	49,456.00	1,000.00		486,202.00
Zheng Yuyan	430,156.00	31,405.02	1,000.00		462,561.02
Fan Jianbo	213,962.00	29,036.00			242,998.00
Subtotal	1,729,860.00	172,077.32	3,000.00		1,904,937.32
Non-executive director					
You Zeyan	37,494.00				37,494.00
Li Weisheng					
Subtotal	37,494.00				37,494.00
Supervisors					
Zhang Hanzi	190,889.51	22,704.00			213,593.51
Zheng Xiyue	173,457.44	24,393.66	400.00		198,251.10
Lin Zhijie	83,506.57	10,678.08	500.00		94,684.65
Zhang Ling	39,998.00				39,998.00
Subtotal	487,851.52	57,775.74	900.00		546,527.26
Independent non-executive directors					
Wan Chi Wai, Anthony	124,683.36				124,683.36
Guan Jian	49,996.00				49,996.00
Zhou Tao	49,996.00				49,996.00
Subtotal	224,675.36				224,675.36
Total	2,479,880.88	229,853.06	3,900.00		2,713,633.94

Note: On 19 July 2017, our executive Director Mr. Fan Jianbo resigned as a director. On 5 September 2017, Mr. Lin Zhijie was appointed as supervisor and Ms. Zhang Hanzi resigned as supervisor.



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X. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (Continued)

(IV) DIRECTORS', SUPERVISORS' AND EMPLOYEES' EMOLUMENTS (Continued)

2. Five individuals with the highest emoluments

Of the five individuals with the highest emoluments, three were directors (last year: four) for the year, and the emoluments of the directors among them are set out in Note "XI. (V). (1)" emoluments reflected in the emoluments of directors and supervisors. The emolument of other two individual (last year: one) was as follows:

Item	Amount for the year	Amount for last year
Salaries and allowances	551,966.40	273,371.83
Social insurance, housing fund and relevant pension cost	78,087.56	39,894.48
Year-end bonuses		1,000.00
Total	630,053.96	314,266.31

Scope of emoluments:

Item	Number of people for the year	Number of people for last year
Within RMB1,000,000	5	5

3. No other directors of the Group waived or agreed to waive any emoluments during the year except Mr. Li Weisheng waived his emoluments. During the Track Record Period, no emoluments were paid by the Company to any directors, supervisors or the five highest paid individuals as inducements to join or upon joining the Company or as a compensation for loss of office.

4. Major management's emoluments

The emoluments of major management (including the amount paid and payable to directors, supervisors and senior management) were as follows:

Item	Amount for the year	Amount for last year
Salaries and allowances	2,483,124.72	3,402,800.37
Social insurance, housing fund and relevant pension cost	222,938.74	357,241.80
Bonuses	5,200.00	7,400.00
Total	2,711,263.46	3,767,442.17



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XI. CONTINGENCIES

1. The Group's internal guarantees during the reporting period are as follows (Unit: RMB0'000):

Names of Guarantors	Names of Guarantees	Guarantee Amount	Commencement Date	Release Date	Whether the Guarantee has been fully performed	Explanation
Charmacy Pharmaceutical Company	Guangdong Charmacy Company	3,500.00	2017-12-15	2019-04-30	Yes	
Charmacy Pharmaceutical Company	Guangdong Charmacy Company	9,000.00	2017-09-05	2018-09-05	Yes	
Charmacy Pharmaceutical Company	Guangdong Charmacy Company	5,600.00	2017-12-01	2018-08-07	Yes	
Charmacy Pharmaceutical Company	Guangdong Charmacy Company	1,000.00	2017-06-20	2018-06-20	Yes	
Charmacy Pharmaceutical Company	Guangdong Charmacy Company	18,000.00	2017-06-01	2018-05-31	Yes	Chattel mortgage
Charmacy Pharmaceutical Company	Guangdong Charmacy Company	5,000.00	2017-03-20	2018-03-19	Yes	
Guangdong Charmacy Company	Charmacy Pharmaceutical Company	20,000.00	2015-09-16	2018-09-15	Yes	
Guangdong Charmacy Company	Charmacy Pharmaceutical Company	3,500.00	2017-05-26	2019-04-30	No	
Guangdong Charmacy Company	Charmacy Pharmaceutical Company	20,000.00	2017-06-01	2018-05-31	No	
Guangdong Charmacy Company	Charmacy Pharmaceutical Company	13,000.00	2017-09-05	2018-09-05	Yes	
Charmacy Pharmaceutical Company	Guangdong Charmacy Company	12,000.00	2015-07-29	2020-12-31	No	
Charmacy Pharmaceutical Company	Guangdong Charmacy Company	4,500.00	2018-08-06	2020-12-31	No	
Charmacy Pharmaceutical Company	Guangdong Charmacy Company	5,000.00	2018-06-12	2022-06-06	No	
Charmacy Pharmaceutical Company	Guangdong Charmacy Company	3,500.00	2018-07-12	2020-06-30	No	



