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

2020
INTERIM REPORT

CONTENTS

FINANCIAL HIGHLIGHTS

Results	Six months ended 30 June **2020** **RMB'000** **(Unaudited)**	 2019 RMB'000 (Unaudited)	 Change (%)
Operating revenue	**1,860,759**	1,708,088	8.94
Total profit	**41,746**	57,618	–27.55
Net profit attributable to the shareholders of parent company	**30,873**	42,305	–27.02
Basic and diluted earnings per share (expressed in RMB per share)	**0.2859**	0.3917	–27.02

Financial Position	**As at** **30 June** **2020** **RMB'000** **(Unaudited)**	As at 31 December 2019 RMB'000 (Audited)	Change (%)
Total assets	**2,395,309**	2,503,808	–4.33
Total liabilities	**1,902,443**	2,020,215	–5.83
Total equity	**492,866**	483,593	1.92
Net assets per share (expressed in RMB per share)	**4.56**	4.48	1.92

CORPORATE INFORMATION

DIRECTORS

Executive Directors

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

Non-executive Director

Li Weisheng (李偉生)

Independent Non-executive Directors

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

SUPERVISORS

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

COMPANY SECRETARY

Lin Zhixiong (林志雄)

AUDIT COMMITTEE

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

NOMINATION COMMITTEE

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

REMUNERATION COMMITTEE

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

RISK MANAGEMENT COMMITTEE

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

STRATEGIC DEVELOPMENT COMMITTEE

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

AUTHORISED REPRESENTATIVES

Zheng Yuyan (鄭玉燕)
Lin Zhixiong (林志雄)

AUDITOR

ShineWing Certified Public Accountants
(Special General Partnership)

LEGAL ADVISORS

Chungs Lawyers in association with DeHeng Law Offices
(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

40th Floor, Sunlight Tower,
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Wanchai, Hong Kong

PRINCIPAL BANKS

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

H SHARE REGISTRAR

Computershare Hong Kong Investor Services Limited
Shops 1712-1716, 17th Floor
Hopewell Centre,
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Wanchai, Hong Kong

COMPANY WEBSITE

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STOCK CODE

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MANAGEMENT DISCUSSION AND ANALYSIS

INDUSTRY OVERVIEW

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

Impact of COVID-19 on the pharmaceutical industry

During the COVID-19 pandemic period, the National Health Commission issued and continued to update the "Treatment Plans of Pneumonia caused by the Novel Coronavirus Infection" (《新型冠狀病毒感染的肺炎診療方案》), which provided clear guidance on both Chinese and Western medical treatments and medicines during each stage of the illness. As such, the use of relevant anti-virus drugs and Chinese medicines has driven the growth of the sales revenue from the manufacture of chemical drugs and the production of Chinese medicines. It is crucial to secure the transportation of pandemic prevention drugs and materials. Pharmaceutical distribution enterprises utilise the nationwide sales channels to maximise the integration and allocation of market resources, providing medical materials for pandemic prevention and control. The pharmaceutical OTC enterprises represented by retail pharmacies played an important role in the prevention and control of the epidemic and enhanced their role in the public health system.

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

Full Life Cycle Health Management Model

In 2016, the full life cycle health was promoted to the national strategic level for the first time. In the same year, it is clearly proposed in the "Healthy China 2030 Planning Outline" (《「健康中國2030」規劃綱要》) published by the Central Committee of the Communist Party of China and the State Council to focus on the whole population and the whole life cycle to provide fair and accessible, systematic and continuous health services to achieve a higher level of national health. This year, the State further emphasises that the concept of health management throughout the full life cycle should be implemented throughout the city planning, construction and management of every parts in the whole process. This health management model will create a high quality, highly efficient and high-growth healthcare industry which meets the development needs of the society.

Higher market share of public primary healthcare terminal and retail pharmacy terminal

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

Challenges of stricter regulations and new opportunities for market expansion of the primary healthcare market

The Drug Administration Law (《藥品管理法》), which was amended for the second time and has been implemented in the PRC since 1 December 2019, regulates and guides the industry to ensure the safety of public medication. The supervision of drug quality and distribution will undergo profound changes, and will continue to guide the pharmaceutical distribution industry to accelerate the pace of refined management and high-quality development.

With the reform of the three-medical (medical service, medical insurance and pharmaceutical service) linkage in connection with the "Control on Medical Insurance Fee (醫保控費)", the drug utilisation pattern in public medical institutions has changed, and the profit of "industrial enterprises" of pharmaceutical industrial enterprises has been further reduced. Under the background of the introduction of primary drug catalogue and the full implementation of hierarchical diagnosis and treatment system, industrial enterprises will step up their efforts to expand the pharmaceutical retail market and non-tender market will have bigger development opportunities.

Transformation of business model of pharmaceutical distribution industry and expansion of third-party pharmaceutical logistics

The most direct impact of centralised procurement is the reduction of drug prices, resulting in sales revenue of generic drug products that previously relied on sales by public hospitals decreased to a certain extent. The cost of marketing of manufacturers has been reduced, and the price of the entire drug value chain has been lowered, such pricing pressure of the drug distributors has led to the change of their business model. The transformation of business model has become an inevitable result of the shift in role of distributors which focus on public hospital businesses from "distribution" to "delivery" and the need to face the competitions of new third-party logistics service providers. The products that did not award tenders in centralised procurement will turn to the pharmaceutical retail market and increase the investment and promotion in the retail market, pharmaceutical distribution enterprises with solid foundation of retail terminals will obtain more growth opportunities.

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

Source of the above data and information: MENET (Note: the three end-markets do not include private medical institutions), China Pharmaceutical Distribution Industry Development Report (2020) (《中國藥品流通行業發展報告》(2020))

BUSINESS REVIEW

The principal business of Charmacy Pharmaceutical Co., Ltd. (the "**Company**" or "**we**", together with its subsidiaries, the "**Group**") is pharmaceutical products distribution in the People's Republic of China (the "**PRC**" or "**China**"), with most of our operating revenue derived from pharmaceutical products distribution. We procure pharmaceutical products from pharmaceutical manufacturers and distributor suppliers and sell the products to distributor customers, retail pharmacy stores, and hospitals, clinics, health centres and others.

We followed the operation target set, and continued to explore Guangdong market in depth and expand our coverage to surrounding areas, with a focus on developing the business with retail end-customers. We maintain close and good communication with customers, and provide customers with the most thoughtful services. As of 30 June 2020, our distribution network covered 8,374 customers, among which 564 were distributors, 5,602 were retail pharmacy stores and 2,208 were hospitals, clinics, health centres and others, representing an increase of 1,274 in the number of customers, including the decrease of 13 distributors, the increase of 841 retail pharmacy stores, and the increase of 446 hospitals, clinics, health centres and others compared to the corresponding period of last year.

In order to meet the different needs of customers and enhance customer adhesion, we strengthened cooperation with well-known domestic and overseas manufacturers, and expanded the variety and scale of first-level distribution products; continued to optimise product structure by introducing marketable, high-quality products with high profit margin to enrich product categories. As of 30 June 2020, we had a total of 972 suppliers, of which 611 were pharmaceutical manufacturers and 361 were distributor suppliers, representing an increase of 24 suppliers compared to last year. For the six months ended 30 June 2020, we distributed 9,621 types of products, representing a decrease of 710 types of products compared to the corresponding period of last year.

	Number of products for the six months ended 30 June	
	2020	2019
Product Categories		
Western medicines	**3,419**	3,395
Chinese patent medicines	**3,527**	3,690
Healthcare products	**149**	169
Others	**2,526**	3,077
Total	**9,621**	10,331

We actively promoted the diversion of terminal retail customers from offline to online, where they can place orders and make inquiries and payments through our own B2B e-commerce platform "Charmacy e-Medicine" ("**e-commerce platform**") (http://www.cmyynet.com/). We increased online promotion activities and continued to optimise and improve the user experience on PC terminal, WAP mobile terminal, and WeChat mini program. For the six months ended 30 June 2020, our e-commerce platform had 6,121 active trading clients in total, who are principally end customers such as retail pharmacy stores, clinics and health centres, representing an increase of 944 compared to the corresponding period of last year. For the six months ended 30 June 2020, the operating revenue from our B2B e-commerce platform was approximately RMB144.35 million in total, representing an increase of RMB7.5 million compared to the corresponding period of last year.

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

During the reporting period, there was an outbreak of the novel coronavirus disease (COVID-19) across the country. During the Spring Festival holiday, the Group arranged our employees to return to work in the front line of drug distribution before the end of the holiday, and expedited the distribution of pandemic prevention drugs and materials. As we have achieved comprehensive self-distribution in Guangdong Province, during the pandemic, we effectively ensured the normal supply of pandemic prevention drugs and materials in the pharmaceutical retail terminal market in Guangdong, and ensured the supply of pandemic prevention drugs and materials in the pandemic prevention and control front line. We strictly control the prices of pharmaceutical products supplied to ensure that the prices of epidemic prevention devices are stable as far as possible. We took practical actions to fulfill our social responsibility as a pharmaceutical company, and putting into practice the Group's corporate mission and responsibility of "Creating Healthy and Beautiful Life". During the reporting period, the Group supplied a total of approximately 17.5 million boxes of anti-viral products and related anti-influenza epidemic medicines, approximately 2 million bottles of disinfectant products and approximately 300,000 pieces of thermometers of various types to the pharmaceutical retail market in Guangdong.

Open up a new battlefield for "Internet+" to cater to market development trends

In order to actively seize new opportunities and cater to the market development trend, in the afternoon of 3 June 2020, we and Wang Lao Ji Pharmaceutical jointly held a pharmaceutical e-commerce live streaming activity with the theme of "Good Deals and Happy Purchase* (聚惠歡樂購)", and conducted the first e-commerce live streaming, which triggered an enthusiastic response from customers. Such e-commerce live streaming was a beneficial attempt of us to adapt to the market situation and carry out transformation and upgrading of our operation model. By integrating customer resources, leveraging the advantages of pharmaceutical supply chain channels and e-commerce channels, we seek new breakthroughs in pharmaceutical marketing and promote the diversified business development with major manufacturers.

Guangzhou Pharmaceutical Sorting and Distribution Center officially commenced operation, upgrading the warehousing capability

On 29 June 2020, Charmacy (Guangzhou) Pharmaceutical Sorting and Distribution Center* (創美藥業(廣州)醫藥分揀配送中心) was officially launched. Such sorting and distribution center has a gross floor area of 23,195.33 m^2 and a storage area of 22,840 m^2, which greatly increased the storage capacity of the Company's logistics base in Guangdong. The existing logistics base in Guangdong can store approximately 300,000 pieces of goods, supporting the sales scale of nearly RMB6 billion, and can fully meet the storage demand for the rapid growth of drug categories and quantity. By adopting advanced logistics solutions such as Automatic Storage and Retrieval System ("**AS/RS**"), Warehouse Control System ("**WCS**") and Pick-to-Light ("**PTL**") system, which, when combined with the Group's existing SAP system, we are able to realise visual management of warehouse distribution, establish an integrated logistics network operation mode, build an all-round, intelligent and digital pharmaceutical intelligent warehouse, and realise the synergic operation of each logistics center of the Group. Meanwhile, the expansion of the third-party logistics business of the Company can be promoted.

PROSPECTS

During the reporting period, the outbreak of COVID-19 had affected the real economic activities worldwide to different extent. In view of the current pandemic prevention progress, China has basically re-opened, while relatively strict control measures are still in place. Public awareness of pandemic prevention is also at a relatively high level. The state is also implementing a series of tax and charge reduction measures and policies of providing special refinancing and free-interest fund to minimise the negative impact of the pandemic on China's real economy in every endeavour. As such, major factories have begun to resume production in an orderly manner, and the economic activities in China have been normalised and recovered. In the long run, China's economy has both tenacity and growth potential, and the trend of steady progress will not change. In light of the acceleration of aging population and increasing demand for medical and healthcare, along with the advancement of the reform of the medical and healthcare system, the market share of the non-tender market will gradually expand, which will be beneficial to our long-term business development.

The advantages of internet healthcare have been highlighted under the background of COVID-19, and the development of "Internet +" has been accelerated. We will seize the opportunities arising from the gradual implementation of the "Internet + Healthcare" and hierarchical diagnosis and treatment system, and the expansion of the primary healthcare market, continue to promote the innovation and reform of "Internet + Pharmaceutical Distribution", continuously upgrade and develop the functional application of the e-commerce platform, improve user transaction experience, promote the better development of e-commerce business, and actively promote the standardisation, streamlining and intelligentisation of pharmaceutical distribution and delivery services to achieve low-cost and high-efficiency operation results. At the same time, the Group will continue to explore in the live streaming field, draw on its excellent live streaming experience, explore new and more customer-oriented marketing models through the combination of online and offline traffic, and build a new platform for communication with customers, so that customers can directly understand the enterprise and products in a more convenient way, allowing customers to benefit from high-quality services.

We will strengthen risk management, improve business quality, seize the opportunities arising from the expansion of the primary medical market, adhere to the market strategy of "Intensive Engagement in Guangdong Province and Extensive Coverage across Surrounding Areas", and build a pharmaceutical retail terminal network with full coverage on Guangdong Province and surrounding areas. We will focus on strengthening our cooperation with major prescription drug manufacturers to capture more growth opportunities in OTC market products. We will continue to strengthen the building of modern and professional pharmaceutical logistics capabilities, such as actively exploring the application of intelligent logistics technologies, promotion of integration of warehousing and operation, integration of transportation resources to improve the delivery service capabilities, and implementation of refined management of logistics costs. As Charmacy (Guangzhou) Pharmaceutical Sorting and Distribution Centre has commenced operation leveraging its strong logistic and warehousing capabilities, the Group's warehousing and sorting scale will be expanded, and multi-warehouse collaboration by integrating pharmaceutical warehousing and transportation resources will be attained, to give further play to our advantages in customers, products, management and services and better expand the terminal distribution network. At the same time, we will actively expand the third-party pharmaceutical logistics business to enhance storage utilization rate, increase transportation efficiency, leverage on its own logistics network advantages to provide upstream suppliers and downstream customers with third-party logistics services, so as to enhance the Group's market competitiveness and profitability.

We will continue to tap into the growth potential of the pharmaceutical non-tender market, accelerate the duplication of the mature non-tender pharmaceutical market operation model, strive to elevate the operating efficiency of our pharmaceutical supply chain, optimise the portfolio of pharmaceutical products and customer service experience, and reduce the cost of pharmaceutical distribution, striving to become the most competitive service provider in the medical and healthcare industry in China.

FINANCIAL REVIEW

Operating revenue

	For the six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Principal business	**1,847,726**	1,698,410
Other business	**13,034**	9,677
Operating revenue	**1,860,759**	1,708,088

The operating revenue of the Group for the six months ended 30 June 2020 was RMB1,860.76 million, representing an increase of 8.94% over the corresponding period of last year.

Customer Type	For the six months ended 30 June 2020 RMB'000 (Unaudited)	2019 RMB'000 (Unaudited)
Distributors	**887,648**	870,868
Retail pharmacy stores	**906,740**	762,666
Hospitals, clinics, health centres and others	**53,338**	64,876
Revenue from principal business	**1,847,726**	1,698,410

During the six months ended 30 June 2020, our revenue from principal business was derived from product sales to (i) distributor customers; (ii) retail pharmacy stores; and (iii) hospitals, clinics, health centres and others. During the six months ended 30 June 2020, over 97% of our revenue from principal business was derived from distributor customers and retail pharmacy stores.

Our operating revenue increased by 8.94% as compared to the corresponding period in 2019, mainly due to the increase in the sales volume of various types of pandemic prevention products resulting from the outbreak of COVID-19 pandemic.

Operating cost, gross profit and gross profit margin

The operating cost of the Group increased by 10.63% to RMB1,738.49 million for the six months ended 30 June 2020 from RMB1,571.37 million for the six months ended 30 June 2019. The increase in operating cost was more significant than the increase in operating revenue.

The gross profit of the Group decreased by 10.56% to RMB122.27 million for the six months ended 30 June 2020 from RMB136.72 million for the six months ended 30 June 2019. The gross profit margin of the Group decreased to 6.57% for the six months ended 30 June 2020 from 8.00% for the six months ended 30 June 2019. The decrease was mainly due to the surge in manufacturer's price of pandemic prevention products, while the Group responded to the national call to maintain the price stability of the epidemic drugs and materials, and the gross profit margin of the epidemic-related drugs and materials decreased.

Selling expenses

The selling expenses of the Group increased by 12.53% to RMB40.64 million for the six months ended 30 June 2020 from RMB36.11 million for the six months ended 30 June 2019, which was mainly because the Group refined its management and changed the usage of the warehouses in Foshan and Guangzhou from leasing to subsidiaries to self-use, so as to implement intra-group storage synergic management of warehouses and expand third-party logistics services. The depreciation and amortisation expenses of properties and land in Foshan, properties and land use in Guangzhou for warehousing, which were originally included in administrative expenses, were transferred to selling expenses, resulting in a significant increase in selling expenses.

