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

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

Stock Code: 2289

2018
INTERIM REPORT

CONTENTS

FINANCIAL HIGHLIGHTS

Results	Six months ended 30 June **2018** **RMB'000** **(Unaudited)**	 2017 RMB'000 (Unaudited)	Change (%)
Operating revenue	**2,021,988**	1,903,942	6.20
Total profit	**64,315**	57,908	11.06
Net profit attributable to the Shareholders of parent company	**45,640**	42,919	6.34
Basic and diluted earnings per share (expressed in RMB per share)	**0.4226**	0.3974	6.34

Financial Position	**As at** **30 June** **2018** **RMB'000** **(Unaudited)**	As at 31 December 2017 RMB'000 (Audited)	Change (%)
Total assets	**2,291,754**	2,471,830	-7.29
Total liabilities	**1,804,746**	2,008,423	-10.14
Total equity	**487,008**	463,407	5.09
Net assets per share (expressed in RMB per share)	**4.51**	4.29	5.09

CORPORATE INFORMATION

Board of Directors

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

Non-executive Director
Li Weisheng (李偉生)

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

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

Joint Company Secretaries
Lin Zhixiong (林志雄)
Ng Wing Shan (吳詠珊)

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

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

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

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

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

Authorised Representatives
Zheng Yuyan (鄭玉燕)
Ng Wing Shan (吳詠珊)

Auditor
ShineWing Certified Public Accountants
(Special General Partnership)

Legal Advisers
Li & Partners (as to Hong Kong law)
Beijing Dentons Law Offices, LLP (Shenzhen)
(as to PRC law)

Registered Office And Headquarters
No. 235, Song Shan North Road,
Longhu District, Shantou City,
Guangdong Province, PRC

Principal Place of Business in Hong Kong
40/F, Sunlight Tower,
248 Queen's Road East,
Wanchai,
Hong Kong

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

H Share Registrar
Computershare Hong Kong
Investor Services Limited

Company's Website
www.chmyy.com

Stock Code
2289.HK

MANAGEMENT DISCUSSION AND ANALYSIS

INDUSTRY OVERVIEW

On 25 July 2018, the National Medical Security Bureau, the Ministry of Finance of the People's Republic of China (the "**PRC**" or "**China**"), the Ministry of Human Resources and Social Security of the PRC as well as the National Health Commission of the PRC have jointly issued the Notice on Improvement of Urban-rural Residents' Basic Medical Security Work in 2018 (《關於做好2018年城鄉居民基本醫療保險工作的通知》) (the "**Notice**"). The Notice stated that the fiscal subsidies for urban and rural residents' medical insurance and individual premium standards shall both be increased in 2018. The fiscal subsidies standard per capita at different levels shall be increased by RMB40 from the base amount in 2017, reaching no less than RMB490 per person per annum. The individual premium standards per capita for urban and rural residents' medical insurance shall be also increased by RMB40 in 2018, reaching RMB220 per person per annum.

On 21 June 2018, the Ministry of Commerce of the PRC issued the Report of Statistical Analysis on the Operation of Pharmaceutical Circulation Industry in 2017 (《2017年藥品流通行業運行統計分析報告》) (the "**Report**"). According to the Report, with the change of disease spectrum, the acceleration of aging population, the improvement of people's living standards and the increase in awareness of health care, the demand for medical health in the society will continue to climb, and the sales scale of pharmaceutical market will be further expanded. It is expected that the growth rate of sales in pharmaceutical circulation market will decline slightly in 2018, but the sales scale will continue to grow steadily for a period of time in the future. For the first half of 2018:

Slowdown of sales growth of pharmaceutical wholesale enterprises with a slight decline in the concentration

The sales growth of pharmaceutical wholesale enterprises has slowed down, while the sales growth rate of large-scale pharmaceutical wholesale enterprises has notably slowed down. In 2017, the operating revenue derived from principal business of top 100 pharmaceutical wholesale enterprises had a year-on-year increase of 8.4%, and the growth rate decreased by 5.6 percentage points. The operating revenue derived from principal business of top 100 pharmaceutical wholesale enterprises accounted for 70.7% of the total pharmaceutical market size of the same period, representing a year-on-year decrease of 0.2%.

Encouraging patients to retail pharmacies with the implementation of two-invoice system

Under the impetus of the "two-invoice system" policy, large-scale pharmaceutical wholesale enterprises continued to enhance their own distribution capability by way of external expansion through mergers and acquisitions and internal growth through actively developing the end-market. During the course of the "13th Five Year Plan", medical reform policies were rolled out successively, including control on medical insurance fees, zero medicine mark-up in public hospitals, the limitation of medicine proportion, and medical payment, which indirectly facilitated the external prescription dispensing process of medical institutions. Some regions actively explored prescription information of hospitals, information of medical insurance settlement and pharmacy retail information sharing. The pilot scheme on designated pharmacy and medical insurance settlement regarding outpatient special diseases and chronic diseases was commenced, directly encouraging the patients to retail pharmacies.

Robust growth in size of pharmaceutical e-commerce

In terms of the overall sales scale, the total sales volume of pharmaceutical e-commerce companies amounted to RMB73.6 billion in 2017, representing a year-on-year growth of 22.5% after deducting incomparable factors, of which B2C business achieved a year-on-year increase of 21.4%.

According to the data from the China Food and Drug Administration Southern Medicine Economic Research Institute, Guangzhou Biaodian Medicine Information Co., Ltd.* (中國國家食品藥品監督管理總局南方醫藥經濟研究所，廣州標點醫藥信息股份有限公司), China's pharmaceutical end-market sales in the first half of 2018 was RMB859.0 billion, representing a year-on-year increase of 6.9%. According to the current characteristics of the pharmaceutical market, the pharmaceutical end-market can be segmented into three major ends and six key markets, of which the first end-market is public hospital. Sales of this end-market maintained a growth trend, but the growth rate continued to slow down, reaching RMB581.2 billion in the first half of 2018 with a year-on-year increase of 6.1%; the second end-market is retail pharmacy stores. Sales of this end-market maintained a growth trend, but the growth rate has also slowed down. The sales for the first half of 2018 amounted to RMB195.4 billion with a year-on-year increase of 7.8%; the third end-market is public primary healthcare. The sales for the first half of 2018 amounted to RMB82.4 billion with a year-on-year increase of 10.6%. As such, its sales growth was notably faster than that of the other two end-markets.

BUSINESS REVIEW

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

As of 30 June 2018, our distribution network covered 7,124 customers, among which 658 were distributors, 4,770 were retail pharmacies and 1,696 were hospitals, clinics, health centers and others. As of 30 June 2017, our distribution network covered 6,330 customers, among which 680 were distributors, 4,040 were retail pharmacies and 1,610 were hospitals, clinics, health centers and others.

As of 30 June 2018, we had a total of 973 suppliers, of which 630 were pharmaceutical manufacturers and 343 were distributor suppliers. As of 30 June 2017, we had 926 suppliers, among which 626 were pharmaceutical manufacturers and 300 were distributor suppliers.

For the six months ended 30 June 2018, we distributed 10,145 products. For the six months ended 30 June 2017, we distributed 9,617 products.

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

	Number of Products For the six months ended 30 June	
Categories of products	**2018**	2017
Western medicines	**3,557**	4,143
Chinese patent medicines	**3,436**	2,546
Healthcare products	**171**	167
Others	**2,981**	2,761
Total	**10,145**	9,617

For the six months ended 30 June 2018, our B2B e-commerce platform, "Charmacy e-Medicine" (創美e藥) (http://www.cmyynet.com/) had 4,912 active trading clients who are principally end-market customers such as retail pharmacy stores, clinic and health centers. The operating revenue contributed by e-commerce transactions through our B2B e-commerce platform was approximately RMB128.52 million.

During the six months ended 30 June 2018, the Company was awarded the "China Logistics Industry Golden Ants Service Award in 2017-2018" (2017-2018年度中國物流行業金螞蟻服務獎) by the Organization Committee of the China (Guangzhou) International Logistics Equipment and Technology Exhibition (中國(廣州)國際物流裝備與技術展覽會組委會), the "AAA-level Credit Enterprise in China" (中國AAA級信用企業) jointly awarded by the China Association of Cooperative Trade Enterprises (中國合作貿易企業協會), the China Enterprise Reform and Development Research Association (中國企業改革與發展研究會) and the China Enterprise Credit Evaluation Center (中國企業信用評價中心); and the"Annual Major Wholesaler and Retailer in 2017" (2017年度批零大戶) and the"Annual Major Tax Payer in 2017" (2017年度納稅大戶) by the Longhu District Committee, Shantou, CPC (中共汕頭市龍湖區委) and the People's Government of Longhu District, Shantou (汕頭市龍湖區人民政府).

Successfully launching the informatization program to facilitate corporate strategic development

The informatization program (Phase II) was launched on 1 January 2018. The program was initiated in March 2017 to invest in the implementation of SAP EWM and SAP TM. By doing so, we seek to develop and enhance our warehousing management and transportation systems, and deliver visualized management of warehousing and distribution by combining such systems and our supply chain collaboration platform. We have also established a logistics model featuring integrated network operation, breaking through the separate operations model among logistics and distribution centers and realize linkage among warehouses. In addition, we have delivered standardized operation in logistics and distribution, with a replicable operational model established. The Group has become the first firm equipped with SAP EWM and SAP TM in the Chinese pharmaceutical circulation industry. The informatization programs of Zhuhai Charmacy Hengxiang Pharmaceutical Limited* (珠海創美恒祥醫藥有限公司) ("**Zhuhai Charmacy**"), Guangzhou Charmacy Pharmaceutical Limited* (廣州創美藥業有限公司) ("**Guangzhou Charmacy**") were launched on 1 February 2018 and 31 March 2018, respectively.

PROSPECTS

Construction of distribution workshops of the construction project of Charmacy (Guangzhou) Pharmaceutical Sorting and Distribution Center to enhance service and distribution capacity

In order to construct the distribution workshops of the construction project of Charmacy (Guangzhou) Pharmaceutical Sorting and Distribution Center of gross floor area of 23,678.14 square metres, the Company entered into a construction contract with Guangdong Jin Zhong Hai Construction Engineering Co., Ltd.* (廣東金中海建設工程有限公司) on 4 August 2018, pursuant to which the consideration is RMB95.5 million. The source of funds will primarily be from medium and long-term loans of the bank and supplemented by self-raised funds of the Company. The construction of such distribution workshops will help to improve the present insufficient of warehousing capacity of the Group in the Pearl River Delta region, break through existing constraints of warehousing and distribution capacity, expand the supply and service scope and improve the service efficiency so as to enhance the service and distribution capacity of the Group in the Pearl River Delta region.

Continuously optimize product structure and enhance product mix

To meet different demands from customers and improve the Group's profitability and market competitiveness, the Group will continue its optimization of product resources, strengthen collaboration with famous factories from home and abroad, and increase the variety and scale of primary distribution products. In particular, quality products that are marketable and high in gross profit margin will be introduced on a continuous basis, including Chinese medicine decoction pieces, healthcare products, cosmetics and medical devices. Besides, efforts will be made on product diversification and enhancement of product mix, so as to meet the diverse purchase demands from customers and improve their reliance and loyalty. At the same time, the Group will phase out some of the products with low gross profit margin and turnover rate, to increase the Group's profitability and competitive status.

Actively expand value-added service and improve customer reliance and loyalty

The Group will collect industry information and market information through the expansion of upstream resources and the coverage of downstream customers, so as to analyze historical sales data effectively in order to better predict and grasp the demand from upstream and downstream as well as their changes. With the integration of upstream and downstream resources, the Group will provide more suitable marketing plans and execution plans targeting different market characteristics and needs. The Group will offer a selection of market target customers to its pharmaceutical suppliers, provide various marketing plans, promotion campaigns and new products, and assist them in channel management and optimization as well as product price management and maintenance. Also, as a bridge between upstream and downstream customers, the Group hosts trade fairs and factory training sessions for its customers, from whom the Group will not only charge a fee for such value-added service, but gain greater customer reliance and loyalty, more business opportunities and better profitability.

Actively proceed with A Share Listing to benefit the Group's long-term development

To better align with its long-term development strategy and objective, the Company is planning an initial public offering and listing of its A shares on Shenzhen Stock Exchange, with a total of no more than 20 million A shares to be issued. The proceeds from the A Share Listing is expected to be invested in the construction project of Guangzhou Pharmaceutical Sorting and Distribution Center, the information system improvement project, and the project of expanding the pharmaceutical wholesale business.

The Group will actively proceed with its A share Listing, in an attempt to elevate its corporate image and brand recognition, widen financing channels, increase working capital and attain greater recognition from capital markets. The A share issuance will also bring more financial resources to the Group, lift its competitiveness, and ultimately benefit its long-term development. Currently, the work related to the A share issuance of the Group is progressing actively and orderly.

FINANCIAL REVIEW

Operating revenue

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

	Six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
Principal business	**2,006,067**	1,881,995
Other business	**15,920**	21,947
Total operating revenue	**2,021,988**	1,903,942

The operating revenue of the Group for the six months ended 30 June 2018 was RMB2,021.99 million, representing an increase of 6.20% over the corresponding period of last year.

The table below sets forth the breakdown of revenue from principal business by customer types:

Customer Type	Six months ended 30 June 2018 RMB'000	2017 RMB'000
Distributors	**1,360,545**	1,244,438
Retail pharmacy stores	**583,108**	586,528
Hospitals, clinics, health centers and others	**62,414**	51,029
Revenue from principal business	**2,006,067**	1,881,995

For the six months ended 30 June 2018, our revenue from principal business was from product sales to (i) distributor customers, (ii) retail pharmacy stores, and (iii) hospitals, clinics, health centers and others. For the six months ended 30 June 2018, about 97% of our revenue from principal business was derived from distributor customers and retail pharmacy stores customers.

The increase in our operating revenue for the six months ended 30 June 2018 was mainly due to (i) our product offerings increased from 9,617 types for the six months ended 30 June 2017 to 10,145 types for the six months ended 30 June 2018; in particular, the product offerings provided by us as a primary distributor increased from 5,542 types for the six months ended 30 June 2017 to 7,996 types for the six months ended 30 June 2018; and (ii) our acquisition of two subsidiaries, namely Zhuhai Charmacy and Guangzhou Charmacy in 2017 which led to operating revenue of RMB75 million in total.

Operating cost, gross profit and gross profit margin

For the six months ended 30 June 2018, the operating cost of the Group was RMB1,872.27 million, representing an increase of 5.35% as compared to RMB1,777.16 million for the six months ended 30 June 2017. The increase in operating cost was in line with the increase in operating revenue from sales of products.

For the six months ended 30 June 2018, the gross profit of the Group was RMB149.72 million, representing an increase of 18.09% as compared to RMB126.78 million for the six months ended 30 June 2017. For the six months ended 30 June 2018, the gross profit margin of the Group was 7.40%, increased by 0.74 percentage point as compared to 6.66% for the six months ended 30 June 2017. This was mainly due to the fact that (i) the State Administration of Taxation and the Ministry of Finance of the PRC jointly adjusted the VAT rate, which reduced from 17% to 16% since 1 May 2018; and (ii) the number of Chinese patent medicine products increased by 890 types as compared to 2,546 types as of 30 June 2017, resulting an increase of gross profit.

Selling expenses

For the six months ended 30 June 2018, the selling expenses were RMB36.18 million, representing an increase of 12.48% as compared to RMB32.17 million for the six months ended 30 June 2017. It was mainly due to the fact that (i) the leasing warehouse of Guangdong Charmacy Pharmaceutical Co., Ltd.* (廣東創美藥業有限公司) and Zhuhai Charmacy generated a total rental fee of RMB2.07 million; and (ii) the transportation expenses increased by RMB0.53 million from RMB5.73 million for the six months ended 30 June 2017 resulted from the increase of oil price and the use of refrigerated vehicles.

Management expenses

For the six months ended 30 June 2018, the management expenses were RMB25.83 million, representing an increase of 9.67% as compared to RMB23.55 million for the six months ended 30 June 2017. It was mainly due to the fact that (i) the number of employees of Zhuhai Charmacy and Guangzhou Charmacy increased by 65 compared to the corresponding period in 2017, and employee compensation increased by RMB1.71 million; and (ii) the purchase of the property and land use rights of Guangzhou Nansha in 2017, resulting an increase of RMB0.92 million in the depreciation and amortization expenses.