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(Unless otherwise stated, notes to the financial statements are expressed in Renminbi Yuan)

XI. CONTINGENCIES (Continued)

1. The Group's internal guarantees during the reporting period are as follows (Unit: RMB0'000): (Continued)

Names of Guarantors	Names of Guarantees	Guarantee Amount	Commencement Date	Release Date	Whether the Guarantee has been fully performed	Explanation
Charmacy Pharmaceutical Company	Guangdong Charmacy Company	18,000.00	2018-07-10	2019-07-09	No	
Charmacy Pharmaceutical Company	Guangdong Charmacy Company	6,000.00	2018-12-03	2019-12-03	No	
Guangdong Charmacy Company	Charmacy Pharmaceutical Company, Guangdong Charmacy Company	17,000.00	2015-10-21	2020-10-21	Yes	Chattel mortgage
Charmacy Pharmaceutical Company	Charmacy Pharmaceutical Company, Guangdong Charmacy Company	38,000.00	2018-07-10	2023-07-10	No	Chattel mortgage
Charmacy Pharmaceutical Company	Charmacy Pharmaceutical Company, Guangdong Charmacy Company	39,000.00	2015-05-25	2020-05-25	No	Building property mortgage
Guangdong Charmacy Company	Charmacy Pharmaceutical Company	3,500.00	2018-07-12	2020-06-30	No	
Guangdong Charmacy Company	Charmacy Pharmaceutical Company	20,000.00	2018-07-10	2019-07-09	No	
Guangdong Charmacy Company	Charmacy Pharmaceutical Company	38,000.00	2018-07-10	2023-07-10	No	Chattel mortgage
Guangdong Charmacy Company	Charmacy Pharmaceutical Company	14,000.00	2017-11-20	2022-11-19	No	
Guangdong Charmacy Company	Charmacy Pharmaceutical Company	8,000.00	2018-08-03	2019-08-02	No	
Guangdong Charmacy Company	Charmacy Pharmaceutical Company	18,000.00	2018-08-15	2025-08-15	No	

2. Apart from the above disclosures, no other contingencies of the Group need to be disclosed.



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1 January 2018 to 31 December 2018

(Unless otherwise stated, notes to the financial statements are expressed in Renminbi Yuan)

XII. COMMITMENTS

Item	31 December 2018
Capital expenditure contracted but not recognized in the financial statements – Construction Project of Guangzhou Pharmaceutical Sorting and Distribution Center	60,293,616.50
Total	60,293,616.50

XIII. EVENTS SUBSEQUENT TO BALANCE SHEET DATE

1. Profit distribution

On 24 March 2019, the meeting of board of directors of Charmacy Pharmaceutical Company passed final dividend of RMB0.30 per share for the year ended 31 December 2018, and proposed it at general meeting for approving such distribution.

2. Non-public issuance of overseas-listed foreign shares

Charmacy Pharmaceutical Company proposed further issuance of no more than 5.6 million overseas-listed foreign shares with a par value of RMB1 each. It has received the Letter on Approving of Issuance of the Foreign Listed Share of Charmacy Pharmaceutical Co., Ltd. (Zheng Jian Xu Ke [2019] No. 221) from China Securities Regulatory Commission on 20 February 2019.

3. Except for the disclosure of the above events subsequent to balance sheet date, the Group has no other major events subsequent to balance sheet date.



