創美·CH'MEI

創美藥業股份有限公司
CHARMACY PHARMACEUTICAL CO., LTD.

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

Stock Code: 2289

INTERIM REPORT

2019

CONTENTS

FINANCIAL HIGHLIGHTS

Results	Six months ended 30 June **2019** **RMB'000** **(Unaudited)**	2018 RMB'000 (Unaudited)	Change (%)
Operating revenue	**1,708,088**	2,021,988	-15.52
Total profit	**57,618**	64,315	-10.41
Net profit attributable to the shareholders of parent company	**42,305**	45,640	-7.31
Basic and diluted earnings per share (expressed in RMB per share)	**0.3917**	0.4226	-7.31

Financial Position	**As at 30 June 2019** **RMB'000** **(Unaudited)**	As at 31 December 2018 RMB'000 (Audited)	Change (%)
Total assets	**2,372,623**	2,353,980	0.79
Total liabilities	**1,885,981**	1,877,242	0.47
Total equity	**486,642**	476,737	2.08
Net assets per share (expressed in RMB per share)	**4.51**	4.41	2.08

CORPORATE INFORMATION

Board of 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)

Strategic Development Committee

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

Risk Management Committee

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

Authorised Representatives

Zheng Yuyan (鄭玉燕)
Lin Zhixiong (林志雄)

Auditor

ShineWing Certified Public Accountants
(Special General Partnership)

Legal Advisers

Chungs Lawyers (as to Hong Kong law)
Shu Jin Law Firm (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 Bankers

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's Website

www.chmyy.com

Stock Code

2289.HK

MANAGEMENT DISCUSSION AND ANALYSIS

INDUSTRY OVERVIEW

During the 13th Five-Year Plan period, on the one hand, with the implementation and promotion of policies including Two-invoice System, the new edition of "Good Supply Practice for Pharmaceutical Products" (《藥品經營質量管理規範》), zero medicine mark-up in public hospitals, the limitations for the proportions of drugs, quantity-specific procurement and "Diagnosis Related Group ("**DRG**") Payment" (按疾病診斷相關分組付費), the superposition effects of policy promotion and market competition are highlighted, driving the industry as a whole into a period of structural adjustment; on the other hand, the policies including the Opinions on Promoting the Development of "Internet plus Healthcare", outflow of prescription drugs, the construction of Healthcare Associations and Healthcare Alliances and the promotion of "medical institutions by social capital" (社會辦醫), further enhance the hierarchical diagnosis and treatment system, bringing new opportunities for the expansion of the primary healthcare market.

Higher market share of public primary healthcare terminal and retail pharmacy terminal under economic downturn

The growth of gross domestic product ("**GDP**") has been decreasing year by year. In the first half of 2019, the year-on-year GDP growth rate was 6.3%, representing a decrease of 0.5 percentage point as compared with the same period last year.

According to Menet, the three largest end markets made stable sales growth but represented a sales growth rate decreasing year by year. Total sales of medicines amounting to RMB1,713.1 billion was recorded for six major pharmacy markets of three major terminals in the PRC for 2018, with sales growth decreasing from 20% in 2011 to 6.3% in 2018.

In the first half of 2019, the public primary healthcare terminal market recorded a sales growth rate of 9%, with its market share increased by 0.2 percentage point as compared to the year of 2018; the retail pharmacy terminal market recorded a sales growth rate of 7.4%, with its market share increased by 0.2 percentage point as compared to the year of 2018; and the public hospital terminal market recorded a sales growth rate of 4.8%, with its market share decreased by 0.4 percentage point as compared to the year of 2018.

New opportunities for the market expansion of the primary healthcare market

The National Health Commission (the "**NHC**") and the National Administration of Traditional Chinese Medicine (the "**NATCM**") jointly issued the Notice on Promoting the Construction of Compact County Medical and Health Alliances (《關於推進緊密型縣域醫療衛生共同體建設的通知》) (the "**Notice**") on 28 May 2019, and on 22 May 2019 the Pilot Work Plan of the Construction of Urban Healthcare Associations (《城市醫療聯合體建設試點工作方案》) (the "**Plan**").

The Notice points out that, by the end of 2020, the new county medical and health service system with explicit objectives, clear division between rights and responsibilities and coordination and delineation of duties will be initially established in 500 counties (including county-level cities and municipal districts, the same below), and gradually form medical and healthcare alliances of services, responsibilities, benefits and management ("**Healthcare Alliances**").

The Plan points out that, by the end of 2019, the grid-based layout and management of the Urban Healthcare Associations ("**Healthcare Associations**") will be fully kicked off in 100 pilot cities, in order to build at least one apparently effective Healthcare Association in each pilot city.

On 5 June 2019, the National Healthcare Security Administration ("**NHSA**"), the Ministry of Finance, the NHC and the NATCM jointly issued the Notice on the List of National Pilot Cities Paying by Disease Diagnosis Related Grouping (DRG) confirmed that 30 cities including Beijing, Tianjin, Foshan in Guangdong Province, etc. were identified as DRG payment pilot cities.

DRG payment is a multi-component payment mode explored to establish in China, which is mainly based on disease type, and is helpful to deepen the reform of medical insurance payment and reduce patients' medical burden.

On 12 June 2019, 10 departments, including the NHC, the National Development and Reform Commission, the NHSA, etc., jointly issued the Opinions on Promoting the Sustainable, Healthy and Normative Development of Medical Institutions by Social Capital (《關於促進社會辦醫持續健康規範發展的意見》) (the "**Opinions**").

It was pointed out in the Opinions that, firstly, the government should increase its support for the social medical service, including expanding space for social medical service, expanding land supply, promoting government purchasing services, implementing preferential tax policies, strictly controlling the number and scale of public hospitals, etc; secondly, the government should promote the "streamlined procedures of admission, innovative regulation and efficient service" and simplify access approval services, including improving the efficiency of admission examination and approval, lifting planning restrictions on the total number and spatial layout of the social medical service areas, supporting and encouraging the social medical service to participate in the hospital grading evaluation, etc.

According to the "National Statistical Bulletin on the Development of Health in 2018" (《2018年我國衛生健康事業發展統計公報》), at the end of 2018, the total number of medical and health institutions in China reached 997,434, representing an increase of 10,785 over the previous year. Among which, there were 33,009 hospitals, 943,639 basic medical and health institutions and 18,034 professional public health agencies. Compared with the previous year, the number of hospitals has increased by 1,953, the number of basic medical and health institutions has increased by 10,615, and the number of professional public health agencies has decreased by 1,862. Among hospitals, the number of public hospitals decreased by 265, while the number of private hospitals has increased by 2,218.

On 22 July 2019, the NHSA issued the Opinions on Establishing the Management System for List of Healthcare Security Treatment (Draft for Opinions) (《關於建立醫療保障待遇清單管理制度的意見(徵求意見稿)》) (the "**Draft for Opinions**"). It has made clear that the scope of medicines paid under the basic medical insurance and China has uniformly formulated the Catalogue of Drugs for National Basic Medical Insurance (基本醫療保險藥品目錄) (the "**Catalogue**"), which will be strictly followed by various localities. In principle, it is not allowed to formulate the Catalogue on self initiative or use alternative methods to increase the number of drugs in the Catalogue. In accordance with the requirements of eradicating increments and regulating stock, the provincial People's Governments will take the overall responsibilities for the policies and measures inconsistent with the previously introduced list, and the policy-issuing departments will take the lead in detail. In principle, the clean-up and regulations will be completed within three years, and will be aligned with state policy.

The implementation of the control on medical insurance fees and hierarchical diagnosis and treatment model as mentioned above has greatly relieved the burden of patients and social medical treatment, promoted the integration of medical resources within regions and the sinking of high quality medical resources, as well as enhanced competition in the pharmaceutical market. The overall trend of pharmaceutical circulation and layout integration, efficiency improvement and innovation upgrading will be continued.

Higher industry concentration under tightened regulation

Industrial regulation has been enhanced as the new edition of "Good Supply Practice for Pharmaceutical Products" (2016) (《藥品經營質量管理規範》(2016年)) focused on the effective control of the whole pharmaceutical industry chain, putting forward higher requirements for the industry. A new regulatory system has taken shape after the reform of regulatory authorities, which was conducive to facilitating the synergetic reform of medical service, medical insurance and pharmaceutical services as well as the implementation of control on medical insurance fees. Amidst rigorous regulation, there will be continuously increasing industry concentration for pharmaceutical distribution, as small and medium-sized pharmaceutical distributors face the dual challenges of stricter regulation and higher supply chain standard.

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

According to the "National Statistical Bulletin on Economy and Social Development in 2018" (《2018年國民經濟和社會發展統計公報》), by the end of 2018, the number of people aged 0 to 15 (including those under the age of 16) was 248.6 million, accounting for 17.8% of the total population. The number of people aged 60 and above was 249.49 million, accounting for 17.9% of the total population, of which the number of 65-year-old and above reached 166.58 million, accounting for 11.9% of the total population.

According to the "National Statistical Bulletin on the Development of Health in 2018" (《2018年我國衛生健康事業發展統計公報》), the average number of residents' visits to healthcare institutions increased from 5.4 times in 2013 to 6.0 times in 2018. Total health expense per capita was RMB4,148.1, and the total health expense as a percentage of GDP was 6.4%, representing an increase of 0.03 percentage point as compared with the previous year.

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

Sources of the above information: MENET (Note: The three terminal markets do not include private medical institutions), the "National Statistical Bulletin on the Development of Health in 2018" (《2018年我國衛生健康事業發展統計公報》), the "National Statistical Bulletin on National Economy and Social Development in 2018" (《2018年國民經濟和社會發展統計公報》).

BUSINESS REVIEW

The principal business of Charmacy Pharmaceutical Co., Ltd. (the "**Company**", together with its subsidiaries, the "**Group**") is pharmaceutical products distribution in the People's Republic of China ("**PRC**"), and most of our operating revenue is derived from pharmaceutical products distribution. We also derive our service income by providing consultancy services on marketing strategies and related information services to our suppliers.

As of 30 June 2019, our distribution network covered 7,100 customers, among which 577 were distributors, 4,761 were retail pharmacies and 1,762 were hospitals, clinics, health centres and others. As of 30 June 2018, our distribution network covered 7,124 customers, among which 658 were distributors, 4,770 were retail pharmacies and 1,696 were hospitals, clinics, health centres and others.

As of 30 June 2019, we had a total of 948 suppliers, of which 601 were pharmaceutical manufacturers and 347 were distributor suppliers. As of 30 June 2018, we had 973 suppliers in total, among which 630 were pharmaceutical manufacturers and 343 were distributor suppliers.

For the six months ended 30 June 2019, we distributed 10,331 products. For the six months ended 30 June 2018, we distributed 10,145 products.

The table below sets forth the major categories of our products and the number of products in each category:

	Number of products for the six months ended 30 June	
	2019	2018
Products Category		
Western medicines	**3,395**	3,557
Chinese patent medicines	**3,690**	3,436
Healthcare products	**169**	171
Others	**3,077**	2,981
Total	**10,331**	10,145

For the six months ended 30 June 2019, our B2B e-commerce platform, "Charmacy e-Medicine" (創美e藥) (http://www.cmyynet.com/) had a total of 5,177 active trading clients who are principally end-market customers such as retail pharmacy stores, clinics and health centres. The operating revenue contributed by e-commerce transactions through our B2B e-commerce platform totalled approximately RMB136.85 million.

Awards Received

With good reputation and high quality services, the Group was honored with the "2018 Enterprise Brand Credit Jingding Award" (2018年度企業品牌信用金鼎獎) awarded by the Guangdong Credit Association in February 2019, "Gold Ant Innovation Award for the Chinese Logistics Industry" (中國物流行業金螞蟻創新獎) awarded 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覽會組委會) and the "Model Enterprise of Trustworthiness in Guangdong Province" (廣東省誠信示範企業) (for eight consecutive years from 2011 to 2018) awarded by Guangdong Provincial Enterprise Confederation (廣東省企業聯合會) and Guangdong Provincial Association of Entrepreneurs (廣東省企業家協會) in May 2019, and "2018 China Top 100 Pharmaceutical Businesses in the Pharmaceutical Industry" (2018年度中國醫藥行業醫藥商業百強) awarded by All-China Federation of Industry & Commerce Medical & Pharmaceutical Industry Chamber (中華全國工商業聯合會醫藥業商會) in June 2019.

Establishment of Charmacy (Guangzhou) Pharmaceutical Sorting and Distribution Center (the "Pharmaceutical Sorting and Distribution Center") to take Guangzhou Nansha, the core location in the Greater Bay Area, as its foothold and further expands its business to 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 distribution workshops for the project of the pharmaceutical sorting and distribution center (the "**Project**"), the main body of which is estimated to be completed by the end of 2019. For details, please refer to the Company's announcement dated 4 August 2018.

On 19 April 2019, the Group entered into a business contract with Beijing Vstrong Intelligent Technology Co., Ltd.* (北京伍強智能科技有限公司) to carry out the development of logistics system integration. The installation and commissioning is estimated to be completed by the end of March 2020. For details, please refer to the Company's announcement dated 19 April 2019.

By combining the existing SAP system of the Group and introducing logistics system integration to AS/RS systems and other advanced logistics solutions, the Group can deliver visualized management of warehousing and distribution, establish a model featuring integrated network operation, realizing synergy among all the warehouses of the logistics center of the Group.