Finance costs

For the six months ended 30 June 2018, the finance costs were RMB15.95 million, representing an increase of 30.80% as compared to RMB12.19 million for the six months ended 30 June 2017. It was mainly due to: (i) the expansion of financing scale led to an increase of RMB100.70 million in short-term borrowings from RMB392.20 million for six months ended 30 June 2017, which led to an additional interest expense of RMB5.08 million; and (ii) the exchange gain decreased of RMB1.55 million compared to the six months ended 30 June 2017.

Non-operating revenue

For the six months ended 30 June 2018, non-operating revenue was RMB0.78 million, representing a decrease of 65.35% as compared to non-operating revenue of RMB2.24 million for the six months ended 30 June 2017, mainly due to the amount of government grants received decreased compared to the six months ended 30 June 2017.

Income tax expense

For the six months ended 30 June 2018, the income tax expense of the Group were RMB18.99 million, increased by 27.07% as compared with that of RMB14.95 million for the six months ended 30 June 2017. For the six months ended 30 June 2018, the effective tax rate (income tax divided by profit before taxation) was 29.53%, representing an increase of 3.72 percentage points as compared to 25.81% for the six months ended 30 June 2017.

Net profit

The net profit of the Group was RMB45.32 million for the six months ended 30 June 2018 compared to RMB42.96 million for the six months ended 30 June 2017, representing an increase of 5.50%. Among which, the net profit attributable to the shareholders of parent company was RMB45.64 million compared to RMB42.92 million for the six months ended 30 June 2017, representing an increase of 6.34%. The increase in net profit attributable to the shareholders of parent company was mainly due to (i) the increase in operating revenue as compared to the corresponding period in 2017; (ii) the increase in the overall gross profit margin; and (iii) the increased amount in gross profit exceeded the overall increased amount in expenses.

Liquidity and financial resources

As at 30 June 2018, the cash and bank deposits of the Group were RMB47.37 million, while the cash and bank deposits were RMB75.10 million as at 31 December 2017.

As at 30 June 2018 and 31 December 2017, the Group recorded net current assets of RMB113.84 million and RMB96.43 million, respectively. As at 30 June 2018, the current ratio (based on the calculation of current assets divided by current liabilities) of the Group was 1.06 (31 December 2017: 1.05).

The bank borrowings of the Group as at 30 June 2018 were RMB492.90 million (31 December 2017: RMB522.90 million). All of the bank borrowings were provided by the banks within the PRC. All bank borrowings bore interest at fixed rates. The carrying amount of the bank borrowings is denominated in RMB, which is approximate to its fair value. The Group did not use any financial instruments for hedging purposes or any existing borrowings and/or other hedging instruments for hedging net foreign currency investments.

Trade receivables and bills receivables

As of 30 June 2018, the trade receivables and bills receivables amounted to RMB852.75 million, representing a decrease of RMB117.50 million as compared to the amount of trade receivables and bills receivables as of 31 December 2017, mainly due to our enhancement of management of receivables, and our greater effort on the collection of receivables.

Trade payables and bills payables

As of 30 June 2018, the trade payables and bills payables amounted to RMB1,234.44 million, representing a decrease of RMB174.17 million compared to the amount of trade payables and bills payables as of 31 December 2017. The decrease in bills payables was mainly due to the reduction in the amount paid to the suppliers by way of bank acceptance bills issued by the Group as the issuer.

Treasury policy

The Group adopts a prudent financial management strategy in executing its treasury policy. Thus, a sound liquidity position was able to be maintained throughout the period under review. The Group continues to assess its customers' credit and financial positions so as to minimize credit risks. In order to control liquidity risks, the board (the "**Board**") of directors of the Company (the "**Directors**") would closely monitor the liquidity position of the Group to ensure that its assets, liabilities and other flow structure committed by the Group would satisfy the funding needs from time to time.

Foreign currency exchange risk

The transactions of the Group are mainly denominated in RMB, and most of the assets and all liabilities are denominated in RMB. The foreign exchange risk that the Group has to bear is extremely low. For the six months ended 30 June 2018, the Group did not use any financial instruments for hedging the foreign currency risk.

Interest rate risks

For the six months ended 30 June 2018, 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 2018 and 31 December 2017, respectively:

	30 June 2018	31 December 2017
Gearing ratio (%)	**47.78%**	49.14%

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

Capital commitment

As at 30 June 2018, the Group's capital commitment amounted to RMB1.01 million (31 December 2017: RMB8.93 million).

Employees' information

As at 30 June 2018, the Group had 826 employees (as at 30 June 2017: 804), including the executive Directors. Total staff costs (including emoluments of Directors and supervisors) were approximately RMB33.78 million, as compared to approximately RMB30.53 million for the six months ended 30 June 2017. The emoluments were determined with reference to market practice and the performance, qualification and experience of individual employees.

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

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

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

Material investments, acquisitions and disposals

Save as the investments in the subsidiaries, during the six months ended 30 June 2018, the Group did not hold any material investments, or have any acquisitions and disposals in the equity interests of any other companies.

Future plans for material investments and capital assets

On 4 August 2018, the Company entered into a construction contract with Guangdong Jin Zhong Hai Construction Engineering Co., Ltd.* (廣東金中海建設工程有限公司) in relation to the provision of construction services on the construction project of Charmacy (Guangzhou) Pharmaceutical Sorting and Distribution Center. For details of the construction contract, please refer to the announcement of the Company dated 4 August 2018.

Material acquisitions and disposals related to the subsidiaries and associated companies

During the six months ended 30 June 2018, the Group did not have any material acquisitions and disposals related to the subsidiaries and associated companies.

Pledge of assets

As at 30 June 2018, the Group was granted a credit limit of RMB910.57 million by various banks, while the Group's utilized banking facilities totalled RMB804.11 million, which were secured by:

(i) property, plant and equipment held by the Group with a carrying amount of RMB152.42 million (31 December 2017: RMB153.97 million) as at 30 June 2018.

(ii) land use rights held by the Group with a carrying amount of RMB146.35 million (31 December 2017: RMB148.62 million) as at 30 June 2018.

(iii) inventories with a carrying amount of RMB250.00 million (31 December 2017: RMB250.00 million) as at 30 June 2018.

Contingent liabilities

As at 30 June 2018, the Group had no material contingent liabilities (2017: Nil).

EVENTS AFTER THE END OF REPORTING PERIOD

On 20 July 2018, the Board has passed the resolutions in relation to the proposed extension of the term of validity of the resolution of shareholders' meeting on the initial public offering of A share and listing, and the proposed extension of the term of validity of the authorization to the board of directors to handle matters concerning the initial public offering of A share and listing, subject to the approval to be granted in the extraordinary general meeting and class meeting to be held on 5 September 2018. For details, please refer to the circular of the Company dated 20 July 2018.

On 3 August 2018, the Company entered into an equity transfer agreement with Mr. Zheng Shuibiao (鄭水標), a natural-person shareholder, for the acquisition of 30% equity interests of Zhuhai Charmacy at a consideration of RMB7.71 million. The registration for industrial and commercial changes on the said equity change has been completed on 10 August 2018. Upon completion of this acquisition, the Company holds 100% equity interests of Zhuhai Charmacy and Zhuhai Charmacy becomes a wholly-owned subsidiary of the Company.

On 4 August 2018, the Company entered into a construction contract with Guangdong Jin Zhong Hai Construction Engineering Co., Ltd.* (廣東金中海建設工程有限公司) in relation to the provision of construction services on the construction project of Charmacy (Guangzhou) Pharmaceutical Sorting and Distribution Center with gross floor area of 23,678.14 square metres at a consideration of approximately RMB95.5 million. For details of the construction contract, please refer to the announcement of the Company dated 4 August 2018.

USE OF PROCEEDS

The H shares of the Company were listed on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") on 14 December 2015. The net proceeds from the Global Offering are RMB158.91 million, after deducting underwriting commissions, expenses and expenses payable related to listing.

In order to increase the effectiveness of the proceeds from the Global Offering, the Board has resolved to re-allocate the use of proceeds at the board meetings held on 21 March 2017 and 20 July 2017, respectively, and the proposals were approved by the Company on the annual general meeting held on 10 June 2017, and the first extraordinary general meeting on 5 September 2017. The actual usages of the proceeds as of 30 June 2018 after re-allocation are detailed below (excluding exchange gains and losses, interest income, etc.):

Planned use	**Budgeted amount** (RMB million)	**Budgeted amount after the use of proceeds changed on 10 June 2017 and 5 September 2017** (RMB million)	**Actual usage amount as of 30 June 2018** (RMB million)
To strengthen, expand and integrate our existing distribution network and capabilities	55.62	36.30	36.30
To enhance and promote our B2B e-commerce platform	15.89	9.88	9.88
To repay bank borrowings	47.67	47.67	47.67
To acquire pharmaceutical distribution business in Southern China region	23.84	36.00	36.00
For working capital and general corporate purposes	15.89	15.89	15.89
Additional use			
Used for the establishment of Shenzhen company	–	13.17	13.17
Total	**158.91**	**158.91**	**158.91**

INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2018 (interim dividend of 2017: RMB0.10 per share).

OTHER INFORMATION

CORPORATE GOVERNANCE

The Company confirms that, other than the deviation from Code Provision A.2.1, the Company has complied with all the code provisions (the "**Code Provisions**") set out in the Corporate Governance Code contained in Appendix 14 to Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**") throughout the six months ended 30 June 2018.

Pursuant to Code Provision A.2.1, the responsibilities between the chairman and the chief executive officer should be segregated and should not be performed by the same individual. Mr. Yao Chuanglong is 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 for 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 at a time when it is appropriate and suitable by taking into account the circumstances of the Group as a whole.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS AND SUPERVISORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") set out in Appendix 10 to the Listing Rules as the code of conduct in dealings with securities transaction for the Directors and supervisors of the Company. Having made enquiries with all Directors and supervisors of the Company, the Company confirmed that all Directors and supervisors have compiled with the required standards of dealing as set out in the Model Code for the six months ended 30 June 2018.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

For the six months ended 30 June 2018, the Company did not redeem any of its listed securities, and neither did the Company nor any of its subsidiaries purchase or sell 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 2018, the interests of the Directors, supervisors and chief executives in the shares, underlying shares and debentures of the Company, its member(s) of the Group and/or any of its associated corporations (as defined in Part XV of the Securities and Futures Ordinance ("**SFO**")) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code were as follows:

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

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

Notes:

(1) The calculation is based on the total number of 80,000,000 domestic shares in issue of the Company as at 30 June 2018.

(2) The calculation is based on the total number of 108,000,000 Shares in issue of the Company as at 30 June 2018.

(3) These shares are held by Shantou Meizhi Investment Management Limited Partnership (汕頭市美智投資管理合夥企業(有限合夥)) ("**Meizhi Investment**"). As Mr. Lin Zhixiong is the general partner of Meizhi Investment, he is deemed to be interested in the shares of the Company held by Meizhi Investment under the SFO.

Save as disclosed above, as at 30 June 2018, none of the Directors, supervisors and chief executives of the Company has any other interests or short positions in the shares, underlying shares or debentures of the Company, its member(s) of the Group or any of its associated corporations (as defined in Part XV of the SFO) which have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which he/she is taken or deemed to have under such provisions of the SFO) or which are required to be entered in the register referred to therein pursuant to section 352 of the SFO or which are required pursuant to the Model Code.

DIRECTORS' AND SUPERVISORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in the section headed "Interests or Short Positions of the Directors, Supervisors and Chief Executives in the Shares, Underlying Shares, and Debentures", at no time during the six months ended 30 June 2018, the Company, any of its subsidiaries or fellow subsidiaries was a party to any arrangement to enable the Directors and supervisors of the Company to acquire benefits by means of acquisition of shares in, or debentures of, the Company or any other body corporate, or any Directors, supervisors or their spouses or children under 18 years of age was granted any right to subscribe for shares or debentures of the Company or any other body corporate or exercised any such right.

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

As at 30 June 2018, so far as the Directors are aware, the following persons/entities (other than any Directors or chief executives of the Company) had or deemed to have an interest or short position in the shares or underlying shares of the Company which fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or which had entered in the register required to be kept by the Company pursuant to section 336 of the SFO:

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

Name of shareholder	Nature and capacity of interest	Class and number of shares	Approximate shareholding percentage in the relevant class of shares[(1)]	Approximate shareholding percentage of the total issued share capital of the Company[(2)]
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 (王永輝)	Beneficial owner	3,488,000 H Shares (L)	12.46%	3.23%
Deutsche Bank Aktiengesellschaft	Beneficial owner/ Person having a security interest in shares	4,546,500 H Shares (L) 1,500 H Shares (S)	16.24% 0.01%	4.21% 0.00%
Asian Equity Special Opportunities Portfolio Master Fund Limited	Beneficial owner	5,130,000 H Shares (L)[(6)]	18.32%	4.75%
RAYS Capital Partners Limited	Investment manager	5,534,000 H Shares (L)[(6)]	19.76%	5.12%
RUAN David Ching Chi	Interests in controlled corporation	5,534,000 H Shares (L)[(6)]	19.76%	5.12%

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

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

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 2018.

(2) The calculation is based on the total number of 108,000,000 shares in issue of the Company as at 30 June 2018.

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

(4) These shares are held by Guangzhou Pharmaceutical Baiyunshan Hong Kong Company Limited. As Guangzhou Pharmaceutical Baiyunshan Hong Kong Company Limited is a wholly-owned subsidiary of Guangzhou Baiyunshan Pharmaceutical Holdings Company Limited, which in turn is held by Guangzhou Pharmaceutical Holdings Limited as to 45.04%. As such, Guangzhou Baiyunshan Pharmaceutical Holdings Company Limited and Guangzhou Pharmaceutical Holdings Limited are deemed to be interested in the shares of the Company held by Guangzhou Pharmaceutical Baiyunshan Hong Kong Company Limited.

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

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

Save as disclosed herein, our Directors are not aware of any person who will, as at 30 June 2018, have an interest or short position in shares or underlying shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or be directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group.

Save as disclosed above, as at 30 June 2018, none of the Directors was aware that any other persons/entities (other than any Directors or chief executives of the Company) had an interest or short position in the Shares or underlying Shares of the Company, its members of the Group or associated corporations which fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or which had entered in the register required to be kept by the Company pursuant to section 336 of the SFO.

AUDIT COMMITTEE AND REVIEW ON THE INTERIM RESULTS

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

The interim report and the unaudited interim financial statements for the six months ended 30 June 2018 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 2018 is prepared in accordance with applicable accounting standards, rules and regulations and appropriate disclosures have been duly made.

INFORMATION DISCLOSURE

The interim report of the Company for the six months ended 30 June 2018 is published on the website of the Stock Exchange (http://www.hkexnews.hk) and the website of the Company (http://www.chmyy.com), and will be dispatched to the shareholders of the Company in due course.

