



# 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

2019  
Annual Report



# ABOUT US

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

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

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# Corporate Information

## DIRECTORS

### Executive Directors

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

### Non-executive Director

Li Weisheng (李偉生)

### Independent Non-executive Directors

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

## SUPERVISORS

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

## COMPANY SECRETARY

Lin Zhixiong (林志雄)

## AUDIT COMMITTEE

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

## NOMINATION COMMITTEE

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

## REMUNERATION COMMITTEE

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

## RISK MANAGEMENT COMMITTEE

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

## STRATEGIC DEVELOPMENT COMMITTEE

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

## AUTHORISED REPRESENTATIVES

Zheng Yuyan (鄭玉燕)  
Lin Zhixiong (林志雄)

## AUDITOR

ShineWing Certified Public Accountants (Special General Partnership)

## LEGAL ADVISORS

Chungs Lawyers in association with DeHeng Law Offices  
(as to Hong Kong law)  
Shu Jin Law Firm (as to PRC law)

## REGISTERED OFFICE AND HEADQUARTERS

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

## PRINCIPAL PLACE OF BUSINESS IN HONG KONG

40th Floor, Sunlight Tower,  
No. 248 Queen's Road East,  
Wanchai, Hong Kong

## PRINCIPAL BANKS

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

## H SHARE REGISTRAR

Computershare Hong Kong Investor Services Limited  
Shops 1712-1716, 17th Floor  
Hopewell Centre,  
183 Queen's Road East,  
Wanchai, Hong Kong

## COMPANY WEBSITE

[www.chmyy.com](http://www.chmyy.com)

## STOCK CODE

2289.HK



# Chairman's Statement

## Dear Shareholders,

On behalf of the board (the “**Board**”) of directors (the “**Directors**”) of Charmacy Pharmaceutical Co., Ltd. (stock code: 2289.HK) (the “**Company**”), I would like to present the audited consolidated results for the year ended 31 December 2019 (the “**Reporting Period**”) of the Company and its subsidiaries (the “**Group**” or “**us**” or “**we**” or “**Charmacy**”).

## BUSINESS OVERVIEW

The Company is principally engaged in the pharmaceutical distribution business. As part of the pharmaceutical circulation industry, the Company, with its focus on non-tendering markets, mainly distributes western medicine, Chinese patent medicine and healthcare products to downstream distributors and retail terminals such as pharmacies, clinics and private hospitals. It also provides consultation services on pharmaceutical products. As of 31 December 2019, the Company had operated as many as 11,640 products. Founded in 2000, over the past 20 years of rapid development, it has become one of the leading pharmaceutical distributors in the Southern China region. The Company adheres to the development strategy of “Intensive Engagement in Guangdong Province and Extensive Coverage across Surrounding Areas”, and has built logistics centers in Shantou, Foshan, Zhuhai and Guangzhou, all equipped with professional transportation teams, and has a highly efficient delivery mechanism of delivering pharmaceutical products three times per day for customers within a radius of 10 kilometers, twice per day for customers within a radius of 50 kilometers and once per day for those within a 250-kilometers’ radius. The Company has a modern information system that covers the entire supply chain for pharmaceutical distribution, including procurement, sales, warehousing, transportation and delivery. Apart from that, the Company operates its own B2B e-commerce platform “Charmacy e-Medicine” (創美e藥) ([www.cmyynet.com](http://www.cmyynet.com)) and has developed an APP for customers to place orders online, make inquiries and payment and many more. In 2018, the Company ranked 38th among top 100 wholesalers nationally, in respect of revenue generated from principal business. According to the Market Research Report of the Chinese Pharmaceutical Industry (2017) 《中國醫藥行業市場研究報告》(2017)), in respect of sales scale, the Company ranked 7th among the pharmaceutical distribution