The location of the project of pharmaceutical sorting and distribution center is at No. 33, Liyu Street, Dongchong Town, Nansha District, Guangzhou City, Guangdong Province, the PRC, while Nansha District is the hub of the Pearl River Estuary City Cluster. Based on the mature non-tendering market operations model of the Group, the Project will commence operation upon its completion, which will highly enhance the operation efficiency of the supply chain of the company, customer relationship maintenance and business expansion ability so as to meet the strict regulation requirements of the pharmaceutical industry. In line with the Group's development strategy of "Intensive Engagement in Guangdong Province and Extensive Coverage across Surrounding Areas", the Project will follow the trend of industry integration and simplification of distribution steps.

PROSPECTS

The General Secretary Xi Jinping pointed out in the Report of 19th National Congress of the Communist Party of China: "China's economy has been transitioning from a phase of rapid growth to a stage of high-quality development." As for the Group, the development of the current stage should focus on strengthening risk management and sound operation and enhancing operation quality. High quality development means the transformation from a traditional distribution enterprise to a smart pharmaceutical service provider, which means that the enterprise should follow the trend of industry upgrading through the application of the internet, big data, artificial intelligence in the pharmaceutical distribution industry.

Amid the backdrop of current economic downturn and the restructuring landscape of pharmaceutical distribution industry, we believe that with the enhanced health awareness among the public, there will be growing demand for healthcare and acceleration in hierarchical diagnosis and treatment system and the Internet healthcare, which will bring new changes to the pharmaceutical distribution industry. We will firmly capture the opportunity for the historical development in the Greater Bay Area and adhere to the market strategy of "Intensive Engagement in Guangdong Province and Extensive Coverage across Surrounding Areas" in order to establish a pharmaceutical retail terminal network fully covering Guangdong Province and its surrounding areas, thereby promoting the long-term development of the Company and profitability in the future. The Group will continue to tap into the growth potential of the non-tendering pharmaceutical market and facilitate 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, all in a bid to become the most competitive service provider in the medical and healthcare industry in China.

FINANCIAL REVIEW

Operating revenue

The table below sets forth a breakdown of the operating revenue by principal business and other business:

	For the six months ended 30 June	
	2019	2018
	RMB'000	RMB'000
Principal business	**1,698,410**	2,006,067
Other business	**9,677**	15,920
Total operating revenue	**1,708,088**	2,021,988

The operating revenue of the Group for the six months ended 30 June 2019 was RMB1,708.09 million, representing a decrease of 15.52% over the corresponding period of last year.

The table below sets forth a breakdown of revenue from principal business by customer type:

Customer Type	For the six months ended 30 June 2019 RMB'000	2018 RMB'000
Distributors	**870,868**	1,360,545
Retail pharmacy stores	**762,666**	583,108
Hospitals, clinics, health centres and others	**64,876**	62,414
Revenue from principal business	**1,698,410**	2,006,067

For the six months ended 30 June 2019, 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. For the six months ended 30 June 2019, about 96% of our revenue from principal business was derived from distributor customers and retail pharmacy store customers.

Our operating revenue decreased as compared to the six months ended 30 June 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 goods control measures for certain distributor clients, which resulted in a decline in operating revenue.

Operating cost, gross profit and gross profit margin

For the six months ended 30 June 2019, the operating cost of the Group was RMB1,571.37 million, representing a decrease of 16.07% as compared to RMB1,872.27 million for the six months ended 30 June 2018. The change in operating cost was in line with the change in operating revenue.

For the six months ended 30 June 2019, the gross profit of the Group was RMB136.72 million, representing a decrease of 8.68% as compared to RMB149.72 million for the six months ended 30 June 2018. For the six months ended 30 June 2019, the gross profit margin of the Group was 8.00%, increasing by 0.60 percentage point as compared to 7.40% for the six months ended 30 June 2018. This was mainly because the Ministry of Finance of the PRC, the State Taxation Administration and the General Administration of Customs adjusted the value-added tax rate, which reduced from 16% to 13% since 1 April 2019.

Selling expenses

For the six months ended 30 June 2019, the selling expenses were RMB36.11 million, representing a slight decrease of 0.19% as compared to RMB36.18 million for the six months ended 30 June 2018, which remained stable.

Management expenses

For the six months ended 30 June 2019, the management expenses were RMB22.47 million, representing a decrease of 12.98% as compared to RMB25.83 million for the six months ended 30 June 2018. It was mainly because (i) the staff number declined as compared to the same period in 2018, which resulted in a decrease in the expense of staff remuneration; and (ii) expense management was enhanced to save office expenses.

Finance costs

For the six months ended 30 June 2019, the finance costs were RMB14.46 million, representing a decrease of 9.35% as compared to RMB15.95 million for the six months ended 30 June 2018. It was mainly because (i) short-term borrowings decreased by RMB53.36 million as compared to RMB492.90 million as of 30 June 2018, which resulted in a decrease of interest expenses; and (ii) the discount rate of bank acceptance bills declined, which resulted in a decrease in the discounted interest expenses.

Non-operating revenue

For the six months ended 30 June 2019, non-operating revenue was RMB0.23 million, representing a decrease of 70.25% as compared to the non-operating revenue of RMB0.78 million for the six months ended 30 June 2018, mainly due to a decrease in the amount of government grants received as compared to the six months ended 30 June 2018.

Income tax expense

For the six months ended 30 June 2019, the income tax expense of the Group amounted to RMB15.31 million, decreasing by 19.37% as compared with that of RMB18.99 million for the six months ended 30 June 2018. For the six months ended 30 June 2019, the effective tax rate (income tax divided by profit before taxation) was 26.58%, representing a decrease of 2.95 percentage points as compared to 29.53% for the six months ended 30 June 2018.

Net profit

The net profit of the Group was RMB42.30 million for the six months ended 30 June 2019 compared to RMB45.32 million for the six months ended 30 June 2018, representing a decrease of 6.66%. Of the amount, net profit attributable to the shareholders of parent company was RMB42.30 million compared to RMB45.64 million for the six months ended 30 June 2018, representing a decrease of 7.31%. The decrease in net profit attributable to the shareholders of parent company was mainly due to (i) the decrease in revenue, thus decreasing the gross profit; and (ii) the decrease of gross profit which was greater than the decrease of overall expenses.

Liquidity and financial resources

As at 30 June 2019, the cash and bank deposits of the Group were RMB34.88 million, while the cash and bank deposits were RMB55.74 million as at 31 December 2018.

As at 30 June 2019 and 31 December 2018, the Group recorded net current assets of RMB187.02 million and RMB176.26 million, respectively. As at 30 June 2019, the current ratio (based on the calculation of current assets divided by current liabilities) of the Group was 1.11 (31 December 2018: 1.10).

The bank borrowings of the Group as at 30 June 2019 were RMB529.54 million (31 December 2018: RMB477.90 million). All of the bank borrowings were provided by the banks within the PRC. All such bank borrowings bore interest at fixed rates. The carrying amount of the bank borrowings is denominated in RMB, which is approximate to its 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.

Trade receivables and bills receivables

As of 30 June 2019, the trade receivables and bills receivables amounted to RMB802.85 million, representing a decrease of RMB25.12 million as compared to the amount of trade receivables and bills receivables as of 31 December 2018, mainly due to our enhancement of management of receivables, and our greater effort on the collection of receivables.

Trade payables and bills payables

As of 30 June 2019, the trade payables and bills payables amounted to RMB1,227.96 million, representing a decrease of RMB115.46 million compared to the amount of trade payables and bills payables as of 31 December 2018. Such decrease was mainly because the Group adopted a relatively steady marketing strategy to reduce procurement of medicines with lower gross profit margin and inventory turnover rate in response to the impact of economic environment, which resulted in a decline in trade 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 minimise credit risks. In order to control liquidity risks, the board (the "**Board**") of directors (the "**Directors**") of the Company 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 the liabilities are denominated in RMB. The foreign exchange risk that the Group has to bear is extremely low. For the six months ended 30 June 2019, the Group did not use any financial instruments for hedging its foreign currency risk.

Interest rate risks

For the six months ended 30 June 2019, the Group had no bank borrowings which bear interest at floating rates.

Capital management

Set out below is the Group's gearing ratios as at 30 June 2019 and 31 December 2018, respectively:

	30 June 2019	31 December 2018
Gearing ratio (%)	**50.41%**	46.96%

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 30 June 2019, the Group's capital commitment amounted to RMB78.60 million (31 December 2018: RMB60.29 million).

Employees' information

As at 30 June 2019, the Group had 762 employees (30 June 2018: 826), including the executive Directors. Total staff costs (including emoluments of Directors and supervisors) were approximately RMB32.91 million, as compared to approximately RMB33.78 million for the six months ended 30 June 2018. The emoluments were determined with reference to market practice and the performance, qualification and experience of individual employees.

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

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

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

Material investments, acquisitions and disposals held

Save as the investments in the subsidiaries, during the six months ended 30 June 2019, the Group did not hold any material investments, or have any acquisitions and disposals in the equity interests of any other companies.

Future plans related to material investments and capital assets

On 19 April 2019, the Company entered into a business contract with Beijing Vstrong Intelligent Technology Co., Ltd.* (北京伍強智能科技有限公司) (the "**Implementor**"). The Implementor is responsible for the integration and implementation of the Pharmaceutical Sorting and Distribution Center Logistic System Integration Project. For details of the Business Contract, please refer to the Company's announcement dated 19 April 2019.

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

Material acquisitions and disposals related to the subsidiaries and associated companies

During the six months ended 30 June 2019, the Group did not have any material acquisitions and disposals related to the subsidiaries and associated companies.

Pledge of assets

As at 30 June 2019, the Group was granted a credit limit of RMB1,027.37 million by various banks, while the Group's utilised banking facilities totalled RMB829.34 million, which were secured by:

(i) property, plant and equipment held by the Group with a carrying amount of RMB151.34 million as at 30 June 2019 (31 December 2018: RMB160.72 million).

(ii) land use rights held by the Group with a carrying amount of RMB141.95 million as at 30 June 2019 (31 December 2018: RMB144.11 million).

(iii) inventories with a carrying amount of RMB350.00 million as at 30 June 2019 (31 December 2018: RMB350.00 million).

Contingent liabilities

As at 30 June 2019, the Group had no material contingent liabilities (2018: Nil).

EVENTS AFTER THE REPORTING PERIOD

As of the date of this interim report, the Group had no significant events after the period required to be disclosed.

INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2019 (interim dividend of 2018: Nil).

OTHER INFORMATION

CORPORATE GOVERNANCE

The Company confirms that, other than the deviation from Code Provision A.2.1, the Company had complied with all 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 six months ended 30 June 2019.

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

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS AND SUPERVISORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") set out in Appendix 10 to the Listing Rules as the code of conduct in dealings with 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 had compiled with the required standards of dealing as set out in the Model Code for the six months ended 30 June 2019.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

For the six months ended 30 June 2019, the Company did not redeem any of its listed securities, and neither the Company nor any of its subsidiaries purchased or sold any of the listed securities of the Company.

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

As at 30 June 2019, the interests of the Directors, supervisors and chief executives of the Company in the shares, underlying shares and debentures of the Company, its member(s) 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 otherwise 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(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 30 June 2019.

(2) The calculation is based on the total number of 108,000,000 Shares in issue of the Company as at 30 June 2019.

(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 30 June 2019, 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 member(s) 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 six months ended 30 June 2019, the Company, any of its subsidiaries or fellow subsidiaries was a party to any arrangement to enable the Directors and supervisors of the Company 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 30 June 2019, so far as the Directors are aware, the following persons/entities (other than Directors, supervisors 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 shares	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%

Name of shareholder	Nature and capacity 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[(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% 0.01%	4.21% 0.00%
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.

* *Unlisted derivatives – cash settled*

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 30 June 2019.

(2) The calculation is based on the total number of 108,000,000 shares in issue of the Company as at 30 June 2019.

(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%. As such, 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 Mr. 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, the Directors were not aware of any person who had, as at 30 June 2019, an interest or short position in shares or underlying shares of the Company which would fall to be disclosed to the 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 the Group.

Save as disclosed above, as at 30 June 2019, none of the Directors was aware that any other persons/entities (other than any Directors, supervisors 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.

AUDIT COMMITTEE AND REVIEW ON THE INTERIM RESULTS

The audit committee of the Company consists of three independent non-executive Directors, namely Mr. Wan Chi Wai Anthony (Chairman), Mr. Zhou Tao and Mr. Guan Jian.

The interim report and the unaudited interim financial statements for the six months ended 30 June 2019 have been reviewed by the audit committee and the audit committee is of the view that the interim report for the six months ended 30 June 2019 is prepared in accordance with applicable accounting standards, rules and regulations and appropriate disclosures have been duly made.