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

Shantou, the PRC, 23 August 2018

* For identification purposes only

CONSOLIDATED BALANCE SHEET

As at 30 June 2018

	Note VI	**30 June 2018 RMB (Unaudited)**	31 December 2017 RMB (Audited)
Current assets			
Monetary funds	1	**392,512,337.83**	512,413,395.71
Bills receivables and trade receivables	2	**852,751,148.19**	970,254,308.36
Prepayments	3	**157,973,749.51**	149,275,256.35
Other receivables	4	**10,283,278.97**	9,674,650.78
Inventories	5	**483,939,340.47**	431,592,426.38
Other current assets	6	**19,613,263.17**	30,031,737.79
Total current assets		**1,917,073,118.14**	2,103,241,775.37
Non-current assets			
Fixed assets	7	**177,188,362.34**	115,377,277.17
Construction in progress	8	**19,622,028.03**	81,967,801.27
Intangible assets	9	**162,463,121.15**	160,723,843.55
Goodwill	10	**3,127,688.00**	4,593,625.31
Long-term expenses to be amortized	11	**6,552,114.43**	1,201,796.75
Deferred income tax assets	12	**5,727,768.21**	4,723,418.55
Total non-current assets		**374,681,082.16**	368,587,762.60
Total assets		**2,291,754,200.30**	2,471,829,537.97

	Note VI	30 June 2018 RMB (Unaudited)	31 December 2017 RMB (Audited)
Current liabilities			
Short-term borrowings	13	**492,900,000.00**	522,900,000.00
Bills payables and trade payables	14	**1,234,435,004.18**	1,408,606,842.33
Receipts in advance	15	**3,944,699.04**	5,382,568.81
Salaries payable to employees	16	**4,471,212.08**	4,781,858.77
Tax payables	17	**51,946,220.83**	50,867,274.80
Other payables	18	**15,075,096.99**	13,751,047.42
Other current liabilities	19	**457,060.50**	520,000.00
Total current liabilities		**1,803,229,293.62**	2,006,809,592.13
Non-current liabilities			
Deferred income	20	**1,447,358.24**	1,612,948.99
Deferred income tax liabilities		**69,236.45**	–
Total non-current liabilities		**1,516,594.69**	1,612,948.99
Total liabilities		**1,804,745,888.31**	2,008,422,541.12
Shareholders' equity			
Share capital	21	**108,000,000.00**	108,000,000.00
Capital reserve	22	**282,204,487.50**	282,204,487.50
Surplus reserve	23	**10,115,890.49**	10,115,890.49
Unallocated profits	24	**79,837,735.00**	55,797,710.73
Total equity attributable to the shareholders of parent company		**480,158,112.99**	456,118,088.72
Minority shareholders' interests		**6,850,199.00**	7,288,908.13
Total shareholders' interests		**487,008,311.99**	463,406,996.85
Total liabilities and shareholders' interests		**2,291,754,200.30**	2,471,829,537.97

CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2018

	Note VI	Six months ended 30 June 2018 RMB (Unaudited)	2017 RMB (Unaudited)
Operating revenue	25	**2,021,987,734.30**	1,903,941,547.86
Less: Operating cost	25	**1,872,269,199.68**	1,777,161,164.14
Taxes and surcharges	26	**3,109,163.27**	2,031,413.15
Selling expenses	27	**36,183,218.93**	32,168,217.67
Management expenses	28	**25,826,831.18**	23,549,817.21
Finance costs	29	**15,946,169.44**	12,191,178.92
Including: Interest expenses		**15,698,262.24**	10,614,431.37
Interest income		**1,787,873.08**	1,463,787.83
Impairment loss of assets	30	**5,237,276.60**	996,814.06
Add: Other gains	31	**228,530.25**	–
Gains on disposal of assets (loss to be listed with "–")	32	**–39,489.01**	–
Operating profit		**63,604,916.44**	55,842,942.71
Add: Non-operating revenue	33	**776,435.94**	2,240,617.59
Less: Non-operating expenses	34	**66,574.95**	175,812.78
Total profit		**64,314,777.43**	57,907,747.52
Less: Income tax expense	35	**18,991,852.63**	14,946,247.42
Net profit		**45,322,924.80**	42,961,500.10
Net profit attributable to the shareholders of parent company		**45,640,024.27**	42,918,679.91
Profit or loss of minority shareholders		**–317,099.47**	42,820.19
Total comprehensive income		**45,322,924.80**	42,961,500.10
Including:			
Total comprehensive income attributable to the shareholders of parent company		**45,640,024.27**	42,918,679.91
Total comprehensive income attributable to minority shareholders		**–317,099.47**	42,820.19
Earnings per share			
Basic and diluted earnings per share	36	**0.4226**	0.3974

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

For the six months ended 30 June 2018

RMB

Items	Six months ended 30 June 2018						
	Total equity attributable to owners of parent company						Total
	Share capital	Capital reserve	Surplus reserve	Unallocated profits	Sub-total	Minority interests	shareholders' equity
Balance as at 1 January 2018 (Audited)	**108,000,000.00**	**282,204,487.50**	**10,115,890.49**	**55,797,710.73**	**456,118,088.72**	**7,288,908.13**	**463,406,996.85**
Movement for the period				**24,040,024.27**	**24,040,024.27**	**-438,709.13**	**23,601,315.14**
(I) Total comprehensive income				**45,640,024.27**	**45,640,024.27**	**-317,099.47**	**45,322,924.80**
(II) Contribution of shareholders and capital reduction							
1. Shareholders' contribution to ordinary shares							
2. Capital contribution by holders of other equity instruments							
3. Share-based payment credited to shareholders' equity							
4. Others							
(III) Profit allocation				**-21,600,000.00**	**-21,600,000.00**	**-121,609.66**	**-21,721,609.66**
1. Appropriation of surplus reserve							
2. Appropriation of general risk provision							
3. Allocation to shareholders				**-21,600,000.00**	**-21,600,000.00**	**-121,609.66**	**-21,721,609.66**
4. Others							
Balance as at 30 June 2018 (Unaudited)	**108,000,000.00**	**282,204,487.50**	**10,115,890.49**	**79,837,735.00**	**480,158,112.99**	**6,850,199.00**	**487,008,311.99**

Items	Six months ended 30 June 2017						
	Total equity attributable to owners of parent company						Total
	Share capital	Capital reserve	Surplus reserve	Unallocated profits	Sub-total	Minority interests	shareholders' equity
Balance as at 1 January 2017 (Audited)	108,000,000.00	281,215,559.50	5,644,834.02	47,908,855.34	442,769,248.86		442,769,248.86
Movement for the period		988,928.00		21,318,679.91	22,307,607.91	7,796,767.48	30,104,375.39
(I) Total comprehensive income				42,918,679.91	42,918,679.91	42,820.19	42,961,500.10
(II) Contribution of shareholders and capital reduction		988,928.00			988,928.00	7,753,947.29	8,742,875.29
1. Shareholders' contribution to ordinary shares						7,753,947.29	7,753,947.29
2. Capital contribution by holders of other equity instruments							
3. Share-based payment credited to shareholders' equity		988,928.00			988,928.00		988,928.00
4. Others							
(III) Profit allocation				-21,600,000.00	-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		-21,600,000.00
4. Others							
Balance as at 30 June 2017 (Unaudited)	108,000,000.00	282,204,487.50	5,644,834.02	69,227,535.25	465,076,856.77	7,796,767.48	472,873,624.25

CONSOLIDATED STATEMENT OF CASH FLOW

For the six months ended 30 June 2018

	Six months ended 30 June 2018 RMB (Unaudited)	2017 RMB (Unaudited)
I. Cash flow from operating activities		
Cash received from sales of goods and rendering of services	**1,723,310,665.64**	1,811,361,339.49
Cash received relating to other operating activities	**4,386,397.18**	8,256,045.93
Sub-total of cash inflow from operating activities	**1,727,697,062.82**	1,819,617,385.42
Cash paid for purchases of goods and receiving services	**1,697,157,088.21**	1,780,821,154.68
Cash paid to employees and on behalf of employees	**34,093,833.03**	31,053,800.13
Cash paid for various taxes	**14,289,443.66**	19,902,407.02
Cash paid relating to other operating activities	**27,194,450.94**	28,709,144.22
Sub-total of cash outflow from operating activities	**1,772,734,815.84**	1,860,486,506.05
Net cash flow from operating activities	**–45,037,753.02**	–40,869,120.63
II. Cash flow from investing activities		
Net cash received from disposal of fixed assets, intangible assets and other long-term assets	**105,529.22**	161,510.00
Cash received relating to other investing activities	**–**	2,186,078.94
Sub-total of cash inflow from investing activities	**105,529.22**	2,347,588.94
Cash paid for acquisition and construction of fixed assets, intangible assets and other long-term assets	**47,873,259.75**	14,455,825.65
Cash paid relating to other investing activities	**–**	100,000.00
Sub-total of cash outflow from investing activities	**47,873,259.75**	14,555,825.65
Net cash flow from investing activities	**–47,767,730.53**	–12,208,236.71

	Six months ended 30 June 2018 RMB (Unaudited)	2017 RMB (Unaudited)
III. Cash flow from financing activities		
Cash received from borrowings	**218,600,000.00**	283,800,000.00
Cash received relating to other financing activities	**1,042,631,423.84**	999,167,178.82
Sub-total of cash inflow from financing activities	**1,261,231,423.84**	1,282,967,178.82
Cash paid for repayment of debts	**213,900,000.00**	190,381,500.00
Cash payment for distribution of dividends and profits and interest payment	**32,892,738.73**	23,631,590.07
Including: Dividends and profits paid to minority interests by subsidiaries	**–**	–
Cash paid relating to other financing activities	**949,246,670.58**	1,036,866,496.94
Sub-total of cash outflow from financing activities	**1,196,039,409.31**	1,250,879,587.01
Net cash flow from financing activities	**65,192,014.53**	32,087,591.81
IV. Effect of change in exchange rates on cash	**–115,098.10**	–1,687,637.11
V. Net increase in cash and cash equivalents	**–27,728,567.12**	–22,677,402.64
Add: Opening balance of cash and cash equivalents for the period	**75,096,936.45**	119,569,294.15
VI. Closing balance of cash and cash equivalents	**47,368,369.33**	96,891,891.51

BALANCE SHEET OF THE COMPANY

As at 30 June 2018

	Note XIV	30 June 2018 RMB (Unaudited)	31 December 2017 RMB (Audited)
Current assets			
Monetary funds		**172,115,895.32**	254,783,149.75
Bills receivables and trade receivables	1	**429,935,954.74**	595,016,206.30
Prepayments		**39,425,483.76**	227,720,501.67
Other receivables	2	**10,294,288.23**	8,895,142.07
Inventories		**162,377,022.00**	144,573,781.02
Other current assets		**9,392,223.88**	9,275,042.10
Total current assets		**823,540,867.93**	1,240,263,822.91
Non-current assets			
Long-term investments in equity interest	3	**206,800,000.00**	186,000,000.00
Investment properties		**209,631,733.81**	99,927,176.78
Fixed assets		**49,674,537.13**	47,559,585.25
Construction in progress		**19,324,183.20**	81,967,801.27
Intangible assets		**40,231,600.24**	91,378,073.15
Long-term expenses to be amortized		**6,404,844.21**	1,050,416.67
Deferred income tax assets		**1,391,576.04**	1,462,961.78
Total non-current assets		**533,458,474.63**	509,346,014.90
Total assets		**1,356,999,342.56**	1,749,609,837.81

	Note XIV	30 June 2018 RMB (Unaudited)	31 December 2017 RMB (Audited)
Current liabilities			
Short-term borrowings		306,400,000.00	336,900,000.00
Bill payables and trade payables		479,826,872.77	601,147,952.59
Receipts in advance		1,873,886.46	8,572,778.98
Salaries payable to employees		2,219,921.83	2,187,707.73
Tax payables		17,808,794.72	14,635,237.97
Other payables		112,821,081.98	368,254,634.42
Total current liabilities		920,950,557.76	1,331,698,311.69
Total liabilities		920,950,557.76	1,331,698,311.69
Shareholders' equity			
Share capital		108,000,000.00	108,000,000.00
Capital reserve		282,204,487.50	282,204,487.50
Surplus reserve		10,115,890.49	10,115,890.49
Unallocated profits		35,728,406.81	17,591,148.13
Total shareholders' equity		436,048,784.80	417,911,526.12
Total liabilities and shareholders' equity		1,356,999,342.56	1,749,609,837.81

INCOME STATEMENT OF THE COMPANY

For the six months ended 30 June 2018

	Note XIV	Six months ended 30 June 2018 RMB (Unaudited)	 2017 RMB (Unaudited)
Operating revenue	4	**836,392,431.30**	809,352,887.32
Less: operating cost	4	**771,210,802.07**	758,402,779.58
Taxes and surcharges		**2,403,432.36**	1,574,220.34
Selling expenses		**15,119,423.79**	14,294,644.89
Management expenses		**11,958,902.64**	14,085,113.30
Finance costs		**8,920,030.77**	8,186,785.46
Including: Interest expense		**8,612,358.50**	6,523,813.04
Interest income		**902,880.85**	814,444.91
Impairment loss of assets		**762,236.89**	–558,506.72
Add: Returns on investment		**20,000,000.00**	–
Gains on disposal of assets ("–" for loss)		**–39,939.15**	–
Operating profit		**45,977,663.63**	13,367,850.47
Add: non-operating revenue		**765,446.89**	2,044,637.18
Less: non-operating expenses		**60,470.23**	150,087.41
Total profit		**46,682,640.29**	15,262,400.24
Less: income tax expense		**6,945,381.61**	4,048,407.50
Net profit		**39,737,258.68**	11,213,992.74
Total comprehensive income		**39,737,258.68**	11,213,992.74

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY OF THE COMPANY

For the six months ended 30 June 2018

RMB

Items	Six months ended 30 June 2018 Share capital	Capital reserve	Surplus reserve	Unallocated profits	Total shareholders' equity
Balance as at 1 January 2018 (Audited)	**108,000,000.00**	**282,204,487.50**	**10,115,890.49**	**17,591,148.13**	**417,911,526.12**
Movement for the period				**18,137,258.68**	**18,137,258.68**
(I) Total comprehensive income				**39,737,258.68**	**39,737,258.68**
(II) Contribution of shareholders and capital reduction					
1. Shareholders' contribution to ordinary shares					
2. Capital contribution by holders of other equity instruments					
3. Share-based payment credited to shareholders' equity					
4. Others					
(III) Profit allocation				**−21,600,000.00**	**−21,600,000.00**
1. Appropriation of surplus reserve					
2. Appropriation of general risk provision					
3. Allocation to shareholders				**−21,600,000.00**	**−21,600,000.00**
4. Others					
Balance as at 30 June 2018 (Unaudited)	**108,000,000.00**	**282,204,487.50**	**10,115,890.49**	**35,728,406.81**	**436,048,784.80**

Items	Six months ended 30 June 2017 Share capital	Capital reserve	Surplus reserve	Unallocated profits	Total shareholders' equity
Balance as at 1 January 2017 (Audited)	108,000,000.00	281,215,559.50	5,644,834.02	9,751,639.95	404,612,033.47
Movement for the period		988,928.00		−10,386,007.26	−9,397,079.26
(I) Total comprehensive income				11,213,992.74	11,213,992.74
(II) Contribution of shareholders and capital reduction		988,928.00			988,928.00
1. Shareholders' contribution to ordinary shares					
2. Capital contribution by holders of other equity instruments					
3. Share-based payment credited to shareholders' equity		988,928.00			988,928.00
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 2017 (Unaudited)	108,000,000.00	282,204,487.50	5,644,834.02	−634,367.31	395,214,954.21

STATEMENT OF CASH FLOW OF THE COMPANY

For the six months ended 30 June 2018

	Six months ended 30 June 2018 RMB (Unaudited)	2017 RMB (Unaudited)
I. Cash flow from operating activities		
Cash received from sales of goods and rendering of services	**721,821,239.27**	945,765,677.84
Cash received relating to other operating activities	**215,145,333.42**	186,766,587.74
Sub-total of cash inflow from operating activities	**936,966,572.69**	1,132,532,265.58
Cash paid for purchases of goods and receiving services	**773,029,687.09**	1,011,982,546.43
Cash paid to employees and on behalf of employees	**15,342,718.97**	16,603,571.95
Cash paid for various taxes	**7,586,206.77**	11,478,374.81
Cash paid relating to other operating activities	**155,304,353.36**	134,089,574.40
Sub-total of cash outflow from operating activities	**951,262,966.19**	1,174,154,067.59
Net cash flow from operating activities	**–14,296,393.50**	–41,621,802.01

	Six months ended 30 June 2018 RMB (Unaudited)	2017 RMB (Unaudited)
II. Cash flow from investing activities		
Cash received from returns on investments	**20,000,000.00**	–
Net cash received from disposal of fixed assets, intangible assets and other long-term assets	**50,929.22**	88,500.00
Sub-total of cash inflow from investing activities	**20,050,929.22**	88,500.00
Cash paid for acquisition and construction of fixed assets, intangible assets and other long-term assets	**44,636,519.48**	10,563,266.77
Net cash paid for acquisition of subsidiaries and other business units	**20,800,000.00**	36,000,000.00
Sub-total of cash outflow from investing activities	**65,436,519.48**	46,563,266.77
Net cash flow from investing activities	**–45,385,590.26**	–46,474,766.77

	Six months ended 30 June 2018 RMB (Unaudited)	2017 RMB (Unaudited)
III. Cash flow from financing activities		
Cash received from borrowings	**141,100,000.00**	215,800,000.00
Cash received relating to other financing activities	**430,098,995.03**	491,411,053.38
Sub-total of cash inflow from financing activities	**571,198,995.03**	707,211,053.38
Cash paid for repayment of debts	**136,900,000.00**	174,130,000.00
Cash paid for distribution of dividends and profits and interest payment	**27,459,331.34**	21,576,239.24
Including: Dividends and profits paid to minority interests by subsidiaries	**–**	–
Cash paid relating to other financing activities	**371,261,894.77**	469,880,107.38
Sub-total of cash outflow from financing activities	**535,621,226.11**	665,586,346.62
Net cash flow from financing activities	**35,577,768.92**	41,624,706.76
IV. Effect of change in exchange rates on cash	**–115,098.10**	–1,687,637.11
V. Net increase in cash and cash equivalents	**–24,219,312.94**	–48,159,499.13
Add: Opening balance of cash and cash equivalents	**40,966,972.93**	106,915,117.77
VI. Closing balance of cash and cash equivalents	**16,747,659.99**	58,755,618.64

I. GENERAL

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

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

II. SCOPE OF CONSOLIDATED FINANCIAL STATEMENTS

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

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

III. BASIS FOR THE PREPARATION OF FINANCIAL STATEMENTS

1. Preparation basis

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

2. Going concern

The Group, having evaluated its ability to continue as a going concern for the 12 months since 30 June 2018, did not find any event or condition which may cast significant doubt on the going concern ability. Hence, the preparation of these financial statements was based on the assumption of going concern.