Management expenses

The management expenses of the Group decreased by 26.50% to RMB16.52 million for the six months ended 30 June 2020 from RMB22.47 million for the six months ended 30 June 2019, which was mainly due to (i) the enhancement in costs management by saving office expenses; and (ii) the decrease in depreciation and amortisation expenses as the Group transferred parts of the depreciation and amortisation expenses of the properties and land use in Foshan and Guangzhou for warehousing purpose, which were originally included in administrative expenses, to selling expenses.

Finance costs

The finance costs of the Group increased by 5.90% to RMB15.31 million for the six months ended 30 June 2020 from RMB14.46 million for the six months ended 30 June 2019, which was mainly due to the loans granted by the State with a purpose to support the resumption of work and production of enterprises. As a result, our short-term borrowings increased by RMB153.88 million as compared to RMB439.54 million for the six months ended 30 June 2019, leading to an increase in interest expenses.

Non-operating revenue

For the six months ended 30 June 2020, non-operating revenue amounted to RMB0.96 million, representing an increase of 317.41% as compared with the non-operating revenue of RMB0.23 million for the six months ended 30 June 2019. The increase was mainly due to the subsidy of RMB0.55 million received by Guangdong Charmacy Pharmaceutical Co., Ltd. for resumption of work and production after the outbreak of COVID-19 pandemic.

Income tax expenses

The income tax expenses of the Group decreased by 29.00% to RMB10.87 million for the six months ended 30 June 2020 from RMB15.31 million for the six months ended 30 June 2019, which was mainly due to the decrease in total taxable profit.

Net profit

The net profit of the Group decreased by 27.02% to RMB30.87 million for the six months ended 30 June 2020 from RMB42.30 million for the six months ended 30 June 2019. In particular, the net profit attributable to the shareholders of parent company decreased by 27.02% to RMB30.87 million for the six months ended 30 June 2020 from RMB42.30 million for the six months ended 30 June 2019. This was mainly because the increase in the costs of relevant drugs and materials during the pandemic period was more significant than the increase in revenue, resulting in the corresponding decrease in gross profit.

Liquidity and financial resources

As at 30 June 2020, the cash and bank deposits of the Group amounted to RMB61.15 million, while the cash and bank deposits amounted to RMB40.15 million as at 31 December 2019.

As at 30 June 2020 and 31 December 2019, the Group recorded net current assets of RMB154.72 million and RMB140.44 million, respectively. As at 30 June 2020, the current ratio (based on the calculation of current assets divided by current liabilities) of the Group was 1.09 (2019: 1.07).

The bank borrowings of the Group as at 30 June 2020 were RMB727.67 million (short-term borrowings: RMB593.42 million, long-term borrowings: RMB165.84 million, including long-term borrowings due within one year: RMB31.59 million). All the bank borrowings were provided by the banks within the PRC, which bear fixed interest rates. The carrying amount of the bank borrowings is presented in RMB, and is approximate to the fair value. The Group did not use any financial instruments for hedging purposes or did not have any existing borrowings and/or other hedging instruments for hedging net foreign currency investments.

Bill receivables and trade receivables

As at 30 June 2020, the Group's bills receivables and trade receivables amounted to RMB723.75 million, representing a decrease of RMB10.77 million compared to those as at 31 December 2019. Such decrease was mainly due to our strengthened management for bills receivables and trade receivables, the strict implementation of customer credit management system and the enhancement of our effort to recover the receivables.

Bills payables and trade payables

As at 30 June 2020, the Group's bill payables and trade payables amounted to RMB1,040.49 million, representing a decrease of RMB238.03 million compared to those as at 31 December 2019. Such decrease was mainly due to the epidemic, the Group obtained a special pandemic designate low-interest bank loan for the payment of the purchase of the epidemic products, thus the bills payables decreased significantly by RMB205.36 million.

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 of directors (the "**Directors**") of the Company (the "**Board**") would closely monitor the liquidity position of the Group to ensure that its assets, liabilities and other flow structure committed by the Group would satisfy the funding needs from time to time.

Foreign currency exchange risk

The transactions of the Group are denominated in RMB, and most of the assets and all liabilities are denominated in RMB. The foreign exchange risk that the Group has to bear is extremely low. For the six months ended 30 June 2020, the Group did not use any financial instruments for hedging the foreign currency risk.

Interest rate risk

For the six months ended 30 June 2020, the Group had no bank borrowings which bear interest at floating rate.

Capital management

Set out below is the Group's gearing ratios as at 30 June 2020 and 31 December 2019, respectively:

	30 June 2020	31 December 2019
Gearing ratio	**58.62%**	55.99%

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

Capital commitment

As at 30 June 2020, the Group's capital commitment amounted to RMB12.80 million (31 December 2019: RMB32.52 million).

Employees' information

As at 30 June 2020, the Group had a total of 790 employees (including executive Directors), representing an increase of 28 employees compared with the number of employees as at 30 June 2019. The total staff cost (including emoluments of directors and supervisors) was RMB31.96 million, as compared to RMB32.91 million for the six months ended 30 June 2019. The emoluments were determined with reference to market practice and the performance, qualification and experience of individual employees.

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

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

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

Material investments, acquisitions and disposals held

Apart from investments in subsidiaries, the Group held no material investment, acquisition or disposal in the equity interests of any other company during the six months ended 30 June 2020.

Future plans related to material investments and capital assets

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

Material acquisitions and disposals related to subsidiaries, associates and joint ventures

During the six months ended 30 June 2020, the Group had no material acquisitions and disposals related to subsidiaries, associates and joint ventures.

Pledge of assets

As at 30 June 2020, the Group was granted a credit limit of RMB1,427.80 million by various banks, while the Group's utilized banking facilities totaled RMB1,097.27 million, which were secured by (i) property, plant and equipment held by the Group with a carrying amount of RMB147.71 million as at 30 June 2020; (ii) construction in progress held by the Group with a carrying amount of RMB121.31 million as at 30 June 2020; (iii) land use rights held by the Group with a carrying amount of RMB137.63 million as at 30 June 2020; and (iv) the Group's inventories with a carrying amount of RMB350.00 million as at 30 June 2020.

Contingent liabilities

As at 30 June 2020, the Group had no material contingent liabilities (2019: Nil).

SIGNIFICANT EVENT AFTER THE REPORTING PERIOD

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

INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2020 (interim dividend of 2019: Nil).

OTHER INFORMATION

CORPORATE GOVERNANCE PRACTICES

The Company had been complying with the code provisions (the "**Code Provisions**") set out in the Corporate Governance Code contained in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**") for the six months ended 30 June 2020, save for the deviation as stated below:

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

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS AND SUPERVISORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") set out in Appendix 10 to the Listing Rules as the code of conduct in dealings with the Company's securities for the Directors and supervisors of the Company. Having made enquiries with all Directors and supervisors of the Company, the Company confirmed that all Directors and supervisors have complied with the required standard as set out in the Model Code for the six months ended 30 June 2020.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

For the six months ended 30 June 2020, the Company and its subsidiaries did not purchase, sell or redeem 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 2020, the interests of the Directors, supervisors and chief executives of the Company in the Shares, underlying shares and debentures of the Company, its members of the Group and/or any of its associated corporations (as defined in Part XV of the Securities and Futures Ordinance ("**SFO**")) as recorded in the register required to be kept under Section 352 of the SFO or as notified to the Company and the Stock Exchange pursuant to the Model Code were as follows:

Name of Director	Capacity/ Nature of interest	Class and number of Shares	Approximate shareholding percentage in the relevant class of Shares[1]	Approximate shareholding percentage of the total issued share capital[2]
Mr. Yao Chuanglong	Beneficial owner	59,000,000 Domestic Shares (L)	73.75%	54.63%
Mr. Lin Zhixiong	Interest in 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 Shares.

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 2020.

(2) The calculation is based on the total number of 108,000,000 Shares in issue of the Company as at 30 June 2020.

(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 2020, none of the Directors, supervisors and chief executives of the Company has any other interests or short positions in the Shares, underlying shares or debentures of the Company, its members of the Group or any of its associated corporations (as defined in Part XV of the SFO) which have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which he/she is taken or deemed to have under such provisions of the SFO) or which are required to be entered in the register referred to therein pursuant to Section 352 of the SFO or which are required pursuant to the Model Code.

DIRECTORS' AND SUPERVISORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in the section headed "Interests or Short Positions of the Directors, Supervisors and Chief Executives in the Shares, Underlying Shares, and Debentures", at no time during the six months ended 30 June 2020, 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 of the Company 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 2020, so far as the Directors are aware, the following persons/entities (other than any 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 of interest and capacity	Number and class of securities	Approximate shareholding percentage in the relevant class of Shares[1]	Approximate shareholding percentage of the total issued share capital[2]
Ms. You Zeyan	Interest of spouse	59,000,000 Domestic Shares (L)[3]	73.75%	54.63%
Ms. Wu Binhua	Beneficial owner	5,400,000 Domestic Shares (L)	6.75%	5.00%
Ms. Liu Jigui	Beneficial owner	5,400,000 Domestic Shares (L)	6.75%	5.00%
Guangzhou Pharmaceutical Baiyunshan Hong Kong Company Limited	Beneficial owner	7,906,500 H Shares (L)[4]	28.24%	7.32%
Guangzhou Baiyunshan Pharmaceutical Holdings Company Limited	Interest in controlled corporation	7,906,500 H Shares (L)[4]	28.24%	7.32%

Name of shareholder	Nature of interest and capacity	Number and class of securities	Approximate shareholding percentage in the relevant class of Shares[1]	Approximate shareholding percentage of the total issued share capital[2]
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%
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%
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.

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 2020.

(2) The calculation is based on the total number of 108,000,000 Shares in issue of the Company as at 30 June 2020.

(3) Ms. You Zeyan is the spouse of Mr. Yao Chuanglong, the Chairman and executive Director of the Company, and is deemed to be interested in these Shares under the SFO.

(4) These shares are held by Guangzhou Pharmaceutical Baiyunshan Hong Kong Company Limited. As Guangzhou Pharmaceutical Baiyunshan Hong Kong Company Limited is a wholly-owned subsidiary of Guangzhou Baiyunshan Pharmaceutical Holdings Company Limited, which in turn is held by Guangzhou Pharmaceutical Holdings Limited as to 45.23%. Guangzhou Baiyunshan Pharmaceutical Holdings Company Limited and Guangzhou Pharmaceutical Holdings Limited are deemed to be interested in the shares of the Company held by Guangzhou Pharmaceutical Baiyunshan Hong Kong Company Limited.

(5) These shares are held by Kingworld Medicines Health Management Limited. As Kingworld Medicines Health Management Limited is a wholly-owned subsidiary of Kingworld Medicines Group Limited, Kingworld Medicines Group Limited is deemed to be interested in the shares of the Company held by Kingworld Medicines Health Management Limited.

(6) These shares are held by Asian Equity Special Opportunities Portfolio Master Fund Limited. Since Asian Equity Special Opportunities Portfolio Master Fund Limited is a wholly-owned subsidiary of RAYS Capital Partners Limited and 95.24% interest of RAYS Capital Partners Limited is held by Ms. RUAN David Ching Chi, RAYS Capital Partners Limited and RUAN David Ching Chi are deemed to be interested in the Shares of the Company held by Asian Equity Special Opportunities Portfolio Master Fund Limited.

Save as disclosed herein, the Directors were not aware of any person who had, as at 30 June 2020, an interest or short position in Shares or underlying shares which would fall to be disclosed to our Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or be directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of our Group.

Save as disclosed above, as at 30 June 2020, 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 (the "**Audit Committee**") 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 2020 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 2020 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, 21 August 2020

* For identification purposes only

CONSOLIDATED BALANCE SHEET

As at 30 June 2020

	Note 6	30 June 2020 RMB (Unaudited)	31 December 2019 RMB (Audited)
Current assets			
Monetary funds	1	**379,570,299.40**	506,308,452.64
Bills receivables	2	**36,643,736.08**	22,252,167.66
Trade receivables	3	**687,102,829.22**	712,261,600.46
Prepayments	4	**245,268,817.75**	212,710,994.97
Other receivables	5	**12,948,560.21**	12,117,039.54
Inventories	6	**514,240,288.28**	515,162,428.39
Other current assets	7	**32,425,117.53**	37,890,955.07
Total current assets		**1,908,199,648.47**	2,018,703,638.73
Non-current assets			
Fixed assets	8	**184,478,476.90**	191,387,488.54
Construction in progress	9	**124,150,170.37**	110,584,639.14
Right-of-use assets	10	**13,975,653.37**	15,392,876.84
Intangible assets	11	**149,961,385.55**	153,080,960.03
Goodwill	12	**3,127,688.00**	3,127,688.00
Long-term expenses to be amortized	13	**5,133,188.04**	5,503,512.35
Deferred income tax assets	14	**6,282,964.37**	6,027,070.73
Total non-current assets		**487,109,526.60**	485,104,235.63
Total assets		**2,395,309,175.07**	2,503,807,874.36

	Note 6	30 June 2020 RMB (Unaudited)	31 December 2019 RMB (Audited)
Current liabilities			
Short-term borrowings	15	**593,419,286.13**	502,189,369.18
Bills payables	16	**628,198,646.69**	833,561,059.77
Trade payables	17	**412,287,426.57**	444,956,856.84
Receipts in advance		**–**	–
Contract liabilities	18	**1,626,179.79**	2,864,226.16
Salaries payable to employees	19	**4,153,829.38**	4,735,446.57
Tax payables	20	**59,151,947.66**	48,989,151.02
Other payables	21	**21,106,858.85**	11,798,422.22
Non-current liabilities due within one year	22	**33,537,012.78**	29,164,198.86
Other current liabilities		**–**	–
Total current liabilities		**1,753,481,187.85**	1,878,258,730.62
Non-current liabilities			
Long-term borrowings	23	**134,249,648.86**	126,353,138.99
Lease liabilities	24	**13,721,906.87**	14,384,222.63
Deferred income	25	**990,297.74**	1,218,827.99
Deferred income tax liabilities		**–**	–
Total non-current liabilities		**148,961,853.47**	141,956,189.61
Total liabilities		**1,902,443,041.32**	2,020,214,920.23
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	**15,732,626.03**	15,732,626.03
Unallocated profits	29	**90,142,678.68**	80,869,499.06
Total equity attributable to the shareholders of parent company		**492,866,133.75**	483,592,954.13
Minority shareholders' interests		**–**	–
Total shareholders' interests		**492,866,133.75**	483,592,954.13
Total liabilities and shareholders' interests		**2,395,309,175.07**	2,503,807,874.36

CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2020

	Note 6	For the six months ended 30 June 2020 RMB (Unaudited)	2019 RMB (Unaudited)
I. Total operating revenue		**1,860,759,395.79**	1,708,087,754.80
Including: Operating revenue	30	**1,860,759,395.79**	1,708,087,754.80
II. Total operating cost		**1,738,486,641.89**	1,571,371,663.46
Including: Operating cost	30	**1,738,486,641.89**	1,571,371,663.46
Taxes and surcharges	31	**3,264,786.76**	4,384,609.47
Selling expenses	32	**40,638,768.01**	36,114,716.76
Management expenses	33	**16,517,905.17**	22,473,948.31
Finance costs	34	**15,308,030.84**	14,455,575.89
Including: Interest expenses		**11,798,517.59**	13,226,829.25
Interest income		**2,096,128.80**	1,403,472.62
Add: Other gains	35	**350,574.90**	228,530.25
Investment income ("–" for loss)		**–**	–
Impairment loss of credit ("–" for loss)	36	**–3,107,249.35**	586,422.52
Impairment loss of assets ("–" for loss)	37	**–2,954,328.08**	–2,649,263.69
Gains on disposal of assets ("–" for loss)	38	**12,944.85**	–39,889.87
III. Operating profit ("–" for loss)		**40,845,205.44**	57,413,040.13
Add: Non-operating revenue	39	**964,117.59**	230,976.77
Less: Non-operating expenses	40	**63,693.12**	25,587.14
IV. Total profit ("–" for total loss)		**41,745,629.91**	57,618,429.76
Less: Income tax expense	41	**10,872,450.29**	15,313,728.44

	Note 6	For the six months ended 30 June 2020 RMB (Unaudited)	2019 RMB (Unaudited)
V. Net profit ("–" for net loss)		**30,873,179.62**	42,304,701.32
(1) By continuity of operations		**30,873,179.62**	42,304,701.32
1. Net profit from continuing operation		**30,873,179.62**	42,304,701.32
2. Net profit from discontinued operation		**–**	–
(2) By ownership		**30,873,179.62**	42,304,701.32
1. Net profit attributable to the owners of parent company		**30,873,179.62**	42,304,701.32
2. Profit or loss of minority shareholders		**–**	–
VI. Total comprehensive income		**30,873,179.62**	42,304,701.32
Total comprehensive income attributable to the shareholders of parent company		**30,873,179.62**	42,304,701.32
Total comprehensive income attributable to minority shareholders		**–**	–
VII. Earnings per share			
Basic and diluted earnings per share	42	**0.2859**	0.3917