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

Shantou, the PRC, 22 August 2019

* For identification purposes only

CONSOLIDATED BALANCE SHEET

As at 30 June 2019

	Note VI	30 June 2019 RMB (Unaudited)	31 December 2018 RMB (Audited)
Current assets			
Monetary funds	1	**443,673,850.42**	428,601,291.24
Bills receivables	2	**93,310,459.88**	35,900,330.74
Trade receivables	3	**709,542,258.05**	792,072,666.93
Prepayments	4	**206,674,030.23**	196,342,436.27
Other receivables	5	**11,309,495.08**	11,833,686.15
Inventories	6	**464,126,164.48**	472,522,915.24
Other current assets	7	**35,129,181.05**	24,810,498.20
Total current assets		**1,963,765,439.19**	1,962,083,824.77
Non-current assets			
Fixed assets	8	**197,647,856.16**	193,761,724.83
Construction in progress	9	**23,110,805.30**	23,788,389.90
Right-of-use assets	10	**17,709,775.00**	–
Intangible assets	11	**156,203,669.05**	159,338,325.77
Goodwill	12	**3,127,688.00**	3,127,688.00
Long-term expenses to be amortised	13	**5,873,836.68**	6,244,160.99
Deferred income tax assets	14	**5,183,670.39**	5,635,562.76
Total non-current assets		**408,857,300.58**	391,895,852.25
Total assets		**2,372,622,739.77**	2,353,979,677.02

	Note VI	30 June 2019 RMB (Unaudited)	31 December 2018 RMB (Audited)
Current liabilities			
Short-term borrowings	15	**439,543,952.00**	387,900,000.00
Bills payables	16	**758,286,427.76**	778,925,488.11
Trade payables	17	**469,676,672.73**	564,494,731.93
Contract liabilities	18	**7,215,657.20**	1,879,275.48
Salaries payable to employees	19	**3,907,229.59**	5,066,954.31
Tax payables	20	**56,119,548.70**	37,441,066.12
Other payables	21	**41,769,566.38**	9,658,239.15
Other current liabilities	22	**228,530.25**	457,060.50
Total current liabilities		**1,776,747,584.61**	1,785,822,815.60
Non-current liabilities			
Long-term borrowings	23	**90,000,000.00**	90,000,000.00
Lease liabilities	24	**18,014,245.72**	–
Deferred income	25	**1,218,827.99**	1,218,827.99
Deferred income tax liabilities	14	**–**	200,653.30
Total non-current liabilities		**109,233,073.71**	91,419,481.29
Total liabilities		**1,885,980,658.32**	1,877,242,296.89
Shareholders' equity			
Share capital	26	**108,000,000.00**	108,000,000.00
Capital reserve	27	**278,990,829.04**	278,990,829.04
Surplus reserve	28	**13,665,514.85**	13,665,514.85
Unallocated profits	29	**85,985,737.56**	76,081,036.24
Total equity attributable to the shareholders of parent company		**486,642,081.45**	476,737,380.13
Minority interests		**–**	–
Total shareholders' equity		**486,642,081.45**	476,737,380.13
Total liabilities and shareholders' equity		**2,372,622,739.77**	2,353,979,677.02

CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2019

	Note VI	Six months ended 30 June 2019 RMB (Unaudited)	2018 RMB (Unaudited)
I. Operating revenue	30	**1,708,087,754.80**	2,021,987,734.30
Less: Operating cost	30	**1,571,371,663.46**	1,872,269,199.68
Taxes and surcharges	31	**4,384,609.47**	3,109,163.27
Selling expenses	32	**36,114,716.76**	36,183,218.93
Management expenses	33	**22,473,948.31**	25,826,831.18
Finance costs	34	**14,455,575.89**	15,946,169.44
Including: Interest expenses		**13,226,829.25**	15,698,262.24
Interest income		**1,403,472.62**	1,787,873.08
Add: Other gains	35	**228,530.25**	228,530.25
Impairment loss of credit	36	**586,422.52**	–881,782.72
Impairment loss of assets	37	**–2,649,263.69**	–4,355,493.88
Gains on disposal of assets	38	**–39,889.87**	–39,489.01
II. Operating profit		**57,413,040.13**	63,604,916.44
Add: Non-operating revenue	39	**230,976.77**	776,435.94
Less: Non-operating expenses	40	**25,587.14**	66,574.95
III. Total profit		**57,618,429.76**	64,314,777.43
Less: Income tax expense	41	**15,313,728.44**	18,991,852.63
IV. Net profit		**42,304,701.32**	45,322,924.80
(I) According to operation continuity			
Net profit from continuing operation		**42,304,701.32**	45,322,924.80
(II) According to ownership			
Net profit attributable to the shareholders of parent company		**42,304,701.32**	45,640,024.27
Profit or loss of minority shareholders		**–**	–317,099.47
V. Total comprehensive income		**42,304,701.32**	45,322,924.80
Total comprehensive income attributable to the shareholders of parent company		**42,304,701.32**	45,640,024.27
Total comprehensive income attributable to minority shareholders		**–**	–317,099.47
VI. Earnings per share			
Basic and diluted earnings per share	42	**0.3917**	0.4226

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

For the six months ended 30 June 2019

RMB

Items	Share capital	Capital reserve	Surplus reserve	Unallocated profits	Minority interests	Total shareholders' equity
	Six months ended 30 June 2019					
	Equity attributable to the shareholders of parent company					
Balance as at 1 January 2019 (Audited)	**108,000,000.00**	**278,990,829.04**	**13,665,514.85**	**76,081,036.24**		**476,737,380.13**
Movement for the period				**9,904,701.32**		**9,904,701.32**
(I) Total comprehensive income				**42,304,701.32**		**42,304,701.32**
(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				**-32,400,000.00**		**-32,400,000.00**
1. Appropriation of surplus reserve						
2. Appropriation of general risk provision						
3. Allocation to shareholders				**-32,400,000.00**		**-32,400,000.00**
4. Others						
Balance as at 30 June 2019 (Unaudited)	**108,000,000.00**	**278,990,829.04**	**13,665,514.85**	**85,985,737.56**		**486,642,081.45**

Items	Share capital	Capital reserve	Surplus reserve	Unallocated profits	Minority interests	Total shareholders' equity
	Six months ended 30 June 2018					
	Equity attributable to the shareholders of parent company					
Balance as at 1 January 2018 (Audited)	108,000,000.00	282,204,487.50	10,115,890.49	55,797,710.73	7,288,908.13	463,406,996.85
Movement for the period				24,040,024.27	-438,709.13	23,601,315.14
(I) Total comprehensive income				45,640,024.27	-317,099.47	45,322,924.80
(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				-21,600,000.00	-121,609.66	-21,721,609.66
1. Appropriation of surplus reserve						
2. Appropriation of general risk provision						
3. Allocation to shareholders				-21,600,000.00	-121,609.66	-21,721,609.66
4. Others						
Balance as at 30 June 2018 (Unaudited)	108,000,000.00	282,204,487.50	10,115,890.49	79,837,735.00	6,850,199.00	487,008,311.99

CONSOLIDATED STATEMENT OF CASH FLOW

For the six months ended 30 June 2019

		Six months ended 30 June	
		2019	2018
		RMB	RMB
		(Unaudited)	(Unaudited)
I.	**Cash flow from operating activities**		
	Cash received from sales of goods and rendering of services	**1,452,841,879.32**	1,723,310,665.64
	Cash received relating to other operating activities	**–1,276,848.84**	4,386,397.18
	Sub-total of cash inflow from operating activities	**1,451,565,030.48**	1,727,697,062.82
	Cash paid for purchases of goods and receiving services	**1,395,237,822.55**	1,697,157,088.21
	Cash paid to employees and on behalf of employees	**33,468,787.02**	34,093,833.03
	Cash paid for various taxes	**24,508,033.09**	14,289,443.66
	Cash paid relating to other operating activities	**8,924,454.49**	27,194,450.94
	Sub-total of cash outflow from operating activities	**1,462,139,097.15**	1,772,734,815.84
	Net cash flow from operating activities	**–10,574,066.67**	–45,037,753.02
II.	**Cash flow from investing activities**		
	Net cash received from disposal of fixed assets, intangible assets and other long-term assets	**108,500.00**	105,529.22
	Cash received relating to other investing activities	**–**	–
	Sub-total of cash inflow from investing activities	**108,500.00**	105,529.22
	Cash paid for acquisition and construction of fixed assets, intangible assets and other long-term assets	**26,641,015.09**	47,873,259.75
	Cash paid relating to other investing activities	**–**	–
	Sub-total of cash outflow from investing activities	**26,641,015.09**	47,873,259.75
	Net cash flow from investing activities	**–26,532,515.09**	–47,767,730.53

	Six months ended 30 June 2019 RMB (Unaudited)	2018 RMB (Unaudited)
III. Cash flow from financing activities		
Cash received from borrowings	**232,000,000.00**	218,600,000.00
Cash received relating to other financing activities	**772,262,907.96**	1,042,631,423.84
Sub-total of cash inflow from financing activities	**1,004,262,907.96**	1,261,231,423.84
Cash paid for repayment of debts	**180,000,000.00**	213,900,000.00
Cash payment for distribution of dividends and profits and interest payment	**19,138,247.79**	32,892,738.73
Including: Dividends and profits paid to minority interests by subsidiaries	**–**	–
Cash paid relating to other financing activities	**788,880,203.20**	949,246,670.58
Sub-total of cash outflow from financing activities	**988,018,450.99**	1,196,039,409.31
Net cash flow from financing activities	**16,244,456.97**	65,192,014.53
IV. Effect of change in exchange rates on cash	**1,521.91**	–115,098.10
V. Net increase in cash and cash equivalents	**–20,860,602.88**	–27,728,567.12
Add: Opening balance of cash and cash equivalents for the period	**55,738,786.02**	75,096,936.45
VI. Closing balance of cash and cash equivalents	**34,878,183.14**	47,368,369.33

BALANCE SHEET OF THE COMPANY

As at 30 June 2019

	Note XIII	30 June 2019 RMB (Unaudited)	31 December 2018 RMB (Audited)
Current assets			
Monetary funds		**188,347,910.15**	205,670,048.69
Bills receivables	1	**30,908,720.49**	20,425,445.47
Trade receivables	2	**327,487,226.45**	428,739,001.52
Prepayments		**81,599,706.59**	77,312,305.05
Other receivables	3	**26,116,883.18**	9,557,464.77
Inventories		**156,923,177.89**	153,350,632.54
Other current assets		**8,423,328.41**	7,632,347.07
Total current assets		**819,806,953.16**	902,687,245.11
Non-current assets			
Long-term investments in equity interest	4	**216,510,000.00**	216,510,000.00
Investment properties		**–**	208,929,644.60
Fixed assets		**164,249,765.19**	66,968,974.48
Construction in progress		**23,110,805.30**	23,788,389.90
Right-of-use assets		**16,662,411.53**	–
Intangible assets		**154,124,499.74**	39,136,292.71
Long-term expenses to be amortized		**5,693,205.62**	6,049,024.93
Deferred income tax assets		**1,453,780.30**	1,637,023.63
Total non-current assets		**581,804,467.68**	563,019,350.25
Total assets		**1,401,611,420.84**	1,465,706,595.36

	30 June 2019 RMB (Unaudited)	31 December 2018 RMB (Audited)
Current liabilities		
Short-term borrowings	**242,770,000.00**	181,100,000.00
Bills payables	**306,941,682.92**	362,532,923.25
Trade payables	**146,971,703.23**	207,545,685.53
Contract liabilities	**2,035,107.55**	841,340.73
Salaries payable to employees	**2,479,073.97**	2,438,459.02
Tax payables	**10,078,986.84**	7,111,672.89
Other payables	**161,699,691.67**	182,328,744.27
Total current liabilities	**872,976,246.18**	943,898,825.69
Non-current liabilities		
Long-term borrowings	**90,000,000.00**	90,000,000.00
Lease liabilities	**16,926,429.62**	–
Total non-current liabilities	**106,926,429.62**	90,000,000.00
Total liabilities	**979,902,675.80**	1,033,898,825.69
Shareholders' equity		
Share capital	**108,000,000.00**	108,000,000.00
Capital reserve	**282,204,487.50**	282,204,487.50
Surplus reserve	**13,665,514.85**	13,665,514.85
Unallocated profits	**17,838,742.69**	27,937,767.32
Total shareholders' equity	**421,708,745.04**	431,807,769.67
Total liabilities and shareholders' equity	**1,401,611,420.84**	1,465,706,595.36

INCOME STATEMENT OF THE COMPANY

For the six months ended 30 June 2019

		Note XIII	Six months ended 30 June 2019 RMB (Unaudited)	2018 RMB (Unaudited)
I.	**Operating revenue**	5	**679,933,236.59**	836,392,431.30
	Less: Operating cost	5	**622,631,593.64**	771,210,802.07
	Taxes and surcharges		**2,164,690.53**	2,403,432.36
	Selling expenses		**18,773,853.29**	15,119,423.79
	Management expenses		**11,564,862.42**	11,958,902.64
	Finance costs		**7,613,824.22**	8,920,030.77
	Including: Interest expense		**6,269,263.79**	8,612,358.50
	Interest income		**634,704.40**	902,880.85
	Add: Returns on investment		**10,000,000.00**	20,000,000.00
	Impairment loss of credit		**739,692.05**	368,985.19
	Impairment loss of assets		**–1,074,965.49**	–1,131,222.08
	Gains on disposal of assets		**–39,889.87**	–39,939.15
II.	**Operating profit**		**26,809,249.18**	45,977,663.63
	Add: Non-operating revenue		**4,509.79**	765,446.89
	Less: Non-operating expenses		**25,521.44**	60,470.23
III.	**Total profit**		**26,788,237.53**	46,682,640.29
	Less: Income tax expense		**4,487,262.16**	6,945,381.61
IV.	**Net profit**		**22,300,975.37**	39,737,258.68
	(I) Net profit from continuing operation		**22,300,975.37**	39,737,258.68
	(II) Net profit from discontinued operation		**–**	–
V.	**Total comprehensive income**		**22,300,975.37**	39,737,258.68

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY OF THE COMPANY

For the six months ended 30 June 2019

RMB

Items	Share capital	Capital reserve	Surplus reserve	Unallocated profits	Total shareholders' equity
	Six months ended 30 June 2019				
Balance as at 1 January 2019 (Audited)	**108,000,000.00**	**282,204,487.50**	**13,665,514.85**	**27,937,767.32**	**431,807,769.67**
Movement for the period				**–10,099,024.63**	**–10,099,024.63**
(I) Total comprehensive income				**22,300,975.37**	**22,300,975.37**
(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				**–32,400,000.00**	**–32,400,000.00**
1. Appropriation of surplus reserve					
2. Appropriation of general risk provision					
3. Allocation to shareholders				**–32,400,000.00**	**–32,400,000.00**
4. Others					
Balance as at 30 June 2019 (Unaudited)	**108,000,000.00**	**282,204,487.50**	**13,665,514.85**	**17,838,742.69**	**421,708,745.04**