IV. CRITICAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

1. Declaration on compliance with Accounting Standards for Enterprises

The financial statements of the Company have been prepared in accordance with the requirements of Accounting Standards for Enterprises to give a true and full view of the combined corporate financial position of the Group and the Company as at 30 June 2018 and their combined corporate operating results and combined corporate cash flows for the six months ended 30 June 2018.

2. Accounting period

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

3. Functional currency

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

4. Book-keeping basis and price-calculating principle

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

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

The assets and liabilities obtained by the Group as the merging party in a business combination are measured at the carrying amount of the merged party in the consolidated statement of ultimate controller at the combination date. The difference between the carrying amount of net assets obtained and the carrying amount of the combination consideration paid shall adjust 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 the business combination should be presented separately in the consolidated financial statements and measured at costs less accumulated provision for impairment. The goodwill is tested for impairment at least at the end of each year.

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

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

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

7. *Preparation methods of consolidated financial statements*

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

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

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

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

For equity of an investee under common control acquired in stages through multiple transactions, which results in business combination, supplementary disclosure to treatment methods in consolidated financial statements shall be made in the reporting period of acquiring the control. For instance, for equity of an investee under common control acquired in stages through multiple transactions, which results in business combination, it shall be adjusted in the preparation of consolidated financial statements as if they had been in existence as the current state since the ultimate controlling party takes the control. When preparing the comparative statements, relevant assets and liabilities of the combined party are included in the comparative statements of consolidated financial statements of the Group to the extent that the time above shall not be earlier than the time when the Group and the combined party are under the common control of the ultimate controlling party, and the increase in net assets arising from the combination will be adjusted against the relevant items under owners' equity in the comparative statements. In order to avoid repeated calculation of the value of the net assets of the combined party, long-term equity investment held by the Group before the combination is achieved, as well as the relevant recognized profit or loss, other comprehensive income and other changes in net assets from the date of acquiring the original equity or the date when the Group and the combined party are under the same ultimate control, whichever is later, to the combination date shall be offset against the retained earnings at the beginning of the period and the profit or loss for the period in the comparative statements, respectively.

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

For equity of an investee not under common control acquired in stages through multiple transactions, which results in business combination, supplementary disclosure to treatment methods in consolidated financial statements shall be made in the reporting period of acquiring the control. For instance, for equity of an investee not under common control acquired in stages through multiple transactions, which results in business combination, the equity of the acquiree held before the acquisition date shall be remeasured based on the fair value of the equity on the acquisition date when preparing the consolidated financial statements, with the balance between the fair value and its 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, except that net profit or loss, other comprehensive income and profit distribution shall be converted into investment profit or loss in the period in which the acquisition date falls.

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

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

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

8. Cash and cash equivalents

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

9. Foreign currency business

(1) Foreign currency transactions

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

(2) Translation of financial statements denominated in foreign currency

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

10. Financial assets and financial liabilities

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

(1) Financial assets

1) Classification 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.

2) Recognition of financial assets

Financial assets at amortized cost represent those that meet both of the following conditions: ① the financial assets are managed by the enterprise within a business model whose objective is achieved by collecting contractual cash flow. 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.

Financial assets at fair value through other comprehensive income represent those that meet both of the following conditions: ① the financial assets are managed by the enterprise within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets. 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.

Financial assets at fair value through profit or loss represent financial assets other than those classified into financial assets at amortized cost and those classified into financial assets at fair value through other comprehensive income.

3) Measurement of financial assets

The Group initially measures all financial assets and financial liabilities at fair value. For financial assets and financial liabilities at fair value through profit or loss, the relevant transaction costs are directly included in profit or loss for the period; for other types of financial assets or financial liabilities, the relevant transaction costs are included in their initial recognition amount.

Financial assets measured at amortized cost (not a part of any hedging relationship) are subsequently measured at amortized cost, and gains or losses arising from amortization, impairment and derecognition using the effective interest method are included in profit or loss for the period.

For financial assets at fair value through other comprehensive income (excluding investment in non-tradable equity instruments designated by the Group as at fair value through other comprehensive income), any gains or losses arising therefrom, except for impairment losses or gains, exchange gains and losses, and interest on such financial assets calculated by the effective interest rate method which are included in profit or loss, shall be recorded in other comprehensive income. For investment in non-tradable equity instruments designated by the Group as at fair value through other comprehensive income, changes in fair value shall be recorded in other comprehensive income.

For financial assets at fair value through profit or loss, changes in fair value shall be recorded in profit or loss for the period.

Interest income on financial assets shall be dealt with according to Article 39 of "Accounting Standards for Enterprises No. 22 – Recognition and Measurement of Financial Instruments".

Dividend income on financial assets shall be dealt with according to Article 65 of "Accounting Standards for Enterprises No. 22 – Recognition and Measurement of Financial Instruments".

4) Derecognition 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; 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 financial asset has been transferred, and the Group neither transfers nor retains substantially all the risks and rewards of ownership of a financial asset but retains control over the financial asset, the Group recognizes the financial asset to the extent of its continuing involvement in the financial asset transferred and recognizes an associated liability accordingly.

For a transfer of a financial asset in its entirety that satisfies the derecognition criteria, the difference between the carrying amount of the financial asset transferred and the sum of the consideration received from the transfer and the cumulative amount (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) of changes in fair value that has been previously recorded in other comprehensive income, is recorded in profit or loss for the period.

If a transfer of part of a financial asset satisfies the derecognition criteria, the carrying amount of the financial asset transferred is allocated between the part that is derecognized and the part that is not derecognized, based on the respective fair values of those parts. The difference between the sum of consideration received from the transfer and cumulative amount (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) of changes in fair value that shall be allocated to the part derecognized which has been previously recorded in other comprehensive income and the above allocated carrying amount of the financial asset, is recorded in profit or loss for the period.

For investment in non-tradable equity instruments designated as financial assets at fair value through other comprehensive income, when such financial asset is derecognized, accumulated gains or losses previously included in other comprehensive income are transferred from other comprehensive income and are included in retained earnings.

5) Testing methods and accounting methods for impairment of financial assets

For each of the following items, the Group always measures the loss allowance at an amount equal to lifetime expected credit loss:

① For trade receivables or contract assets recognized in transactions regulated under "Accounting Standards for Enterprises No.14 – Revenue", they are initially measured by excluding significant financing components or regardless of financing components of contracts less than one year.

② For trade receivables and contract assets recognized in transactions regulated under "Accounting Standards for Enterprises No.14 – Revenue", though significant financing components are included upon initial measurement, the Group chooses to measure the loss allowance at an amount equal to the lifetime expected credit loss.

③ For lease receivables arising from transactions regulated under "Accounting Standards for Enterprises No.21 – Leasing", the Group chooses to measure the loss allowance at an amount equal to the lifetime expected credit loss.

Except for the above financial assets, the Group accounts for the impairment of and recognizes the loss allowance for financial assets measured at amortized cost and financial assets at fair value through other comprehensive income (excluding investment in non-tradable equity instruments designated as financial assets at fair value through other comprehensive income) on the basis of expected credit loss. The details are as follows:

① If there has been a significant increase in credit risk of such financial instrument since initial recognition, the Group will measure the loss allowance at an amount equal to the lifetime expected credit loss of such financial instrument.

② If there has not been a significant increase in credit risk of such financial instrument since initial recognition, the Group will measure the loss allowance at an amount equal to the 12-month expected credit loss of such financial instrument.

③ If the Group has measured the loss allowance at an amount equal to the lifetime expected credit loss of the financial instrument in the previous accounting period, but on the current balance sheet date such financial instrument no longer belongs to the situation of there being a significant increase in credit risk since initial recognition, the Group will measure the loss allowance of such financial instrument at an amount equal to the 12-month expected credit loss on the current balance sheet date.

(2) Financial liabilities

1) Classification and reclassification of financial liabilities

Except for the following items, the Group classifies 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 financial liabilities) and financial liabilities designated as 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. For such financial liabilities, the Group measures them according to the relevant requirements of "Accounting Standards for Enterprises No. 23 – Transfer of Financial Assets". ③ financial guarantee contracts that do not fall within the range of ① or ②, and loan commitments that do not fall within the range of above ① and are at a rate less than the market interest rate. If the Group acts as the issuer of such financial liabilities, it shall conduct measurement based on the loss allowance amount determined according to Chapter 8 of this standard after initial recognition and balance of the initial recognition amount after deduction of cumulative amortization amount determined according to relevant requirements of "Accounting Standards for Enterprises No. 14 – Revenue", whichever is higher.

2) Derecognition of financial liabilities

A financial liability (or part of it) is derecognized when the present obligation of such financial liability (or part of it) is discharged. An agreement is entered into between the Company and the creditor to replace the existing financial liability with a new financial liability. The new financial liability with substantially different terms to the existing financial liability is accounted for as an extinguishment of the existing financial liability and the recognition of a new financial liability. Where the Company materially modifies the terms of the existing financial liabilities in full or in part, it derecognizes existing financial liability (or part of it) and recognizes the financial liability with the revised terms as a new financial liability.

The difference between the carrying amount of the part of financial liability derecognized and the consideration paid is included in profit or loss for the period.

11. Bad debt provision for receivables

The Group's receivables are accounts receivable or contract assets recognized in accordance with the transactions regulated by "Accounting Standards for Business Enterprises No. 14 – Revenue". The initial measurement does not include significant financing components, nor has it considered financing components of contracts not exceeding one year. For the accounts receivable or contract assets, the Group always measures its loss provision based on the amount of the lifetime expected credit losses.

Receivables include accounts receivable, contract assets, other receivables, and etc.

The Group adopts the following criteria for recognition of bad debt provision on receivables: when the debtors are dissolved, bankrupt, insolvent, in severe shortage of cash flows, or suspended its business due to natural disaster and unable to settle the debts in the foreseeable time; or when there are objective evidences indicating the debts are not recovered or not likely to be recoverable.

Possible bad debt loss is measured using the allowance method and assessed for impairment on individual or group basis at the end of the year. The provision for bad debt is included in profit or loss for the period. When there are objective evidences indicating the receivable cannot be collected, it is set off against the provision for bad debt as a loss on bad debt after being approved by the Group according to the required procedures.

(1) Receivables that are individually significant and for which bad debt provision is individually assessed

The recognition standard of provision for bad debt of receivables that are individually significant: the Group recognizes receivables with an amount exceeding RMB2,000,000 as receivables that are individually significant.

Method of provision for receivables that are individually significant and for which bad debt provision is individually assessed: the bad debt provision is made according to the difference between the present value of its future cash flows and its book value. Receivables that are not impaired after individual testing will be included in a portfolio of receivables with similar credit risk characteristics for impairment testing. Receivables for which an impairment loss is recognized after individual testing are no longer included in a portfolio of receivables with similar credit risk characteristics for impairment testing.

(2) Receivables that are not individually significant but for which bad debt provision is individually assessed

Reasons for individual provision for bad debt: the Group conducts individual impairment testing on receivables that are individually insignificant but with an evidence indicating that the contractual cash flow may not be recovered. Receivables that are not impaired after individual testing will be included in a portfolio of receivables with similar credit risk characteristics for impairment testing. Receivables for which an impairment loss is recognized after individual testing are no longer included in a portfolio of receivables with similar credit risk characteristics for impairment testing.

(3) Accounts receivable for which bad debt has been provided on a collective basis

1) Basis for determining the portfolio:

Portfolio I: this portfolio, mainly representing the receivables that are not impaired after individual testing (including receivables that are individually significant and insignificant), is categorized into Portfolio I by the credit risk characteristics of the debt unit for impairment testing.

Portfolio II: this portfolio, representing the receivables other than those included in Portfolio I (including receivables that are individually significant and insignificant), is provided for bad debt by the Group based on its historical experiences using the aging analysis.

2) Method for which bad debt has been provided on a collective basis:

Portfolio I: the portfolio of relatively low recovery risk: it represents the receivables for which no bad debt provision is necessary as determined by the management based on objective evidences and its historical experience and data, including reserves, deposits, margin and balance with related parties, etc.

Portfolio II: the portfolio by aging analysis (aging is divided into within 1 year, 1 to 2 years, 2 to 3 years, and over 3 years)

Aging	**Percentage of provision for accounts receivable (%)**	**Percentage of provision for other receivables (%)**
Within 1 year	0.5	0.5
1-2 years	5	5
2-3 years	20	20
Over 3 years	100	100

12. Inventories

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

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

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

The Group maintains a perpetual inventory system.

13. 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

14. *Long-term equity investment*

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

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

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

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

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 related assets or liabilities of the investee when disposing the investment. If the equity held before the acquisition date is calculated by fair value in the investments in other equity instruments, the accumulative change in fair value previously included in other comprehensive income shall be transferred into the investment profit or loss for the period on the combination date.

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

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

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

For long-term equity investment for which the subsequent measurement is accounted for using the equity method, the book value of long-term equity investment shall be increased or decreased 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 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 carrying value of corresponding long-term investment of the equity disposed, shall be recognized as other comprehensive income, and, upon loss of control, shall be transfer to the profit or loss for the period when the control is lost.

15. Fixed assets

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

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

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

No.	Category	Depreciable life (year)	Estimated residual value rate (%)	Annual depreciation rate (%)
1	Buildings and structures	30	5	3.17
2	Machinery and equipment	10, 13	0	10.00, 7.69
3	Transportation vehicles	8	0	12.5
4	Office equipment	3, 5	0	33.33, 20.00

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

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

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

16. Construction in progress

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

17. Borrowing costs

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

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

18. 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.

19. Impairment of long term assets

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

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

20. Long-term deferred expenses

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

21. Staff remuneration

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

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

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

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

Short-term remuneration refers to the employee compensation other than post-employment benefits and termination benefits, which 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, industrial injury insurance premiums and maternity insurance premiums, housing provident fund, labour union expenses and staff education expenses, short-term paid leaves, short-term benefits sharing scheme, non-monetary welfare and other short-term remuneration. During the accounting period in which the employees render services, the Group recognizes the short-term remuneration payable as liabilities and includes them into relevant asset costs or expenses according to the object who benefits from the services rendered by employees.

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

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 assumed no obligation of making further payment after depositing fixed amount to independent funds; defined benefit plan refers to the post-employment benefit plan other than defined contribution plan. Within the accounting period in which the employees render services to the Group, contribution payable under defined contribution plan are recognized as liabilities and accounted for in profit 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 arise from termination benefits will be recognized and included in the profit or loss for the period at the earlier of the following dates: ① when the Group cannot unilaterally withdraw termination benefits for the termination employment plan or the redundancy offer. ② When the Group recognizes the costs or expenses related to the reorganization involving in payment of termination benefits.

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

22. Share-based payment

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

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

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

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

23. Recognition principle and measurement of income

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

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

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

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

The customer simultaneously receives and consumes the 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, inspect and accept according to the product quality requirements and the GSP acceptance criteria, overdue acceptance is deemed to constitute standard product. The fact that the goods provided are not in conformity with the order, damage, pollution, expiration, etc., shall be 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.

24. 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 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 income or expense.

25. 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 realized 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.