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1 January 2018 to 31 December 2018

(Unless otherwise stated, notes to the financial statements are expressed in Renminbi Yuan)

XIV. NOTES TO MAJOR ITEMS OF FINANCIAL STATEMENTS OF PARENT COMPANY

1. Bills receivables and trade receivables

Item	Balance at the end of the year	Balance at the beginning of the year
Bills receivables	20,425,445.47	47,581,534.98
Trade receivables	428,739,001.52	547,434,671.32
Total	449,164,446.99	595,016,206.30

1.1 Bills receivables

(1) Classification of bills receivables

Item	Balance at the end of the year	Balance at the beginning of the year
Bank acceptance bills	16,449,659.96	11,881,534.98
Commercial drafts	3,975,785.51	35,700,000.00
Total	20,425,445.47	47,581,534.98

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

Item	Pledged amount at the end of the year
Bank acceptance bills	16,092,596.06
Commercial drafts	
Total	16,092,596.06

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

Item	Amount derecognized at the end of the year	Amount not derecognized at the end of the year
Bank acceptance bills	71,650,008.74	
Commercial drafts		
Total	71,650,008.74	



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1 January 2018 to 31 December 2018

(Unless otherwise stated, notes to the financial statements are expressed in Renminbi Yuan)

XIV. NOTES TO MAJOR ITEMS OF FINANCIAL STATEMENTS OF PARENT COMPANY (Continued)

1. Bills receivables and trade receivables (Continued)

1.1 Bills receivables (Continued)

(4) Bills receivables discounted but not mature at the balance sheet date, at the end of the year

Item	Amount derecognized at the end of the year	Amount not derecognized at the end of the year
Bank acceptance bills Commercial drafts	48,975,430.74	
Total	48,975,430.74	

(5) At the end of the year, no bills were reclassified to trade receivables due to inability of the issuers to settle the bills.

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

1.2 Trade receivables

Name of item	Balance at the end of the year	Balance at the beginning of the year
Trade receivables	434,213,849.28	552,238,738.61
Less: Provision for bad debts	5,474,847.76	4,804,067.29
Net amount	428,739,001.52	547,434,671.32



Notes to the Financial Statements

1 January 2018 to 31 December 2018

(Unless otherwise stated, notes to the financial statements are expressed in Renminbi Yuan)

XIV. NOTES TO MAJOR ITEMS OF FINANCIAL STATEMENTS OF PARENT COMPANY (Continued)

1. Bills receivables and trade receivables (Continued)

1.2 Trade receivables (Continued)

(1) Aging analysis of trade receivables

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 age of trade receivables and operating revenue is recognized and calculation started when the significant risks and rewards were transferred to buyers;

Age	Balance at the end of the year			Balance at the beginning of the year		
	Carrying amount	Percentage (%)	Provision for bad debts	Carrying amount	Percentage (%)	Provision for bad debts
Within 1 year	416,527,355.55	95.93	1,068,650.24	549,335,172.84	99.47	2,075,282.79
1 to 2 years	14,991,632.83	3.45	1,815,486.74	196,580.99	0.04	27,921.13
2 to 3 years	185,400.39	0.04	81,250.27	163,703.05	0.03	157,581.64
More than 3 years	2,509,460.51	0.58	2,509,460.51	2,543,281.73	0.46	2,543,281.73
Total	434,213,849.28	100.00	5,474,847.76	552,238,738.61	100.00	4,804,067.29

(2) Classification of trade receivables

Classification	Balance at the end of the year				Book value
	Carrying amount	Percentage	Provision for bad debts	Lifetime expected credit loss rate (%)	
	Amount	(%)	Amount		
Bad debt provision made on individual basis	2,526,876.83	0.58	2,526,876.83	100.00	
Bad debt provision made on a collective basis	431,686,972.45	99.42	2,947,970.93	0.68	428,739,001.52
Aging portfolio	383,659,700.97	88.36	2,947,970.93	0.77	380,711,730.04
Low risk portfolio	48,027,271.48	11.06			48,027,271.48
Total	434,213,849.28	100.00	5,474,847.76	-	428,739,001.52



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1 January 2018 to 31 December 2018

(Unless otherwise stated, notes to the financial statements are expressed in Renminbi Yuan)