Items	Share capital	Capital reserve	Surplus reserve	Unallocated profits	Total shareholders' equity
	Six months ended 30 June 2018				
Balance as at 1 January 2018 (Audited)	108,000,000.00	282,204,487.50	10,115,890.49	17,591,148.13	417,911,526.12
Movement for the period				18,137,258.68	18,137,258.68
(I) Total comprehensive income				39,737,258.68	39,737,258.68
(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				–21,600,000.00	–21,600,000.00
1. Appropriation of surplus reserve					
2. Appropriation of general risk provision					
3. Allocation to shareholders				–21,600,000.00	–21,600,000.00
4. Others					
Balance as at 30 June 2018 (Unaudited)	108,000,000.00	282,204,487.50	10,115,890.49	35,728,406.81	436,048,784.80

STATEMENT OF CASH FLOW OF THE COMPANY

For the six months ended 30 June 2019

	Six months ended 30 June 2019 RMB (Unaudited)	2018 RMB (Unaudited)
I. Cash flow from operating activities		
Cash received from sales of goods and rendering of services	**595,011,816.74**	721,821,239.27
Cash received relating to other operating activities	**193,769,555.29**	215,145,333.42
Sub-total of cash inflow from operating activities	**788,781,372.03**	936,966,572.69
Cash paid for purchases of goods and receiving services	**660,153,529.48**	773,029,687.09
Cash paid to employees and on behalf of employees	**16,514,719.61**	15,342,718.97
Cash paid for various taxes	**4,592,244.07**	7,586,206.77
Cash paid relating to other operating activities	**159,062,610.24**	155,304,353.36
Sub-total of cash outflow from operating activities	**840,323,103.40**	951,262,966.19
Net cash flow from operating activities	**–51,541,731.37**	–14,296,393.50

	Six months ended 30 June	
	2019	2018
	RMB	RMB
	(Unaudited)	(Unaudited)
II. Cash flow from investing activities		
Cash received from returns on investments	**10,000,000.00**	20,000,000.00
Net cash received from disposal of fixed assets, intangible assets and other long-term assets	**108,500.00**	50,929.22
Sub-total of cash inflow from investing activities	**10,108,500.00**	20,050,929.22
Cash paid for acquisition and construction of fixed assets, intangible assets and other long-term assets	**26,011,841.22**	44,636,519.48
Net cash paid for acquisition of subsidiaries and other business units	**–**	20,800,000.00
Sub-total of cash outflow from investing activities	**26,011,841.22**	65,436,519.48
Net cash flow from investing activities	**–15,903,341.22**	–45,385,590.26

	Six months ended 30 June 2019 RMB (Unaudited)	2018 RMB (Unaudited)
III. Cash flow from financing activities		
Cash received from borrowings	**137,000,000.00**	141,100,000.00
Cash received relating to other financing activities	**298,353,996.19**	430,098,995.03
Sub-total of cash inflow from financing activities	**435,353,996.19**	571,198,995.03
Cash paid for repayment of debts	**90,000,000.00**	136,900,000.00
Cash paid for distribution of dividends and profits and interest payment	**13,445,454.09**	27,459,331.34
Including: Dividends and profits paid to minority interests by subsidiaries	**–**	–
Cash paid relating to other financing activities	**286,874,841.11**	371,261,894.77
Sub-total of cash outflow from financing activities	**390,320,295.20**	535,621,226.11
Net cash flow from financing activities	**45,033,700.99**	35,577,768.92
IV. Effect of change in exchange rates on cash	**1,521.91**	–115,098.10
V. Net increase in cash and cash equivalents	**–22,409,849.69**	–24,219,312.94
Add: Opening balance of cash and cash equivalents	**33,675,386.65**	40,966,972.93
VI. Closing balance of cash and cash equivalents	**11,265,536.96**	16,747,659.99

NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2019

I. GENERAL

Charmacy Pharmaceutical Co., Ltd. (the "**Company**") was established as an enterprise owned by the whole people (全民所有制企業) in the People's Republic of China (the "**PRC**") under the company name of Material Station of Shantou Pharmaceutical Supplies Company* (汕頭市醫藥聯合公司物資站) on 18 February 1984. Pursuant to the approval granted by the relevant PRC authorities on 28 May 2015, the Company was transformed into a joint stock company with limited liability and changed to its current name. The shares of the Company have been listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") on 14 December 2015. The Company's address of the registered office and principal place of business is No. 235, Song Shan North Road, Longhu District, Shantou City, Guangdong Province, the PRC.

The Company and its subsidiaries (collectively referred to as the "**Group**") are engaged in trading of pharmaceutical products and provision of related services.

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**").

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.

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 of the PRC 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 applicable to the Group.

2. *Going concern*

The Group, having evaluated its ability to continue as a going concern for the 12 months since 30 June 2019, 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. CRITICAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

1. *Declaration on compliance with Accounting Standards for Enterprises*

The financial statements of the Company have been prepared in accordance with the requirements of Accounting Standards for Enterprises to give a true and full view of the Company's and consolidated financial position as at 30 June 2019 and the Company's and consolidated operating results and Company's and consolidated cash flows for the six months ended 30 June 2019 of the Company and the Group.

2. *Accounting period*

The Group's accounting year begins on 1 January and ends on 31 December of the calendar year. The accounting period of this interim report is from 1 January to 30 June.

3. *Functional currency*

The Group adopts Renminbi as its recording currency. The Group adopts RMB in the preparation of its financial statements. The amounts were denominated in RMB, unless otherwise stated.

4. *Book-keeping basis and price-calculating principle*

The Group has adopted accrual basis as book-keeping basis for accounting measurement. The financial statements have been prepared on the historical cost basis (as measurement basis), except for certain financial instruments which have been measured at fair value. If the assets are impaired, the corresponding provisions for impairment shall be made according to relevant requirements.

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 under common control are measured at the carrying amount of the merged party in the consolidated statement of ultimate controller at the combination date. The difference between the carrying amount of net assets obtained and the carrying amount of the combination consideration paid shall adjust capital reserve; if capital reserve is not sufficient for offsetting, the retained earnings shall be adjusted.

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 or 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 the business combination should 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 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 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 other assets (other than goodwill) within the asset group or portfolio of asset group.

The recoverable amount of an asset is the higher of its fair value 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 sale agreement or active market for assets, fair value shall be estimated based on the best available information. Disposal expenses include legal costs related to asset disposal, related taxes, carriage expenses and 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 asset at an appropriate discount rate.

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

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 period 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 period of the Company.

All significant intra-group transactions, current balances and unrealized profits within the scope of combination 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 as 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 they had been in existence as the current state since the ultimate controlling party takes 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 to the extent that the time above shall not be earlier than the time when the Group and the combined party are under the common control of the ultimate controlling party, and the increase in net assets arising from the combination will be 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, long-term equity investment held by the Group before the combination is achieved, as well as the relevant recognized profit or loss, other comprehensive income and other changes in net assets from the date of acquiring the original equity or the date when the Group and the combined party are under the same ultimate control, whichever is later, to the combination date 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 value of the identifiable assets, liabilities and contingent liabilities determined on the acquisition date.

For equity of an investee not 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 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 based on 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 carrying amount 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 (except net profit or loss, other comprehensive income and profit distribution) shall be converted into investment profit or loss in the period in which the acquisition date falls.

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

Where the Group loses its control over the investee due to the disposal of partial equity investment or other reasons, the residual equity will be remeasured based on the fair value thereof on the date when the control is lost in the preparation of the consolidated financial statements. The balance of the sum of the consideration obtained from the equity disposal and the fair value of the residual equity after deduction of the share of the net assets of the original subsidiaries calculated continuously 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 incomes 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 equity investment in the subsidiaries in stages through multiple transactions till losing control, if various transactions from disposal of equity investment of subsidiaries till losing control belong to a package deal, accounting treatment shall be conducted to each transaction as the 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 converted into investment profit or loss for the period when the control is lost.

8. *Cash and cash equivalents*

Cash in the statement of cash flow of the Group refers to cash on hand and the deposits ready for payment at any time. Cash equivalents in the statement of cash flow refer to the investment with a term less than 3 months and high liquidity that are easily convertible to known amounts of cash and subject to an insignificant risk of change in value.

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 to enable the construction or production eligible for capitalization are dealt with based on the capitalization principle.

(2) Translation of financial statements denominated in foreign currency

Assets and liabilities 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 "unallocated profits", are translated at the spot exchange rate when business occurs. Income and expenses 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 in 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 change of 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.

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 the effective interest rate multiplied by the carrying balance of the financial asset, except: ①for 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; ②for 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 and 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.

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 profit or loss for the period.

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), and the apportioned entire carrying amount of the said financial assets are included into profit or loss for the period.

(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 for loans commitment.

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 makes 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.

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 the weighted average method when the inventories are consumed or issued. Low-value consumables are amortized using the 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 such as 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.

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 credit" 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 credit".

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 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.

(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 comprehensively by taking into consideration such facts and circumstances as dispatching representatives 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.

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 the cost method. If the equity held before the acquisition date is calculated by the equity method, the related other comprehensive income originally calculated by the equity method shall not be adjusted; and the accounting treatment shall be conducted as per the same basis as that of directly disposing related assets or liabilities of the investee when disposing 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 previously included in other comprehensive income shall be transferred into the investment profit or loss for the period on the combination date.

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 the equity method.

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, the Group shall recognize 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 according to the change in the owners' equity of the investee. In particular, 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 except net profit or loss, the portion previously included in the owners' equity shall, when disposing of such 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 the equity method shall be accounted for on the same basis as that used by the investee to directly dispose 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 the 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 the subsidiary with loss of control. However, before loss of control, the difference between disposal price for each transaction and the carrying value of corresponding long-term investment of the equity disposed, shall be recognized as other comprehensive income, and, upon loss of control, shall be transfer to the profit or loss for the period.

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 model.

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 service, 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 only recognized 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 the fixed asset, and the carrying amount 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.

Fixed assets are depreciated on straight-line basis over their useful lives 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 vehicles	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 such asset after deducting the estimated costs of disposal, assuming that the asset is out of its useful life and in the condition expected at the end of 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 balance of any proceeds on disposal of the asset net of the carrying amount 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 cost or actual cost of the projects 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 have been handled.

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 related 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 discontinue 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 resume.

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 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 the 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 use right, 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 assets acquired from combination not under common control which are owned by the acquiree but are not recognized in the financial statements, they shall be recognized as intangible assets at their 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 Group 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 using the cost model, oil and gas assets, intangible assets with definite useful life, etc. on each balance sheet date. The Group conducts impairment test where there is any indication of impairment. Goodwill and intangible assets with indefinite useful life are tested at the end of each year for impairment, regardless of whether indication of impairment exists or not.

If the carrying amount of such asset exceeds its recoverable amount after impairment test, the difference is recognized as impairment losses. The above impairment losses shall not be reversed in the subsequent accounting period 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 the profit or loss for the period.

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 the social security systems for employees operated by government authorities according to 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 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 the profit or loss for the period.

Short-term remuneration refers to the employee compensation other than post-employment benefits and termination benefits, which is 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, industrial 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 object who benefits from 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 relationship 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.

The Group categorizes 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 particular, defined contribution plan refers to the post-employment benefit plan under which the Group assumed 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, contribution payable under defined contribution plan are recognized as liabilities and accounted for in profit or 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 the profit or loss for the period at the earlier of the following dates: ① when the Group cannot unilaterally withdraw termination benefits for the termination employment plan or the redundancy offer. ② When the Group recognizes the costs or expenses related to the reorganization involving payment of termination benefits.

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

25. Share-based payment

Equity-settled share-based payments made in exchange for services rendered by employees are measured at the fair value of equity instruments granted to employees on the grant date. In situations 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 the 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 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, the fair value of the liabilities shall be re-measured and the changes thereof shall be included in the 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.

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 the 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 the 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 eliminated. The amount which the Group expects to return 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 assuming that a customer would have paid in cash upon obtaining the control of the goods or services. The difference between the transaction price and the consideration of the contract is amortized using the 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 of 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 economic 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 the performance obligation. When the progress of the performance obligation cannot be measured reasonably, but the Group expects to recover the costs incurred, 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 such goods or services; the Group has transferred physical possession of the goods to the customer;

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

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 specific accounting policies regarding 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, inspect and accept 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 raised to the Group within 3 days after the goods have been delivered, 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 actually received; If the grants are funded 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 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 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 allocated 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.

The government grants related to business activities of an enterprise are recognized as other income or a reduction of relevant costs and expenses in accordance with the nature of such business. The government grants that are not 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 income in subsequent years in accordance with the requirements under tax laws. No deferred income 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. The Group recognizes right-of-use assets and lease liabilities according to the requirement of Accounting Standards for Enterprises No. 21 – Leasing at the commencement date of the lease. The right-of-use assets are measured at cost initially, the cost includes:

(1) the amount of initial measurement of the lease liabilities;

(2) lease payments made at or before the commencement date, less the related lease incentives received, if any;

(3) the initial direct costs incurred by the lessee;

(4) estimated costs to be incurred by the lessee in dismantling and removing the leased assets, restoring the site on which such assets are located or restoring the leased assets to the condition required by the terms of the leases.