26. Leasing

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

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

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

27. 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 hold-for-sale: (1) the component represents an independent major line of business or a major independent geographical area of operations; (2) the component is part of 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.

28. Changes in significant accounting policies and accounting estimates

(1) Changes in significant accounting policies

On 31 March 2017 and 2 May 2017, the Ministry of Finance revised and issued the relevant accounting standards for business enterprises respectively, including Accounting Standards for Business Enterprises No. 22 – Recognition and Measurement of Financial Instruments, Accounting Standards for Business Enterprises No. 23 – Transfer of Financial Assets, Accounting Standards for Business Enterprises No. 24 – Hedge Accounting and Accounting Standards for Business Enterprises No. 37 – Presentation of Financial Instruments. In accordance with the relevant regulations, enterprises listed both home and abroad and those listed abroad and adopting the international financial reporting standards or accounting standards for business enterprises to prepare financial reports shall implement these standards from 1 January 2018. During the transition period, with certain exceptions, the revised Accounting Standards for Business Enterprises No. 22 – Recognition and Measurement of Financial Instruments and Accounting Standards for Business Enterprises No. 23 – Transfer of Financial Assets require that the comparable data should be retrospectively adjusted in accordance with the relevant regulations, however, enterprises are not required to provide the comparable data of the previous classification and measurement of financial instruments (including impairment). Save in exceptional circumstances, the revised Accounting Standards for Business Enterprises No. 24 – Hedge Accounting requires that enterprises shall adopt the prospective application method. The revised Accounting Standards for Business Enterprises No. 37 – Presentation of Financial Instruments requires that the comparative financial statements that are subject to the requirements differed from this standard are not required to be adjusted in accordance with this standard. The Group has implemented new standards since 1 January 2018. The above changes in the accounting standards have no significant impact on the financial statements of the Group.

On 5 July 2017, the Ministry of Finance revised and issued the Accounting Standards for Business Enterprises No. 14 – Revenue. In accordance with the relevant regulations, enterprises listed both home and abroad and those listed abroad and adopting the international financial reporting standards or accounting standards for business enterprises to prepare financial reports shall implement this standard from 1 January 2018. During the transition period, in accordance with the relevant regulations, the cumulative impacts of the first implementation are only to adjust the amount of retained earnings and other related items in the financial statements at the beginning of the year when this standard has been implemented for the first time, instead of adjusting the information of the comparable period. The above changes in the accounting standards have no significant impact on the financial statements of the Group.

On 15 June 2018, both the Notice on Revising and Issuing the Format of Financial Statements of General Enterprises for 2018 issued by the Ministry of Finance (Cai Kuai [2018] No. 15) and the Notice on Revising and Issuing the Format of Financial Statements of General Enterprises originally issued on 25 December 2017 (Cai Kuai [2017] No. 30) were repealed. The format of financial statements of general enterprises was revised based on the relevant circumstances occurred during the phased implementation of new standards on financial instruments and revenue and the implementation of Accounting Standard for Business Enterprises. The Group has disclosed its financial statements in the format of financial statements that is revised in accordance with Cai Kuai [2018] No. 15.

(2) Changes in significant accounting estimates

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

V. TAXATION

Type of Tax	Tax basis	Tax rate
VAT	Taxable income	3%, 6%, 10%, 11%, 16%, 17%
Urban Maintenance and Construction Tax	Amount of actual payable turnover tax	7%
Education Surcharge	Amount of actual payable turnover tax	3%
Local Education Surcharge	Amount of actual payable turnover tax	2%
Tax on Land Use	Land area	fixed rate
Property Taxes	70% of original value of the properties or rental income	1.2% or 12%
Enterprise Income Tax	Amount of taxable income	25%

Note: Pursuant to the Article 15 of the Provisional Regulations on VAT of the PRC (《中華人民共和國增值稅暫行條例》) (Order No. 538 of the State Council of the PRC) and approved by the State Taxation Bureau where Charmacy Pharmaceutical Company, Guangdong Chuangmei Company, Zhuhai Charmacy Company and Guangzhou Charmacy Company are incorporated, the contraceptive products of the above four companies are exempt from VAT.

VI. NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS

For data in the financial statements as disclosed below, "beginning of the period" represents 1 January 2018, "end of the period" represents 30 June 2018, "the period" represents the six months ended 30 June 2018, and the monetary unit shall be denominated in RMB, unless specified otherwise.

1. Monetary funds

	Balance as at 30 June 2018 (Unaudited)	Balance as at 31 December 2017 (Audited)
Cash on hand	**387,403.77**	202,101.04
Cash in bank	**46,980,965.56**	74,894,835.41
Other monetary funds	**345,143,968.50**	437,316,459.26
Total	**392,512,337.83**	512,413,395.71

The balance of unutilized restricted funds for the issuance of bills business and loan business at the end of the period was RMB345,143,968.50. At the end of the period, total monetary funds deposited overseas was RMB376,153.20.

2. *Bills receivables and trade receivables*

(1) *Classification*

Items	Balance as at 30 June 2018 (Unaudited)	Balance as at 31 December 2017 (Audited)
Bills receivables	**96,132,898.71**	87,683,853.38
Trade receivables	**756,618,249.48**	882,570,454.98
Total	**852,751,148.19**	970,254,308.36

(2) *Bills receivables*

1) Classification of bills receivables

Classification of bills	Balance as at 30 June 2018 (Unaudited)	Balance as at 31 December 2017 (Audited)
Bank acceptance bills	**56,857,113.20**	49,483,853.38
Commercial drafts	**39,275,785.51**	38,200,000.00
Total	**96,132,898.71**	87,683,853.38

2) Pledged bills receivable as at 30 June 2018

Items	Pledged amount as at 30 June 2018 (Unaudited)
Bank acceptance bills	**34,024,779.63**
Commercial drafts	**18,300,000.00**
Total	**52,324,779.63**

3) Bills receivables endorsed but not mature at the balance sheet date, as at 30 June 2018

Items	**Amount derecognized as at 30 June 2018 (Unaudited)**	Amount not derecognized as at 30 June 2018 (Unaudited)
Bank acceptance bills	**391,833,162.00**	–
Total	**391,833,162.00**	–

4) Bills receivables discounted but not mature at the balance sheet date, as at 30 June 2018

Items	**Amount derecognized as at 30 June 2018 (Unaudited)**	Amount not derecognized as at 30 June 2018 (Unaudited)
Bank acceptance bills	**120,849,388.85**	–
Commercial drafts	**–**	14,500,000.00
Total	**120,849,388.85**	14,500,000.00

5) As at 30 June 2018, no bills were reclassified to trade receivables due to inability of the issuers to settle the bills

Note: The age of the aforementioned bills receivables were within 180 days.

(3) Trade receivables

Name of items	**Balance as at 30 June 2018 (Unaudited)**	Balance as at 31 December 2017 (Audited)
Trade receivables	**769,043,089.26**	894,355,187.94
Less: Provision for bad debts	**12,424,839.78**	11,784,732.96
Net amount	**756,618,249.48**	882,570,454.98

1) Aging analysis of trade receivables

Before accepting new customers, the Group assessed the credit worthiness of potential clients and set corresponding credit limits according to the internal credit assessment policies. The Group establishes different credit policies to different customers. Credit period is generally less than six months. As for commodity sales, the trade receivables and operating revenue is recognized and the age of which is calculated after three days of product shipment.

The following is an aged analysis of trade receivables, net of provision for bad debts, presented based on the date of delivery of goods at the end of the reporting period:

Age	**Balance as at 30 June 2018 (Unaudited)**	Balance as at 31 December 2017 (Audited)
Within 1 year	**756,180,719.17**	878,161,102.28
1 to 2 years	**437,530.31**	4,403,231.28
2 to 3 years	**–**	6,121.42
More than 3 years	**–**	–
Total	**756,618,249.48**	882,570,454.98

2) Classification of trade receivables

	Balance as at 30 June 2018				
	Carrying amount		Provision for bad debts		
Classification	Amount (Unaudited)	Percentage (%)	Amount (Unaudited)	Percentage of provision (%)	Book value (Unaudited)
Trade receivables with significant individual amount and bad debt provision accrued on single item	**7,603,370.70**	**0.99**	**7,603,370.70**	**100.00**	**-**
Trade receivables with bad debt provision accrued on the combination of credit risk characteristics	**760,441,180.51**	**98.88**	**3,822,931.03**	**0.50**	**756,618,249.48**
Account age combination	**760,441,180.51**	**98.88**	**3,822,931.03**	**0.50**	**756,618,249.48**
Trade receivables with insignificant individual amount and bad debt provision accrued on single item	**998,538.05**	**0.13**	**998,538.05**	**100.00**	**-**
Total	**769,043,089.26**	**100.00**	**12,424,839.78**	**-**	**756,618,249.48**

	Balance as at 31 December 2017				
	Carrying amount		Provision for bad debts		
Classification	Amount (Audited)	Percentage (%)	Amount (Audited)	Percentage of provision (%)	Book value (Audited)
Trade receivables with significant individual amount and bad debt provision accrued on single item	10,477,855.70	1.17	6,244,321.13	59.60	4,233,534.57
Trade receivables with bad debt provision accrued on the combination of credit risk characteristics	882,760,202.66	98.70	4,423,282.25	0.50	878,336,920.41
Account age combination	882,760,202.66	98.70	4,423,282.25	0.50	878,336,920.41
Trade receivables with insignificant individual amount and bad debt provision accrued on single item	1,117,129.58	0.13	1,117,129.58	100.00	-
Total	894,355,187.94	100.00	11,784,732.96	-	882,570,454.98

3. *Prepayments*

Items	Balance as at 30 June 2018 (Unaudited)		Balance as at 31 December 2017 (Audited)	
	Amount	Proportion (%)	Amount	Proportion (%)
Within 1 year	**157,698,536.21**	**99.83**	147,646,211.95	98.91
1-2 years	**267,511.33**	**0.17**	1,629,044.40	1.09
2-3 years	**7,701.97**	**0.00**	–	–
Total	**157,973,749.51**	**100.00**	149,275,256.35	100.00

4. *Other receivables*

Classification of other receivables by nature

Nature of amounts	Balance as at 30 June 2018 (Unaudited)	Balance as at 31 December 2017 (Audited)
Deposit	**9,369,440.00**	8,746,867.72
Reserve	**940,416.97**	949,361.06
Others	**898.20**	898.20
Total	**10,310,755.17**	9,697,126.98

5. *Inventories*

Items	Balance as at 30 June 2018 (Unaudited) Carrying amount	Provision for impairment	Book value	Balance as at 31 December 2017 (Audited) Carrying amount	Provision for impairment	Book value
Goods in stock	**446,261,976.64**	**2,889,556.57**	**443,372,420.07**	393,507,501.94	2,442,989.06	391,064,512.88
Goods sold	**40,566,920.40**	**-**	**40,566,920.40**	40,527,913.50	–	40,527,913.50
Total	**486,828,897.04**	**2,889,556.57**	**483,939,340.47**	434,035,415.44	2,442,989.06	431,592,426.38

6. *Other current assets*

Items	Balance as at 30 June 2018 (Unaudited)	Balance as at 31 December 2017 (Audited)
Input tax to be credited	**18,851,059.95**	29,982,360.69
Expenses to be amortized	**303,746.28**	49,377.10
Other	**458,456.94**	–
Total	**19,613,263.17**	30,031,737.79

7. *Fixed assets*

(1) Classification

Items	Balance as at 30 June 2018 (Unaudited)	Balance as at 31 December 2017 (Audited)
Fixed assets	**177,186,258.37**	115,303,828.63
Liquidation of fixed assets	**2,103.97**	73,448.54
Total	**177,188,362.34**	115,377,277.17

(2) Fixed assets

1) Breakdown of fixed assets

Items	Houses and buildings	Machineries and equipment	Transportation facilities	Office equipment	Total
I. Original book value					
1. Balance as at 31 December 2017	107,339,200.51	38,944,353.56	13,496,669.44	12,019,494.83	171,799,718.34
2. Addition for the period	57,489,268.77	6,982,618.42	1,809,671.89	900,529.11	67,182,088.19
(1) Purchase	–	1,604,799.22	1,809,671.89	900,529.11	4,315,000.22
(2) Transfer from construction in-progress	57,489,268.77	5,377,819.20	–	–	62,867,087.97
(3) Addition as a result of business combination	–	–	–	–	–
3. Reduction for the period	–	9,495.04	166,639.86	277,181.50	453,316.40
(1) Disposal or write-off	–	9,495.04	166,639.86	277,181.50	453,316.40
(2) Other reduction	–	–	–	–	–
4. Balance as at 30 June 2018	164,828,469.28	45,917,476.94	15,139,701.47	12,642,842.44	238,528,490.13
II. Accumulated depreciation					
1. Balance as at 31 December 2017	25,962,397.31	16,759,414.44	3,579,000.75	10,195,077.21	56,495,889.71
2. Addition for the period	1,671,986.59	2,074,741.96	890,757.05	607,690.88	5,245,176.48
(1) Provision	1,671,986.59	2,074,741.96	890,757.05	607,690.88	5,245,176.48
(2) Addition as a result of business combination	–	–	–	–	–
3. Reduction for the period	–	6,357.81	120,423.34	272,053.28	398,834.43
(1) Disposal or write-off	–	6,357.81	120,423.34	272,053.28	398,834.43
(2) Other reduction	–	–	–	–	–
4. Balance as at 30 June 2018	27,634,383.90	18,827,798.59	4,349,334.46	10,530,714.81	61,342,231.76
III. Impairment provision					
1. Balance as at 31 December 2017	–	–	–	–	–
2. Addition for the period	–	–	–	–	–
3. Reduction for the period	–	–	–	–	–
4. Balance as at 30 June 2018	–	–	–	–	–
IV. Net book value					
1. Net book value as at 31 December 2017	81,376,803.20	22,184,939.12	9,917,668.69	1,824,417.62	115,303,828.63
2. Net book value as at 30 June 2018	137,194,085.38	27,089,678.35	10,790,367.01	2,112,127.63	177,186,258.37

Note: Addition of fixed assets for the period included the amount of transfer from construction-in-progress of RMB62,867,087.97. Among the addition of accumulated depreciation for the period, RMB5,245,176.48 was provided for the period. Reduction for the period was a result of scrapped fixed assets which had lives of usage expired. At the end of the period, the original values of fixed assets that have been fully depreciated but were still in use amounted to RMB8,937,497.72.

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

(3) *Liquidation of fixed assets*

Items	Balance as at 30 June 2018 (Unaudited)	Balance as at 31 December 2017 (Audited)	Reason for liquidation
Machineries and equipment	**1,168.14**	73,448.54	Write-off obsolete assets
Transportation facilities	**935.83**	–	Write-off obsolete assets
Total	**2,103.97**	73,448.54	–

8. Construction in progress

(1) *Breakdown of construction-in-progress*

Items	Balance as at 30 June 2018 (Unaudited)			Balance as at 31 December 2017 (Audited)		
	Carrying amount	Provision for impairment	Book value	Carrying amount	Provision for impairment	Book value
Construction of information based program	**-**	**-**	**-**	7,962,619.38	–	7,962,619.38
Guangzhou Nansha Logistic Center Project (廣州南沙物流中心項目)	**19,622,028.03**	**-**	**19,622,028.03**	73,555,723.05	–	73,555,723.05
Other sporadic constructions	**-**	**-**	**-**	449,458.84	–	449,458.84
Total	**19,622,028.03**	**-**	**19,622,028.03**	81,967,801.27	–	81,967,801.27

(2) Changes in major construction-in-progress

Name of project	Balance as at 31 December 2017 (Audited)	Addition for the period	Reduction for the period: Transfer to the fixed assets	Reduction for the period: Other reductions	Balance as at 30 June 2018 (Unaudited)
Construction of information based program	7,962,619.38	46,862.24	2,876,068.37	5,133,413.25	-
Guangzhou Nansha Logistic Center Project (廣州南沙物流中心項目)	73,555,723.05	5,114,562.53	59,048,257.55	-	19,622,028.03
Other sporadic constructions	449,458.84	493,303.21	942,762.05	-	-
Total	81,967,801.27	5,654,727.98	62,867,087.97	5,133,413.25	19,622,028.03

Name of project	Budget (10'000)	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
Construction of information based program	1,733.53	97.02	100.00	-	-	-	Raised funds and own funds
Guangzhou Nansha Logistic Center Project (廣州南沙物流中心項目)	8,752.11	89.89	89.89	-	-	-	Raised funds and own funds
Other sporadic constructions	94.28	100.00	100.00	-	-	-	-
Total	10,579.92	-	-	-	-	-	-

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

9. *Intangible assets*

For the six months ended 30 June 2018 (Unaudited)

Items	Land use rights	Computer software	Total
I. Original book value			
1. Balance as at 31 December 2017	164,253,763.65	13,797,362.19	178,051,125.84
2. Addition for the period	–	4,981,324.88	4,981,324.88
(1) Purchase	–	83,760.68	83,760.68
(2) Transfer from construction in-progress	–	4,897,564.20	4,897,564.20
3. Reduction for the period	–	–	–
(1) Disposal	–	–	–
4. Balance as at 30 June 2018	164,253,763.65	18,778,687.07	183,032,450.72
II. Accumulated amortization			
1. Balance as at 31 December 2017	15,630,209.44	1,697,072.85	17,327,282.29
2. Addition for the period	2,269,424.39	972,622.89	3,242,047.28
(1) Provision	2,269,424.39	972,622.89	3,242,047.28
3. Reduction for the period	–	–	–
(1) Disposal	–	–	–
4. Balance as at 30 June 2018	17,899,633.83	2,669,695.74	20,569,329.57
III. Impairment provision	–	–	–
1. Balance as at 31 December 2017	–	–	–
2. Addition for the period	–	–	–
(1) Provision	–	–	–
3. Reduction for the period	–	–	–
(1) Disposal	–	–	–
4. Balance as at 30 June 2018	–	–	–
IV. Net book value			
1. Net book value as at 31 December 2017	148,623,554.21	12,100,289.34	160,723,843.55
2. Net book value as at 30 June 2018	146,354,129.82	16,108,991.33	162,463,121.15

As at 30 June 2018, no intangible asset arose through the internal research and development of the Group.