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

For the six months ended 30 June 2020

Items	For the six months ended 30 June 2020					
	Equity attributable to the shareholders of parent company					Total
	Share capital	Capital reserve	Surplus reserve	Unallocated profits	Minority interests	shareholders' equity
Balance as at 1 January 2020 (Audited)	108,000,000.00	278,990,829.04	15,732,626.03	80,869,499.06	-	483,592,954.13
Movement for the period	-	-	-	9,273,179.62	-	9,273,179.62
(I) Total comprehensive income	-	-	-	30,873,179.62	-	30,873,179.62
(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 2020 (Unaudited)	108,000,000.00	278,990,829.04	15,732,626.03	90,142,678.68	-	492,866,133.75

Items	Six months ended 30 June 2019					
	Equity attributable to the shareholders of parent company					Total
	Share capital	Capital reserve	Surplus reserve	Unallocated profits	Minority interests	shareholders' equity
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

CONSOLIDATED STATEMENT OF CASH FLOW

For the six months ended 30 June 2020

Items	Note 6	For the six months ended 30 June 2020 RMB (Unaudited)	2019 RMB (Unaudited)
I. Cash flow from operating activities			
Cash received from sales of goods and rendering of services		**1,537,619,289.46**	1,452,841,879.32
Tax refund received		**806,819.59**	–
Other cash received relating to operating activities		**3,670,864.35**	–1,276,848.84
Sub-total of cash inflow from operating activities		**1,542,096,973.40**	1,451,565,030.48
Cash paid for purchases of goods and receiving services		**1,695,181,888.04**	1,395,237,822.55
Cash paid to employees and on behalf of employees		**32,240,423.71**	33,468,787.02
Cash paid for various taxes		**14,208,391.87**	24,508,033.09
Other cash paid relating to operating activities		**20,147,048.49**	8,924,454.49
Sub-total of cash outflow from operating activities		**1,761,777,752.11**	1,462,139,097.15
Net cash flow from operating activities	43	**–219,680,778.71**	–10,574,066.67
II. Cash flow from investing activities			
Cash received from investment gains		**–**	–
Net cash received from disposal of fixed assets, intangible assets and other long-term assets		**33,700.00**	108,500.00
Sub-total of cash inflow from investing activities		**33,700.00**	108,500.00
Cash paid for acquisition and construction of fixed assets, intangible assets and other long-term assets		**27,633,600.47**	26,641,015.09
Net cash paid for acquisition of subsidiaries and other business units		**1,000,000.00**	–
Sub-total of cash outflow from investing activities		**28,633,600.47**	26,641,015.09
Net cash flow from investing activities		**–28,599,900.47**	–26,532,515.09

Items	Note 6	For the six months ended 30 June 2020 RMB (Unaudited)	 2019 RMB (Unaudited)
III. Cash flow from financing activities			
Cash received from borrowings		**549,942,806.37**	232,000,000.00
Cash received relating to other financing activities		**934,095,989.92**	772,262,907.96
Sub-total of cash inflow from financing activities		**1,484,038,796.29**	1,004,262,907.96
Cash paid for repayment of debts		**431,180,185.47**	180,000,000.00
Cash paid for distribution of dividends and profits and interest payment		**26,948,451.54**	19,138,247.79
Including: Dividends and profits paid to minority interests by subsidiaries		**–**	–
Cash paid relating to other financing activities		**756,631,794.23**	788,880,203.20
Sub-total of cash outflow from financing activities		**1,214,760,431.24**	988,018,450.99
Net cash flow from financing activities		**269,278,365.05**	16,244,456.97
IV. Effect of change in exchange rates on cash and cash equivalents		**7,793.86**	1,521.91
V. Net increase in cash and cash equivalents	43	**21,005,479.73**	–20,860,602.88
Add: Opening balance of cash and cash equivalents		**40,149,434.90**	55,738,786.02
VI. Closing balance of cash and cash equivalents	43	**61,154,914.63**	34,878,183.14

BALANCE SHEET OF THE PARENT COMPANY

As at 30 June 2020

Items	Note 13	30 June 2020 RMB (Unaudited)	31 December 2019 RMB (Audited)
Current assets			
Monetary funds		**155,398,145.18**	244,235,929.10
Bills receivables	1	**21,953,488.94**	27,637,027.00
Trade receivables	2	**322,968,226.76**	330,133,012.64
Prepayments		**120,009,729.96**	103,005,466.66
Other receivables	3	**33,272,764.92**	22,218,991.16
Inventories		**160,194,806.96**	156,387,735.46
Other current assets		**16,963,907.64**	15,810,189.09
Total current assets		**830,761,070.36**	899,428,351.11
Non-current assets			
Long-term investments in equity interest	4	**216,510,000.00**	216,510,000.00
Investment properties		**–**	36,016,197.27
Fixed assets		**156,091,548.49**	143,335,586.88
Construction in progress		**124,150,170.37**	110,584,639.14
Right-of-use assets		**13,843,661.52**	14,832,494.49
Intangible assets		**148,194,681.92**	131,966,081.20
Long-term expenses to be amortized		**4,981,567.01**	5,337,386.32
Deferred income tax assets		**1,544,848.76**	1,730,259.87
Total non-current assets		**665,316,478.07**	660,312,645.17
Total assets		**1,496,077,548.43**	1,559,740,996.28

Items	30 June 2020 RMB (Unaudited)	31 December 2019 RMB (Audited)
Current liabilities		
Short-term borrowings	375,203,934.23	254,376,475.19
Bills payables	259,042,043.24	386,005,169.55
Trade payables	116,126,149.44	146,596,979.40
Receipts in advance	454,398.02	–
Contract liabilities	–	9,799,799.56
Salaries payable to employees	2,650,073.78	2,765,290.33
Tax payables	17,353,625.15	7,182,969.68
Other payables	114,667,131.02	164,490,307.51
Non-current liabilities due within one year	33,537,012.78	28,579,046.21
Other current liabilities	–	–
Total current liabilities	919,034,367.66	999,796,037.43
Non-current liabilities		
Long-term borrowings	134,249,648.86	126,353,138.99
Lease liabilities	13,583,647.32	14,384,222.63
Deferred income	–	–
Deferred income tax liabilities	–	–
Total non-current liabilities	147,833,296.18	140,737,361.62
Total liabilities	1,066,867,663.84	1,140,533,399.05
Shareholders' equity		
Share capital	108,000,000.00	108,000,000.00
Capital reserve	282,204,487.50	282,204,487.50
Surplus reserve	15,732,626.03	15,732,626.03
Unallocated profits	23,272,771.06	13,270,483.70
Total equity attributable to the shareholders of parent company	429,209,884.59	419,207,597.23
Minority interests	–	–
Total shareholders' equity	429,209,884.59	419,207,597.23
Total liabilities and shareholders' equity	1,496,077,548.43	1,599,740,996.28

INCOME STATEMENT OF THE PARENT COMPANY

For the six months ended 30 June 2020

Items	Note 13	For the six months ended 30 June 2020 RMB (Unaudited)	2019 RMB (Unaudited)
I. Total operating revenue		**779,966,315.32**	679,933,236.59
Including: Operating revenue	5	**779,966,315.32**	679,933,236.59
II. Total operating cost		**715,634,706.08**	622,631,593.64
Including: Operating cost	5	**715,634,706.08**	622,631,593.64
Taxes and surcharges		**2,473,063.96**	2,164,690.53
Selling expenses		**25,964,290.15**	18,773,853.29
Management expenses		**9,085,309.71**	11,564,862.42
Finance costs		**8,430,903.88**	7,613,824.22
Including: Interest expenses		**6,503,319.71**	6,269,263.79
Interest income		**946,625.96**	634,704.40
Add: Other gains		**88,465.53**	–
Investment income ("–" for loss)	6	**18,000,000.00**	10,000,000.00
Impairment loss of credit ("–" for loss)		**729,330.37**	739,692.05
Impairment loss of assets ("–" for loss)		**–1,084,182.66**	–1,074,965.49
Gains on disposal of assets ("–" for loss)		**10,742.13**	–39,889.87
III. Operating profit ("–" for loss)		**36,122,396.91**	26,809,249.18
Add: Non-operating revenue		**201,903.80**	4,509.79
Less: Non-operating expenses		**52,276.69**	25,521.44
IV. Total profit ("–" for total loss)		**36,272,024.02**	26,788,237.53
Less: Income tax expense		**4,669,736.66**	4,487,262.16
V. Net profit ("–" for net loss)		**31,602,287.36**	22,300,975.37
(1) Net profit from continuing operation		**31,602,287.36**	22,300,975.37
(2) Net profit from discontinued operation		**–**	–
VI. Total comprehensive income		**31,602,287.36**	22,300,975.37

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY OF THE PARENT COMPANY

For the six months ended 30 June 2020
RMB

Items	For the six months ended 30 June 2020 Equity attributable to the shareholders of parent company Share capital	Capital reserve	Surplus reserve	Unallocated profits	Minority interests	Total shareholders' equity
Balance as at 1 January 2020 (Audited)	108,000,000.00	282,204,487.50	15,732,626.03	13,270,483.70	-	419,207,597.23
Movement for the period	-	-	-	10,002,287.36	-	10,002,287.36
(I) Total comprehensive income	-	-	-	31,602,287.36	-	31,602,287.36
(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 2020 (Unaudited)	108,000,000.00	282,204,487.50	15,732,626.03	23,272,771.06	-	429,209,884.59

Items	Six months ended 30 June 2019 Share capital	Capital reserve	Surplus reserve	Unallocated profits	Minority interests	Total shareholders' equity
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

STATEMENT OF CASH FLOW OF THE PARENT COMPANY

For the six months ended 30 June 2020

Items	For the six months ended 30 June 2020 RMB (Unaudited)	2019 RMB (Unaudited)
I. Cash flow from operating activities		
Cash received from sales of goods and rendering of services	**782,670,837.77**	595,011,816.74
Other cash received relating to operating activities	**272,649,293.04**	193,769,555.29
Sub-total of cash inflow from operating activities	**1,055,320,130.81**	788,781,372.03
Cash paid for purchases of goods and receiving services	**1,035,146,216.27**	660,153,529.48
Cash paid to employees and on behalf of employees	**19,740,796.54**	16,514,719.61
Cash paid for various taxes	**5,302,075.98**	4,592,244.07
Other cash paid relating to operating activities	**221,276,088.39**	159,062,610.24
Sub-total of cash outflow from operating activities	**1,281,465,177.18**	840,323,103.40
Net cash flow from operating activities	**–226,145,046.37**	–51,541,731.37

Items	For the six months ended 30 June 2020 RMB (Unaudited)	2019 RMB (Unaudited)
II. Cash flow from investing activities		
Cash received from investment gains	**18,000,000.00**	10,000,000.00
Net cash received from disposal of fixed assets, intangible assets and other long-term assets	**24,500.00**	108,500.00
Sub-total of cash inflow from investing activities	**18,024,500.00**	10,108,500.00
Cash paid for acquisition and construction of fixed assets, intangible assets and other long-term assets	**27,647,725.13**	26,011,841.22
Net cash paid for acquisition of subsidiaries and other business units	**1,000,000.00**	–
Sub-total of cash outflow from investing activities	**28,647,725.13**	26,011,841.22
Net cash flow from investing activities	**–10,623,225.13**	–15,903,341.22

Items	For the six months ended 30 June 2020 RMB (Unaudited)	2019 RMB (Unaudited)
III. Cash flow from financing activities		
Cash received from borrowings	**342,246,200.00**	137,000,000.00
Cash received relating to other financing activities	**333,418,387.83**	298,353,996.19
Sub-total of cash inflow from financing activities	**675,664,587.83**	435,353,996.19
Cash paid for repayment of debts	**201,662,198.47**	90,000,000.00
Cash paid for distribution of dividends and profits and interest payment	**21,565,492.20**	13,445,454.09
Including: Dividends and profits paid to minority interests by subsidiaries	**–**	–
Cash paid relating to other financing activities	**205,419,673.18**	286,874,841.11
Sub-total of cash outflow from financing activities	**428,647,363.85**	390,320,295.20
Net cash flow from financing activities	**247,017,223.98**	45,033,700.99
IV. Effect of change in exchange rates on cash and cash equivalents	**7,793.86**	1,521.91
V. Net increase in cash and cash equivalents	**10,256,746.34**	–22,409,849.69
Add: Opening balance of cash and cash equivalents	**37,064,259.83**	33,675,386.65
VI. Closing balance of cash and cash equivalents	**47,321,006.17**	11,265,536.96

NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2020

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

I. GENERAL INFORMATION ABOUT THE COMPANY

1. General Information

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

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

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

II. SCOPE OF CONSOLIDATED FINANCIAL STATEMENTS

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

There was no change in the scope of consolidated financial statements of the Group during the reporting period. For details, please refer to the relevant content as set out in "VII. CHANGES IN SCOPE OF CONSOLIDATION" and "VIII. INTERESTS IN OTHER ENTITIES" of these notes.

III. BASIS FOR THE PREPARATION OF FINANCIAL STATEMENTS

(1) Preparation basis

The Group prepared its financial statements on the going concern basis, according to actual transactions and events as well as such disclosure requirements under the Accounting Standards for Enterprises (《企業會計準則》) issued by the Ministry of Finance and relevant provisions (collectively referred to as "Accounting Standards for Enterprises"), the Preparation Rules for Information Disclosures by Companies Offering Shares to the Public No.15 – General Provisions on Financial Reporting (Revised in 2014) (《公開發行證券的公司信息披露編報規則第15號－財務報告的一般規定》(2014年修訂)) issued by China Securities Regulatory Commission, the Companies Ordinance of Hong Kong and the Rules Governing the Listing of Securities on the Stock Exchange, and based on the accounting policies and accounting estimates set out in "IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES" of these notes.

(2) Going concern

The Group, having evaluated its ability to continue as a going concern for the 12 months since 30 June 2020, did not find any event or condition which may cast significant doubt on the going concern ability. Hence, the preparation of these financial statements was based on the assumption of going concern.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

1. Declaration on compliance with Accounting Standards for Enterprises

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

2. Accounting period

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

3. Business cycle

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

4. Functional currency

The Group adopts Renminbi as its functional currency.

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

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

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

6. Goodwill

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

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

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

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

7. Preparation methods of consolidated financial statements

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

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

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

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

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

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

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

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

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

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

8. Cash and cash equivalents

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

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

(1) Foreign currency transactions

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

(2) Translation of financial statements denominated in foreign currency

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

10. Financial assets and financial liabilities

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

(1) Financial assets

1) Classification, recognition and measurement of financial assets

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

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

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

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

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

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

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

2) Recognition and measurement of transfer of financial assets

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

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

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

(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; and ③ financial guarantee contracts that do not fall within the range of ① or ②, and loan commitments that do not fall within the range of above ① and are at a rate less than the market interest rate.

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

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

11. Bills receivables

Bills receivables are divided into different portfolios and the accounting estimation policies for the expected credit loss thereof are determined, based on the shared characteristics of acceptors' credit risks:

Category of portfolio	Accounting estimation policy for expected credit loss
Bank acceptance bill portfolio	Management evaluates that such payments have low credit risk and generally do not provide for impairment
Commercial draft portfolio	Provision for impairment is made based on expected loss rate

The Group calculates the expected credit loss for bills receivables on the balance sheet date. If the expected credit loss is higher than the book value of the current provision for the impairment of the bills receivables, the Group will recognize such difference as impairment loss of the bills receivables, which will be debited to "Impairment loss of credit" and credited to "Bills receivables – Provision for bad debt". Otherwise, the Group will recognize such difference as impairment gain.

12. Receivables

The Group recognizes the lifetime expected loss for receivables at the initial recognition by using the simplified approach. The Group estimates the expected credit loss using the following two methods based on the customers' credit ratings, business scales, historical collections and bad debt losses:

(1) For receivables of significant amounts and involving long-term cooperative relationships or abnormal situations in the cooperative relationship, etc., the Group, instead of using the impairment matrix, recognizes loss provisions for receivables at the initial recognition at an amount equal to the lifetime expected credit loss based on the specific credit risk characteristics of the receivables, such as customers' credit ratings, industry and business characteristics, historical collections and bad debt losses. At each reporting date, the Group re-evaluates the changes in the amount of expected credit losses in the remaining duration of the receivables and adjusts the loss provisions accordingly.

(2) For other receivables that do not fall into the above circumstances, the Group divides financial instruments into different groups based on shared characteristics of credit risks, and uses the impairment matrix to determine the credit losses of related financial instruments on a grouping basis. The shared characteristics of credit risks adopted by the Group include: credit risk rating, initial recognition date, remaining contract term, industry of the debtor, type of collateral and value of the collateral relative to financial assets, etc.