The lease liabilities are initially measured at the present value of the lease payments that are not paid at the commencement date of the lease term. Incremental borrowing rate is adopted as the discounting rate in calculating the present value of lease payments, which refers to the rate that the lessee must pay in the similar economic environment in order to obtain the assets whose value is close to that of right-of-use assets, and under similar pledge conditions in similar periods to borrow funds.

After the commencement of the lease term, the right-of-use assets shall be measured by the cost model subsequently. The Company calculates the interest expenses of lease liabilities for each period over the lease term based on the fixed periodic rate, and recognizes them in profit or loss for the period.

30. Discontinued operation

Discontinued operation refers to a component of the Group which meets one of the following conditions and can be distinguished separately and has been already disposed of or classified as hold-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 an associated 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.

31. Changes in significant accounting policies and accounting estimates

(1) Changes in significant accounting policies

On 7 December 2018, the Ministry of Finance revised and issued the Accounting Standards for Enterprises No. 21 – Leasing. According to the relevant requirements, enterprises that are listed both domestically and overseas shall prepare their financial reports in accordance with the International Financial Reporting Standards or the Accounting Standards for Enterprises, with effect from 1 January 2019. Changes to the above accounting standards will not have a material impact on the financial statements of the Group.

On 30 April 2019, the Ministry of Finance revised and issued the Notice on Revising and Issuing the Format of Financial Statements of General Enterprises for the Year 2019 (Cai Kuai [2019] No.6) (《關於修訂印發2019年度一般企業財務報表格式的通知》(財會 [2019] 6號)), while the Notice on Revising and Issuing the Format of Financial Statements of General Enterprises for the Year 2018 (Cai Kuai [2018] No. 15) which was originally issued on 15 June 2018 was repealed at the same time. The Group has made disclosure according to the revised format of financial statements under Cai Kuai [2019] No. 6.

(2) Changes in significant accounting estimates

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

V. TAXATION

Type of Tax	Tax basis	Tax rate
VAT	Taxable income	3%, 5%, 6%, 10%, 11%, 13%, 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 Tax	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 PRC) and approved by the State Taxation Bureau 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 period" represents 1 January 2019, "end of the period" represents 30 June 2019, "the period" represents the six months ended 30 June 2019, and the monetary unit shall be denominated in RMB, unless otherwise specified.

1. Monetary funds

	Balance as at 30 June 2019 (Unaudited)	Balance as at 31 December 2018 (Audited)
Cash on hand	**2,038,334.05**	305,938.89
Cash in bank	**32,839,849.09**	55,432,847.13
Other monetary funds	**408,795,667.28**	372,862,505.22
Total	**443,673,850.42**	428,601,291.24

The balance of unutilized restricted funds for the issuance of bills business and loan business at the end of the period was RMB408,795,667.28. At the end of the period, total monetary funds deposited overseas was RMB386,768.59.

2. *Bills Receivable*

(1) *Classification of bills receivables*

Classification of bills	Balance as at 30 June 2019 (Unaudited)	Balance as at 31 December 2018 (Audited)
Bank acceptance bills	**66,640,459.88**	31,924,545.23
Commercial drafts	**26,670,000.00**	3,975,785.51
Total	**93,310,459.88**	35,900,330.74

(2) *Pledged bills receivable as at 30 June 2019*

Items	Pledged amount as at 30 June 2019 (Unaudited)
Bank acceptance bills	**58,399,968.56**
Commercial drafts	**12,000,000.00**
Total	**70,399,968.56**

(3) *Bills receivables endorsed but not mature at the balance sheet date, as at 30 June 2019*

Item	Amount derecognised as at 30 June 2019 (Unaudited)	Amount not derecognised as at 30 June 2019 (Unaudited)
Bank acceptance bills	**419,563,956.72**	–
Total	**419,563,956.72**	–

(4) Bills receivables discounted but not mature at the balance sheet date, as at 30 June 2019

Items	Amount derecognised as at 30 June 2019 (Unaudited)	Amount not derecognised as at 30 June 2019 (Unaudited)
Bank acceptance bills	**160,011,399.91**	–
Commercial drafts	**–**	14,670,000.00
Total	**160,011,399.91**	14,670,000.00

(5) As at 30 June 2019, 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 were within 180 days.

3. Trade receivables

Name of Items	Balance as at 30 June 2019 (Unaudited)	Balance as at 31 December 2018 (Audited)
Trade receivables	**722,543,300.90**	805,660,132.30
Less: Provision for bad debts	**13,001,042.85**	13,587,465.37
Net amount	**709,542,258.05**	792,072,666.93

(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 establishes different credit policies to different customers. Credit period is usually less than six months. As for commodity sales, the trade receivables and operating revenue are recognised, the age of which is calculated when the main risks and rewards have been transferred to the buyers:

Age	Balance as at 30 June 2019 (Unaudited)	Balance as at 31 December 2018 (Audited)
Within 1 year	689,504,862.95	773,997,564.44
1 to 2 years	24,937,237.56	23,317,010.64
2 to 3 years	–	5,836,096.71
More than 3 years	8,101,200.39	2,509,460.51
Total	722,543,300.90	805,660,132.30

(2) *Classification of trade receivables*

Classification	Balance as at 30 June 2019 (Unaudited) Carrying balance Amount	Percentage (%)	Provision for bad debts Amount	Lifetime expected credit loss rate (%)	Book value
Bad debt provision made on individual basis	8,290,419.73	1.15	8,290,419.73	100.00	-
Bad debt provision made on group basis	714,252,881.17	98.85	4,710,623.12	0.66	709,542,258.05
Account age combination	714,252,881.17	98.85	4,710,623.12	0.66	709,542,258.05
Total	722,543,300.90	100.00	13,001,042.85	-	709,542,258.05

Classification	Balance as at 31 December 2018 (Audited) Carrying balance Amount	Percentage (%)	Provision for bad debts Amount	Lifetime expected credit loss rate (%)	Book value
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

4. *Prepayments*

Items	Balance as at 30 June 2019 (Unaudited)		Balance as at 31 December 2018 (Audited)	
	Amount	Proportion (%)	Amount	Proportion (%)
Within 1 year	**203,032,138.96**	**98.24**	196,196,269.21	99.92
1-2 years	**3,547,095.93**	**1.72**	50,610.95	0.03
2-3 years	**88,500.86**	**0.04**	95,556.11	0.05
More than 3 years	**6,294.48**	**0.00**	–	–
Total	**206,674,030.23**	**100.00**	196,342,436.27	100.00

5. *Other receivables*

Classification of other receivables by nature of amounts

Nature of amounts	Balance as at 30 June 2019 (Unaudited)	Balance as at 31 December 2018 (Audited)
Deposit	**10,869,592.00**	11,002,394.29
Reserve	**442,220.35**	857,869.86
Others	**25,158.93**	898.20
Total	**11,336,971.28**	11,861,162.35

6. *Inventories*

	Balance as at 30 June 2019 (Unaudited)			Balance as at 31 December 2018 (Audited)		
Items	Carrying balance	Provision for impairment	Book value	Carrying balance	Provision for impairment	Book value
Goods in stock	439,695,247.74	2,649,263.69	437,045,984.05	457,922,995.27	2,641,576.34	455,281,418.93
Goods sold	27,080,180.43	–	27,080,180.43	17,241,496.31	–	17,241,496.31
Total	466,775,428.17	2,649,263.69	464,126,164.48	475,164,491.58	2,641,576.34	472,522,915.24

7. *Other current assets*

Items	Balance as at 30 June 2019 (Unaudited)	Balance as at 31 December 2018 (Audited)
Input tax to be credited	34,752,684.47	23,992,034.00
Expenses to be amortized	376,496.58	818,464.20
Total	35,129,181.05	24,810,498.20

8. *Fixed assets*

(1) *Classification*

Items	Balance as at 30 June 2019 (Unaudited)	Balance as at 31 December 2018 (Audited)
Fixed assets	197,647,856.16	193,761,724.83
Liquidation of fixed assets	–	–
Total	197,647,856.16	193,761,724.83

(2) Fixed assets

1) Breakdown of fixed assets

Items			Houses and buildings	Machineries and equipment	Transportation facilities	Office equipment	Total
I.	Original book value						
1.	Balance as at 31 December 2018		186,883,572.28	46,158,611.01	15,975,106.64	12,614,978.44	261,632,268.37
2.	Addition for the period		8,127,517.48	1,396,177.28	1,437,422.80	67,059.23	11,028,176.79
	(1)	Purchase	–	22,844.83	1,437,422.80	67,059.23	1,527,326.86
	(2)	Transfer from construction in-progress	8,127,517.48	1,373,332.45	–	–	9,500,849.93
	(3)	Addition as a result of business combination	–	–	–	–	–
3.	Reduction for the period		–	–	333,280.23	68,790.31	402,070.54
	(1)	Disposal or retirement	–	–	333,280.23	68,790.31	402,070.54
	(2)	Other reduction	–	–	–	–	–
4.	Balance as at 30 June 2019		195,011,089.76	47,554,788.29	17,079,249.21	12,613,247.36	272,258,374.62
II.	Accumulated depreciation						
1.	Balance as at 31 December 2018		30,770,394.80	20,932,925.66	5,234,921.84	10,932,301.24	67,870,543.54
2.	Addition for the period		3,209,930.78	2,249,452.52	838,041.21	442,550.41	6,739,974.92
	(1)	Provision	3,209,930.78	2,249,452.52	838,041.21	442,550.41	6,739,974.92
	(2)	Addition as a result of business combination	–	–	–	–	–
3.	Reduction for the period		–	–	–	–	–
	(1)	Disposal or retirement	–	–	–	–	–
	(2)	Other reduction	–	–	–	–	–
4.	Balance as at 30 June 2019		33,980,325.58	23,182,378.18	6,072,963.05	11,374,851.65	74,610,518.46
III.	Impairment provision						
1.	Balance as at 31 December 2018		–	–	–	–	–
2.	Addition for the period		–	–	–	–	–
3.	Reduction for the period		–	–	–	–	–
4.	Balance as at 30 June 2019		–	–	–	–	–
IV.	Book value						
1.	Book value as at 31 December 2018		156,113,177.48	25,225,685.35	10,740,184.80	1,682,677.20	193,761,724.83
2.	Book value as at 30 June 2019		161,030,764.18	24,372,410.11	11,006,286.16	1,238,395.71	197,647,856.16

Note: Addition of fixed assets for the period included the amount of transfer from construction-in-progress of RMB9,500,849.93. Among the addition of accumulated depreciation for the period, RMB6,739,974.92 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 value of fixed assets that have been fully depreciated but were still in use was RMB9,537,327.24.

2) At the end of the period, the Group had no temporarily idle fixed assets and fixed assets for which no property right certificate was well obtained.

9. *Construction in progress*

(1) Breakdown of construction-in-progress

Items	Balance as at 30 June 2019 (Unaudited) Carrying balance	Provision for impairment	Book value	Balance as at 31 December 2018 (Audited) Carrying balance	Provision for impairment	Book value
Guangzhou Nansha Logistic Center Project (廣州南沙物流中心項目)	–	–	–	3,624,597.06	–	3,624,597.06
The construction project of Pharmaceutical Sorting and Distribution Center in Guangzhou	23,025,899.64	–	23,025,899.64	19,803,560.37	–	19,803,560.37
Other sporadic constructions	84,905.66	–	84,905.66	360,232.47	–	360,232.47
Total	23,110,805.30	–	23,110,805.30	23,788,389.90	–	23,788,389.90

(2) Changes in major construction-in-progress

Name of project	Balance as at 31 December 2018 (Audited)	Addition for the period	Reduction for the period: Transfer to fixed assets	Reduction for the period: Other reductions	Balance as at 30 June 2019 (Unaudited)
Guangzhou Nansha Logistic Center Project (廣州南沙物流中心項目)	3,624,597.06	–	3,624,597.06	–	-
The construction project of Pharmaceutical Sorting and Distribution Center in Guangzhou	19,803,560.37	8,738,359.67	5,516,020.40	–	23,025,899.64
Other sporadic constructions	360,232.47	84,905.66	360,232.47	–	84,905.66
Total	23,788,389.90	8,823,265.33	9,500,849.93	–	23,110,805.30

Name of project	Budget (0'000)	Percentage of accumulated investment in project to the budget (%)	Construction progress (%)	Accumulated amount of interest capitalized	Of which: The amount of interest capitalized for the period	Interest capitalization rate for the period (%)	Source of funds
Guangzhou Nansha Logistic Center Project (廣州南沙物流中心項目)	8,752.11	101.74	100.00	–	–	–	Raised funds and own funds
The construction project of Pharmaceutical Sorting and Distribution Center in Guangzhou	9,550.40	24.11	24.11	4,733,592.34	2,769,163.68	5.39	Loans from financial institutions
Other sporadic constructions	225.55	61.53	61.53	–	–	–	Raised funds and own funds
Total	18,528.06	–	–	4,733,592.34	2,769,163.68	–	–

10. Right-of-use assets

Items		Buildings and structures
I.	Original book value	
1.	Balance as at 31 December 2018	19,157,249.26
2.	Addition for the period	–
3.	Reduction for the period	–
4.	Balance as at 30 June 2019	19,157,249.26
II.	Accumulated depreciation	
1.	Balance as at 31 December 2018	–
2.	Addition for the period	1,447,474.26
3.	Balance as at 30 June 2019	1,447,474.26
III.	Book value	
1.	Book value as at 31 December 2018	19,157,249.26
2.	Book value as at 30 June 2019	17,709,775.00

Note: Balance of right-of-use assets at the beginning of the year is resulted from the restatement of the balance at the beginning of the period due to the implementation of the new lease standard from 1 January 2019.