10. Goodwill

(1) Original value of goodwill

Name of the investees	Balance as at 31 December 2017 (Audited)	Addition for the period as a result of business combination	Addition for the period Other	Reduction for the period Disposal	Reduction for the period Other	Balance as at 30 June 2018 (Unaudited)
Zhuhai Charmacy Company (珠海創美公司)	4,567,297.19	–	–	–	–	**4,567,297.19**
Guangzhou Charmacy Company (廣州創美公司)	26,328.12	–	–	–	–	**26,328.12**
Total	4,593,625.31	–	–	–	–	**4,593,625.31**

(2) Provision for impairment of goodwill

Name of investee	Balance as at 31 December 2017 (Audited)	Addition for the period Provision	Addition for the period Other	Reduction for the period Disposal	Reduction for the period Other	Balance as at 30 June 2018 (Unaudited)
Zhuhai Charmacy Company (珠海創美公司)	–	1,465,937.31	–	–	–	**1,465,937.31**
Guangzhou Charmacy Company (廣州創美公司)	–	–	–	–	–	**-**
Total	–	1,465,937.31	–	–	–	**1,465,937.31**

The Group recognized the impairment loss of the goodwill asset group as the difference between the present value of the future net cash flow of the projected goodwill asset group and the carrying amount of the asset group. After the impairment test, the provision for impairment of goodwill is RMB1,465,937.31.

11. Long-term expenses to be amortized

Items	Balance as at 31 December 2017 (Audited)	Addition for the period	Amortization for the period	Other reduction for the period	Balance as at 30 June 2018 (Unaudited)
Installation expenses for the guard house and delivery platform	151,380.08	–	4,109.86	–	**147,270.22**
Zhuhai Charmacy warehouse installation project (珠海創美倉庫安裝工程)	1,050,416.67	5,599,760.61	245,333.07	–	**6,404,844.21**
Total	1,201,796.75	5,599,760.61	249,442.93	–	**6,552,114.43**

12. Deferred income tax assets and deferred income tax liabilities

(1) Deferred income tax assets not offset

Items	Balance as at 30 June 2018 (Unaudited) Deferred income tax assets	Balance as at 30 June 2018 (Unaudited) Deductible temporary differences	Balance as at 31 December 2017 (Audited) Deferred income tax assets	Balance as at 31 December 2017 (Audited) Deductible temporary differences
Provision for asset impairment	3,835,468.13	15,341,872.55	3,562,549.55	14,250,198.22
Government grants	476,104.69	1,904,418.74	533,237.25	2,132,948.99
Deductible losses	1,416,195.39	5,664,781.57	627,631.75	2,510,527.02
Total	5,727,768.21	22,911,072.86	4,723,418.55	18,893,674.23

(2) Deferred income tax liabilities not offset

Items	Balance as at 30 June 2018 (Unaudited) Deferred income tax liabilities	Balance as at 30 June 2018 (Unaudited) Taxable temporary differences	Balance as at 31 December 2017 (Audited) Deferred income tax liabilities	Balance as at 31 December 2017 (Audited) Taxable temporary differences
Unrealized internal sales gains and losses	69,236.45	276,945.80	–	–
Total	69,236.45	276,945.80	–	–

(3) Breakdown of unrecognized deferred income tax assets

Items	Balance as at 30 June 2018 (Unaudited)	Balance as at 31 December 2017 (Audited)
Deductible losses	5,929.44	–
Total	5,929.44	–

Note: Due to the uncertainty of whether Shenzhen Charmacy Company (深圳創美公司) can obtain sufficient taxable income in the future, it is not recognized as deductible temporary differences and deductible losses of deferred income tax assets.

(4) Deductible losses of unrecognized deferred income tax assets will expire in the following years

Years	Balance as at 30 June 2018 (Unaudited)	Balance as at 31 December 2017 (Audited)
2023	**5,929.44**	–
Total	**5,929.44**	–

13. Short-term borrowings

Types of borrowings	Balance as at 30 June 2018 (Unaudited)	Balance as at 31 December 2017 (Audited)
Secured borrowings	**269,900,000.00**	242,500,000.00
Guaranteed borrowings	**131,500,000.00**	168,500,000.00
Credit borrowings	**77,000,000.00**	89,900,000.00
Borrowings from discounted bills receivables	**14,500,000.00**	22,000,000.00
Total	**492,900,000.00**	522,900,000.00

The Group had no past due and outstanding short-term borrowings, and the amount repaid subsequent to the balance sheet date was RMB137,000,000.00.

14. Bill payables and trade payables

(1) Classification

Items	Balance as at 30 June 2018 (Unaudited)	Balance as at 31 December 2017 (Audited)
Bills payables	**761,729,015.70**	928,824,897.42
Trade payables	**472,705,988.48**	479,781,944.91
Total	**1,234,435,004.18**	1,408,606,842.33

(2) Bills payables

Classification of bills	**Balance as at 30 June 2018 (Unaudited)**	Balance as at 31 December 2017 (Audited)
Bank acceptance bills	**761,729,015.70**	928,824,897.42
Total	**761,729,015.70**	928,824,897.42

Note: As at 30 June 2018, the Group's bank acceptance bills due and unpaid amounted to RMB13.90 million. Their delay of payment by banks was due to the maturity date, being 30 June 2018, was a non-working day.

The age of the aforementioned bills payables of the Group were within 180 days.

(3) Trade payables

Below is an aging analysis of trade payables based on the transaction date as at 30 June 2018:

Age	**Balance as at 30 June 2018 (Unaudited)**	Balance as at 31 December 2017 (Audited)
Within 1 year	**471,410,154.74**	477,997,374.71
1 to 2 years	**667,111.75**	1,527,649.39
2 to 3 years	**389,673.46**	12,988.20
More than 3 years	**239,048.53**	243,932.61
Total	**472,705,988.48**	479,781,944.91

15. Receipts in advance

Items	**Balance as at 30 June 2018 (Unaudited)**	Balance as at 31 December 2017 (Audited)
Total	**3,944,699.04**	5,382,568.81
Among which: over 1 year	**485,791.71**	121,120.72

As of 30 June 2018, the Group has no significant receipt in advance ageing over 1 year.

16. Salaries payable to employees

(1) Classification of salaries payable to employees

Items	Balance as at 31 December 2017 (Audited)	Addition for the period	Reduction for the period	**Balance as at 30 June 2018 (Unaudited)**
Short-term remuneration	4,781,858.77	31,446,130.03	31,756,776.72	**4,471,212.08**
Post-employment benefits				
– Defined contribution plan	–	2,320,159.91	2,320,159.91	**–**
Termination benefits	–	16,896.40	16,896.40	**–**
Total	4,781,858.77	33,783,186.34	34,093,833.03	**4,471,212.08**

(2) Short-term remuneration

Items	Balance as at 31 December 2017 (Audited)	Addition for the period	Reduction for the period	**Balance as at 30 June 2018 (Unaudited)**
Salaries, bonuses, allowances and subsidies	4,599,319.57	26,135,703.09	26,517,749.28	**4,217,273.38**
Staff welfare payments	–	2,638,238.38	2,638,238.38	**–**
Social insurance premiums	–	1,166,747.61	1,166,747.61	**–**
Among which: medical insurance premium	–	1,000,538.91	1,000,538.91	**–**
Industrial injury insurance premium	–	31,994.66	31,994.66	**–**
Maternity insurance premium	–	134,214.04	134,214.04	**–**
Housing provident fund	–	1,213,081.92	1,213,081.92	**–**
Labor union expenses and staff education expenses	182,539.20	286,819.58	215,420.08	**253,938.70**
Others	–	5,539.45	5,539.45	**–**
Total	4,781,858.77	31,446,130.03	31,756,776.72	**4,471,212.08**

(3) *Defined contribution plan*

Items	Balance as at 31 December 2017 (Audited)	Addition for the period	Reduction for the period	**Balance as at 30 June 2018 (Unaudited)**
Basic pension insurance	–	2,220,192.26	2,220,192.26	**–**
Unemployment insurance premium	–	99,967.65	99,967.65	**–**
Total	–	2,320,159.91	2,320,159.91	**–**

17. Tax payables

Items	**Balance as at 30 June 2018 (Unaudited)**	Balance as at 31 December 2017 (Audited)
VAT	**29,540,636.23**	45,325,386.55
Enterprise income tax	**17,540,017.11**	2,418,311.46
Individual income tax	**3,064,332.94**	1,580,817.02
Property taxes	**1,314,599.38**	823,118.34
Tax on land use	**287,520.96**	381,444.00
Stamp duty	**122,187.54**	148,960.34
Urban maintenance and construction tax	**44,873.89**	110,388.31
Education surcharge	**19,231.67**	47,309.27
Other taxes	**12,821.11**	31,539.51
Total	**51,946,220.83**	50,867,274.80

18. Other payables

(1) Classification

Items	Balance as at 30 June 2018 (Unaudited)	Balance as at 31 December 2017 (Audited)
Interest payables	993,779.00	1,050,789.84
Dividend payables	–	–
Other payables	14,081,317.99	12,700,257.58
Total	15,075,096.99	13,751,047.42

(2) Interest payables

Items	Balance as at 30 June 2018 (Unaudited)	Balance as at 31 December 2017 (Audited)
Interest payables of short-term borrowings	993,779.00	1,050,789.84
Total	993,779.00	1,050,789.84

(3) Other payables

Nature of payment	Balance as at 30 June 2018 (Unaudited)	Balance as at 31 December 2017 (Audited)
Margin	7,467,030.45	7,330,984.95
Accrued intermediary expenses	3,574,443.81	3,393,009.00
Transportation costs	380,254.53	284,800.51
Others	2,659,589.20	1,691,463.12
Total	14,081,317.99	12,700,257.58

19. Other current liabilities

(1) Classification of other current liabilities

Items	Balance as at 30 June 2018 (Unaudited)	Balance as at 31 December 2017 (Audited)
Deferred income from assets – related government grants carried forward within 1 year	**457,060.50**	520,000.00
Total	**457,060.50**	520,000.00

(2) Government grant

Government grant program	Balance as at 31 December 2017 (Audited)	Addition of grant for the year	Included in other gains for the period	Other changes	Balance as at 30 June 2018 (Unaudited)	Asset-related/ Income-related
Government grant for logistics standardization program	520,000.00		228,530.25	165,590.75	**457,060.50**	Asset-related
Total	520,000.00		228,530.25	165,590.75	**457,060.50**	-

Note: Other changes referred to a transferred-in amount of RMB165,590.75 due to the reclassification of deferred income (see Note VI. 20).

20. Deferred income

(1) Type of deferred income

Item	Balance as at 31 December 2017 (Audited)	Addition for the period	Reduction for the period	Balance as at 30 June 2018 (Unaudited)
Government grant	1,612,948.99	–	165,590.75	**1,447,358.24**
Total	1,612,948.99	–	165,590.75	**1,447,358.24**

(2) Government grant program

Government grant program	Balance as at 31 December 2017 (Audited)	Addition of grant for the period	Included in other gains the period	Other changes	Balance as at 30 June 2018 (Unaudited)	Asset-related/ Income-related
Government grant for logistics standardization program	1,612,948.99	–	–	165,590.75	**1,447,358.24**	Asset-related
Total	1,612,948.99	–	–	165,590.75	**1,447,358.24**	–

Note: Other changes referred to the Government grants of RMB165,590.75 expected to be carried forward in the income statement within 1 year was transferred to other current liabilities (see note VI. 19).

21. Share capital

Name of shareholders	Balance as at 31 December 2017 (Audited)	Addition for the period	Reduction for the period	Balance as at 30 June 2018 (Unaudited)
Yao Chuanglong	59,000,000.00	–	–	**59,000,000.00**
Shantou Meizhi Investment Management Limited Partnership	3,200,000.00	–	–	**3,200,000.00**
Shantou Youran Investment Management Limited Partnership	1,700,000.00	–	–	**1,700,000.00**
Shantou Zhichuang Investment Management Limited Partnership	1,800,000.00	–	–	**1,800,000.00**
H-Share Shareholders	28,000,000.00	–	–	**28,000,000.00**
Wu Binhua	5,400,000.00	–	–	**5,400,000.00**
Liu Jigui	5,400,000.00	–	–	**5,400,000.00**
Wu Wanping	3,500,000.00	–	–	**3,500,000.00**
Total	108,000,000.00	–	–	**108,000,000.00**

22. Capital reserve

Items	Balance as at 31 December 2017 (Audited)	Addition for the period	Reduction for the period	Balance as at 30 June 2018 (Unaudited)
Share premium	281,215,559.50	–	–	**281,215,559.50**
Other capital reserve	988,928.00	–	–	**988,928.00**
Total	282,204,487.50	–	–	**282,204,487.50**

23. Surplus reserve

Item	Balance as at 31 December 2017 (Audited)	Addition for the period	Reduction for the period	Balance as at 30 June 2018 (Unaudited)
Statutory surplus reserve	10,115,890.49	–	–	**10,115,890.49**
Total	10,115,890.49	–	–	**10,115,890.49**

24. Undistributed profits

Items	Six months ended 30 June 2018 (Unaudited)	2017 (Audited)
Balance as at the end of last period	**55,797,710.73**	47,908,855.34
Add: adjustment to the opening balance of undistributed profit	**–**	–
Balance as at the beginning of the period	**55,797,710.73**	47,908,855.34
Add: Net profit attributable to the owners of the parent company for the period	**45,640,024.27**	44,759,911.86
Less: Appropriation of statutory surplus reserve	**–**	4,471,056.47
Dividends payable on ordinary shares	**21,600,000.00**	32,400,000.00
Balance as at the end of the period	**79,837,735.00**	55,797,710.73

25. Operating revenue, operating cost and segment information

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

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

	Six months ended 30 June 2018		Six months ended 30 June 2017	
Items	Revenue (Unaudited)	Cost (Unaudited)	Revenue (Unaudited)	Cost (Unaudited)
Principal business	2,006,067,441.91	1,872,269,199.68	1,881,994,596.84	1,777,161,164.14
Other business	15,920,292.39	–	21,946,951.02	–
Total	2,021,987,734.30	1,872,269,199.68	1,903,941,547.86	1,777,161,164.14

26. Taxes and surcharges

	Six months ended 30 June	
Items	2018 (Unaudited)	2017 (Unaudited)
Property taxes	1,121,002.54	468,309.36
Stamp duty	1,111,369.30	732,077.75
Urban maintenance and construction Tax	357,114.90	365,253.58
Education surcharge	255,082.10	260,895.42
Tax on land use	237,580.56	190,371.00
Vehicle and vessel tax	25,963.87	14,506.04
Environmental protection tax	1,050.00	–
Total	3,109,163.27	2,031,413.15