The Group determines the impairment matrix based on the historically observed default rates over the expected duration of the receivables on a grouping basis, and makes adjustments in respect of forward-looking estimates. At each reporting date, the Group updates the historically observed default rates, analyzes the changes in forward-looking estimates, adjusts the impairment matrix according to the changes if the impairment matrix needs to be adjusted, and make loss provisions accordingly.

13. Inventories

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

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

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

The Group maintains a perpetual inventory system.

14. Contract assets

(1) Methods and standards for the recognition 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 "12. Receivables" above.

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

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

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

(2) *Amortization of assets related to contract costs*
The Group's assets related to contract costs are amortized 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 recognized 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.

16. Long-term equity investment

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

17. Investment property

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

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

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

18. Fixed assets

Fixed assets are tangible assets that are held for use in the production of goods, supply of labour, rental or operation management, with a unit value of more than RMB2,000 and have a useful life of more than one accounting year. Fixed assets are recognized only when its related economic benefits are likely to flow into the Group and its cost could be reliably measured. Fixed assets are initially measured at cost and taking into account the effect of estimated costs of disposal.

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

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

No.	Category	Depreciable Life (year)	Estimated Residual Value Rate (%)	Annual Depreciation Rate (%)
1	Buildings and structures	30	5	3.17
2	Machinery and equipment	10, 13, 15	0	10.00, 7.69, 6.67
3	Transportation facilities	8	0	12.50
4	Office equipment	3, 5	0	33.33, 20.00

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

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

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

19. Construction in progress

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

20. Borrowing costs

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

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

21. Right-of-use assets

The right-of-use assets are defined as the rights of the Group as a lessee to use the leased assets in the lease term.

(1) Initial recognition

At the commencement of the lease term, the Group initially measures the right-of-use assets at cost, which includes the following: ① the amount of the initial measurement of the lease liability; ② any lease payments made at or before the commencement date, less the amount of lease incentives received, if any; ③ any initial direct costs incurred, i.e. the incremental costs incurred for the execution of the lease; ④ the costs expected to be incurred for dismantling and removing the leased asset, restoring the site on which the leased asset is located or restoring it to the condition as agreed in the terms of the lease, except those incurred for the production of inventories.

(2) Subsequent measurement

After the commencement of the lease term, the Group adopts a cost model for the subsequent measurement of the right-of-use assets, where the right-of-use assets are measured at cost less accumulated depreciation and accumulated impairment losses.

Where the Group re-measures the lease liability in accordance with the relevant provisions of the lease standards, the book value of the right-of-use assets shall be adjusted accordingly.

(3) Depreciation of right-of-use assets

The Group provides for the depreciation of the right-of-use assets from the commencement of the lease term. Right-of-use assets are usually depreciated from the month in which the lease term commences (if a company chooses to provide for depreciation in the month following the commencement of the lease term, it needs to make specific descriptions accordingly). The amount of the provision for depreciation is included in the cost of the relevant assets or the current profit or loss according to the use of the right-of-use assets.

When determining the depreciation method of the right-of-use assets, the Group makes decisions based on the expected methods of consuming the economic benefits related to the right-of-use assets, and provides for depreciation for the right-of-use assets on a straight-line basis.

When determining the depreciation period of the right-of-use assets, the Group adheres to the following principles: if it is reasonably certain that the ownership of the leased assets will be obtained at the end of the lease term, the provision for depreciation will be made within the remaining useful life of the leased assets; if it is not reasonably certain that the ownership of the leased assets will be obtained when the lease term expires, the provision for depreciation is made during the lease term or the remaining useful life of the leased assets, whichever is the shortest.

If the right-of-use assets are impaired, the Group will make subsequent provision for depreciation based on the book value of the right-of-use assets after deducting the impairment losses.

22. *Intangible assets*

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

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

23. *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 by the cost model, oil and gas assets, intangible assets with definite useful life, etc. on each balance sheet date. The Group conducts impairment test when there is any indication of impairment. Goodwill and intangible assets with indefinite useful life are tested at the end of each year for impairment, whether indication of impairment exists or not.

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

24. *Long-term expenses to be amortized*

Long-term expenses to be amortized 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 expenses to be amortized are no longer beneficial in subsequent accounting periods, the amortized value of the unamortized item is transferred in full to profit or loss for the period.

25. 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.

26. Staff remuneration

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

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

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

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

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

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

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

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

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

27. Lease liabilities

(1) Initial recognition

The Group initially measures lease liabilities based on the present value of the lease payments that have not been paid at the commencement date of the lease term.

1) Lease payments

Lease payments are defined as the payments made by the Group to the lessors related to the rights to use leased assets during the lease term, including: ① fixed payments and fixed payments in substance, net of lease incentives, if any; ② variable lease payments based on indexes or ratios, which are determined at the initial measurement based on the indexes or ratios on the commencement date of the lease term; ③ the exercise price of the purchase option when the Group is reasonably certain to exercise the purchase option; ④ the payments required to be paid for exercising the option to terminate the lease when the lease term reflects that the Group will exercise the option to terminate the lease; and ⑤ the amount expected to be paid based on the residual value of the guarantee provided by the Group.

2) Discount rate

In calculating the present value of lease payments, the Group uses the incremental borrowing rate as the discount rate when it is unable to determine the interest rate implicit in the lease. The incremental borrowing interest rate refers to the interest rate payable by the Group to borrow funds under similar mortgage conditions in similar periods in order to acquire the assets of an amount close to the value of the right-of-use assets in a similar economic environment. The interest rate is related to the following: ① the Group's own situation, that is, the Group's solvency and credit status; ② the term of the "borrowing", that is, the lease term; ③ the amount of "borrowed" funds, that is, the amount of lease liabilities; ④ "mortgage conditions", that is, the nature and quality of the underlying assets; ⑤ the economic environment, including the jurisdiction in which the lessee is located, the currency of denomination, and the time of signing the contract. Based on the long-term bank loan interest rate, the Group makes adjustments in respect of the above-mentioned factors to derive the incremental borrowing interest rate.

(2) *Subsequent measurement*

After the commencement date of the lease term, the Group conducts the subsequent measurement of the lease liabilities according to the following principles: ① increasing the book value of the lease liabilities when recognizing lease liabilities; ② reducing the book value of the lease liabilities when making lease payments; ③ re-measuring the book value of the lease liabilities in case of any change in the lease payments due to revaluation or lease variations.

The interest expenses of the lease liabilities in each period of the lease term are calculated at fixed periodic interest rates and are included in the profit and loss for the current period, except those that shall be capitalized. Periodic interest rates refer to the discount rates used by the Group in the initial measurement of lease liabilities, or the revised discount rates adopted by the Group when lease liabilities need to be re-measured at revised discount rates due to changes in lease payments or lease variations.

(3) *Re-measurement*

After the commencement date of the lease term, when the following circumstances occur, the Group re-measures the lease liabilities at the present value calculated based on the lease payments after changes and the revised discount rates, and adjusts the book value of the right-of-use assets accordingly. If the book value of the right-of-use assets has been reduced to zero, but the lease liabilities still need to be further reduced, the Group will include the balance in the current profit and loss. The circumstances include ① any change in the fixed payment in substance; ② any change in the expected payable amount of the residual value of the guarantee; ③ any change in the indexes or ratios used to determine the lease payments; ④ any change in the evaluation result of the purchase option; ⑤ any change in evaluation result or actual exercise of the option to renew or terminate the lease.

28. Recognition principle and measurement of income

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

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

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

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

The customer simultaneously receives and consumes the 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 that performance obligation. When the progress of that performance obligation cannot be measured reasonably, but the Group expects to recover the costs incurred in satisfying the performance obligation, the Group recognizes revenue as the costs incurred until such time that it can reasonably measure the progress of the performance obligation.

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

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

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

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

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

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

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

29. Government grants

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

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

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

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

30. Leasing

(1) Identification of lease

Lease refers to a contract in which a lessor assigns the right to use an asset to a lessee within a certain period of time in exchange for consideration. On the commencement date of a contract, the Group assesses whether the contract is a lease or contains a lease. A contract is a lease or contains a lease if one party to the contract transfers the right to control the use of one or more identified assets within a certain period of time in exchange for consideration. In order to determine whether a contract transfers the right to control the use of the identified assets within a certain period of time, the Group assesses whether the customers in the contract are entitled to receive almost all of the economic benefits arising from the use of the identified assets during the period of use and have the right to direct the use of the identified assets during the period of use.

If a contract contains multiple separate leases, the Group will split the contract and account for each separate lease. Where a contract contains both lease and non-lease components, the Group will account for the lease and non-lease components separately.

(2) The Group as a lessee

At the commencement date of the lease term, the Group recognizes the right-of-use assets and lease liabilities for the lease. The right-of-use assets are initially measured at cost, including the initial measurement amount of the lease liabilities, the lease payments (net of the amount of lease incentives received) made on or before the commencement date of the lease term, the initial direct costs incurred, and the costs expected to be incurred for dismantling and removing the leased asset, restoring the site on which the leased asset is located or restoring it to the condition as agreed in the terms of the lease.

The Group as a lessee recognizes right-of-use assets and lease liabilities for leases.

1) Lease variations

Lease variations refer to the variations of the lease scope, lease consideration and lease duration beyond the original contract terms, including the addition or termination of the right to use one or more leased assets, and the extension or shortening of the lease term stipulated in the contract. The effective date of a lease variation is the date on which the parties agree on such lease variation.

When there is a lease variation and the following conditions are simultaneously met, the Group accounts for the lease variation as a separate lease: ① the lease variation expands the scope of the lease by adding the right to use one or more leased assets; ② the additional consideration is equal to the separate price of the enlarged scope of the lease as adjusted for the circumstances of the contract.

Where the lease variation is not accounted for as a separate lease, on the effective date of the lease variation, the Group allocates the consideration of the contract after the variation in accordance with the relevant provisions of the lease standards, and re-determines the lease term after the variation; and re-measures the lease liabilities by applying the revised discount rate to discount the lease payments after the variation. When calculating the present value of lease payments after the variation, the Group uses the interest rate implicit in the lease for the remaining duration of the lease as the discount rate; where the interest rate implicit in the lease for the remaining duration of the lease cannot be determined, the Group uses the incremental borrowing rate of the lessee on the effective date of the lease variation as the discount rate. As for the effect of the aforesaid adjustments to lease liabilities, the Group applies different accounting treatments according to the following: ① where the lease variation reduces the lease scope or lease term, the lessee shall reduce the book value of the right-of-use assets, and include the gains or losses resulting from the partial or complete termination of the lease in the current profit and loss; ② where the lease liabilities are re-measured due to other lease variations, the lessee shall adjust the book value of the right-of-use assets accordingly.

2) Short-term lease and lease of low-value assets

For the short-term leases with a lease term of less than 12 months, and the leases of low-value assets where the single leased assets are brand new assets, the Group chooses not to recognize right-of-use assets and lease liabilities. The Group includes the lease payments for short-term leases and leases of low-value assets in the relevant costs of assets or current profit or loss using the straight-line method or other systematic and reasonable methods in each period of the lease term.

(3) *The Group as a lessor*

On the basis that the contract is a lease or contains a lease as evaluated in (1), the Group, as a lessor, divides the lease into a finance lease or operating lease on the commencement date of the lease.

If a lease transfers almost all of the risks and rewards related to the ownership of the leased assets in substance, the lessor classifies the lease as a finance lease and those other than finance leases as operating leases.

A lease is generally classified as a finance lease by the Group if one or more of the following conditions are met: ① upon the expiration of the lease term, the ownership of the leased assets is transferred to the lessee; ② the lessee has the option to purchase the leased assets, and the purchase price as agreed is sufficiently low compared to the fair value of the leased assets when the option is expected to be exercised, so it can be reasonably determined at the commencement date of the lease that the lessee will exercise the option; ③ although the ownership of the assets is not transferred, the lease term represents most of the useful life of the assets (not less than 75% of the useful life of the leased assets); ④ at the commencement date of the lease, the present value of the lease receipts is almost equal to the fair value of the leased assets (not less than 90% of the fair value of the leased assets); ⑤ the leased assets are of a special nature and can only be used by the lessee without any major modification. A lease may be classified as a finance lease by the Group if there are one or more of the following signs: ① if the lessee cancels the lease, the loss caused to the lessor by the cancellation of the lease shall be borne by the lessee; ② the gains or losses resulting from the fluctuations of the fair value of the residual value of the assets belong to the lessee; ③ the lessee has the ability to continue the lease to the next period at a rent far below the market level.

1) Accounting of financial leases

Initial measurement

At the commencement date of the lease term, the Group recognizes finance lease receivables for financial leases and derecognizes finance lease assets. When performing the initial measurement of financial lease receivables, the Group accounts for the finance lease receivables at the net lease investment.

The net lease investment is the sum of the unguaranteed residual value and the present value of the lease payments that have not been received at the commencement date of the lease, discounted at the interest rate implicit in the lease. The lease receipt refers to the amount that the lessor should collect from the lessee for transferring its right to use the leased assets during the lease term, including: ① the fixed payments and the fixed payments in substance to be paid by the lessee, net of lease incentives received, if any; ② variable lease payments depending on indexes or ratios, which are determined at the initial measurement based on the indexes or ratios at the commencement date of the lease; ③ the exercise price of the purchase option, provided that it is reasonably certain that the lessee will exercise this option; ④ the payments that the lessee needs to make for exercising the option to terminate the lease, provided that the lease term reflects that the lessee will exercise the option to terminate the lease; ⑤ the residual value of the guarantee provided to the lessor by the lessee, a party related to the lessee and an independent third party with the financial ability to fulfill the obligation of the guarantee.

Subsequent measurement

The Group calculates and recognizes interest income for each period of the lease term at a fixed periodic interest rate. The periodic interest rate refers to the implicit discount rate used to determine the net lease investment (in the case of a sublease, if the interest rate implicit in the sublease cannot be determined, the discount rate of the original lease will be used (as adjusted based on the initial direct costs relating to the sublease)), or the revised discount rate as determined according to relevant requirements when the variation of the financial lease is not accounted for as a separate lease, and the condition is satisfied that the lease will be classified as a finance lease if the variation becomes effective at the commencement date of the lease.

Accounting of lease variations

When there is a variation of the finance lease and the following conditions are simultaneously met, the Group accounts for the variation as a separate lease: ① the variation extends the scope of the lease by adding the right to use one or more leased assets; ② the additional consideration is equal to the separate price of the enlarged scope of the lease as adjusted for the circumstances of the contract.

If a variation of a finance lease is not accounted for as a separate lease, and the condition is satisfied that the lease will be classified as an operating lease if the variation becomes effective at the commencement date of the lease, the Group will account for it as a new lease from the effective date of the lease variation, and use the net lease investment before the effective date of the lease variation as the book value of the leased assets.

2) Accounting of operating leases

Accounting of rentals

In each period of the lease term, the Group uses the straight-line method to recognize lease receipts from operating leases as rental income.

Incentives provided

Where a rental-free period is provided, the Group allocates the total rent over the entire lease term without deducting the rent-free period on a straight-line basis, and recognizes rental income in the rent-free period. If the Group bears certain expenses of the lessee, the expenses shall be deducted from the total rental income, and the balance of the rental income after deduction shall be allocated during the lease term.

Initial direct costs

The initial direct costs incurred by the Group related to operating leases shall be capitalized to the costs of the underlying assets of the lease, and shall be charged to the current profit and loss in installments over the lease term on the same basis as the rental income.

Depreciation

For the fixed assets under operating leases, the Group adopts the depreciation policies for similar assets to provide for depreciation. For other assets under operating leases, systematic and reasonable methods are used for amortization.

Variable lease payments

The variable lease payments received by the Group related to operating leases and not included in the lease receipts are included in the current profit and loss when they are actually incurred.

Variation of operating lease

When there is a variation of an operating lease, the Group will account for it as a new lease from the effective date of the variation, and the lease receipts received in advance or receivable related to the lease before the variation will be treated as the receipts for the new lease.

31. *Deferred income tax assets and deferred income tax liabilities*

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

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

32. *Discontinued operation*

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

33. *Changes of significant accounting policies and accounting estimates*

(1) Changes of significant accounting policies

There is no change in accounting policies as compared to the 2019 Annual Report.

(2) Changes of significant accounting estimates

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

V. TAXATION

1. Main types of tax and tax rates

Type of tax	Tax basis	Tax rate
VAT	Taxable income	3%, 6%, 9%, 10%, 11%, 13%, 16%
Urban maintenance and construction tax	Amount of actual payable turnover tax	7%
Education surcharge	Amount of actual payable turnover tax	3%
Local education surcharge	Amount of actual payable turnover tax	2%
Tax on land use	Land area	Fixed rate
Property taxes	70% of original value of the properties or rental income	1.2% or 12%
Enterprise income tax	Amount of taxable income	25%

Note: Pursuant to the Article 15 of the Provisional Regulations on VAT of the PRC (《中華人民共和國增值税暫行條例》) (Order No. 538 of the State Council of the People's Republic of China) and approved by the State Taxation Bureau in the countries where the companies of the Group are incorporated, the contraceptive products of the Group are exempt from VAT. The income of the Company is subject to VAT. According to the Notice of the Ministry of Finance, the State Taxation Administration and the General Administration of Customs on Deepening the VAT Reform Policy (MOF STA GAC Notice [2019] No. 39) (《財政部稅務總局海關總署關於深化增值稅改革有關政策的公告》(財政部稅務總局海關總署公告2019年第39號)), from 1 April 2019, for the Company's taxable sales or import of goods, the original VAT rate of 16% was adjusted to 13%; and the original VAT rate of 10% was adjusted to 9%.