XIV. NOTES TO MAJOR ITEMS OF FINANCIAL STATEMENTS OF PARENT COMPANY (Continued)

1. Bills receivables and trade receivables (Continued)

1.2 Trade receivables (Continued)

(2) Classification of trade receivables (Continued)

Classification	Balance at the beginning of the year				Book value
	Carrying amount	Percentage (%)	Provision for bad debts	Lifetime expected credit loss rate (%)	
	Amount		Amount		
Bad debt provision made on individual basis	2,718,377.31	0.49	2,718,377.31	100.00	
Bad debt provision made on a collective basis	549,520,361.30	99.51	2,085,689.98	0.38	547,434,671.32
Aging portfolio	415,241,747.43	75.19	2,085,689.98	0.50	413,156,057.45
Low risk portfolio	134,278,613.87	24.32			134,278,613.87
Total	552,238,738.61	100.00	4,804,067.29	-	547,434,671.32



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1 January 2018 to 31 December 2018

(Unless otherwise stated, notes to the financial statements are expressed in Renminbi Yuan)

XIV. NOTES TO MAJOR ITEMS OF FINANCIAL STATEMENTS OF PARENT COMPANY (Continued)

1. Bills receivables and trade receivables (Continued)

1.2 Trade receivables (Continued)

(2) Classification of trade receivables (Continued)

1) Bad debt provision for accounts receivable made on individual basis

Company name	Balance at the end of the year			Reasons for provision
	Accounts receivable	Provision for bad debts	Lifetime expected credit loss rate(%)	
Fujian Minzhe Pharmaceutical Co., Ltd. (福建省閩浙醫藥有限責任公司)	2,010,786.55	2,010,786.55	100.00	Court's ruling in favour of the Company, outstanding amounts, weak repaying capability of the counterpart
Ningde Xianghe Pharmaceutical Chain Co., Ltd. (寧德市祥和醫藥連鎖有限責任公司)	271,939.56	271,939.56	100.00	No cooperation relationship subsisting, lower expected recoverability
Jiangxi Jinsheng Medicine Limited (江西金盛醫藥有限公司)	104,626.38	104,626.38	100.00	No cooperation relationship subsisting, lower expected recoverability
The First People's Hospital of Jinping District in Shantou (汕頭市金平區第一人民醫院)	65,488.50	65,488.50	100.00	No cooperation relationship subsisting, lower expected recoverability
Chaozhou Cental Hospital	21,096.40	21,096.40	100.00	No cooperation relationship subsisting, lower expected recoverability
Shantou Longhu District People's Hospital (汕頭市龍湖區人民醫院)	15,772.68	15,772.68	100.00	No cooperation relationship subsisting, lower expected recoverability
The First Affiliated Hospital of Shantou University Medical College	15,340.34	15,340.34	100.00	No cooperation relationship subsisting, lower expected recoverability
Shantou Chaoyang District Chinese Medicine Hospital (汕頭市潮陽區中醫醫院)	4,931.74	4,931.74	100.00	No cooperation relationship subsisting, lower expected recoverability
Shantou Chaonan District People's Hospital (汕頭市潮南區人民醫院)	4,697.76	4,697.76	100.00	No cooperation relationship subsisting, lower expected recoverability
Fujian Union Pharmaceutical Co., Ltd. (福建省協聯醫藥有限公司)	3,441.57	3,441.57	100.00	No cooperation relationship subsisting, lower expected recoverability



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(Unless otherwise stated, notes to the financial statements are expressed in Renminbi Yuan)

XIV. NOTES TO MAJOR ITEMS OF FINANCIAL STATEMENTS OF PARENT COMPANY (Continued)

1. Bills receivables and trade receivables (Continued)

1.2 Trade receivables (Continued)

(2) Classification of trade receivables (Continued)

1) Bad debt provision for accounts receivable made on individual basis (Continued)