11. Intangible assets

For the six months ended 30 June 2019 (Unaudited)

Items	Land use rights	Computer software	Total
I. Original book value			
1. Balance as at 31 December 2018	164,253,763.65	18,783,371.03	183,037,134.68
2. Addition for the period	–	–	–
(1) Purchase	–	–	–
(2) Transfer from construction-in-progress	–	–	–
3. Reduction for the period	–	–	–
(1) Disposal	–	–	–
4. Balance as at 30 June 2019	164,253,763.65	18,783,371.03	183,037,134.68
II. Accumulated amortization			
1. Balance as at 31 December 2018	20,140,629.43	3,558,179.48	23,698,808.91
2. Addition for the period	2,160,139.66	974,517.06	3,134,656.72
(1) Provision	2,160,139.66	974,517.06	3,134,656.72
3. Reduction for the period	–	–	–
(1) Disposal	–	–	–
4. Balance as at 30 June 2019	22,300,769.09	4,532,696.54	26,833,465.63
III. Impairment provision			
1. Balance as at 31 December 2018	–	–	–
2. Addition for the period	–	–	–
(1) Provision	–	–	–
3. Reduction for the period	–	–	–
(1) Disposal	–	–	–
4. Balance as at 30 June 2019	–	–	–
IV. Book value			
1. Book value as at 31 December 2018	144,113,134.22	15,225,191.55	159,338,325.77
2. Book value as at 30 June 2019	141,952,994.56	14,250,674.49	156,203,669.05

As at 30 June 2019, no intangible asset arose through the internal research and development of the Group.

12. Goodwill

(1) Original value of goodwill

Name of the investee	Balance as at 31 December 2018 (Audited)	Addition for the period: As a result of business combination	Addition for the period: Others	Reduction for the period: Disposal	Reduction for the period: Others	Balance as at 30 June 2019 (Unaudited)
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 the investees	Balance as at 31 December 2018 (Audited)	Addition for the period: Provision	Addition for the period: Others	Reduction for the period: Disposal	Reduction for the period: Others	Balance as at 30 June 2019 (Unaudited)
Zhuhai Charmacy Company	1,465,937.31	–	–	–	–	1,465,937.31
Guangzhou Charmacy Company	–	–	–	–	–	-
Total	1,465,937.31	–	–	–	–	1,465,937.31

13. Long-term expenses to be amortized

Items	Balance as at 31 December 2018 (Audited)	Addition for the period	Amortization for the period	Other reduction for the period	Balance as at 30 June 2019 (Unaudited)
Installation expenses for the guard house and delivery platform	143,160.34	–	4,109.86	–	139,050.48
Zhuhai Charmacy warehouse installation project (珠海創美倉庫安裝工程)	6,049,024.93	–	355,819.31	–	5,693,205.62
Zhuhai canteen renovation project (珠海食堂裝修工程)	51,975.72	–	10,395.14	–	41,580.58
Total	6,244,160.99	–	370,324.31	–	5,873,836.68

14. Deferred income tax assets and deferred income tax liabilities

(1) Deferred income tax assets not offset

Items	Balance as at 30 June 2019 (Unaudited) Deferred income tax assets	Deductible temporary differences	Balance as at 31 December 2018 (Audited) Deferred income tax assets	Deductible temporary differences
Provision for asset impairment	**3,919,445.69**	**15,677,782.74**	4,064,129.47	16,256,517.91
Government grants	**361,839.56**	**1,447,358.24**	418,972.12	1,675,888.49
Deductible losses	**902,385.14**	**3,609,540.55**	1,152,461.17	4,609,844.68
Total	**5,183,670.39**	**20,734,681.53**	5,635,562.76	22,542,251.08

(2) Deferred income tax liabilities not offset

Item	Balance as at 30 June 2019 (Unaudited) Deferred income tax liabilities	Taxable temporary differences	Balance as at 31 December 2018 (Audited) 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

15. Short-term borrowings

Types of borrowings	Balance as at 30 June 2019 (Unaudited)	Balance as at 31 December 2018 (Audited)
Secured borrowings	**221,400,000.00**	231,400,000.00
Guaranteed borrowings	**106,473,952.00**	101,500,000.00
Credit borrowings	**97,000,000.00**	40,000,000.00
Borrowings from discounted bills receivables	**14,670,000.00**	15,000,000.00
Total	**439,543,952.00**	387,900,000.00

The Group had no past due and outstanding short-term borrowings, and the amount repaid subsequent to the balance sheet date was RMB14,880,000.00.

16. Bills payables

Classification of bills	Balance as at 30 June 2019 (Unaudited)	Balance as at 31 December 2018 (Audited)
Bank acceptance bills	**753,786,427.76**	778,925,488.11
Commercial drafts	**4,500,000.00**	–
Total	**758,286,427.76**	778,925,488.11

The age of the aforementioned bills payables of the Group was within 1 year.

17. Trade payables

Below is an aging analysis of trade payables based on the transaction date as at 30 June 2019:

Age	Balance as at 30 June 2019 (Unaudited)	Balance as at 31 December 2018 (Audited)
Within 1 year	**467,298,207.23**	563,551,065.72
1 to 2 years	**1,719,469.52**	507,220.82
2 to 3 years	**358,660.88**	270,210.38
More than 3 years	**300,335.10**	166,255.01
Total	**469,676,672.73**	564,494,731.93

18. Contract liabilities

Item	Balance as at 30 June 2019 (Unaudited)	Balance as at 31 December 2018 (Audited)
Payment for goods	**7,215,657.20**	1,879,275.48
Total	**7,215,657.20**	1,879,275.48

As at 30 June 2019, the Group had no significant contract liabilities ageing over 1 year.

19. Salaries payable to employees

(1) Classification of salaries payable to employees

Items	Balance as at 31 December 2018 (Audited)	Addition for the period	Reduction for the period	Balance as at 30 June 2019 (Unaudited)
Short-term remuneration	5,066,954.31	32,333,482.22	33,493,206.94	**3,907,229.59**
Post-employment benefits – Defined contribution plan	–	2,241,517.62	2,241,517.62	**-**
Total	5,066,954.31	34,574,999.84	35,734,724.56	**3,907,229.59**

(2) Short-term remuneration

Items	Balance as at 31 December 2018 (Audited)	Addition for the period	Reduction for the period	Balance as at 30 June 2019 (Unaudited)
Salaries, bonuses, allowances and subsidies	4,828,770.49	27,670,176.88	28,711,997.76	**3,786,949.61**
Staff welfare payments	–	2,115,363.01	2,115,363.01	**-**
Social insurance premiums	–	1,176,101.29	1,176,101.29	**-**
Among which: Medical insurance premium	–	979,604.18	979,604.18	**-**
Work injury insurance premium	–	18,532.90	18,532.90	**-**
Maternity insurance premium	–	177,964.21	177,964.21	**-**
Housing provident fund	–	1,150,992.67	1,150,992.67	**-**
Labor union expenses and staff education expenses	238,183.82	220,848.37	338,752.21	**120,279.98**
Total	5,066,954.31	32,333,482.22	33,493,206.94	**3,907,229.59**

(3) Defined contribution plan

Items	Balance as at 31 December 2018 (Audited)	Addition for the period	Reduction for the period	**Balance as at 30 June 2019 (Unaudited)**
Basic pension insurance	–	2,172,096.34	2,172,096.34	**–**
Unemployment insurance premium	–	69,421.28	69,421.28	**–**
Total	–	2,241,517.62	2,241,517.62	**–**

20. Tax payables

Items	**Balance as at 30 June 2019 (Unaudited)**	Balance as at 31 December 2018 (Audited)
VAT	**41,694,814.22**	36,052,003.47
Enterprise income tax	**12,454,415.50**	181,066.42
Individual income tax	**53,842.11**	64,812.82
Property tax	**1,563,597.24**	823,118.32
Tax on land use	**181,206.54**	720.00
Stamp duty	**107,244.32**	171,701.77
Urban maintenance and construction tax	**36,970.95**	85,512.77
Education surcharge	**26,407.82**	36,648.33
Other taxes	**1,050.00**	25,482.22
Total	**56,119,548.70**	37,441,066.12

21. *Other payables*

(1) *Classification*

Items	Balance as at 30 June 2019 (Unaudited)	Balance as at 31 December 2018 (Audited)
Interest payables	702,564.24	921,877.61
Dividend payables	26,600,000.00	–
Other payables	14,467,002.14	8,736,361.54
Total	41,769,566.38	9,658,239.15

(2) *Interest payables*

Items	Balance as at 30 June 2019 (Unaudited)	Balance as at 31 December 2018 (Audited)
Interest payables of short-term borrowings	567,814.24	773,652.61
Interest payable of long-term borrowings	134,750.00	148,225.00
Total	702,564.24	921,877.61

(3) *Other payables*

Nature of payment	Balance as at 30 June 2019 (Unaudited)	Balance as at 31 December 2018 (Audited)
Margin	9,040,900.00	2,262,217.65
Accrued intermediary expenses	3,393,009.00	4,362,625.32
Transportation costs	438,197.17	444,181.13
Others	1,594,895.97	1,667,337.44
Total	14,467,002.14	8,736,361.54

22. *Other current liabilities*

(1) Classification of other current liabilities

Item	**Balance as at 30 June 2019 (Unaudited)**	Balance as at 31 December 2018 (Audited)
Deferred income from assets-related government grants carried forward within 1 year	**228,530.25**	457,060.50
Total	**228,530.25**	457,060.50

(2) Government grant

Government grant program	Balance as at 31 December 2018 (Audited)	Addition of grant for the year	Included in other gains for the period	Other changes	**Balance as at 30 June 2019 (Unaudited)**	Asset-related/ Income-related
Government grant for logistics standardization program	457,060.50		228,530.25	-	**228,530.25**	Asset-related
Total	457,060.50		228,530.25	-	**228,530.25**	-

23. Long-term borrowings

(1) *Classification of long-term borrowings*

Type of borrowings	**Balance as at 30 June 2019 (Unaudited)**	Balance as at 31 December 2018 (Audited)
Secured borrowings	**90,000,000.00**	90,000,000.00
Total	**90,000,000.00**	90,000,000.00

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

Items	**Balance as at 30 June 2019 (Unaudited)**	Balance as at 31 December 2018 (Audited)
Within 1 year	**13,636,363.64**	–
1 to 2 years	**16,363,636.36**	13,636,363.60
2 to 5 years	**49,090,909.09**	49,090,908.96
Over 5 years	**10,909,090.91**	27,272,727.44
Total	**90,000,000.00**	90,000,000.00

24. Lease liabilities

Items	**Balance as at 30 June 2019 (Unaudited)**
Long-term lease liabilities	**18,014,245.72**
Less: Lease liabilities due within one year	**–**
Total	**18,014,245.72**

25. Deferred income

(1) Classification of deferred income

Item	Balance as at 31 December 2018 (Audited)	Addition for the period	Reduction for the period	**Balance as at 30 June 2019 (Unaudited)**
Government grants	1,218,827.99	–	–	**1,218,827.99**
Total	1,218,827.99	–	–	**1,218,827.99**

(2) Government grant program

Government grant program	Balance as at 31 December 2018 (Audited)	Addition of grant for the period	Included in other gains for the period	Other changes	**Balance as at 30 June 2019 (Unaudited)**	Asset-related/ Income-related
Government grant for logistics standardization program	1,218,827.99	–	–	–	**1,218,827.99**	Asset-related
Total	1,218,827.99	–	–	–	**1,218,827.99**	–

26. Share capital

Name of shareholders	Balance as at 31 December 2018 (Audited)	Addition for the period	Reduction for the period	**Balance as at 30 June 2019 (Unaudited)**
Yao Chuanglong	59,000,000.00	–	–	**59,000,000.00**
Shantou Meizhi Investment Management Limited Partnership ("Meizhi Investment")	3,200,000.00	–	–	**3,200,000.00**
Shantou Youran Investment Management Limited Partnership ("Youran Investment")	1,700,000.00	–	–	**1,700,000.00**
Shantou Zhichuang Investment Management Limited Partnership ("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**

27. Capital reserve

Items	Balance as at 31 December 2018 (Audited)	Addition for the period	Reduction for the period	**Balance as at 30 June 2019 (Unaudited)**
Share premium	278,001,901.04	–	–	**278,001,901.04**
Other capital reserve	988,928.00	–	–	**988,928.00**
Total	278,990,829.04	–	–	**278,990,829.04**

28. Surplus reserve

Item	Balance as at 31 December 2018 (Audited)	Addition for the period	Reduction for the period	Balance as at 30 June 2019 (Unaudited)
Statutory surplus reserve	13,665,514.85	–	–	**13,665,514.85**
Total	13,665,514.85	–	–	**13,665,514.85**

29. Unallocated profits

Items	Six months ended 30 June 2019 (Unaudited)	2018 (Audited)
Balance as at the end of last period	**76,081,036.24**	55,797,710.73
Add: adjustment to the opening balance of unallocated profit	**–**	–
Balance as at the beginning of the period	**76,081,036.24**	55,797,710.73
Add: Net profit attributable to the shareholders of the parent company for the period	**42,304,701.32**	45,432,949.87
Less: Appropriation of statutory surplus reserve	**–**	3,549,624.36
Dividends payable on ordinary shares	**32,400,000.00**	21,600,000.00
Balance as at the end of the period	**85,985,737.56**	76,081,036.24

30. Operating revenue, operating cost and segment information

Information is reported to the chief executive officer of the Group, being the chief operating decision maker, for the purposes of resource allocation and assessment of segment performance. The directors of the Company consider that there is only one operating and reportable segment for the Group: trading and promoting of pharmaceutical products.