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 2020, "end of the period" represents 30 June 2020, "the period" represents the six months ended 30 June 2020 and the monetary unit shall be RMB, unless specified otherwise.

1. Monetary funds

	Balance as at 30 June 2020 (Unaudited)	Balance as at 31 December 2019 (Audited)
Cash on hand	**733,813.35**	915,427.73
Cash in bank	**60,421,101.28**	39,234,007.17
Other monetary funds	**318,415,384.77**	466,159,017.74
Total	**379,570,299.40**	506,308,452.64

2. Bills Receivable

(1) Classification of bills receivables

Items	**Balance as at 30 June 2020 (Unaudited)**	Balance as at 31 December 2019 (Audited)
Bank acceptance bills	**15,762,342.08**	6,926,740.66
Commercial drafts	**20,980,000.00**	15,370,000.00
Sub-total	**36,742,342.08**	22,296,740.66
Less: Provision for bad debt	**98,606.00**	44,573.00
Total	**36,643,736.08**	22,252,167.66

(2) Pledged bills receivable as at 30 June 2020

Items	Pledged amount as at 30 June 2020 (Unaudited)
Bank acceptance bills	14,691,725.12
Commercial drafts	6,000,000.00
Total	**20,691,725.12**

(3) Bills receivables endorsed but not mature at the balance sheet date, as at 30 June 2020

Item	Amount derecognized as at 30 June 2020 (Unaudited)	Amount not derecognized as at 30 June 2020 (Unaudited)
Bank acceptance bills	518,834,618.47	–
Commercial drafts	–	–
Total	**518,834,618.47**	**–**

(4) Bills receivables discounted but not mature at the balance sheet date, as at 30 June 2020

Items	Amount derecognized as at 30 June 2020 (Unaudited)	Amount not derecognized as at 30 June 2020 (Unaudited)
Bank acceptance bills	204,787,167.17	–
Commercial drafts	–	14,980,000.00
Total	**204,787,167.17**	**14,980,000.00**

(5) As at 30 June 2020, no bills were reclassified to trade receivables due to inability of the issuers to settle the bills.

(6) *Classification by the methods for making provisions for bad debt*

Classification	Balance as at 30 June 2020 (Unaudited) Book balance Amount	Percentage (%)	Provision for bad debt Amount	Lifetime expected credit loss rate (%)	Book value
Bad debt provision made on individual basis	-	-	-	-	-
Bad debt provision made on a collective basis	36,742,342.08	100.00	98,606.00	0.27	36,643,736.08
Aging portfolio	20,980,000.00	57.10	98,606.00	0.47	20,881,394.00
Low risk portfolio	15,762,342.08	42.90	-	-	-
Total	36,742,342.08	100.00	98,606.00	-	36,643,736.08

Classification	Balance as at 31 December 2019 (Audited) Book balance Amount	Percentage (%)	Provision for bad debt Amount	Lifetime expected credit loss rate (%)	Book value
Bad debt provision made on individual basis	-	-	-	-	-
Bad debt provision made on a collective basis	22,296,740.66	100.00	44,573.00	0.20	22,252,167.66
Aging portfolio	15,370,000.00	68.93	44,573.00	0.29	15,325,427.00
Low risk portfolio	6,926,740.66	31.07	-	-	6,926,740.66
Total	22,296,740.66	100.00	44,573.00	-	22,252,167.66

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

Item	Balance as at 30 June 2020 (Unaudited) Book balance	Provision for bad debt	Provision ratio (%)
Within 1 year	**20,980,000.00**	**98,606.00**	**0.47**

Note 1: For the aging portfolio comprising the amounts of the commercial drafts held as at the end of the period and the commercial drafts discounted as at the end of the period but not mature at the balance sheet date, the impairment losses of credit are provided for with reference to the expected credit loss rates for trade receivables.

Note 2: The age of the aforementioned bills receivables of the Group as at the end of the period were within one year.

(7) *Provisions for bad debt accrued, recovered and reversed for bills receivables during the period*

Category	Balance as at 31 December 2019 (Audited)	Changes for the six months ended 30 June 2020 (Unaudited) Accrued	Recovered or reversed	Written back or written off	Balance as at 30 June 2020 (Unaudited)
Commercial drafts	44,573.00	**98,606.00**	**44,573.00**	**-**	**98,606.00**
Total	44,573.00	**98,606.00**	**44,573.00**	**-**	**98,606.00**

3. *Trade receivables*

Items	Balance as at 30 June 2020 (Unaudited)	Balance as at 31 December 2019 (Audited)
Trade receivables	**707,944,339.50**	730,049,894.39
Less: Provision for bad debt	**20,841,510.28**	17,788,293.93
Net amount	**687,102,829.22**	712,261,600.46

(1) Aging analysis of trade receivables

Before accepting new customers, the Group assesses the credit worthiness of potential clients and set corresponding credit limits according to the internal credit assessment policies. The Group applies different credit policies to different customers. Credit period is generally six months. As for commodity sales, the trade receivables and operating revenue are recognized and the age of the same is calculated after the main risks and rewards related to the ownership of goods have been transferred to the buyers.

	Balance as at 30 June 2020 (Unaudited)			Balance as at 31 December 2019 (Audited)		
Age	Book balance	Percentage (%)	Provision for bad debt	Book balance	Percentage (%)	Provision for bad debt
Within 1 year	665,681,280.68	94.03	3,427,216.96	688,345,188.22	94.29	2,117,508.29
1 to 2 years	26,527,327.67	3.75	2,695,349.34	27,446,105.54	3.76	4,448,569.09
2 to 3 years	7,745,034.97	1.09	6,728,247.80	6,229,802.28	0.85	3,193,418.20
More than 3 years	7,990,696.18	1.13	7,990,696.18	8,028,798.35	1.10	8,028,798.35
Total	707,944,339.50	100.00	20,841,510.28	730,049,894.39	100.00	17,788,293.93

(2) Classification of trade receivables

	Balance as at 30 June 2020 (Unaudited)				
	Book balance		Provision for bad debt		Book value
Classification	Amount	Percentage (%)	Amount	Lifetime expected credit loss rate (%)	
Provision for bad debt made on individual basis	18,433,794.93	2.60	18,433,794.93	100.00	-
Provision for bad debt made on a collective basis	689,510,544.57	97.40	2,407,715.35	0.35	687,102,829.22
Aging portfolio	689,510,544.57	97.40	2,407,715.35	0.35	687,102,829.22
Total	707,944,339.50	100.00	20,841,510.28	-	687,102,829.22

Classification	Balance as at 31 December 2019 (Audited) Book balance Amount	Percentage (%)	Provision for bad debt Amount	Lifetime expected credit loss rate (%)	Book value
Provision for bad debt made on individual basis	18,542,550.87	2.54	12,918,423.63	69.67	5,624,127.24
Provision for bad debt made on a collective basis	711,507,343.52	97.46	4,869,870.30	0.68	706,637,473.22
Aging portfolio	711,507,343.52	97.46	4,869,870.30	0.68	706,637,473.22
Total	730,049,894.39	100.00	17,788,293.93	–	712,261,600.46

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

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

Balance as at 31 December 2019 (Audited)	Changes for the six months ended 30 June 2020 (Unaudited) Accrued	Recovered or reversed	Written back or written off	Balance as at 30 June 2020 (Unaudited)
17,788,293.93	**3,053,216.35**	**–**	**–**	**20,841,510.28**

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

4. Prepayments

(1) *Aging of prepayments*

Items	**Balance as at 30 June 2020 (Unaudited) Amount**	**Proportion (%)**	Balance as at 31 December 2019 (Audited) Amount	Proportion (%)
Within 1 year	**201,969,745.06**	**82.35**	208,871,658.90	98.20
1-2 years	**39,842,826.83**	**16.24**	3,783,117.86	1.78
2-3 years	**3,394,207.67**	**1.38**	–	–
More than 3 years	**62,038.19**	**0.03**	56,218.21	0.03
Total	**245,268,817.75**	**100.00**	212,710,994.97	100.00

5. *Other receivables*

Item	Balance as at 30 June 2020 (Unaudited)	Balance as at 31 December 2019 (Audited)
Other receivables	**12,954,458.41**	12,122,937.74
Less: Provision for bad debts	**5,898.20**	5,898.20
Net amount	**12,948,560.21**	12,117,039.54

5.1 Classification of other receivables by nature of amounts

Item	Balance as at 30 June 2020 (Unaudited)	Balance as at 31 December 2019 (Audited)
Deposit	**10,926,492.00**	11,218,465.57
Reserve	**529,664.87**	898,573.97
Investment	**1,000,000.00**	–
Others	**498,301.54**	5,898.20
Total	**12,954,458.41**	12,122,937.74

Note: Investment represents the Company's expenses for the purchase of equity interests in Huizhou Zhixin Pharmaceutical Co., Ltd.* (惠州致信醫藥有限公司, "Huizhou Zhixin"). Pursuant to the "Agreement on the Equity Transfer of Huizhou Zhixin Pharmaceutical Co., Ltd." entered into between the Company and Huizhou Zhixin in June 2020, the Equity Settlement Date is the date on which the change of the business registration for the equity transfer are completed (subject to the obtaining of the business license after the reissue). The Company may enjoy and assume the statutory rights and obligations under the subject equity from the Equity Settlement Date. As of 30 June 2020, the change of the business registration for the equity transfer has not yet completed. The Company has not yet obtained control of Huizhou Zhixin before the settlement of the equity interest. Therefore, the first installment of equity acquisition of RMB1 million paid by the Company on 28 June 2020 is accounted for other receivables.

6. *Inventories*

Items	Balance as at 30 June 2020 (Unaudited) Carrying balance	Provision for impairment	Book value	Balance as at 31 December 2019 (Audited) Carrying balance	Provision for impairment	Book value
Goods in stock	517,194,616.36	-2,954,328.08	514,240,288.28	471,138,606.35	3,024,633.91	468,113,972.44
Goods sold	-	-	-	47,048,455.95	–	47,048,455.95
Total	517,194,616.36	-2,954,328.08	514,240,288.28	518,187,062.30	3,024,633.91	515,162,428.39

7. *Other current assets*

Items	Balance as at 30 June 2020 (Unaudited)	Balance as at 31 December 2019 (Audited)
Input tax to be credited	31,760,309.56	37,241,498.68
Deferred expenses	664,807.97	649,456.39
Total	32,425,117.53	37,890,955.07

8. *Fixed assets*

(1) Classification

Items	Balance as at 30 June 2020 (Unaudited)	Balance as at 31 December 2019 (Audited)
Fixed assets	184,478,476.90	191,387,488.54
Liquidation of fixed assets	–	–
Total	184,478,476.90	191,387,488.54

Item		Buildings and structures	Machinery and equipment	Transportation facilities	Office equipment	Total
I.	Original book value					
1.	Balance as at 31 December 2019 (Audited)	189,814,974.25	53,261,875.65	17,657,565.64	9,064,643.07	79,984,084.36
2.	Addition for the period (Unaudited)	–	254,008.85	–	118,813.65	372,822.50
	(1) Purchase	–	254,008.85	–	118,813.65	372,822.50
	(2) Transfer from construction in-progress	–	–	–	–	–
	(3) Addition as a result of business combination	–	–	–	–	–
3.	Reduction for the period (Unaudited)	–	–	408,475.24	105,629.06	514,104.30
	(1) Disposal or retirement	–	–	408,475.24	105,629.06	514,104.30
	(2) Other reduction	–	–	–	–	–
4.	Balance as at 30 June 2020 (Unaudited)	189,814,974.25	53,515,884.50	17,249,090.40	9,077,827.66	269,657,776.81
II.	Accumulated depreciation	–	–	–	–	–
1.	Balance as at 31 December 2019 (Audited)	37,480,441.49	25,973,640.72	6,860,432.32	8,097,055.54	78,411,570.07
2.	Addition for the period (Unaudited)	3,270,669.83	2,526,371.67	692,441.99	278,246.35	6,767,729.84
	(1) Provision	3,270,669.83	2,526,371.67	692,441.99	278,246.35	6,767,729.84
	(2) Addition as a result of business combination	–	–	–	–	–
3.	Reduction for the period (Unaudited)	–	–	–	–	–
	(1) Disposal or retirement	–	–	–	–	–
	(2) Other reduction	–	–	–	–	–
4.	Balance as at 30 June 2020 (Unaudited)	40,751,111.32	28,500,012.39	7,552,874.31	8,375,301.89	85,179,299.91
III.	Impairment provision	–	–	–	–	–
1.	Balance as at 31 December 2019 (Audited)	–	–	–	–	–
2.	Addition for the period (Unaudited)	–	–	–	–	–
3.	Reduction for the period (Unaudited)	–	–	–	–	–
4.	Balance as at 30 June 2020 (Unaudited)	–	–	–	–	–
IV.	Book value	–	–	–	–	–
1.	Book value as at 30 June 2020 (Unaudited)	149,063,862.93	25,015,872.11	9,696,216.09	702,525.77	184,478,476.90
2.	Book value as at 31 December 2019 (Audited)	152,334,532.76	27,288,234.93	10,797,133.32	967,587.53	1,572,514.29

Note 1: Addition of fixed assets for the period included the purchase amount of RMB372,822.50. Among the addition of accumulated depreciation for the period, RMB6,767,729.84 was provided for the period. Reduction for the period was a result of retired fixed assets which useful life had expired. At the end of the period, the original values of fixed assets that have been fully provided but were still in use amounted to RMB7,207,287.15.

Note 2: At the end of the period, the Group had no temporary idle fixed assets or fixed assets without proper title certificates.

9. *Construction in progress*

Items	Balance as at 30 June 2020 (Unaudited)	Balance as at 31 December 2019 (Audited)
Construction in progress	124,150,170.37	110,584,639.14
Construction materials	–	–
Total	124,150,170.37	110,584,639.14

9.1 Construction in progress

(1) Breakdown of construction-in-progress

Items	Balance as at 30 June 2020 (Unaudited) Carrying balance	Provision for impairment	Book value	Balance as at 31 December 2019 (Audited) Carrying balance	Provision for impairment	Book value
Construction project of Guangzhou Pharmaceutical Sorting and Distribution Center (廣州醫藥分揀配送中心建設項目)	121,905,674.93	-	121,905,674.93	108,362,241.81	-	108,362,241.81
Guangzhou Nansha Logistic Center Project (廣州南沙物流中心項目)	2,244,495.44	-	2,244,495.44	2,222,397.33	-	2,222,397.33
Total	124,150,170.37	-	124,150,170.37	110,584,639.14	-	110,584,639.14

(2) Changes in major construction-in-progress

Name of project	Balance as at 31 December 2019 (Audited)	Addition for the period	Reduction for the period: Transfer to fixed assets	Reduction for the period: Other reductions	Balance as at 30 June 2020 (Unaudited)
Construction project of Guangzhou Pharmaceutical Sorting and Distribution Center	108,362,241.81	13,543,433.12	–	–	121,905,674.93
Guangzhou Nansha Logistic Center Project	2,222,397.33	22,098.11	–	–	2,244,495.44
Total	110,584,639.14	13,565,531.23	–	–	124,150,170.37

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	9,120.75	100%	100%				Raised funds and own funds
Construction project of Guangzhou Pharmaceutical Sorting and Distribution Center	14,041.93	87%	87%	1,372.29	500.93	5.39%	Loans from financial institutions
Other sporadic constructions	225.55	100%	100%				Raised funds and own funds
Total	23,388.23	-	-	1,372.29	500.93		

10. Right-of-use assets

Item	Buildings and structures	Machinery and equipment	Transportation vehicles	Total
I. Original book value				
Balance as at 31 December 2019 (Audited)	21,819,034.87	–	–	21,819,034.87
Adjustments from changes in accounting policies	–	–	–	–
1. Balance in the beginning of the period (Audited)	–	–	–	–
2. Addition for the period (Unaudited)	–	–	–	–
(1) New lease	–	–	–	–
(2) Increase from business combination	–	–	–	–
3. Reduction for the period (Unaudited)	–	–	–	–
(1) Disposal	–	–	–	–
4. Balance as at 30 June 2020 (Unaudited)	21,819,034.87	–	–	21,819,034.87
II. Accumulated depreciation				
Balance as at 31 December 2019 (Audited)	6,426,158.03	–	–	6,426,158.03
Adjustments from changes in accounting policies	–	–	–	–
1. Balance in the beginning of the period (Audited)	–	–	–	–
2. Addition for the period (Unaudited)	1,417,223.47	–	–	1,417,223.47
(1) Accrued	1,417,223.47	–	–	1,417,223.47
3. Reduction for the period (Unaudited)	–	–	–	–
(1) Disposal	–	–	–	–
4. Balance as at 30 June 2020 (Unaudited)	7,843,381.50	–	–	7,843,381.50
III. Book value				
1. Book value as at 30 June 2020 (Unaudited)	13,975,653.37	–	–	13,975,653.37
Book value as at 31 December 2019 (Audited)	15,392,876.84	–	–	15,392,876.84
Adjustments from changes in accounting policies	–	–	–	–