Company name	Balance at the end of the year			Reasons for provision
	Accounts receivable	Provision for bad debts	Lifetime expected credit loss rate(%)	
Shantou Haojiang District Zhupu Hospital (汕頭市濠江區珠浦醫院)	1,846.52	1,846.52	100.00	No cooperation relationship subsisting, lower expected recoverability
Zhejiang Tongtaitang Pharmaceutical Co., Ltd. (浙江同泰堂藥品有限公司)	1,759.50	1,759.50	100.00	No cooperation relationship subsisting, lower expected recoverability
Joint Shantou International Eye Center of Shantou University and The Chinese University of Hong Kong	1,395.33	1,395.33	100.00	No cooperation relationship subsisting, lower expected recoverability
Jiangxi Xinde Pharmaceutical Co., Ltd. (江西信德醫藥有限公司)	1,034.90	1,034.90	100.00	No cooperation relationship subsisting, lower expected recoverability
Other	2,719.10	2,719.10	100.00	No cooperation relationship subsisting, lower expected recoverability
Total	2,526,876.83	2,526,876.83	100.00	

2) Bad debt provision for trade receivables made on group basis

Age	Balance at the end of the year		
	Trade receivables	Provision for bad debt	Lifetime expected credit loss rate (%)
Within 1 year	368,500,084.07	1,068,650.24	0.29
1 to 2 years	14,991,632.83	1,815,486.74	12.11
2 to 3 years	167,984.07	63,833.95	38.00
Total	383,659,700.97	2,947,970.93	-



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XIV. NOTES TO MAJOR ITEMS OF FINANCIAL STATEMENTS OF PARENT COMPANY (Continued)

1. Bills receivables and trade receivables (Continued)

1.2 Trade receivables (Continued)

(2) Classification of trade receivables (Continued)

3) Trade receivables provided for bad debt based on other method in the portfolio

Age	Balance at the end of the year		
	Trade receivables	Provision for bad debt	Lifetime expected credit loss rate (%)
Low risk portfolio	48,027,271.48		
Total	48,027,271.48		-

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

(4) Conditions about the provision for bad debts made and reversed (or recovered) in the year

Balance at the beginning of the year	Change amount in the year			Balance at the end of the year
	Provision made	Recovered or reversed	Write-back or Write-off	
4,804,067.29	1,401,896.37	731,115.90		5,474,847.76



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1 January 2018 to 31 December 2018

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XIV. NOTES TO MAJOR ITEMS OF FINANCIAL STATEMENTS OF PARENT COMPANY (Continued)

1. Bills receivables and trade receivables (Continued)

1.2 Trade receivables (Continued)

- (4) *Conditions about the provision for bad debts made and reversed (or recovered) in the year*
(Continued)

The important amount of recovered or reversed bad debts provision for the year therein:

Company name	Amounts of recovered (or received) for the period	Recovery way	Reasons for reverse (or recovery) for the period
Huilai Ciyun Hospital of Traditional Chinese Medicine (惠來縣慈雲中醫院)	132,521.52	Bank receipts	Recovered during the period
Kangze Pharmaceutical Chains Co., Ltd. (康澤藥業連鎖有限公司)	115,133.15	Bank receipts	Recovered during the period
The First People's Hospital of Jinping District in Shantou (汕頭市金平區第一人民醫院)	72,908.95	Bank receipts	Recovered during the period
Guangdong Shenhua Pharmaceutical Co., Ltd. (廣東深華藥業有限公司)	59,622.45	Bank receipts	Recovered during the period
Kangmei Pharmaceutical Co., Ltd. (康美藥業股份有限公司)	59,048.95	Bank receipts	Recovered during the period
Jieyang Huikang Medicine Chains Co., Ltd. (揭陽市匯康醫藥連鎖有限公司)	57,307.53	Bank receipts	Recovered during the period
Guangdong Heng Xiang Medicament Co., Ltd (廣東恒祥醫藥有限公司)	38,969.90	Bank receipts	Recovered during the period
Puning Li Feng Pharmaceutical Co., Ltd. (普寧市立豐藥業有限公司)	35,116.60	Bank receipts	Recovered during the period
Guangdong Pengyuan Pharmaceutical Co., Ltd. (廣東鵬源藥業股份有限公司)	28,078.46	Bank receipts	Recovered during the period
Lufeng Xinte Medicine Co., Ltd. (陸豐市新特藥公司)	24,399.36	Bank receipts	Recovered during the period
Puning Bailiyuan Pharmaceutical Co., Ltd. (普寧市佰利源藥業有限公司)	19,221.43	Bank receipts	Recovered during the period
Guangdong Baoling Medicine Co., Ltd. (廣東保靈醫藥有限公司)	18,998.51	Bank receipts	Recovered during the period
Kangze Pharmaceutical Co., Ltd. (康澤藥業股份有限公司)	18,426.26	Bank receipts	Recovered during the period
Shantou Kangxin Pharmaceutical Co., Ltd. (汕頭市康信藥業有限公司)	15,394.18	Bank receipts	Recovered during the period
Guangdong Jusheng Pharmaceutical Group Tianjian Pharmaceutical Co., Ltd. (廣東聚盛藥業集團天健藥業有限公司)	14,496.05	Bank receipts	Recovered during the period
Zhejiang Haipai Medicine Co., Ltd. (浙江海派醫藥有限公司)	11,264.57	Bank receipts	Recovered during the period
Guangdong Lide Pharmaceutical Co., Ltd. (廣東立德藥業有限公司)	10,208.03	Bank receipts	Recovered during the period
Total	731,115.90	-	-