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

27. Selling expenses

Items	Six months ended 30 June 2018 (Unaudited)	2017 (Unaudited)
Staff remuneration	**21,747,990.72**	21,580,398.85
Transportation costs	**6,256,618.78**	5,728,313.79
Office expenses	**5,354,826.72**	2,216,968.59
Depreciation and amortization	**2,061,479.27**	1,596,946.49
Promotion and advertising expenses	**376,960.34**	376,139.00
Business entertainment expenses	**185,391.34**	341,599.09
Travelling expenses	**195,972.51**	309,656.21
Others	**3,979.25**	18,195.65
Total	**36,183,218.93**	32,168,217.67

28. Management expenses

Items	Six months ended 30 June 2018 (Unaudited)	2017 (Unaudited)
Staff remuneration	**12,035,195.62**	8,952,117.58
Office expenses	**4,703,678.26**	5,641,922.42
Depreciation and amortization	**6,675,187.42**	5,145,904.44
Expenses on engaging agencies	**1,673,157.82**	1,990,330.88
Share-based payment	**–**	988,928.00
Travelling expenses	**161,435.99**	360,005.08
Business entertainment expenses	**119,730.83**	247,583.24
Promotion and advertising expenses	**–**	51,843.53
Loss on inventory	**384,327.42**	26,758.47
Others	**74,117.82**	144,423.57
Total	**25,826,831.18**	23,549,817.21

29. Finance costs

Items	Six months ended 30 June 2018 (Unaudited)	2017 (Unaudited)
Interest expenses	**15,698,262.24**	10,614,431.37
Less: Interest income	**1,787,873.08**	1,463,787.83
Add: Gain or loss on foreign exchange	**137,244.28**	1,686,738.19
Add: Handling fees	**1,898,536.00**	1,353,797.19
Total	**15,946,169.44**	12,191,178.92

30. Impairment loss of assets

Items	Six months ended 30 June 2018 (Unaudited)	2017 (Unaudited)
Loss on bad debt	**881,782.72**	-1,044,464.84
Loss on impairment of inventories	**2,889,556.57**	2,041,278.90
Provision for impairment of goodwill	**1,465,937.31**	–
Total	**5,237,276.60**	996,814.06

31. Other gains

Item	Six months ended 30 June 2018 (Unaudited)	2017 (Unaudited)	Sources & Basis
Transfer-out of logistics program grant	228,530.25	–	Notice of the Bureau of Commerce of Foshan City on the Organization and Application of Logistics Standardization Pilot Program of Foshan City in 2015 (《佛山市商務局關於組織申報2015年佛山市物流標準化試點項目的通知》) (Fo Shangwu Fu Han 〈2015〉 No.182)
Total	**228,530.25**	–	

32. Gains on disposal of assets

Items	Six months ended 30 June 2018 (Unaudited)	2017 (Unaudited)
Gains on disposal of non-current assets	–39,489.01	–
Of which: Gains on disposal of non-current assets that are not classified as held for sale	–39,489.01	–
Of which: Gains on disposal of fixed assets	–39,489.01	–
Total	**–39,489.01**	–

33. Non-operating income

Items	Six months ended 30 June 2018 (Unaudited)	2017 (Unaudited)
Gain on disposal of non-current assets	–	7,910.29
Including: Gain on disposal of fixed assets	–	7,910.29
Government grants	736,000.00	2,003,000.00
Others	40,435.94	229,707.30
Total	776,435.94	2,240,617.59

34. Non-operating expenses

Items	Six months ended 30 June 2018 (Unaudited)	2017 (Unaudited)
Loss on disposal of non-current assets	–	88,935.74
Including: loss on disposal of fixed assets	–	88,935.74
Donation	59,693.46	18,760.00
Others	6,881.49	68,117.04
Total	66,574.95	175,812.78

35. Income tax expense

(1) Income tax expense

Items	Six months ended 30 June 2018 (Unaudited)	2017 (Unaudited)
Current income tax calculated in accordance with the tax laws and relevant requirements	**19,926,965.84**	15,106,815.67
– PRC	**19,926,965.84**	15,106,815.67
– Hong Kong	**–**	–
Deferred income tax expenses	**–935,113.21**	–160,568.25
Total	**18,991,852.63**	14,946,247.42

There is no Hong Kong profits tax as the Group has no taxable income in Hong Kong for the six months ended 30 June 2017 and 2018.

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

Items	Six months ended 30 June 2018 (Unaudited)
Total combined profits for the period	**64,314,777.43**
Income tax expense calculated at statutory/applicable tax rate	**16,078,694.36**
Effect of non-deductible cost, expenses and loss	**2,540,744.50**
Tax effect of deductible loss and deductible temporary differences unrecognized for the period	**5,929.44**
Other	**366,484.33**
Income tax expense	**18,991,852.63**

36. *Return on net assets and earnings per share*

In accordance with the requirements of the "Preparation Rules for Information Disclosures by Companies Offering Securities 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 (%)	Earnings per share Basic earnings per share (Unaudited)	Diluted earnings per share (Unaudited)
Net profit attributable to the shareholders of parent company	9.60	0.4226	0.4226
Net profit attributable to the shareholders of parent company (excluding non-recurring profit or loss)	9.44	0.4154	0.4154

37. Supplementary information to statement of cash flow

(1) Supplementary Information to Statement of Cash Flow

Items	Six months ended 30 June 2018 (Unaudited)	2017 (Unaudited)
1. Reconciliation of net profit to cash flows from operating activities:		
Net profit	**45,322,924.80**	42,961,500.10
Add: Provision for impairment on assets	**5,237,276.60**	996,814.06
Depreciation of fixed assets, depletion of petroleum and natural gas properties, depreciation of productive biological assets	**5,245,176.48**	4,685,089.89
Amortization of intangible assets	**3,242,047.28**	2,085,795.30
Amortization of long-term deferred expenses to be amortized	**249,442.93**	4,109.87
Loss on disposal of fixed assets, intangible assets and other long-term assets ("–" for gain)	**39,489.01**	81,025.45
Loss on scrapped fixed assets ("–" for gain)	**–**	–
Gain or loss arising from changes in fair value ("–" for gain)	**–**	–
Finance costs ("–" for gain)	**14,486,017.41**	11,121,744.59
Investment loss ("–" for gain)	**–**	–
Decrease in deferred income tax assets ("–" for increase)	**–1,004,349.66**	–166,492.20
Increase in deferred income tax liabilities ("–" for decrease)	**69,236.45**	–
Decrease in inventories ("–" for increase)	**–52,793,481.60**	–100,421,775.26
Decrease in receivables from operating activities ("–" for increase)	**89,048,930.63**	–77,606,297.94
Increase in payables from operating ("–" for decrease)	**–154,180,463.35**	75,389,365.51
Others	**–**	–
Net cash flow from operating activities	**–45,037,753.02**	–40,869,120.63
2. Non-cash significant investing and financing activities:		
Conversion of debt into capital	**–**	–
Convertible corporate bonds due within one year	**–**	–
Finance leased fixed assets	**–**	–
3. Net change in cash and cash equivalents		
Cash balance as at the end of the period	**47,368,369.33**	96,891,891.51
Less: cash balance as at the beginning of the period	**75,096,936.45**	119,569,294.15
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	**–27,728,567.12**	–22,677,402.64

VII. CHANGES IN SCOPE OF CONSOLIDATION

1. Changes in scope of consolidation during the year and the reasons

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

VIII. INTERESTS IN SUBSIDIARIES

(1) Composition of the corporation

Name of subsidiaries	Places of principal operation	Places of registration	Nature of business	Proportion of shareholding (%) Direct	Indirect	Method of acquisition
Guangdong Chuangmei Company	Pearl River Delta	Foshan	Pharmaceutical distribution	100.00	-	Established by investment
Shenzhen Charmacy Company	Pearl River Delta	Shenzhen	Pharmaceutical distribution	100.00	-	Established by investment
Zhuhai Charmacy Company	Pearl River Delta	Zhuhai	Pharmaceutical distribution	70.00	-	Business combination not under common control
Guangzhou Charmacy Company	Pearl River Delta	Guangzhou	Pharmaceutical distribution	90.00	-	Business combination not under common control

(2) Substantial non-wholly owned subsidiaries

Name of subsidiary	Shareholding percentage of minority shareholders	Profit or loss attributable to minority shareholders for the period	Dividends declared to minority shareholders for the period	Interests balance of minority shareholders at the end of the period
Zhuhai Charmacy Company	30%	-6,866.19	-	5,212,613.69
Guangzhou Charmacy Company	10%	-310,233.28	-	1,637,585.31

(3) Key financial information of major non-wholly owned subsidiaries

Name of subsidiary	Balance as at 30 June 2018 (Unaudited) Current assets	Non-current assets	Total assets	Current liabilities	Total liabilities
Zhuhai Charmacy Company	21,176,255.44	1,351,855.29	22,528,110.73	4,868,975.91	4,868,975.91
Guangzhou Charmacy Company	96,350,729.09	5,355,368.38	101,706,097.47	85,330,244.31	85,330,244.31

Name of subsidiary	Amount for the six months ended 30 June 2018 (Unaudited) Operating revenue	Net profit	Total comprehensive income	Cash flows of operating activities
Zhuhai Charmacy Company	31,481,609.57	–22,887.31	–22,887.31	–3,587,223.99
Guangzhou Charmacy Company	43,525,604.31	–3,102,332.75	–3,102,332.75	4,921,734.56

IX. RELATED PARTIES AND RELATED PARTY TRANSACTIONS

(i) Relationship with related parties

1. CONTROLLING SHAREHOLDER AND ULTIMATE CONTROLLER

(1) Controlling shareholder and ultimate controller

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

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

Controlling shareholder	Shareholding amount 30 June 2018 (Unaudited)	31 December 2017 (Audited)
Yao Chuanglong	**59,000,000.00**	59,000,000.00

Controlling shareholder	Percentage of shareholding (%) 30 June 2018 (Unaudited)	31 December 2017 (Audited)
Yao Chuanglong	**54.63**	54.63

2. SUBSIDIARIES

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

3. OTHER RELATED PARTIES

Name of other related parties	Relationship with the Company
Shantou Youran Investment Management Limited Partnership	Holding 1.57% equity interests in the Company
Shantou Zhichuang Investment Management Limited Partnership	Holding 1.67% equity interests in the Company
Shantou Meizhi Investment Management Limited Partnership	Holding 2.96% equity interests in the Company
Guangzhou Baiyunshan Pharmaceutical Holdings Co., Ltd. (hereinafter referred to as "Baiyunshan") and its holding subsidiaries and joint ventures	Guangzhou Pharmaceutical Baiyunshan Hong Kong Company Limited (hereinafter referred to as "Baiyunshan Hong Kong"), a wholly-owned subsidiary of Baiyunshan and a strategic investor of Charmacy Pharmaceutical, holds 7,906,500 H shares of Charmacy Pharmaceutical, representing 7.32% of the total share capital. Due to the close business association between Charmacy Pharmaceutical and Baiyunshan and its holding subsidiaries, the percentage of shareholding of Baiyunshan Hong Kong in Charmacy Pharmaceutical has exceeded 5%, and has appointed a director, Lee Wei Shan, to Charmacy Pharmaceutical. According to the listing rules of the Shenzhen Stock Exchange and based on substance over form principle, Charmacy Pharmaceutical deemed Baiyunshan and its holding subsidiaries and joint ventures as related parties.

Note: List of related party relationships between Baiyunshan and its holding subsidiaries and joint ventures:

Company name	Related party relationships with Baiyunshan
Guangdong Meixian Pharmaceutical Co., Ltd.* (廣東省梅縣醫藥有限公司)	Holding company of Baiyunshan
Shenzhen Guangyao Liankang Pharmaceutical Company Limited* (深圳廣藥聯康醫藥有限公司)	Holding company of Baiyunshan
Zhuhai Guang Yao Kangming Pharmaceutical Co., Ltd.* (珠海廣藥康鳴醫藥有限公司)	Holding company of Baiyunshan
Foshan GPC Jianze Pharmaceutical Co., Ltd* (佛山市廣藥健擇醫藥有限公司)	Holding company of Baiyunshan
Guangzhou Guo Ying Pharmaceutical Co., Ltd.* (廣州國盈醫藥有限公司)	Holding company of Baiyunshan
Guangzhou Xin Te Pharmaceutical Co., Ltd.* (廣州欣特醫藥有限公司)	Holding company of Baiyunshan
Guangzhou Jianmin Pharmaceutical Company Limited (廣州健民醫藥有限公司)	Holding company of Baiyunshan
Guangzhou Pharmaceutical Co., Ltd. Da Zhong Pharmaceutical Sales Branch* (廣州醫藥有限公司大眾藥品銷售分公司)	Holding company of Baiyunshan
Guangzhou Baiyunshan Qi Xing Pharmaceutical Co., Ltd.* (廣州白雲山奇星藥業有限公司)	Holding company of Baiyunshan
Hutchison Whampoa Guangzhou Baiyunshan Pharmaceutical Co., Ltd.* (廣州白雲山和黃醫藥有限公司)	Joint venture of Baiyunshan
Guangzhou Baiyunshan Ming Xing Pharmaceutical Co., Ltd.* (廣州白雲山明興製藥有限公司)	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)	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)	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)	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)	Holding company of Baiyunshan

Company name	Related party relationships with Baiyunshan
Guangzhou Baiyunshan Xing Qun Pharmaceutical Co., Ltd.* (廣州白雲山星群(藥業)股份有限公司)	Holding company of Baiyunshan
Guangzhou Baiyunshan Pharmaceutical Marketing Co., Ltd.* (廣州白雲山醫藥銷售有限公司)	Holding company of Baiyunshan
Guangzhou Baiyunshan Zhong Yi Pharmaceutical Company Limited* (廣州白雲山中一藥業有限公司)	Holding company of Baiyunshan
Guangzhou Cai Zhi Lin Pharmaceutical Co., Ltd.* (廣州采芝林藥業有限公司)	Holding company of Baiyunshan
Guangzhou Pharmaceutical Import and Export Company Limited* (廣州醫藥進出口有限公司)	Holding company of Baiyunshan
Guangzhou Baiyunshan Pharmaceutical Technology Development Co., Ltd.* (廣州白雲山醫藥科技發展有限公司)	Holding company of Baiyunshan
Guangzhou Pharmaceuticals Corporation* (廣州醫藥有限公司)	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)	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)	Joint venture of Baiyunshan
Guangzhou Wang Lao Ji Pharmaceutical Co., Ltd.* (廣州王老吉藥業股份有限公司)	Joint venture of Baiyunshan
Guangzhou Baiyunshan Pharmaceutical Holdings Co., Ltd. Guangzhou Baiyunshan He Ji Gong Pharmaceutical Factory* (廣州白雲山醫藥集團股份有限公司 白雲山何濟公制藥廠)	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)	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)	Holding company of Baiyunshan

(II) Related party transactions

1. Details of related party transactions

Name of related parties	Types of related party transactions	Pricing method and decision-making procedure for related party transactions	Six months ended 30 June 2018 (Unaudited)	2017 (Unaudited)
1. Sales and rendering of services				
Guangzhou Cai Zhi Lin Pharmaceutical Co., Ltd.* (廣州采芝林藥業有限公司)	Sales of goods	Determined after negotiation by reference to market rates	**18,389,630.18**	9,339,703.20
Guangzhou Pharmaceuticals Corporation* (廣州醫藥有限公司)	Sales of goods	Determined after negotiation by reference to market rates	**1,979,991.14**	673,593.82
Foshan GPC Jianze Pharmaceutical Co., Ltd* (佛山市廣藥健擇醫藥有限公司)	Sales of goods	Determined after negotiation by reference to market rates	**189,283.45**	157,351.62
Guangzhou Pharmaceutical Co., Ltd. Da Zhong Pharmaceutical Sales Branch* (廣州醫藥有限公司大眾藥品銷售分公司)	Sales of goods	Determined after negotiation by reference to market rates	**72,449.03**	81,876.92
Guangzhou Cai Zhi Lin Corporation Bei Shang Chinese Raw Medicine Co., Ltd.* (廣州采芝林北商藥材有限公司)	Sales of goods	Determined after negotiation by reference to market rates	**43,828.17**	79,638.32
Shenzhen Guangyao Liankang Pharmaceutical Company Limited* (深圳廣藥聯康醫藥有限公司)	Sales of goods	Determined after negotiation by reference to market rates	**39,912.87**	–