11. Intangible assets

(1) Details of intangible assets

Items		Land use rights	Computer software	Total
I.	Original book value			
1.	Balance as at 31 December 2019 (Audited)	164,253,763.65	18,792,804.99	183,046,568.64
2.	Addition for the period (Unaudited)	–	–	–
	(1) Purchase	–	–	–
	(2) Transfer from construction-in-progress	–	–	–
3.	Reduction for the period (Unaudited)	–	–	–
	(1) Disposal	–	–	–
4.	Balance as at 30 June 2020 (Unaudited)	164,253,763.65	18,792,804.99	183,046,568.64
II.	Accumulated amortization			
1.	Balance as at 31 December 2019 (Audited)	24,460,908.76	5,504,699.85	29,965,608.61
2.	Addition for the period (Unaudited)	2,160,139.66	959,434.82	3,119,574.48
	(1) Provision	2,160,139.66	959,434.82	3,119,574.48
	(2) Addition as a result of business combination	–	–	–
3.	Reduction for the period (Unaudited)	–	–	–
	(1) Disposal	–	–	–
4.	Balance as at 30 June 2020 (Unaudited)	26,621,048.42	6,464,134.67	33,085,183.09
III.	Impairment provision			
1.	Balance as at 31 December 2019 (Audited)	–	–	–
2.	Addition for the period (Unaudited)	–	–	–
	(1) Provision	–	–	–
3.	Reduction for the period (Unaudited)	–	–	–
	(1) Disposal	–	–	–
4.	Balance as at 30 June 2020 (Unaudited)	–	–	–
IV.	Book value			
1.	Book value as at 30 June 2020 (Unaudited)	137,632,715.23	12,328,670.32	149,961,385.55
2.	Book value as at 31 December 2019 (Audited)	139,792,854.89	13,288,105.14	153,080,960.03

Note: As at 30 June 2020, 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 2019 (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 2020 (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 2019 (Audited)	Addition for the period Accrued	Addition for the period Others	Reduction for the period Disposal	Reduction for the period Others	Balance as at 30 June 2020 (Unaudited)
Zhuhai Charmacy Company	1,465,937.31	–	–	–	–	1,465,937.31
Guangzhou Charmacy Company	–	–	–	–	–	–
Total	1,465,937.31	–	–	–	–	1,465,937.31

Note: The Group recognizes an impairment loss on the goodwill asset group as the difference between the present value of the estimated future net cash flows from the goodwill asset group and the carrying value of such asset group. At the end of the period, the management performed an impairment assessment on goodwill. There was no impairment for the period after the assessment.

13. *Long-term expenses to be amortized*

Items	Balance as at 31 December 2019 (Audited)	Addition for the period	Amortization for the period	Other reduction for the period	**Balance as at 30 June 2020 (Unaudited)**
Installation expenses for the guard house and delivery platform (崗亭與收貨平台安裝費用)	134,940.60	–	4,109.86	–	**130,830.74**
Zhuhai Charmacy warehouse installation project (珠海創美倉庫安裝工程)	5,337,386.32	–	355,819.31	–	**4,981,567.01**
Zhuhai canteen renovation project (珠海食堂裝修工程)	31,185.43	–	10,395.14	–	**20,790.29**
Total	5,503,512.35	–	370,324.31	–	**5,133,188.04**

14. *Deferred income tax assets and deferred income tax liabilities*

(1) *Deferred income tax assets not offset*

Items	**Balance as at 30 June 2020 (Unaudited)**		Balance as at 31 December 2019 (Audited)	
	Deferred income tax assets	**Deductible temporary differences**	Deferred income tax assets	Deductible temporary differences
Provision for asset impairment	**5,975,085.64**	**23,900,342.56**	5,215,849.77	20,863,399.04
Government grants	**247,574.44**	**990,297.74**	304,707.00	1,218,827.99
Deductible losses	**60,304.29**	**241,217.14**	62,476.56	249,906.25
Unrealized internal sales gains and losses	**–**	**–**	444,037.40	1,776,149.60
Total	**6,282,964.37**	**25,131,857.44**	6,027,070.73	24,108,282.88

(2) *Deferred income tax liabilities not offset*

Items	Balance as at 30 June 2020 (Unaudited) Deferred income tax liabilities	Balance as at 30 June 2020 (Unaudited) Taxable temporary differences	Balance as at 31 December 2019 (Audited) Deferred income tax liabilities	Balance as at 31 December 2019 (Audited) Taxable temporary differences
Unrealized internal sales gains and losses	–	–	–	–
Total	–	–	–	–

15. Short-term borrowings

Types of borrowings	Balance as at 30 June 2020 (Unaudited)	Balance as at 31 December 2019 (Audited)
Pledged borrowings	60,054,166.68	87,124,766.84
Secured borrowings	232,790,414.83	204,742,184.36
Guaranteed borrowings	173,301,148.23	106,704,707.97
Credit borrowings	100,096,950.02	40,103,675.01
Borrowings from discounted bills receivables	27,176,606.37	63,514,035.00
Total	593,419,286.13	502,189,369.18

Note: The Group had no past due and outstanding short-term borrowings, and the amount repaid subsequent to the balance sheet date was RMB118,602,161.30.

16. Bills payables

Classification of bills	Balance as at 30 June 2020 (Unaudited)	Balance as at 31 December 2019 (Audited)
Bank acceptance bills	628,198,646.69	829,061,059.77
Commercial drafts	–	4,500,000.00
Total	628,198,646.69	833,561,059.77

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

17. Trade payables

(1) Trade payables

Item	Balance as at 30 June 2020 (Unaudited)	Balance as at 31 December 2019 (Audited)
Payment for goods	**412,287,426.57**	432,594,542.27
Equipment costs	**–**	12,132,400.27
Project maintenance costs	**–**	229,914.30
Total	**412,287,426.57**	444,956,856.84

(2) Aging analysis of trade payables

Below is an aging analysis of trade payables based on transaction date as at 30 June 2020:

Age	Balance as at 30 June 2020 (Unaudited)	Balance as at 31 December 2019 (Audited)
Within 1 year	**407,245,352.75**	438,811,912.47
1 to 2 years	**4,111,894.26**	5,763,433.44
2 to 3 years	**558,902.40**	55,427.76
More than 3 years	**371,277.16**	326,083.17
Total	**412,287,426.57**	444,956,856.84

18. Contract liabilities

Item	Balance as at 30 June 2020 (Unaudited)	Balance as at 31 December 2019 (Audited)
Payment for goods	**1,626,179.79**	2,864,226.16
Total	**1,626,179.79**	2,864,226.16

As at 30 June 2020, 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 2019 (Audited)	Addition for the period	Reduction for the period	Balance as at 30 June 2020 (Unaudited)
Short-term remuneration	4,735,446.57	32,021,342.62	32,602,959.81	4,153,829.38
Post-employment benefits				
– Defined contribution plan	–	1,051,021.54	1,051,021.54	–
Termination benefits	–	–	–	–
Total	4,735,446.57	33,072,364.16	33,653,981.35	4,153,829.38

(2) Short-term remuneration

Items	Balance as at 31 December 2019 (Audited)	Addition for the period	Reduction for the period	Balance as at 30 June 2020 (Unaudited)
Salaries, bonuses, allowances and subsidies	4,680,231.59	27,777,185.85	28,356,453.96	4,100,963.48
Staff welfare payments	–	1,979,190.96	1,979,190.96	–
Social insurance premiums	–	780,712.61	780,712.61	–
Of which: Medical insurance premium	–	573,241.35	573,241.35	–
Industrial injury insurance premium	–	11,115.22	11,115.22	–
Maternity insurance premium	–	196,356.04	196,356.04	–
Housing provident fund	–	1,126,508.64	1,126,508.64	–
Labor union expenses and staff education expenses	55,214.98	357,744.56	360,093.64	52,865.90
Others	–	–	–	–
Total	4,735,446.57	32,021,342.62	32,602,959.81	4,153,829.38

(3) Defined contribution plan

Items	Balance as at 31 December 2019 (Audited)	Addition for the period	Reduction for the period	Balance as at 30 June 2020 (Unaudited)
Basic pension insurance	–	1,031,792.84	1,031,792.84	–
Unemployment insurance premium	–	19,228.70	19,228.70	–
Total	–	1,051,021.54	1,051,021.54	–

20. Tax payables

Items	Balance as at 30 June 2020 (Unaudited)	Balance as at 31 December 2019 (Audited)
VAT	**44,194,156.76**	42,442,808.20
Enterprise income tax	**10,468,833.65**	6,202,620.75
Individual income tax	**2,558,354.11**	76,055.58
Property taxes	**1,509,770.46**	–
Tax on land use	**164,079.78**	–
Stamp duty	**144,115.11**	153,055.98
Urban maintenance and construction tax	**65,092.88**	66,243.63
Education surcharge	**27,896.95**	47,316.88
Local education surcharge	**18,597.96**	–
Other taxes	**1,050.00**	1,050.00
Total	**59,151,947.66**	48,989,151.02

21. Other payables

(1) Classification

Items	Balance as at 30 June 2020 (Unaudited)	Balance as at 31 December 2019 (Audited)
Dividend payables	**9,100,000.00**	–
Other payables	**12,006,858.85**	11,798,422.22
Total	**21,106,858.85**	11,798,422.22

(2) Classification of other payables by nature of payment

Nature of payment	Balance as at 30 June 2020 (Unaudited)	Balance as at 31 December 2019 (Audited)
Margin	**7,906,308.22**	6,365,800.00
Intermediary expenses	**3,393,009.00**	4,193,009.00
Transportation costs	**6,660.00**	630,398.94
Others	**700,881.63**	609,214.28
Total	**12,006,858.85**	11,798,422.22

22. Non-current liabilities due within one year

Items	**Balance as at 30 June 2020 (Unaudited)**	Balance as at 31 December 2019 (Audited)
Long-term borrowings due within one year	**31,588,152.67**	26,852,567.42
Lease liabilities due within one year	**1,948,860.11**	2,311,631.44
Total	**33,537,012.78**	29,164,198.86

23. Long-term borrowings

(1) Classification of long-term borrowings

Types of borrowings	**Balance as at 30 June 2020 (Unaudited)**	Balance as at 31 December 2019 (Audited)
Secured borrowings	**165,837,801.53**	153,205,706.41
Subtotal	**165,837,801.53**	153,205,706.41
Less: long-term borrowings due within one year	**31,588,152.67**	26,852,567.42
Total	**134,249,648.86**	126,353,138.99

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

Item	**Balance as at 30 June 2020 (Unaudited)**	Balance as at 31 December 2019 (Audited)
1 to 2 years	**31,588,152.67**	26,600,660.84
2 to 5 years	**94,764,458.02**	79,801,982.52
Over 5 years	**7,897,038.17**	19,950,495.63
Total	**134,249,648.86**	126,353,138.99

Note 1: The long-term borrowings due within one year have been reclassified to "non-current liabilities due within one year" as shown in Note VI. 22.

24. Lease liabilities

Items	Balance as at 30 June 2020 (Unaudited)
First year after the balance sheet date	2,768,982.06
Second year after the balance sheet date	2,630,057.40
Third year after the balance sheet date	2,630,057.40
Subsequent years	10,520,229.60
Total minimum lease payments	18,549,326.46
Less: finance costs not recognized	2,878,559.48
Present value of minimum lease payments	15,670,766.98
Including: lease liabilities due within one year	1,948,860.11
Lease liabilities due after one year	13,721,906.87

Note 1: The lease liabilities due within one year have been reclassified to "non-current liabilities due within one year" as shown in Note VI.22.

25. Deferred income

(1) Classification of deferred income

Item	Balance as at 31 December 2019 (Audited)	Addition for the period	Reduction for the period	Balance as at 30 June 2020 (Unaudited)
Government grants	1,218,827.99	–	228,530.25	990,297.74
Total	1,218,827.99	–	228,530.25	990,297.74

(2) Government grant program

Government grant program	Balance as at 31 December 2019 (Audited)	New grant amount for the period	Amount included in other gains for the period	Other changes	Balance as at 30 June 2020 (Unaudited)	Asset-related/ Income-related
Government grant for logistics standardization program	1,218,827.99	-	228,530.25	-	990,297.74	Asset-related
Total	1,218,827.99	-	228,530.25	-	990,297.74	

Name of shareholders	Balance as at 31 December 2019 (Audited)	Addition for the period	Reduction for the period	**Balance as at 30 June 2020 (Unaudited)**
Yao Chuanglong	59,000,000.00	–	–	**59,000,000.00**
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**
Meizhi Investment	3,200,000.00	–	–	**3,200,000.00**
Shantou Zhichuang Investment Management Limited Partnership ("**Zhichuang Investment**")	1,800,000.00	–	–	**1,800,000.00**
Shantou Youran Investment Management Limited Partnership ("**Youran Investment**")	1,700,000.00	–	–	**1,700,000.00**
H-share Shareholders	28,000,000.00	–	–	**28,000,000.00**
Total	108,000,000.00	–	–	**108,000,000.00**

26. Capital reserve

Items	Balance as at 31 December 2019 (Audited)	Addition for the period	Reduction for the period	**Balance as at 30 June 2020 (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**

27. Surplus reserve

Item	Balance as at 31 December 2019 (Audited)	Addition for the period	Reduction for the period	**Balance as at 30 June 2020 (Unaudited)**
Statutory surplus reserve	15,732,626.03	–	–	**15,732,626.03**
Total	15,732,626.03	–	–	**15,732,626.03**

28. Unallocated profits

Items	**Six months ended 30 June 2020 (Unaudited)**	2019 (Audited)
Balance as at the end of last period	**80,869,499.06**	76,081,036.24
Add: adjustment to the opening balance of unallocated profit	**–**	–897,781.52
Balance as at the beginning of the period	**80,869,499.06**	75,183,254.72
Add: Net profit attributable to the owners of the parent company for the period	**30,873,179.62**	40,153,355.52
Less: Appropriation of statutory surplus reserve	**–**	2,067,111.18
Dividends payable on ordinary shares	**21,600,000.00**	32,400,000.00
Dividends on ordinary shares converted to share capital	**–**	–
Balance at the end of the period	**90,142,678.68**	80,869,499.06

29. Operating revenue and operating cost

Items	Six months ended 30 June 2020 Revenue (Unaudited)	Cost (Unaudited)	Six months ended 30 June 2019 Revenue (Unaudited)	Cost (Unaudited)
Principal business	**1,847,725,714.32**	**1,738,486,641.89**	1,698,410,396.06	1,571,371,663.46
Other businesses	**13,033,681.47**	**–**	9,677,358.74	–
Total	**1,860,759,395.79**	**1,738,486,641.89**	1,708,087,754.80	1,571,371,663.46

30. Taxes and surcharges

Items	Six months ended 30 June 2020 (Unaudited)	2019 (Unaudited)
Stamp duty	**835,806.73**	667,035.85
Property tax	**1,509,770.46**	1,370,000.42
Urban maintenance and construction tax	**434,185.78**	1,257,310.63
Education surcharge	**186,079.63**	898,079.02
Local education surcharge	**124,053.06**	–
Tax on land use	**164,079.78**	180,486.54
Vehicle and vessel tax	**8,711.32**	9,597.01
Environment protection tax	**2,100.00**	2,100.00
Total	**3,264,786.76**	4,384,609.47

For the rate of taxes and surcharges, please refer to Note V Taxation.