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XIV. NOTES TO MAJOR ITEMS OF FINANCIAL STATEMENTS OF PARENT COMPANY (Continued)

1. Bills receivables and trade receivables (Continued)

1.2 Trade receivables (Continued)

(5) There are no trade receivables written off during the year

(6) Top five debtors by balance of trade receivables at the end of the year

Company name	Balance at the end of the year	Aging	Percentage of total balance of trade receivables at the end of the year (%)	Provision for bad debts Balance at the end of the year
Kangze Pharmaceutical Chains Co., Ltd. (康澤藥業連鎖有限公司)	51,501,161.60	Within 1 year	11.86	149,353.37
Guangdong Charmacy Pharmaceutical Co., Ltd. (廣東創美藥業有限公司)	33,120,277.54	Within 1 year	7.63	
Guangdong Bangjian Pharmaceutical Chains Co., Ltd. (廣東邦健醫藥連鎖有限公司)	25,753,194.56	Within 1 year	5.93	74,684.26
Puning Li Feng Pharmaceutical Co., Ltd. (普寧市立豐藥業有限公司)	11,965,507.76	Within 1 year	2.76	34,699.97
Guangdong Shenhua Pharmaceutical Co., Ltd. (廣東深華藥業有限公司)	10,334,534.49	Within 1 year	2.38	29,970.15
Total	132,674,675.95		30.56	288,707.75

2. Other receivables

Item	Balance at the end of the year	Balance at the beginning of the year
Interests receivable		
Dividend receivable		
Other receivables	9,557,464.77	8,895,142.07
Total	9,557,464.77	8,895,142.07



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1 January 2018 to 31 December 2018

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XIV. NOTES TO MAJOR ITEMS OF FINANCIAL STATEMENTS OF PARENT COMPANY (Continued)

2. Other receivables (Continued)

2.1 Other receivables

Name of item	Balance at the end of the year	Balance at the beginning of the year
Other receivables	9,562,464.77	8,895,142.07
Less: provision for bad debts	5,000.00	
Net amount	9,557,464.77	8,895,142.07

(1) Aging analysis of other receivables

Age	Balance at the end of the year			Balance at the beginning of the year		
	Carrying amount	Percentage (%)	Provision for bad debt	Carrying amount	Percentage (%)	Provision for bad debt
Within 1 year	2,360,012.77	24.68		7,671,442.07	86.25	
1 to 2 years	6,000,000.00	62.75		10,000.00	0.11	
2 to 3 years						
More than 3 years	1,202,452.00	12.57	5,000.00	1,213,700.00	13.64	
Total	9,562,464.77	100.00	5,000.00	8,895,142.07	100.00	

(2) Classification of other receivables

Classification	Balance at the end of the year				
	Carrying amount		Provision for bad debt		Book value
	Amount	Percentage (%)	Amount	Lifetime expected credit loss rate (%)	
Bad debt provision made on individual basis	5,000.00	0.05	5,000.00	100.00	
Bad debt provision made on group basis	9,557,464.77	99.95			9,557,464.77
Aging portfolio					
Portfolio of relatively low recovery risk	9,557,464.77	99.95			9,557,464.77
Total	9,562,464.77	100.00	5,000.00	0.05	9,557,464.77



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1 January 2018 to 31 December 2018