Operating revenue represents the amounts received and receivable for sale of goods and provision of services in the normal course of business, net of commercial discounts and sales related taxes. Analysis of the Group's operating revenue and cost for the period is as follows:

	Six months ended 30 June 2019 (Unaudited)		Six months ended 30 June 2018 (Unaudited)	
Items	**Revenue**	**Cost**	Revenue	Cost
Principal business	**1,698,410,396.06**	**1,571,371,663.46**	2,006,067,441.91	1,872,269,199.68
Other business	**9,677,358.74**	**-**	15,920,292.39	–
Total	**1,708,087,754.80**	**1,571,371,663.46**	2,021,987,734.30	1,872,269,199.68

31. Taxes and surcharges

	Six months ended 30 June	
	2019	2018
Items	**(Unaudited)**	(Unaudited)
Property tax	**1,370,000.42**	1,121,002.54
Stamp duty	**667,035.85**	1,111,369.30
Urban maintenance and construction tax	**1,257,310.63**	357,114.90
Education surcharge	**898,079.02**	255,082.10
Tax on land use	**180,486.54**	237,580.56
Vehicle and vessel tax	**9,597.01**	25,963.87
Environmental protection tax	**2,100.00**	1,050.00
Total	**4,384,609.47**	3,109,163.27

Please refer to note "V. TAXATION" for the calculation of taxes and surcharges proportion.

32. Selling expenses

Items	Six months ended 30 June 2019 (Unaudited)	2018 (Unaudited)
Staff remuneration	22,520,657.88	21,747,990.72
Transportation costs	4,673,084.42	6,256,618.78
Office expenses	3,391,512.48	5,354,826.72
Depreciation and amortization	4,698,561.92	2,061,479.27
Promotion and advertising expenses	311,803.23	376,960.34
Business entertainment expenses	210,123.55	185,391.34
Travelling expenses	193,911.87	195,972.51
Others	115,061.41	3,979.25
Total	36,114,716.76	36,183,218.93

33. Management expenses

Items	Six months ended 30 June 2019 (Unaudited)	2018 (Unaudited)
Staff remuneration	10,389,916.85	12,035,195.62
Office expenses	3,346,255.31	4,703,678.26
Depreciation and amortization	7,267,650.70	6,675,187.42
Expenses on engaging intermediary agencies	1,152,240.32	1,673,157.82
Travelling expenses	112,822.82	161,435.99
Business entertainment expenses	139,266.69	119,730.83
Loss on inventory	22,445.56	384,327.42
Others	43,350.06	74,117.82
Total	22,473,948.31	25,826,831.18

34. Finance costs

Items	Six months ended 30 June 2019 (Unaudited)	 2018 (Unaudited)
Interest expenses	**13,226,829.25**	15,698,262.24
Less: Interest income	**1,403,839.44**	1,787,873.08
Add: Interest on lease liabilities	**505,746.72**	–
Add: Gain or loss on foreign exchange	**-1,521.91**	137,244.28
Add: Handling fees	**2,128,361.27**	1,898,536.00
Total	**14,455,575.89**	15,946,169.44

35. Other gains

Item	Six months ended 30 June 2019 (Unaudited)	 2018 (Unaudited)	Sources and Basis
Transfer-out of logistics program grant	**228,530.25**	228,530.25	Notice of the Bureau of Commerce of Foshan City on the Organization and Application of Logistics Standardization Pilot Program of Foshan City in 2015 (《佛山市商務局關於組織申報2015年佛山市物流標準化試點項目的通知》) (Fo Shangwu Fu Han〈2015〉No.182)
Total	**228,530.25**	228,530.25	

36. *Impairment loss of credit*

Item	Six months ended 30 June 2019 (Unaudited)	2018 (Unaudited)
Loss on bad debts	**586,422.52**	–881,782.72
Total	**586,422.52**	–881,782.72

37. *Impairment loss of assets*

Items	Six months ended 30 June 2019 (Unaudited)	2018 (Unaudited)
Loss on impairment of inventories	**–2,649,263.69**	–2,889,556.57
Provision for impairment of goodwill	**–**	–1,465,937.31
Total	**–2,649,263.69**	–4,355,493.88

38. *Gains on disposal of assets*

Items	Six months ended 30 June 2019 (Unaudited)	2018 (Unaudited)	Amount charged to non-recurring profit or loss for the period
Gains on disposal of non-current assets	**-39,889.87**	–39,489.01	-39,889.87
Of which: Gains on disposal of non-current assets that are not classified as held for sale	**-39,889.87**	–39,489.01	-39,889.87
Of which: Gains on disposal of fixed assets	**-39,889.87**	–39,489.01	-39,889.87
Total	**-39,889.87**	–39,489.01	-39,889.87

39. Non-operating income

Items	Six months ended 30 June 2019 (Unaudited)	2018 (Unaudited)	Amount charged to non-recurring profit or loss for the period
Government grants	**228,605.55**	736,000.00	228,605.55
Others	**2,371.22**	40,435.94	2,371.22
Total	**230,976.77**	776,435.94	230,976.77

40. Non-operating expenses

Items	Six months ended 30 June 2019 (Unaudited)	2018 (Unaudited)	Amount charged to non-recurring profit or loss for the period
External donation	**25,440.00**	59,693.46	25,440.00
Others	**147.14**	6,881.49	147.14
Total	**25,587.14**	66,574.95	25,587.14

41. *Income tax expense*

(1) Income tax expense

Items	For the six months ended 30 June 2019 (Unaudited)	2018 (Unaudited)
Current income tax calculated in accordance with the tax laws and relevant requirements	**15,765,620.82**	19,926,965.84
– PRC	**15,765,620.82**	19,926,965.84
– Hong Kong	**–**	–
Deferred income tax expenses	**–451,892.38**	–935,113.21
Total	**15,313,728.44**	18,991,852.63

There is no Hong Kong income tax as the Group has no taxable income in Hong Kong for the six months ended 30 June 2018 and 2019.

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

Items	For the six months ended 30 June 2019 (Unaudited)
Total combined profits for the period	**57,618,429.76**
Income tax expense calculated at statutory/applicable tax rate	**15,765,620.82**
Effect of non-deductible cost, expenses and loss	**–**
Tax effect of deductible loss and deductible temporary differences unrecognised for the period	**–451,892.38**
Other	**–**
Income tax expense	**15,313,728.44**

42. Return on net assets and earnings per share

In accordance with the requirements of the "Preparation Rules for Information Disclosures by Companies Offering Shares to the Public No.9 – Calculations and Disclosures for Return on Net Assets and Earnings Per Share (Revised in 2010)" (《公開發行證券的公司信息披露編報規則第9號–淨資產收益率和每股收益的計算及披露（2010年修訂）》) issued by the China Securities Regulatory Commission, the weighted average return on net assets, basic earnings per share and diluted earnings per share of the Group are as follows:

Profit for the reporting period	Weighted average return on net assets (%) (Unaudited)	Earnings per share Basic earnings per share (Unaudited)	Diluted earnings per share (Unaudited)
Net profit attributable to the shareholders of parent company	8.78	0.3917	0.3917
Net profit attributable to the shareholders of parent company (excluding non-recurring profit or loss)	8.76	0.3906	0.3906

43. Supplementary information to statement of cash flow

Items	Six months ended 30 June 2019 (Unaudited)	2018 (Unaudited)
1. Reconciliation of net profit to cash flows from operating activities:		
Net profit	**42,304,701.32**	45,322,924.80
Add: Provision for impairment on assets	**2,649,263.69**	4,355,493.88
Impairment loss of credit assets	**-586,422.52**	881,782.72
Depreciation of fixed assets, depletion of petroleum and natural gas properties, depreciation of productive biological assets	**7,977,335.94**	5,245,176.48
Amortization of intangible assets	**3,134,656.72**	3,242,047.28
Amortization of long-term expenses to be amortized	**851,780.97**	249,442.93
Loss on disposal of fixed assets, intangible assets and other long-term assets ("–" for gain)	**39,889.87**	39,489.01
Loss on scrapped fixed assets ("–" for gain)	**–**	–
Gain or loss arising from changes in fair value ("–" for gain)	**–**	–
Finance costs ("–" for gain)	**9,840,916.36**	14,486,017.41
Investment loss ("–" for gain)	**–**	–
Decrease in deferred income tax assets ("–" for increase)	**473,161.57**	–1,004,349.66
Increase in deferred income tax liabilities ("–" for decrease)	**-200,653.30**	69,236.45
Decrease in inventories ("–" for increase)	**5,747,487.08**	–52,793,481.60
Decrease in receivables from operating activities ("–" for increase)	**126,760,084.44**	89,048,930.63
Increase in payables from operating activities ("–" for decrease)	**-209,566,268.81**	–154,180,463.35
Others	**–**	–
Net cash flow from operating activities	**-10,574,066.67**	–45,037,753.02
2. Non-cash significant investing and financing activities:		
Conversion of debt into capital	**–**	–
Convertible corporate bonds due within one year	**–**	–
Fixed assets under finance lease	**–**	–
3. Net change in cash and cash equivalents:		
Cash balance as at the end of the period	**34,878,183.14**	47,368,369.33
Less: cash balance as at the beginning of the period	**55,738,786.02**	75,096,936.45
Add: balance of cash equivalents as at the end of the period	**–**	–
Less: balance of cash equivalents as at the beginning of the period	**–**	–
Net increase in cash and cash equivalents	**-20,860,602.88**	–27,728,567.12

VII. CHANGES IN SCOPE OF CONSOLIDATION

During the reporting period, the Group had no changes in scope of consolidation.

VIII. INTERESTS IN SUBSIDIARIES

(1) Composition of the corporation

Name of subsidiaries	Places of principal operation	Places of registration	Nature of business	Proportion of shareholding (%) Direct	Indirect	Method of acquisition
Guangdong Charmacy Company	Pearl River Delta	Foshan	Pharmaceutical distribution	100.00	-	Established by investment
Shenzhen Charmacy Company	Pearl River Delta	Shenzhen	Pharmaceutical distribution	100.00	-	Established by investment
Zhuhai Charmacy Company	Pearl River Delta	Zhuhai	Pharmaceutical distribution	100.00	-	Business combination not under common control
Guangzhou Charmacy Company	Pearl River Delta	Guangzhou	Pharmaceutical distribution	100.00	-	Business combination not under common control

IX. 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) Shares or interests held by controlling shareholder and its changes

Controlling shareholder	Shareholding amount 30 June 2019 (Unaudited)	 31 December 2018 (Audited)
Yao Chuanglong	**59,000,000.00**	59,000,000.00

Controlling shareholder	Percentage of shareholding (%) 30 June 2019 (Unaudited)	 31 December 2018 (Audited)
Yao Chuanglong	**54.63**	54.63

2. SUBSIDIARIES

For details of the subsidiaries, please see "VIII. INTERESTS IN SUBSIDIARIES" under these notes.

3. OTHER RELATED PARTIES

Name of other related parties	Relationship with the Company
Youran Investment	Holding 1.57% equity interest in the Company, a shareholding platform that mainly consists of employees of the Company
Zhichuang Investment	Holding 1.67% equity interest in the Company, a shareholding platform that mainly consists of employees of the Company
Meizhi Investment	Holding 2.96% equity interest in the Company, a shareholding platform that mainly consists of employees of the Company and an enterprise in which Lin Zhixiong, our executive Director, Company Secretary and Chief Financial Officer, serves as a general partner
Guangzhou Baiyunshan Pharmaceutical Holdings Co., Ltd. (廣州白雲山醫藥集團股份有限公司) (hereinafter referred to as "Baiyunshan" (白雲山股份)) and its holding subsidiaries and joint ventures Note 1	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 of the Company
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 Li Weisheng, our non-executive Director holds 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 of directors

Name of other related parties	Relationship with the Company
Zheng Yuyan, Lin Zhixiong, Li Weisheng, Wan Chi Wai, Zhou Tao, Guan Jian, Zhang Ling, Zheng Xiyue, Lin Zhijie, Zhang Weijia, Liu Yingyu	Directors, Supervisors and Senior Management of the Company
Wu Binhua, Liu Jigui	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 the general manager
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 the 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 a partner
Grandway Law Offices (國楓律師事務所)	An enterprise in which Zhou Tao, the independent non-executive Director, serves as a 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 related party details of the relationship among Guangzhou Baiyunshan Pharmaceutical Holdings Co., Ltd. (hereinafter referred to as "Baiyunshan") and its holding subsidiaries and joint venture subsidiaries 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
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

Company name	Related party relationships with 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

(II) Related party transactions

1. Details of related party transactions

Name of related parties	Types of related party transactions	Pricing method and decision-making procedure for related party transactions	Six months ended 30 June 2019 (Unaudited)	2018 (Unaudited)
1. Sales and rendering of services				
Guangzhou Cai Zhi Lin Pharmaceutical Co., Ltd.* (廣州采芝林藥業有限公司)	Sales of goods	Determined after negotiation by reference to market rates	**16,012,787.55**	18,389,630.18
Guangzhou Pharmaceuticals Corporation* (廣州醫藥有限公司)	Sales of goods	Determined after negotiation by reference to market rates	**171,288.73**	1,979,991.14
Foshan GPC Jianze Pharmaceutical Co., Ltd* (佛山市廣藥健擇醫藥有限公司)	Sales of goods	Determined after negotiation by reference to market rates	**197,752.96**	189,283.45
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)	Sales of goods	Determined after negotiation by reference to market rates	**–**	72,449.03
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)	Sales of goods	Determined after negotiation by reference to market rates	**22,000.40**	43,828.17
Shenzhen Guangyao Liankang Pharmaceutical Company Limited* (深圳廣藥聯康醫藥有限公司)	Sales of goods	Determined after negotiation by reference to market rates	**22,060.33**	39,912.87
Zhuhai Guang Yao Kangming Pharmaceutical Co., Ltd. * (珠海廣藥康鳴醫藥有限公司)	Sales of goods	Determined after negotiation by reference to market rates	**12,072.30**	981.03
Guangzhou Jianmin Pharmaceutical Company Limited* (廣州健民醫藥有限公司)	Sales of goods	Determined after negotiation by reference to market rates	**1,798,938.57**	–