Name of related parties	Types of related party transactions	Pricing method and decision-making procedure for related party transactions	Six months ended 30 June 2018 (Unaudited)	2017 (Unaudited)
Zhuhai Guang Yao Kangming Pharmaceutical Co., Ltd. * (珠海廣藥康鳴醫藥有限公司)	Sales of goods	Determined after negotiation by reference to market rates	**981.03**	–
Guangzhou Guo Ying Pharmaceutical Co., Ltd. * (廣州國盈醫藥有限公司)	Sales of goods	Determined after negotiation by reference to market rates	**–**	10,712.50

Name of related parties	Types of related party transactions	Pricing method and decision-making procedure for related party transactions	Six months ended 30 June 2018 (Unaudited)	2017 (Unaudited)
2. Procurement and receiving services				
Guangzhou Pharmaceuticals Corporation* (廣州醫藥有限公司)	Procurement of goods	Determined after negotiation by reference to market rates	**239,677,978.00**	190,347,581.12
Guangzhou Cai Zhi Lin Pharmaceutical Co., Ltd.* (廣州采芝林藥業有限公司)	Procurement of goods	Determined after negotiation by reference to market rates	**28,511,521.65**	58,052,901.81
Guangzhou Baiyunshan Pharmaceutical Marketing Co., Ltd.* (廣州白雲山醫藥銷售有限公司)	Procurement of goods	Determined after negotiation by reference to market rates	**30,600,814.50**	25,272,956.56
Guangzhou Wang Lao Ji Pharmaceutical Co., Ltd. * (廣州王老吉藥業股份有限公司)	Procurement of goods	Determined after negotiation by reference to market rates	**28,589,688.24**	22,576,858.45
Guangzhou Guo Ying Pharmaceutical Co., Ltd.* (廣州國盈醫藥有限公司)	Procurement of goods	Determined after negotiation by reference to market rates	**10,368,865.85**	21,510,509.88
Guangzhou Pharmaceutical Import and Export Company Limited* (廣州醫藥進出口有限公司)	Procurement of goods	Determined after negotiation by reference to market rates	**25,824,720.01**	15,528,205.08
Guangzhou Baiyunshan Xing Qun Pharmaceutical Co., Ltd. * (廣州白雲山星群(藥業)股份有限公司)	Procurement of goods	Determined after negotiation by reference to market rates	**8,742,068.92**	14,664,991.47

Name of related parties	Types of related party transactions	Pricing method and decision-making procedure for related party transactions	Six months ended 30 June 2018 (Unaudited)	2017 (Unaudited)
Guangzhou Baiyunshan Pan Gao Shou Pharmaceutical Co., Ltd. * (廣州白雲山潘高壽藥業股份有限公司)	Procurement of goods	Determined after negotiation by reference to market rates	**13,143,401.55**	13,197,530.37
Guangzhou Baiyunshan Pharmaceutical Holdings Co., Ltd. Guangzhou Baiyunshan He Ji Gong Pharmaceutical Factory* (廣州白雲山醫藥集團股份有限公司白雲山何濟公制藥廠)	Procurement of goods	Determined after negotiation by reference to market rates	**13,703,974.05**	12,851,925.40
Guangzhou Baiyunshan Chen Li Ji Pharmaceutical Factory Co., Ltd.* (廣州白雲山陳李濟藥廠有限公司)	Procurement of goods	Determined after negotiation by reference to market rates	**8,503,630.77**	9,652,442.61
Guangzhou Baiyunshan Zhong Yi Pharmaceutical Company Limited* (廣州白雲山中一藥業有限公司)	Procurement of goods	Determined after negotiation by reference to market rates	**-8,106,573.10**	6,255,614.75
Guangzhou Baiyunshan Tian Xin Pharmaceutical Co., Ltd.* (廣州白雲山天心製藥股份有限公司)	Procurement of goods	Determined after negotiation by reference to market rates	**10,657,583.73**	5,950,979.38

Name of related parties	Types of related party transactions	Pricing method and decision-making procedure for related party transactions	Six months ended 30 June 2018 (Unaudited)	2017 (Unaudited)
Guangzhou Baiyunshan Hutchison Whampoa Chinese Medicine Co., Ltd. * (廣州白雲山和記黃埔中藥有限公司)	Procurement of goods	Determined after negotiation by reference to market rates	**4,993,456.69**	4,746,093.93
Guangzhou Baiyunshan Qi Xing Pharmaceutical Co., Ltd.* (廣州白雲山奇星藥業有限公司)	Procurement of goods	Determined after negotiation by reference to market rates	**1,840,791.57**	2,125,345.29
Guangzhou Baiyunshan Guang Hua Pharmacy Co., Ltd. * (廣州白雲山光華製藥股份有限公司)	Procurement of goods	Determined after negotiation by reference to market rates	**1,879,907.17**	1,435,897.46
Guangzhou Xin Te Pharmaceutical Co., Ltd. * (廣州欣特醫藥有限公司)	Procurement of goods	Determined after negotiation by reference to market rates	**1,811,853.85**	1,370,050.77
Foshan GPC Jianze Pharmaceutical Co., Ltd* (佛山市廣藥健擇醫藥有限公司)	Procurement of goods	Determined after negotiation by reference to market rates	**980,053.97**	690,568.72
Hutchison Whampoa Guangzhou Baiyunshan Pharmaceutical Co., Ltd.* (廣州白雲山和黃醫藥有限公司)	Procurement of goods	Determined after negotiation by reference to market rates	**77,075.21**	–

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

* Names in English are for reference only.

2. Compensation of key management

Item	Six months ended 30 June 2018 (Unaudited)	2017 (Unaudited)
Total remuneration	**1,355,322.50**	1,843,335.47

X. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Group's major financial instruments include financial assets measured at amortized cost, financial assets at fair value through other comprehensive income, receivables, borrowings, financial liabilities at fair value through profit or loss, payables, financial assets sold under agreements to repurchase. Details of these financial instruments are set out in notes to respective items above. 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 risk management

The Group engages in risk management with the aim of achieving an appropriate balance between risk and return, where the negative effects of risks against the operating results of the Group are minimized, and to maximize the benefits of Shareholders and other stakeholders. Based on such objective in risk management, the underlying strategy of risk management of the Group is to ascertain and analyze all types of risks 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 HK$. Except for the payment of H Share dividends and minor expenses incurred in Hong Kong Special Administrative Region, other main business of the Group is denominated in RMB. As at 30 June 2018, the changes in the fair value or future cash flow for the balances of assets and liabilities denominated in HK$ in the following table arising from changes in exchange rates may have an impact on the Group's operating results.

	Assets	
Item	**Balance as at 30 June 2018 (Unaudited)**	**Balance as at 31 December 2017 (Audited)**
HK$	**370,843.02**	367,691.75
Total	**370,843.02**	367,691.75

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

2) Interest rate risk

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

3) Other price risk

The Group has no financial assets measured at amortized cost and financial assets at fair value through other comprehensive income, therefore, the Group has no such price risk.

(2) Credit risk

As at 30 June 2018, the maximum credit risk exposure that might incur financial losses to the Group was mainly attributable to a contractual failure of counterparty to perform its obligations, in particular, the carrying amount of financial assets recognized in the consolidated balance sheet. For the financial assets at fair value, the carrying amount reflects the risk exposure, but not the maximum risk exposure, which will vary in accordance with the changes in future fair value.

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

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

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

(3) *Liquidity risk*

In managing liquidity risk, the Group maintains cash and cash equivalent at a level deemed sufficient by the management of the Group and carries out monitoring, so as to satisfy the operating needs of the Group and minimize the effects on fluctuations of cash flows. Management of the Group monitors the utilization of bank borrowings and makes sure the related borrowing agreements are complied with.

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

Items	**Carrying amount**	**Within 1 year**	**Total**
Monetary funds	392,512,337.83	392,512,337.83	392,512,337.83
Bills receivables and trade receivables	852,751,148.19	852,751,148.19	852,751,148.19
Other receivables	10,283,278.97	10,283,278.97	10,283,278.97
Other current assets	19,613,263.17	19,613,263.17	19,613,263.17
Short-term borrowings	492,900,000.00	492,900,000.00	492,900,000.00
Bill payables and trade payables	1,234,435,004.18	1,234,435,004.18	1,234,435,004.18
Remuneration payable to employees	4,471,212.08	4,471,212.08	4,471,212.08
Other payables	15,075,096.99	15,075,096.99	15,075,096.99
Other current liabilities	457,060.50	457,060.50	457,060.50

2. *Fair value*

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

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

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

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

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

XI. CAPITAL COMMITMENTS

Item	30 June 2018 (Unaudited)
Capital expenditure contracted but not recognized in the financial statements	
– Guangzhou Nansha warehouse rebuilding project	**773,967.93**
– Warehouse central air-conditioning installation project	**238,000.00**
Total	**1,011,967.93**

XII. OPERATING LEASE COMMITMENTS

As of the balance sheet date, the irrevocable operating lease contracts entered into by the Group with external parties are as follows:

Remaining lease term	Minimum lease payment
First year after the balance sheet date	4,114,926.48
Second year after the balance sheet date	2,848,113.96
Third year after the balance sheet date	2,491,633.32
Subsequent years	17,441,433.24
Total	26,896,107.00

XIII. EVENTS SUBSEQUENT TO BALANCE SHEET DATE

1. *Acquisition of minority shareholders' equity*

On 3 August 2018, Charmacy Pharmaceutical Company entered into an equity transfer agreement with Zheng Shuibiao (鄭水標) for the acquisition of 30% equity interests of Zhuhai Charmacy Hengxiang Pharmaceutical Limited (珠海創美恒祥醫藥有限公司). The total consideration of the transfer was RMB7.71 million.

2. *Signing a major construction-in-progress contract in Guangzhou Nansha*

On 4 August 2018, Charmacy Pharmaceutical Company entered a construction contract with Guangdong Jin Zhong Hai Construction Engineering Co., Ltd., pursuant to which, both parties made an agreement on the distribution workshops of the construction project of Charmacy (Guangzhou) Pharmaceutical Sorting and Distribution Center and related matters. The total consideration for the contract was RMB95.5040 million. The planned commencement date was 10 August 2018 and the planned completion date will be 10 October 2019.

3. Except for the above matters, the Group has no other issues which required to be disclosed subsequent to balance sheet date.

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

1. *Bills receivables and trade receivables*

(1) Classification

Items	Balance as at 30 June 2018 (Unaudited)	Balance as at 31 December 2017 (Audited)
Bills receivables	**64,423,752.14**	47,581,534.98
Trade receivables	**365,512,202.60**	547,434,671.32
Total	**429,935,954.74**	595,016,206.30

(2) Bills receivables

Classification of bills	Balance as at 30 June 2018 (Unaudited)	Balance as at 31 December 2017 (Audited)
Bank acceptance bills	**25,147,966.63**	11,881,534.98
Commercial drafts	**39,275,785.51**	35,700,000.00
Total	**64,423,752.14**	47,581,534.98

(3) Trade receivables

	Balance as at 30 June 2018 (Unaudited)				
	Balance carrying amount		Provision for bad debts		
Classification	**Amount**	**Percentage (%)**	**Amount**	**Percentage of provision (%)**	**Book value**
Trade receivables with significant individual amount and bad debt provision accrued on single item	**2,010,786.55**	**0.54**	**2,010,786.55**	**100.00**	**-**
Trade receivables with bad debt provision accrued on the combination of credit risk characteristics	**367,342,498.92**	**99.30**	**1,830,296.32**	**0.50**	**365,512,202.60**
Account age combination	**365,596,156.71**	**98.83**	**1,830,296.32**	**0.50**	**363,765,860.39**
Low risk combination	**1,746,342.21**	**0.47**	**-**	**-**	**1,746,342.21**
Trade receivables with insignificant individual amount but bad debt provision accrued on single item	**588,999.23**	**0.16**	**588,999.23**	**100.00**	**-**
Total	**369,942,284.70**	**100.00**	**4,430,082.10**	**-**	**365,512,202.60**

	Balance as at 31 December 2017 (Audited)				
	Balance carrying amount		Provision for bad debts		
Classification	Amount	Percentage (%)	Amount	Percentage of provision (%)	Book value
Trade receivables with significant individual amount and bad debt provision accrued on single item	2,010,786.55	0.36	2,010,786.55	100.00	–
Trade receivables with bad debt provision accrued on the combination of credit risk characteristics	549,520,361.30	99.51	2,085,689.98	0.38	547,434,671.32
Account age combination	415,241,747.43	75.19	2,085,689.98	0.50	413,156,057.45
Low risk combination	134,278,613.87	24.32	–	–	134,278,613.87
Trade receivables with insignificant individual amount but bad debt provision accrued on single item	707,590.76	0.13	707,590.76	100.00	–
Total	552,238,738.61	100.00	4,804,067.29	–	547,434,671.32

2. *Other receivables*

	Balance as at 30 June 2018 (Unaudited)				
	Balance carrying amount		Provision for bad debts		
Classification	**Amount**	**Percentage (%)**	**Amount**	**Percentage of provision (%)**	**Book value**
Other receivables with significant individual amount and bad debt provision accrued on single item	-	-	-	-	-
Other receivables with bad debt provision accrued on the combination of credit risk characteristics	10,294,288.23	99.95	-	-	10,294,288.23
Account age combination	-	-	-	-	-
Portfolio of relatively low recovery risk	10,294,288.23	99.95	-	-	10,294,288.23
Other receivables with insignificant individual amount but bad debt provision accrued on single item	5,000.00	0.05	5,000.00	100.00	-
Total	10,299,288.23	100.00	5,000.00	100.00	10,294,288.23

Classification	Balance as at 31 December 2017 (Audited) Balance carrying amount Amount	Percentage (%)	Provision for bad debts Amount	Percentage of provision (%)	Book value
Other receivables with significant individual amount and bad debt provision accrued on single item	–	–	–	–	–
Other receivables with bad debt provision accrued on the combination of credit risk characteristics	8,895,142.07	100.00	–	–	8,895,142.07
Account age combination	–	–	–	–	–
Portfolio of relatively low recovery risk	8,895,142.07	100.00	–	–	8,895,142.07
Other receivables with insignificant individual amount but bad debt provision accrued on single item	–	–	–	–	–
Total	8,895,142.07	100.00	–	–	8,895,142.07

3. *Long-term equity investments*

(1) Classification of long-term equity investments

Item	**Balance as at 30 June 2018 (Unaudited)** **Balance carrying amount**	**Provisions for impairment**	**Net book value**	Balance as at 31 December 2017 (Audited) Balance carrying amount	Provisions for impairment	Net book value
Investment in the subsidiaries	**206,800,000.00**	**-**	**206,800,000.00**	186,000,000.00	–	186,000,000.00
Total	**206,800,000.00**	**-**	**206,800,000.00**	186,000,000.00	–	186,000,000.00

(2) *Investment in the subsidiaries*

Investees	Balance as at 31 December 2017 (Audited)	Addition for the period	Reduction for the period	Balance as at 30 June 2018 (Unaudited)	Provision for impairment for the period	Balance of provision for impairment as at the end of the period
Guangdong Chuangmei Company	150,000,000.00	–	–	**150,000,000.00**	–	–
Zhuhai Charmacy Company	18,000,000.00	–	–	**18,000,000.00**	–	–
Guangzhou Charmacy Company	18,000,000.00	–	–	**18,000,000.00**	–	–
Shenzhen Charmacy Company	–	20,800,000.00	–	**20,800,000.00**	–	–
Total	186,000,000.00	20,800,000.00	–	**206,800,000.00**	–	–

4. *Operating revenue, operating cost*

Items	**Six months ended 30 June 2018 (Unaudited)**		Six months ended 30 June 2017 (Unaudited)	
	revenue	**cost**	revenue	cost
Principal businesses	**822,849,607.74**	**768,417,303.77**	799,695,353.16	756,641,695.37
Other businesses	**13,542,823.56**	**2,793,498.30**	9,657,534.16	1,761,084.21
Total	**836,392,431.30**	**771,210,802.07**	809,352,887.32	758,402,779.58