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XIV. NOTES TO MAJOR ITEMS OF FINANCIAL STATEMENTS OF PARENT COMPANY (Continued)

2. Other receivables (Continued)

2.1 Other receivables (Continued)

(2) Classification of other receivables (Continued)

Classification	Balance at the beginning of the year			
	Carrying amount	Provision for bad debts	Book value	
	Amount	Percentage (%)	Amount	Lifetime expected credit loss rate (%)
Bad debt provision made on individual basis				
Bad debt provision made on group basis	8,895,142.07	100.00		8,895,142.07
Aging portfolio				
Portfolio of relatively low recovery risk	8,895,142.07	100.00		8,895,142.07
Total	8,895,142.07	100.00		8,895,142.07

1) Bad debt provision for other receivables made on individual basis

Company name	Balance at the end of the year			
	Other receivables	Provision for bad debts	Lifetime expected credit loss rate (%)	Reasons for provision
Qingyuan Runyue Pharmaceutical Co., Ltd. (清遠市潤粵醫藥有限公司)	5,000.00	5,000.00	100.00	The company has been cancelled
Total	5,000.00	5,000.00	-	



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XIV. NOTES TO MAJOR ITEMS OF FINANCIAL STATEMENTS OF PARENT COMPANY (Continued)

2. Other receivables (Continued)

2.1 Other receivables (Continued)

(3) Classification of other receivables by nature

Nature of amounts	Balance at the end of the year	Balance at the beginning of the year
Current accounts	1,952,726.34	1,275,956.78
Deposit	7,297,452.00	7,213,700.00
Reserve	312,286.43	405,485.29
Total	9,562,464.77	8,895,142.07

(4) Top 5 other receivables based on balances at the end of the year by debtors

Name of entity	Nature of amounts	Balance at the end of the year	Age	Percentage of total other receivables (%)	Balance of provision for bad debts at the end of the year
Zhuhai Jinming Medicine Co., Ltd.	Deposit	5,600,000.00	Within 1 year	58.56	
Zhuhai Charmacy Pharmaceutical Limited (珠海創美藥業有限公司)	Current accounts	1,471,061.04	1 to 2 years	15.38	
Fujian Nan'an Lianhuafeng Pharmaceutical Factory (福建省南安市蓮花峰藥廠)	Deposit	1,000,000.00	More than 3 years	10.46	
Zhuhai ZhengBang Logistics Co., Ltd. (珠海正邦倉儲物流有限公司)	Deposit	300,000.00	1 to 2 years	3.14	
Guangzhou Wang Lao Ji Pharmaceutical Co., Ltd.	Deposit	150,000.00	Within 1 year: 50,000.00 1 to 2 years: 100,000.00	1.57	
Total		8,521,061.04		89.11	



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XIV. NOTES TO MAJOR ITEMS OF FINANCIAL STATEMENTS OF PARENT COMPANY (Continued)

3. Long-term equity investments

(1) Classification of long-term equity investments

Item	Balance at the end of the year			Balance at the beginning of the year		
	Carrying amount	Provisions for impairment	Book value	Carrying amount	Provisions for impairment	Book value
Investment in the subsidiaries	216,510,000.00		216,510,000.00	186,000,000.00		186,000,000.00
Total	216,510,000.00		216,510,000.00	186,000,000.00		186,000,000.00

(2) Investment in the subsidiaries

Investees	Balance at the beginning of the year	Addition in the year	Reduction in the year	Balance of provision for impairment at the end of the year		
				Balance at the end of the year	Provision for impairment for the year	Balance of provision for impairment at the end of the year
Guangdong Charmacy Company	150,000,000.00			150,000,000.00		
Zuhai Charmacy Company	18,000,000.00	7,710,000.00		25,710,000.00		
Guangzhou Charmacy Company	18,000,000.00	2,000,000.00		20,000,000.00		
Shenzhen Charmacy Company		20,800,000.00		20,800,000.00		
Total	186,000,000.00	30,510,000.00	-	216,510,000.00		



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XIV. NOTES TO MAJOR ITEMS OF FINANCIAL STATEMENTS OF PARENT COMPANY (Continued)