Name of related parties	Types of related party transactions	Pricing method and decision-making procedure for related party transactions	Six months ended 30 June 2019 (Unaudited)	2018 (Unaudited)
2. Procurement and receiving services				
Guangzhou Pharmaceuticals Corporation* (廣州醫藥有限公司)	Procurement of goods	Determined after negotiation by reference to market rates	**33,198,945.74**	239,677,978.00
Guangzhou Cai Zhi Lin Pharmaceutical Co., Ltd.* (廣州采芝林藥業有限公司)	Procurement of goods	Determined after negotiation by reference to market rates	**27,304,869.87**	28,511,521.65
Guangzhou Baiyunshan Pharmaceutical Marketing Co., Ltd.* (廣州白雲山醫藥銷售有限公司)	Procurement of goods	Determined after negotiation by reference to market rates	**35,810,900.61**	30,600,814.50
Guangzhou Wang Lao Ji Pharmaceutical Co., Ltd.* (廣州王老吉藥業股份有限公司)	Procurement of goods	Determined after negotiation by reference to market rates	**-**	28,589,688.24
Guangzhou Guo Ying Pharmaceutical Co., Ltd.* (廣州國盈醫藥有限公司)	Procurement of goods	Determined after negotiation by reference to market rates	**6,581,280.11**	10,368,865.85
Guangzhou Pharmaceutical Import and Export Company Limited* (廣州醫藥進出口有限公司)	Procurement of goods	Determined after negotiation by reference to market rates	**21,575,689.66**	25,824,720.01
Guangzhou Baiyunshan Xing Qun Pharmaceutical Co., Ltd. * (廣州白雲山星群(藥業)股份有限公司)	Procurement of goods	Determined after negotiation by reference to market rates	**-**	8,742,068.92
Guangzhou Baiyunshan Pan Gao Shou Pharmaceutical Co., Ltd.* (廣州白雲山潘高壽藥業股份有限公司)	Procurement of goods	Determined after negotiation by reference to market rates	**-**	13,143,401.55
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)	Procurement of goods	Determined after negotiation by reference to market rates	**12,037,931.38**	13,703,974.05

Name of related parties	Types of related party transactions	Pricing method and decision-making procedure for related party transactions	Six months ended 30 June 2019 (Unaudited)	2018 (Unaudited)
Guangzhou Baiyunshan Chen Li Ji Pharmaceutical Factory Co., Ltd.* (廣州白雲山陳李濟藥廠有限公司)	Procurement of goods	Determined after negotiation by reference to market rates	-	8,503,630.77
Guangzhou Baiyunshan Zhong Yi Pharmaceutical Company Limited* (廣州白雲山中一藥業有限公司)	Procurement of goods	Determined after negotiation by reference to market rates	-	-8,106,573.10
Guangzhou Baiyunshan Tian Xin Pharmaceutical Co., Ltd.* (廣州白雲山天心製藥股份有限公司)	Procurement of goods	Determined after negotiation by reference to market rates	**10,952,671.12**	10,657,583.73
Guangzhou Baiyunshan Hutchison Whampoa Chinese Medicine Co., Ltd. * (廣州白雲山和記黃埔中藥有限公司)	Procurement of goods	Determined after negotiation by reference to market rates	**4,545,735.11**	4,993,456.69
Guangzhou Baiyunshan Qi Xing Pharmaceutical Co., Ltd.* (廣州白雲山奇星藥業有限公司)	Procurement of goods	Determined after negotiation by reference to market rates	**2,143,976.05**	1,840,791.57
Guangzhou Baiyunshan Guang Hua Pharmacy Co., Ltd. * (廣州白雲山光華製藥股份有限公司)	Procurement of goods	Determined after negotiation by reference to market rates	**1,589,443.86**	1,879,907.17
Guangzhou Xin Te Pharmaceutical Co., Ltd. * (廣州欣特醫藥有限公司)	Procurement of goods	Determined after negotiation by reference to market rates	-	1,811,853.85

Name of related parties	Types of related party transactions	Pricing method and decision-making procedure for related party transactions	Six months ended 30 June 2019 (Unaudited)	2018 (Unaudited)
Foshan GPC Jianze Pharmaceutical Co., Ltd* (佛山市廣藥健擇醫藥有限公司)	Procurement of goods	Determined after negotiation by reference to market rates	**-**	980,053.97
Hutchison Whampoa Guangzhou Baiyunshan Pharmaceutical Co., Ltd.* (廣州白雲山和黃醫藥有限公司)	Procurement of goods	Determined after negotiation by reference to market rates	**131,415.93**	77,075.21

Note: The above amount of procurement excludes trade discounts from the upstream manufacturers and suppliers.

* Names in English are for reference only.

2. Compensation of key management

Name of Item	Six months ended 30 June 2019 (Unaudited)	2018 (Unaudited)
Total remuneration	**1,624,088.25**	1,355,322.50

X. 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 benefits of Shareholders and other stakeholders. Based on such objective in risk management, the underlying strategy of risk management of the Group is to ascertain and analyze all types of risk exposures of the Group, establish appropriate risk tolerance thresholds, carry out risk management and perform risk monitoring on all kinds of risks in a timely and reliable manner, thus containing risk exposures within a prescribed scope.

(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 which resulted from changes in exchange rate. The Group's foreign exchange risk relates mainly to HK$. Except for the payment of H Share dividends and minor expenses incurred in Hong Kong Special Administrative Region, other main business of the Group is denominated in RMB. As at 30 June 2019, the changes in the fair value or future cash flow for the balances of assets and liabilities denominated in HK$ in the following table arising from changes in exchange rates may have an impact on the Group's operating results.

	Assets	
Item	**Balance as at 30 June 2019 (Unaudited)**	Balance as at 31 December 2018 (Audited)
HK$	**386,924.18**	385,402.27
Total	**386,924.18**	385,402.27

The Group closely monitors the effect of changes in exchange rates on the foreign exchange risk of 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 30 June 2019, the maximum credit risk exposure that might incur financial losses to the Group was mainly attributable to a contractual failure of counterparty to perform its obligations, in particular, the carrying amount of financial assets recognized in the consolidated balance sheet. For the financial assets at fair value, the carrying amount reflects the risk exposure, but not the maximum risk exposure, which will vary in accordance with the changes in future fair value.

In order to mitigate credit risk, the Group established its special department for determining credit limits, conducting credit approval, and carrying out other monitoring procedures to ensure necessary measures are taken to collect overdue debts. Besides, the Group reassesses the collectability of each receivable item on an individual basis at each balance sheet date, so as to ensure sufficient provision 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.

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

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 management of the Group considers that the Group should maintain cash and cash equivalents at a sufficient level and carry out monitoring, so as to satisfy the operating needs of the Group and minimize the effects on fluctuations of cash flows. The management of the Group monitors the utilization of bank borrowings and makes sure the related borrowing agreements are complied with.

Maturity analysis of financial assets and financial liabilities of the Group at undiscounted contractual cash flow are set out as follows:

Items	Carrying amount	Within 1 year	1-5 years	More than 5 years	Total
Monetary funds	443,673,850.42	443,673,850.42	–	–	443,673,850.42
Bills receivables	93,310,459.88	93,310,459.88	–	–	93,310,459.88
Trade receivables	709,542,258.05	709,542,258.05	–	–	709,542,258.05
Other receivables	11,309,495.08	11,309,495.08	–	–	11,309,495.08
Other current assets	35,129,181.05	35,129,181.05	–	–	35,129,181.05
Short-term borrowings	410,203,952.00	410,203,952.00	–	–	410,203,952.00
Bill payables	758,286,427.76	758,286,427.76	–	–	758,286,427.76
Trade payables	469,676,672.73	469,676,672.73	–	–	469,676,672.73
Contract liabilities	206,674,030.23	206,674,030.23	–	–	206,674,030.23
Remuneration payable to employees	3,907,229.59	3,907,229.59	–	–	3,907,229.59
Other payables	41,769,566.38	41,769,566.38	–	–	41,769,566.38
Other current liabilities	228,530.25	228,530.25	–	–	228,530.25
Long-term borrowings	90,000,000.00	–	79,090,909.09	10,909,090.91	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 corresponding price at the active market and the current offer;

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

The fair value of the derivative is determined by the open quotation of the active market.

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.

XI. CAPITAL COMMITMENTS

Item	30 June 2019 (Unaudited)
Capital expenditure contracted but not recognized in the financial statements	
– The construction project of Pharmaceutical Sorting and Distribution Center in Guangzhou	**46,924,930.99**
– The Charmacy (Guangzhou) Pharmaceutical Sorting and Distribution Center Logistic System Integration Project	**31,680,000.00**
Total	**78,604,930.99**

XII. EVENTS SUBSEQUENT TO BALANCE SHEET DATE

As of the date of approval of the financial report, the Group had no other events which required to be disclosed subsequent to the balance sheet date.

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

1. Bills receivables

Classification of bills	Balance as at 30 June 2019 (Unaudited)	Balance as at 31 December 2018 (Audited)
Bank acceptance bills	**4,238,720.49**	16,449,659.96
Commercial drafts	**26,670,000.00**	3,975,785.51
Total	**30,908,720.49**	20,425,445.47

2. Trade receivables

	Balance as at 30 June 2019 (Unaudited)				
	Carrying balance		**Provision for bad debts**		**Book value**
Classification	**Amount**	**Percentage (%)**	**Amount**	**Lifetime expected credit loss rate (%)**	
Bad debt provision made on individual basis	**2,348,434.66**	**0.71**	**2,348,434.66**	**100.00**	**-**
Bad debt provision made on group basis	**329,873,947.50**	**99.29**	**2,386,721.05**	**0.72**	**327,487,226.45**
Account age combination	**329,873,947.50**	**99.29**	**2,386,721.05**	**0.72**	**327,487,226.45**
Low risk combination	**-**	**-**	**-**	**-**	**-**
Total	**332,222,382.16**	**100.00**	**4,735,155.71**	**-**	**327,487,226.45**

	Balance as at 31 December 2018 (Audited)				
	Carrying balance		Provision for bad debts		Book value
Classification	Amount	Percentage (%)	Amount	Lifetime expected credit loss rate (%)	
Bad debt provision made on individual basis	2,526,876.83	0.58	2,526,876.83	100.00	-
Bad debt provision made on group basis	431,686,972.45	99.42	2,947,970.93	0.68	428,739,001.52
Account age combination	383,659,700.97	88.36	2,947,970.93	0.77	380,711,730.04
Low risk combination	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

3. Other receivables

Classification	Balance as at 30 June 2019 (Unaudited)				
	Carrying balance		Provision for bad debts		Book value
	Amount	Percentage (%)	Amount	Lifetime expected credit loss rate(%)	
Bad debt provision made on individual basis	5,000.00	0.02	5,000.00	100.00	-
Bad debt provision made on group basis	26,116,883.18	99.98	-	-	26,116,883.18
Account age combination	-	-	-	-	-
Portfolio of relatively low recovery risk	26,116,883.18	99.98	-	-	26,116,883.18
Total	26,121,883.18	100.00	5,000.00	-	26,116,883.18

Classification	Balance as at 31 December 2018 (Audited)				
	Carrying balance		Provision for bad debts		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
Account age combination	–	–	–	–	–
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	–	9,557,464.77

4. *Long-term equity investments*

(1) *Classification of long-term equity investments*

Item	Balance as at 30 June 2019 (Unaudited) Carrying balance	Provisions for impairment	Book value	Balance as at 31 December 2018 (Audited) Carrying balance	Provisions for impairment	Book value
Investment in the subsidiaries	**216,510,000.00**	**-**	**216,510,000.00**	216,510,000.00	–	216,510,000.00
Total	**216,510,000.00**	**-**	**216,510,000.00**	216,510,000.00	–	216,510,000.00

(2) *Investment in the subsidiaries*

Investees	Balance as at 31 December 2018 (Audited)	Addition for the period	Reduction for the period	Balance as at 30 June 2019 (Unaudited)	Provision for impairment for the period	Balance of provision for impairment as at the end of the period
Guangdong Charmacy Company	150,000,000.00	–	–	**150,000,000.00**	–	–
Zhuhai Charmacy Company	25,710,000.00	–	–	**25,710,000.00**	–	–
Guangzhou Charmacy Company	20,000,000.00	–	–	**20,000,000.00**	–	–
Shenzhen Charmacy Company	20,800,000.00	–	–	**20,800,000.00**	–	–
Total	216,510,000.00	–	–	**216,510,000.00**	–	–

5. Operating revenue, operating cost

Items	Six months ended 30 June 2019 (Unaudited) Revenue	Cost	Six months ended 30 June 2018 (Unaudited) Revenue	Cost
Principal businesses	**665,424,855.23**	**620,882,244.26**	822,849,607.74	768,417,303.77
Other businesses	**14,508,381.36**	**1,749,349.38**	13,542,823.56	2,793,498.30
Total	**679,933,236.59**	**622,631,593.64**	836,392,431.30	771,210,802.07