31. Selling expenses

Items	Six months ended 30 June 2020 (Unaudited)	2019 (Unaudited)
Staff remuneration	**22,363,760.71**	22,520,657.88
Transportation costs	**4,749,418.83**	4,673,084.42
Office expenses	**3,451,996.94**	3,391,512.48
Depreciation and amortization	**8,836,445.99**	4,698,561.92
Promotion and advertising expenses	**25,081.99**	311,803.23
Business entertainment expenses	**84,413.30**	210,123.55
Travelling expenses	**107,127.98**	193,911.87
Others	**1,020,522.27**	115,061.41
Total	**40,638,768.01**	36,114,716.76

32. Management expenses

Items	Six months ended 30 June 2020 (Unaudited)	2019 (Unaudited)
Staff remuneration	**9,600,435.89**	10,389,916.85
Office expenses	**2,212,071.23**	3,346,255.31
Depreciation and amortization	**3,512,980.81**	7,267,650.70
Expenses on engaging intermediary agencies	**1,024,186.43**	1,152,240.32
Of which: Auditor's remuneration	**50,000.00**	141,545.10
– Audit service expenses	**50,000.00**	66,981.13
Share-based payment	**–**	–
Travelling expenses	**38,242.66**	112,822.82
Business entertainment expenses	**40,617.79**	139,266.69
Promotion and advertising expenses	**56,310.68**	–
Loss on inventory	**–**	22,445.56
Others	**33,059.68**	43,350.06
Total	**16,517,905.17**	22,473,948.31

33. Finance costs

Items	Six months ended 30 June 2020 (Unaudited)	2019 (Unaudited)
Interest expenses	**14,509,595.87**	13,226,829.25
Less: Interest income	**2,096,766.33**	1,403,839.44
Add: Interest on lease liabilities	**435,906.14**	505,746.72
Add: Loss on foreign exchange	**−7,793.86**	−1,521.91
Add: Handling fees	**2,467,089.02**	2,128,361.27
Total	**15,308,030.84**	14,455,575.89

34. Other gains

Items	Six months ended 30 June 2020 (Unaudited)	2019 (Unaudited)	Sources & basis
Government grants for logistics standardization program	**228,530.25**	228,530.25	Foshan Commercial Service Letter <2015> No. 182 "Notice of Foshan Municipal Bureau of Commerce on Organizing and Reporting 2015 Foshan Logistics Standardization Pilot Project"
Individual income tax fee refund	**122,044.65**		"Individual Income Tax in the PRC"
Total	**350,574.90**	228,530.25	

35. *Impairment loss of credit*

Items	Six months ended 30 June 2020 (Unaudited)	2019 (Unaudited)
Loss on bad debts	**–3,107,249.35**	586,422.52
Total	**–3,107,249.35**	586,422.52

36. *Impairment loss of assets*

Items	Six months ended 30 June 2020 (Unaudited)	2019 (Unaudited)
Loss on impairment of inventories	**–2,954,328.08**	–2,649,263.69
Impairment loss on goodwill	**–**	–
Total	**–2,954,328.08**	–2,649,263.69

37. *Gains on disposal of assets*

Items	Six months ended 30 June 2020 (Unaudited)	2019 (Unaudited)	Amount charged to non-recurring profit or loss for the period
Gains on disposal of non-current assets	**12,944.85**	–39,889.87	12,944.85
Of which: Gains on disposal of non-current assets that are not classified as held for sale	**12,944.85**	–39,889.87	12,944.85
Of which: Gains on disposal of fixed assets	**12,944.85**	–39,889.87	12,944.85
Total	**12,944.85**	–39,889.87	12,944.85

38. *Non-operating revenue*

Items	2020 (Unaudited)	2019 (Unaudited)	Amount charged to non-recurring profit or loss for the period
	Six months ended 30 June		
Government grants	**730,198.46**	228,605.55	730,198.46
Others	**233,919.13**	2,371.22	233,919.13
Total	**964,117.59**	230,976.77	964,117.59

39. *Non-operating expenses*

Items	2020 (Unaudited)	2019 (Unaudited)	Amount charged to non-recurring profit or loss for the period
	Six months ended 30 June		
External donation	**63,643.95**	25,440.00	63,643.95
Others	**49.17**	147.14	49.17
Total	**63,693.12**	25,587.14	63,693.12

40. Income tax expenses

(1) Income tax expenses

Items	For the six months ended 30 June 2020 (Unaudited)	2019 (Unaudited)
Current income tax calculated according to the tax law and related regulations	**11,110,742.43**	15,765,620.82
– PRC	**11,110,742.43**	15,765,620.82
– Hong Kong	**–**	–
Deferred income tax expenses	**–238,292.14**	–451,892.38
Total	**10,872,450.29**	15,313,728.44

The Group had no Hong Kong income tax, since it had no taxable income in Hong Kong for the six months ended 30 June 2019 and 2020.

(2) Reconciliation between accounting profit and income tax expenses

Items	For the six months ended 30 June 2020 (Unaudited)
Combined total profit for the period	**41,745,629.91**
Income tax expenses calculated at statutory/applicable tax rate	**11,110,742.43**
Effect of non-deductible costs, expenses and losses	**–**
Tax effect of deductible losses and deductible temporary difference not recognized for the current period	**-238,292.14**
Other	**–**
Income tax expenses	**10,872,450.29**

41. 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	6.24	0.2859	0.2859
Net profit attributable to the shareholders of parent company (excluding non-recurring profit and loss)	6.05	0.2771	0.2771

42. Supplementary information to statement of cash flow

Items	For the six months ended 30 June 2020 (Unaudited)	2019 (Unaudited)
1. Reconciliation of net profit to cash flows from operating activities:		
Net profit	**30,873,179.62**	42,304,701.32
Add: Provision for impairment on assets	**2,954,328.08**	2,649,263.69
Impairment loss of credit assets	**3,107,249.35**	–586,422.52
Depreciation of fixed assets, depletion of petroleum and natural gas properties, depreciation of productive biological assets	**8,200,205.09**	7,977,335.94
Amortization of intangible assets	**3,119,574.48**	3,134,656.72
Amortization of long-term expenses to be amortized	**851,780.97**	851,780.97
Loss on disposal of fixed assets, intangible assets and other long-term assets ("–" for gain)	**–12,944.85**	39,889.87
Loss on retired fixed assets ("–" for gain)	**–**	–
Gain or loss arising from changes in fair value ("–" for gain)	**–**	–
Finance costs ("–" for gain)	**10,258,723.35**	9,840,916.36
Investment loss ("–" for gain)	**–**	–
Decrease in deferred income tax assets ("–" for increase)	**–255,893.64**	473,161.57
Increase in deferred income tax liabilities ("–" for decrease)	**–**	–200,653.30
Decrease in inventories ("–" for increase)	**–2,032,187.97**	5,747,487.08
Decrease in receivables from operating activities ("–" for increase)	**47,420,177.52**	126,760,084.44
Increase in payables from operating activities ("–" for decrease)	**–324,164,970.71**	–209,566,268.81
Others	**–**	–
Net cash flow from operating activities	**–219,680,778.71**	–10,574,066.67
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	**61,154,914.63**	34,878,183.14
Less: cash balance as at the beginning of the period	**40,149,434.90**	55,738,786.02
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	**21,005,479.73**	–20,860,602.88

VII. CHANGES IN SCOPE OF CONSOLIDATION

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

VIII. INTERESTS IN OTHER ENTITIES

1. Interests in subsidiaries

(1) Composition of the corporation

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

IX. RISKS RELATED TO FINANCIAL INSTRUMENTS

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

1. Objective and policies of various risks management

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

(1) Market risk

1) Foreign exchange risk

Foreign exchange risk is the risk arising from changes in fair value or future cash flows of financial instrument resulted from changes in exchange rate. The Group's foreign exchange risk relates mainly to Hong Kong Dollars. Except for the proceeds from the H Share offering, payment of H Share dividends and minor expenses incurred in the Hong Kong Special Administrative Region, other main business activities of the Group are settled in RMB. As at 30 June 2020, the changes in the fair value or future cash flows from the assets and liabilities of the balance of the account denominated in HK$ due to changes in exchange rates may have impact on the Group's operating results as set out in the following table.

	Asset as at	
Currency	**30 June 2020**	31 December 2019
	(Unaudited)	(Audited)
	(Equivalent to RMB)	(Equivalent to RMB)
Monetary funds – HK$	**403,060.43**	395,670.97
Total	**403,060.43**	395,670.97

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

2) Interest rate risk

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

3) Other price risks

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

(2) Credit risk

As at 30 June 2020, the maximum credit risk exposure that might incur financial losses to the Group was mainly attributable to the losses of financial assets due to a contractual failure of counterparty to perform its obligations. Specifically, such losses include:

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

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

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

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

(3) *Liquidity risk*

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

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

Item	Book value	Within 1 year	1 to 5 years	Over 5 years	Total
Monetary funds	379,570,299.40	379,570,299.40	–	–	379,570,299.40
Bills receivables	36,643,736.08	36,643,736.08	–	–	36,643,736.08
Trade receivables	687,102,829.22	687,102,829.22	–	–	687,102,829.22
Other receivables	12,948,560.21	12,948,560.21	–	–	12,948,560.21
Other current assets	32,425,117.53	32,425,117.53	–	–	32,425,117.53
Short-term borrowings	593,419,286.13	593,419,286.13	–	–	593,419,286.13
Bills payables	628,198,646.69	628,198,646.69	–	–	628,198,646.69
Trade payables	412,287,426.57	412,287,426.57	–	–	412,287,426.57
Salaries payable to employees	4,153,829.38	4,153,829.38	–	–	4,153,829.38
Other payables	21,106,858.85	21,106,858.85	–	–	21,106,858.85
Other current liabilities	–	–	–	–	–
Long-term borrowings	165,837,801.53	31,588,152.67	126,352,610.69	7,897,038.17	165,837,801.53
Contract liabilities	1,626,179.79	1,626,179.79	–	–	1,626,179.79

2. *Fair value*

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

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

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

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

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

X. RELATED PARTIES AND RELATED PARTY TRANSACTIONS

(I) Relationship with related parties

1. *Controlling shareholder and ultimate controller*

(1) Controlling shareholder and ultimate controller

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

(2) Registered capital of controlling shareholder and its changes

Controlling shareholder	Balance as at 31 December 2019 (Audited)	Addition for the period	Reduction for the period	Balance as at 30 June 2020 (Unaudited)
Yao Chuanglong	59,000,000.00	–	–	**59,000,000.00**

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

Controlling shareholder	Shareholding amount		Percentage of shareholding (%)	
	Balance as at 30 June 2020 (Unaudited)	Balance as at 31 December 2019 (Audited)	Percentage as at 30 June 2020 (Unaudited)	Percentage as at 31 December 2019 (Audited)
Yao Chuanglong	**59,000,000.00**	59,000,000.00	**54.63**	54.63

2. *Subsidiaries*

For details of subsidiaries, please see "VIII. 1. (1) Composition of the corporation" 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 is mainly consisted of employees of the Company
Zhichuang Investment	Holding 1.67% equity interest in the Company, a shareholding platform that is mainly consisted of employees of the Company
Meizhi Investment	Holding 2.96% equity interest in the Company, a shareholding platform that is mainly consisted of employees of the Company and an enterprise in which Lin Zhixiong, our executive Director, secretary of the Company and Chief Financial Officer, serves as a general partner
Guangzhou Baiyunshan Pharmaceutical Holdings Co., Ltd. (廣州白雲山醫藥集團股份有限公司) (hereinafter referred to as "Baiyunshan" (白雲山)) 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 our non-executive Director Li Weisheng holds a directorship
Guangzhou Pharmaceutical Baiyunshan Macau Company Limited (廣藥白雲山澳門有限公司)	An enterprise in which Li Weisheng, the non-executive Director, serves as the chairman of the board

Name of other related parties	Relationship with the Company
Guangzhou Pharmaceutical (Zhuhai Hengqin) TCM Industry Co., Ltd. (廣藥國際(珠海橫琴)中醫藥產業有限公司)	An enterprise in which our non-executive Director Li Weisheng serves as a supervisor
Zheng Yuyan, Lin Zhixiong, Li Weisheng, Wan Chi Wai Anthony, Zhou Tao, Guan Jian, Zhang Ling, Zheng Xiyue, Lin Zhijie, 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 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 general manager
King & Wood Mallesons (金杜律師事務所)	An enterprise in which Wan Chi Wai Anthony, the independent non-executive Director, serves as partner
Grandway Law Offices (國楓律師事務所)	An enterprise in which Zhou Tao, the independent non-executive Director, serves as partner
HM International Holdings Limited	An enterprise in which Wan Chi Wai Anthony, 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 Anthony, the independent non-executive Director, serves as the independent non-executive director
C.K.J Professional Dental Hospital Group Limited (深圳市愛康健齒科集團股份有限公司)	An enterprise in which Zhang Ling, the Supervisor, serves as the independent non-executive director
Jiangsu Kunyee Environmental Engineering Co., Ltd. (江蘇坤奕環境工程有限公司)	An enterprise in which Zhang Ling, the Supervisor, serves as the chief financial officer
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
Hubei Forbon Technology Co., Ltd. (湖北富邦科技股份有限公司)	An enterprise in which Guan Jian, the independent non-executive Director, serves as an independent non-executive director

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

Company name	Related party relationships with Baiyunshan
Guangzhou Cai Zhi Lin Pharmaceutical Co., Ltd. (廣州采芝林藥業有限公司)	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 Guo Ying Pharmaceutical Co., Ltd. (廣州國盈醫藥有限公司)	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
Hainan GP Chenfei Pharmaceutical Company Limited (海南廣藥晨菲醫藥有限公司)	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
Guangzhou Pharmaceutical Pharmacy Co., Ltd. (廣州醫藥大藥房有限公司)	A holding company of Baiyunshan
(State)GuangDong Baiyuantang Gurative Gatenation Co.,Ltd(廣東百源堂醫藥連鎖有限公司)	An associate of Baiyunshan
Guangxi Hongxiang Yi Xin Tang Pharmaceutical Co., Ltd. (廣西鴻翔一心堂藥業有限責任公司)	An associate of Baiyunshan
Sichuan Yi Xin Tang Gurative Gatenation Co.,Ltd (四川一心堂醫藥連鎖有限公司)	An associate of Baiyunshan
Hainan Hongxiang Yi Xin Tang Pharmaceutical Chain Co., Ltd. (海南鴻翔一心堂醫藥連鎖有限公司)	An associate of Baiyunshan
Guangzhou Pharmaceuticals Corporation (廣州醫藥有限公司)	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
Shenzhen Guangyao Liankang Pharmaceutical Company Limited (深圳廣藥聯康醫藥有限公司)	A holding company of Baiyunshan
Guangzhou Baiyunshan Xing Qun Pharmaceutical Co., Ltd. (廣州白雲山星群(藥業)股份有限公司)	A holding company of Baiyunshan
Guangzhou Baiyunshan Zhong Yi Pharmaceutical Company Limited (廣州白雲山中一藥業有限公司)	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 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

Company name	Related party relationships with Baiyunshan
Guangzhou Wang Lao Ji Pharmaceutical Co., Ltd. (廣州王老吉藥業股份有限公司)	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 Baiyunshan Qi Xing Pharmaceutical Co., Ltd. (廣州白雲山奇星藥業有限公司)	A holding company of Baiyunshan
Fujian GuangYao Jieda Pharmaceutical Co., Ltd. (福建廣藥潔達醫藥有限公司)	A holding company 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 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 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 Hutchison Whampoa Chinese Medicine Co., Ltd. (廣州白雲山和記黃埔中藥有限公司)	An associate of Baiyunshan
Hutchison Whampoa Guangzhou Baiyunshan Pharmaceutical Co., Ltd. (廣州白雲山和黃醫藥有限公司)	An associate of Baiyunshan
Guangzhou Baiyunshan Pharmaceutical Marketing Co., Ltd. (廣州白雲山醫藥銷售有限公司)	A holding company of Baiyunshan
Guangzhou Baiyunshan Pharmaceutical Co.,Ltd. Guangzhou Baiyunshan Pharmaceutical General (廣州白雲山醫藥集團股份有限公司白雲山製藥總廠)	A holding company 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 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 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 party	Types of related party transactions	Pricing method and decision making procedure for related party transactions	Six months ended 30 June 2020 (Unaudited)	2019 (Unaudited)
1.Sales and rendering of services				
Guangzhou Cai Zhi Lin Pharmaceutical Co., Ltd.	Sales of goods	Determined after negotiation by reference to market rates	22,551,072.74	16,012,787.55
Guangzhou Jianmin Pharmaceutical Company Limited	Sales of goods	Determined after negotiation by reference to market rates	2,130,659.45	1,798,938.57
Guangzhou Guo Ying Pharmaceutical Co., Ltd.	Sales of goods	Determined after negotiation by reference to market rates	11,853.77	–
Guangzhou Cai Zhi Lin Corporation Bei Shang Chinese Raw Medicine Co., Ltd.	Sales of goods	Determined after negotiation by reference to market rates	260,234.85	22,000.40
Hainan GP Chenfei Pharmaceutical Company Limited	Sales of goods	Determined after negotiation by reference to market rates	54,401.78	–
Zhuhai Guang Yao Kangming Pharmaceutical Co., Ltd.	Sales of goods	Determined after negotiation by reference to market rates	41,040.34	12,072.30
Guangzhou Pharmaceutical Pharmacy Co., Ltd.	Sales of goods	Determined after negotiation by reference to market rates	52,114.36	–
(State) GuangDong Baiyuantang Gurative Gatenation Co.,Ltd	Sales of goods	Determined after negotiation by reference to market rates	1,378,699.22	579,549.51
Guangxi Hongxiang Yi Xin Tang Pharmaceutical Co., Ltd.	Sales of goods	Determined after negotiation by reference to market rates	1,431,849.63	869,498.64
Sichuan Yi Xin Tang Gurative Gatenation Co.,Ltd	Sales of goods	Determined after negotiation by reference to market rates	319,288.95	–
Hainan Hongxiang Yi Xin Tang Pharmaceutical Chain Co., Ltd.	Sales of goods	Determined after negotiation by reference to market rates	1,500,787.12	2,175,358.86
Guangzhou Pharmaceuticals Corporation	Sales of goods	Determined after negotiation by reference to market rates	-	171,288.73
Foshan GPC Jianze Pharmaceutical Co., Ltd	Sales of goods	Determined after negotiation by reference to market rates	-	197,752.96
Shenzhen Guangyao Liankang Pharmaceutical Company Limited	Sales of goods	Determined after negotiation by reference to market rates	-	22,060.33