4. Operating revenue and operating cost

Item	Amount for the year		Amount for last year	
	Revenue	Cost	Revenue	Cost
Principal businesses	1,576,664,290.29	1,493,687,099.60	1,624,802,827.69	1,552,171,623.84
Other businesses	26,572,007.09	6,287,888.03	19,316,886.49	3,522,168.43
Total	1,603,236,297.38	1,499,974,987.63	1,644,119,714.18	1,555,693,792.27

5. Investment income

Item	Amount for the year	Amount for last year
Long-term equity investment income accounted for using the cost method	20,000,000.00	33,000,000.00
Investment income from disposal of long-term equity investments		
Total	20,000,000.00	33,000,000.00

XV. APPROVAL FOR FINANCIAL REPORT

The financial report was approved and published by the Board of the Company on 25 March 2019.



Notes to the Financial Statements

1 January 2018 to 31 December 2018

(Unless otherwise stated, notes to the financial statements are expressed in Renminbi Yuan)

SUPPLEMENTARY INFORMATION TO FINANCIAL STATEMENTS

1. Details of non-recurring profit or loss for the year

- (1) In accordance with the requirements of the “Explanatory Announcement on Information Disclosure for Companies Offering Securities to the Public No.1 – Non-recurring Profit or Loss (2008)” (《公開發行證券的公司信息披露解釋性公告第1號-非經常性損益(2008)》) issued by the China Securities Regulatory Commission, non-recurring profit or loss of the Group for 2018 are as follows:

Item	Amount for the year	Explanation
Gains and losses from disposal of non-current assets	-40,522.27	
Tax refunds and relief of ultra vires or without formal approval or incidental tax refunds or relief		
Government grants included in the profit or loss for the period (except for the government grants closely related to the corporate businesses and granted at a fixed amount or quantity in accordance with national uniform standards)	3,809,691.50	
Funds utilisation fees collected from non-financial enterprises included in the profit or loss for the period		
Gains from the excess of the fair value of identifiable net assets of the investee attributable to the enterprise at acquisition over the investment costs for the subsidiaries, associates and joint ventures		
Gains and losses from the exchange of non-monetary assets		
Gains and losses from investments on trust or asset management		
Provision for impairment of assets as a result of force majeure factors, such as natural disasters		
Gains and losses from debt restructuring		
Costs for enterprise reorganization, such as the expenses for the placement of workers, and integration cost		
Gains and losses from the excess of transaction without fair transaction price over the fair value		
Net gains or losses for the period of subsidiaries arising from business combination under common control from the beginning of the year to the date of combination		
Gains and losses arising from contingent matters not related to the normal operation of the Company		
Investment income derived from the holding of financial assets held for trading and derivative financial assets, gains and losses arising from changes in fair value of financial liabilities held for trading and derivative financial liabilities and disposal of financial assets held for trading, derivative financial assets, financial liabilities held for trading, derivative financial liabilities and other debt investment (excluding the effective hedging activities related to the normal operation of the Company)		
Reversal of impairment provision of receivables and contract assets tested on individual basis	265,553.37	
Gains and losses from external entrusted loan		
Gains and losses from the changes of fair value of investment properties measured by fair value model subsequently		
Effect of one-off adjustment in profit or loss for the period according to the laws and regulations regarding taxation and accounting		
Entrust fee income from entrusted operation		
Other non-operating income and expenditures apart from the above	-1,219.06	
Other items of profit and loss meeting the definition of non-recurring profit and loss		
Sub-total	4,033,503.54	
Less: Effect of income tax	1,008,375.89	
Effect of minority shareholders' equity (after tax)	-3,053.05	
Total	3,028,180.70	



Notes to the Financial Statements

1 January 2018 to 31 December 2018

(Unless otherwise stated, notes to the financial statements are expressed in Renminbi Yuan)

SUPPLEMENTARY INFORMATION TO FINANCIAL STATEMENTS (Continued)

2. Return on net assets and earning 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 2018 are as follows:

Profit for the reporting period	Weighted average	Earnings per share	
	return on net assets (%)	Basic earnings per share	Diluted earnings per share
Net profit attributable to the shareholders of parent company	9.75	0.4207	0.4207
Net profit attributable to the shareholders of parent company (excluding non-recurring profit and loss)	9.10	0.3926	0.3926

Charmacy Pharmaceutical Co., Ltd.
25 March 2019