Name of related party	Types of related party transactions	Pricing method and decision making procedure for related party transactions	Six months ended 30 June 2020 (Unaudited)	2019 (Unaudited)
2.Procurement and acceptance of services				
Guangzhou Baiyunshan Xing Qun Pharmaceutical Co., Ltd.	Procurement of goods	Determined after negotiation by reference to market rates	**17,753,933.03**	–
Guangzhou Baiyunshan Zhong Yi Pharmaceutical Company Limited	Procurement of goods	Determined after negotiation by reference to market rates	**44,950,478.96**	–
Guangzhou Baiyunshan Chen Li Ji Pharmaceutical Factory Co., Ltd.	Procurement of goods	Determined after negotiation by reference to market rates	**5,400,324.96**	–
Guangzhou Baiyunshan Pan Gao Shou Pharmaceutical Co., Ltd.	Procurement of goods	Determined after negotiation by reference to market rates	**10,269,431.08**	–
Guangzhou Wang Lao Ji Pharmaceutical Co., Ltd.	Procurement of goods	Determined after negotiation by reference to market rates	**26,920,611.65**	–
Guangzhou Pharmaceuticals Corporation	Procurement of goods	Determined after negotiation by reference to market rates	**93,459,748.28**	33,198,945.74
Guangzhou Cai Zhi Lin Pharmaceutical Co., Ltd.	Procurement of goods	Determined after negotiation by reference to market rates	**12,619,906.26**	27,304,869.87
Guangzhou Pharmaceutical Import and Export Company Limited	Procurement of goods	Determined after negotiation by reference to market rates	**270,796.46**	21,575,689.66
Guangzhou Baiyunshan Qi Xing Pharmaceutical Co., Ltd.	Procurement of goods	Determined after negotiation by reference to market rates	**1,249,864.20**	2,143,976.05
Fujian GuangYao Jieda Pharmaceutical Co., Ltd.	Procurement of goods	Determined after negotiation by reference to market rates	**1,285,164.15**	–
Guangzhou Guo Ying Pharmaceutical Co., Ltd.	Procurement of goods	Determined after negotiation by reference to market rates	**4,845,184.04**	6,581,280.11
Foshan GPC Jianze Pharmaceutical Co., Ltd	Procurement of goods	Determined after negotiation by reference to market rates	**199,847.79**	–
Guangzhou Baiyunshan Pharmaceutical Holdings Co., Ltd. Guangzhou Baiyunshan He Ji Gong Pharmaceutical Factory	Procurement of goods	Determined after negotiation by reference to market rates	**6,748,349.68**	12,037,931.38
Guangzhou Baiyunshan Tian Xin Pharmaceutical Co., Ltd.	Procurement of goods	Determined after negotiation by reference to market rates	**4,648,963.32**	10,952,671.12

Name of related party	Types of related party transactions	Pricing method and decision making procedure for related party transactions	Six months ended 30 June 2020 (Unaudited)	2019 (Unaudited)
Guangzhou Baiyunshan Guang Hua Pharmacy Co., Ltd.	Procurement of goods	Determined after negotiation by reference to market rates	663,690.26	1,589,443.86
Guangzhou Baiyunshan Hutchison Whampoa Chinese Medicine Co., Ltd.	Procurement of goods	Determined after negotiation by reference to market rates	6,060,483.70	4,545,735.11
Hutchison Whampoa Guangzhou Baiyunshan Pharmaceutical Co., Ltd.	Procurement of goods	Determined after negotiation by reference to market rates	206,734.52	131,415.93
Guangzhou Baiyunshan Pharmaceutical Marketing Co., Ltd.	Procurement of goods	Determined after negotiation by reference to market rates	29,812,659.76	35,810,900.61

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

* For identification purposes only

(III) Related party balances

Name of item	Six months ended 30 June 2020 (Unaudited)	2019 (Unaudited)
Trade receivables		
Guangzhou Cai Zhi Lin Pharmaceutical Co., Ltd.	**6,633,137.60**	15,778,192.66
Guangzhou Jianmin Pharmaceutical Company Limited	**1,259,755.95**	860,403.07
Guangzhou Guo Ying Pharmaceutical Co., Ltd.	**13,444.00**	–
Guangzhou Cai Zhi Lin Corporation Bei Shang Chinese Raw Medicine Co., Ltd.	**15,711.30**	–
Zhuhai Guang Yao Kangming Pharmaceutical Co., Ltd.	**20,576.93**	5,750.00
Guangzhou Pharmaceutical Pharmacy Co., Ltd.	**4,030.24**	–
(State)GuangDong Baiyuantang Gurative Gatenation Co.,Ltd	**539,686.86**	304,391.24
Guangxi Hongxiang Yi Xin Tang Pharmaceutical Co., Ltd.	**831,436.26**	265,285.47
Sichuan Yi Xin Tang Gurative Gatenation Co.,Ltd	**177,758.32**	–
Hainan Hongxiang Yi Xin Tang Pharmaceutical Chain Co., Ltd.	**532,663.90**	710,253.59
Guangzhou Pharmaceuticals Corporation	**–**	38,682.00
Prepayments		
Guangzhou Baiyunshan Xing Qun Pharmaceutical Co., Ltd.	**5,900,102.71**	4,791,286.53
Guangzhou Baiyunshan Zhong Yi Pharmaceutical Company Limited	**23,211,975.32**	13,583,129.39
Guangzhou Baiyunshan Chen Li Ji Pharmaceutical Factory Co., Ltd.	**2,700,357.37**	631,003.45
Guangzhou Baiyunshan Pan Gao Shou Pharmaceutical Co., Ltd.	**14,101,340.42**	4,376,541.27
Guangzhou Wang Lao Ji Pharmaceutical Co., Ltd.	**2,222,791.91**	2,974,215.74
Guangzhou Pharmaceutical Import and Export Company Limited	**125,720.09**	516.55
Guangzhou Baiyunshan Qi Xing Pharmaceutical Co., Ltd.	**118,870.05**	–

Name of item	Six months ended 30 June 2020 (Unaudited)	2019 (Unaudited)
Guangzhou Baiyunshan Pharmaceutical Co.,Ltd. Guangzhou Baiyunshan Pharmaceutical General	**424.78**	–
Guangzhou Baiyunshan Pharmaceutical Holdings Co., Ltd. Guangzhou Baiyunshan He Ji Gong Pharmaceutical Factory	**3,154,620.52**	4,287,713.19
Guangzhou Baiyunshan Tian Xin Pharmaceutical Co., Ltd.	**54,594.51**	–
Guangzhou Baiyunshan Guang Hua Pharmacy Co., Ltd.	**30.00**	17,256.64
Guangzhou Baiyunshan Ming Xing Pharmaceutical Co., Ltd.	**60,590.02**	13,777.24
Guangzhou Baiyunshan Hutchison Whampoa Chinese Medicine Co., Ltd.	**153,526.28**	870,939.19
Guangzhou Baiyunshan Pharmaceutical Marketing Co., Ltd.	**3,373,252.31**	3,683,316.66

Name of item	Six months ended 30 June 2020 (Unaudited)	2019 (Unaudited)
Other receivables		
Guangzhou Baiyunshan Jing Xiu Tang Pharmaceutical Co., Ltd.	**20,000.00**	20,000.00
Guangzhou Wang Lao Ji Pharmaceutical Co., Ltd.	**150,000.00**	150,000.00
Guangzhou Baiyunshan Hutchison Whampoa Chinese Medicine Co., Ltd.	**20,000.00**	20,000.00
Guangzhou Pharmaceuticals Corporation	**–**	450,000.00
Trade payables		
Guangzhou Cai Zhi Lin Pharmaceutical Co., Ltd.	**4,642,565.10**	16,832,570.28
Fujian GuangYao Jieda Pharmaceutical Co., Ltd.	**715,735.50**	–
Guangzhou Guo Ying Pharmaceutical Co., Ltd.	**1,859,744.89**	2,799,327.75
Guangzhou Chinese Medicine Corporation Chinese Medical Drink and Pill Factory	**1,846.80**	–
Guangzhou Baiyunshan Tian Xin Pharmaceutical Co., Ltd.	**347,981.64**	860,462.85
Guangzhou Pharmaceuticals Corporation	**36,115,271.11**	20,253,792.47
Guangzhou Baiyunshan Chen Li Ji Pharmaceutical Factory Co., Ltd.	**–**	478,414.31
Guangzhou Wang Lao Ji Pharmaceutical Co., Ltd.	**–**	1,997,232.89
Guangzhou Baiyunshan Qi Xing Pharmaceutical Co., Ltd.	**–**	471,763.95
Guangzhou Baiyunshan Pharmaceutical Holdings Co., Ltd. Guangzhou Baiyunshan He Ji Gong Pharmaceutical Factory	**–**	13,677.88
Guangzhou Baiyunshan Hutchison Whampoa Chinese Medicine Co., Ltd.	**–**	224,481.42
Guangzhou Baiyunshan Pharmaceutical Marketing Co., Ltd.	**–**	39,283.71

Name of item	Six months ended 30 June 2020 (Unaudited)	2019 (Unaudited)
Bill payables		
Guangzhou Baiyunshan Xing Qun Pharmaceutical Co., Ltd.	**11,664,513.64**	8,499,587.93
Guangzhou Baiyunshan Zhong Yi Pharmaceutical Company Limited	**33,356,725.00**	5,750,051.74
Guangzhou Baiyunshan Chen Li Ji Pharmaceutical Factory Co., Ltd.	**5,347,046.30**	7,711,080.37
Guangzhou Baiyunshan Pan Gao Shou Pharmaceutical Co., Ltd.	**9,606,606.00**	13,231,118.77
Guangzhou Wang Lao Ji Pharmaceutical Co., Ltd.	**16,937,488.41**	27,402,764.70
Guangzhou Cai Zhi Lin Pharmaceutical Co., Ltd.	**19,269,762.52**	15,041,278.06
Guangzhou Pharmaceutical Import and Export Company Limited	**87,398.00**	8,544,400.00
Guangzhou Baiyunshan Qi Xing Pharmaceutical Co., Ltd.	**1,091,740.50**	518,849.94
Fujian GuangYao Jieda Pharmaceutical Co., Ltd.	**736,500.00**	–
Guangzhou Guo Ying Pharmaceutical Co., Ltd.	**1,855,455.65**	2,330,553.78
Foshan GPC Jianze Pharmaceutical Co., Ltd	**225,828.00**	333,000.00
Guangzhou Baiyunshan Pharmaceutical Holdings Co., Ltd. Guangzhou Baiyunshan He Ji Gong Pharmaceutical Factory	**7,834,821.57**	8,538,090.52
Guangzhou Baiyunshan Tian Xin Pharmaceutical Co., Ltd.	**6,275,527.06**	10,495,160.42
Guangzhou Baiyunshan Guang Hua Pharmacy Co., Ltd.	**750,000.00**	1,429,298.90
Guangzhou Baiyunshan Hutchison Whampoa Chinese Medicine Co., Ltd.	**4,516,549.60**	3,873,880.00
Hutchison Whampoa Guangzhou Baiyunshan Pharmaceutical Co., Ltd.	**233,610.00**	99,000.00
Guangzhou Baiyunshan Pharmaceutical Marketing Co., Ltd.	**22,905,601.75**	16,007,532.99
Guangzhou Pharmaceuticals Corporation	**–**	7,115,116.92

(IV) Compensation of key management

Name of Item	Six months ended 30 June 2020 (Unaudited)	2019 (Unaudited)
Total remuneration	**1,379,251.48**	1,624,088.25

XI. CAPITAL COMMITMENTS

Item	30 June 2020 (Unaudited)
Capital expenditure contracted but not recognized in the financial statements	
– The construction project of Pharmaceutical Sorting and Distribution Center in Guangzhou	**10,157,751.07**
– Purchase of equity interests in Huizhou Zhixin Pharmaceutical Co., Ltd.* (惠州致信醫藥有限公司)	**2,647,000.00**
Total	**12,804,751.07**

XII. EVENTS AFTER THE BALANCE SHEET DATE

As at the date of approval of this financial report, the Group has no subsequent events on the balance sheet date that are subject to disclosure.

XIII. NOTES TO MAJOR ITEMS IN THE PARENT COMPANY'S FINANCIAL STATEMENTS

1. *Bills receivables*

(1) Classification of bills receivables

Item	Balance as at 30 June 2020 (Unaudited)	Balance as at 31 December 2019 (Audited)
Bank acceptance bills	1,072,094.94	12,311,600.00
Commercial drafts	20,980,000.00	15,370,000.00
Subtotal	22,052,094.94	27,681,600.00
Less: Provision for bad debt	98,606.00	44,573.00
Total	21,953,488.94	27,637,027.00

2. *Trade receivables*

Item	Balance as at 30 June 2020 (Unaudited)	Balance as at 31 December 2019 (Audited)
Trade receivables	327,959,833.12	335,907,982.37
Less: Provision for bad debt	4,991,606.36	5,774,969.73
Net amount	322,968,226.76	330,133,012.64

(1) *Classification of trade receivables*

Classification	Balance as at 30 June 2020 (Unaudited)				
	Book balance		Provision for bad debts		Book value
	Amount	Percentage (%)	Amount	Lifetime expected credit loss rate (%)	
Bad debt provision made on individual basis	2,327,458.26	0.71	2,327,458.26	100.00	–
Bad debt provision made on a collective basis	325,632,374.86	99.29	2,664,148.10	0.82	322,968,226.76
Aging portfolio	325,632,374.86	99.29	2,664,148.10	0.82	322,968,226.76
Low risk portfolio	–	–	–	–	–
Total	327,959,833.12	100.00	4,991,606.36	–	322,968,226.76

Classification	Balance as at 31 December 2019 (Audited)				
	Book balance		Provision for bad debts		Book value
	Amount	Percentage (%)	Amount	Lifetime expected credit loss rate (%)	
Bad debt provision made on individual basis	2,436,214.20	0.73	2,436,214.20	100.00	–
Bad debt provision made on a collective basis	333,471,768.17	99.27	3,338,755.53	1.00	330,133,012.64
Aging portfolio	333,471,768.17	99.27	3,338,755.53	1.00	330,133,012.64
Low risk portfolio	–	–	–	–	–
Total	335,907,982.37	100.00	5,774,969.73	–	330,133,012.64

3. *Other receivables*

Items	Balance as at 30 June 2020 (Unaudited)	Balance as at 31 December 2019 (Audited)
Other receivables	33,277,764.92	22,223,991.16
Less: Provision for bad debt	5,000.00	5,000.00
Net amount	33,272,764.92	22,218,991.16

(1) Classification of other receivables

	Balance as at 30 June 2020 (Unaudited)				
	Book balance		Provision for bad debts		Book value
Classification	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 a collective basis	33,272,764.92	99.98	–	–	33,272,764.92
Aging portfolio	–	–	–	–	–
Low recovery risk portfolio	33,272,764.92	99.98	–	–	33,272,764.92
Total	33,277,764.92	100.00	5,000.00	–	33,272,764.92

	Balance as at 31 December 2019 (Audited)				
	Book balance		Provision for bad debts		Book value
Classification	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 a collective basis	22,218,991.16	99.98	–	–	22,218,991.16
Aging portfolio	–	–	–	–	–
Low recovery risk portfolio	22,218,991.16	99.98	–	–	22,218,991.16
Total	22,223,991.16	100.00	5,000.00	–	22,218,991.16

4. Long-term equity investments

(1) Classification of long-term equity investments

	Balance as at 30 June 2020 (Unaudited)			Balance as at 31 December 2019 (Audited)		
Item	Carrying balance	Provisions for impairment	Book value	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 2019 (Audited)	Addition for the period	Reduction for the period	Balance as at 30 June 2020 (Unaudited)	Provision for impairment for the period	Balance of provision for impairment as at the 30 June 2020 (Unaudited)
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 2020 (Unaudited) Revenue	Cost	Six months ended 30 June 2019 (Unaudited) Revenue	Cost
Principal businesses	755,284,990.60	712,147,742.13	665,424,855.23	620,882,244.26
Other businesses	24,681,324.72	3,486,963.95	14,508,381.36	1,749,349.38
Total	779,966,315.32	715,634,706.08	679,933,236.59	622,631,593.64

6. Investment income

Item	Six months ended 30 June 2020 (Unaudited)	2019 (Unaudited)
Long-term equity investment income accounted for using the cost method	18,000,000.00	10,000,000.00
Total	18,000,000.00	10,000,000.00