businesses in Guangdong Province and second among private enterprises. With its good reputation and quality services, the Company obtained the 2018-2019 “Gold Ant” Innovation Award (「金螞蟻」創新獎) for the Chinese logistics industry, an award conferred by the Organizing Committee of China International Logistics Equipment and Technology Exhibition (Guangzhou) (中國(廣州)國際物流裝備與技術展組委會) in May 2019. In August 2019, the Company was honored to be one of the “2018 Top 50 Pharmaceutical Warehousing Enterprises in China” (2018年度中國醫藥倉儲企業五十強) and “Enterprises Meeting the National Standards of Operation Regulations for Cold Chain Logistics of Pharmaceuticals (GB/T 28842-2012)” 《藥品冷鏈物流運作規範》(GB/T 28842-2012)國家標準達標企業) by China Federation of Logistics & Purchasing Pharmaceutical Logistics Branch (中國物流與採購聯合會醫藥物流分會), and was awarded the “Top 500 Enterprises in Guangdong Province” (廣東省企業500強), the “Top 100 Private Enterprises in Guangdong Province” (廣東省民營企業100強) and the “Top 100 Enterprises of Logistics Industry in Guangdong Province” (廣東省流通業100強) jointly by the Guangdong Provincial Enterprise Confederation (廣東省企業聯合會) and the Guangdong Entrepreneur Association (廣東省企業家協會). From June to December 2019, the Company was awarded the “Top 100 Pharmaceutical Enterprises in China” (中國醫藥商業百強), the “Best Pharmaceutical Cold Chain Logistics Service Enterprise in 2019” (2019年度醫藥冷鏈物流最佳服務企業), the “Best Pharmaceutical Cold Chain Logistics Center in 2019” (2019年度醫藥冷鏈物流最佳物流中心) and “100 Outstanding Private Pharmaceutical Commercial Circulation Enterprises in China” (全國百家優秀民營醫藥商業流通企業) by the Medical and Pharmaceutical Chamber of the All-China Federation of Industry and Commerce (中華全國工商業聯合會醫藥業商會).

## PERFORMANCE FOR THE YEAR 2019

The Group's operating revenue decreased by 11.24% from RMB3,935.25 million in 2018 to RMB3,492.78 million in 2019, while its gross profit decreased by 5.93% from RMB237.76 million in 2018 to RMB223.67 million in 2019. The Group's gross profit margin increased from 6.04% in 2018 to 6.40% in 2019. The Group's net profit attributable to the shareholders of parent company decreased by 11.62%, from RMB45.43 million in 2018 to RMB40.15 million in 2019.



## Chairman's Statement

### PROSPECT

During the “Thirteenth Five-Year Plan” period, with the implementation and promotion of policies such as the Two-Invoice System (兩票制), the new edition of the Good Supply Practice for Pharmaceutical Products (《藥品經營質量管理規範》), Zero Mark-up for Medicine (藥品零差率) in public hospitals, Drug Proportion Restrictions (藥佔比限制), Purchase in Quantity (帶量採購), “Diagnosis-Related Groups (DRGs) Payment (疾病診斷相關分組(DRGs)付費)”, the combined effect of policy promotion and market competition has become prominent, and the industry as a whole is in a period of structural adjustment; on the other hand, the opinions on promoting the development of “Internet + Medical Health” (互聯網+醫療健康), prescription drug outflow (處方藥外流), the establishment of medical consortium (醫聯體) and medical community (醫共體) and policies such as “Social Hospitals (社會辦醫)” have promoted the implementation of the graded diagnosis and treatment system, and has brought new opportunities for the expansion of the primary medical market.

In addition, with the acceleration of the aging population and the recent outbreak of the novel coronavirus pandemic (COVID-19), which enhanced people's awareness of prevention and healthcare, the demand for medical and healthcare will continue to grow, and the room for development of the pharmaceutical industry will be further enlarged.

As the times change, pharmaceutical distribution companies will transform from traditional distribution companies to intelligent medical service providers to achieve high-quality development. As we have always been focusing on the non-tendering market ourselves, and have exerted years of efforts on the penetration of terminal channels and information system construction, we believe in light of the current policies and industry development trends, development opportunities are ahead of us! By virtue of the information system construction, logistics center construction and market terminal network development over the recent years, we believe that there will be greater growth and reasonable returns in the future. Going forward, we will strengthen risk management, improve business quality, and adhere to the market strategy of “Intensive Engagement in Guangdong Province and Extensive Coverage across Surrounding Areas” to build a pharmaceutical retail terminal network with full coverage on Guangdong Province and surrounding areas, striving to become the most competitive service provider in the medical and healthcare industry in China.

### APPRECIATION

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

Charmacy Pharmaceutical Co., Ltd.

**Yao Chuanglong**

*Chairman*

Shantou, PRC, 30 March 2020



# Financial Summary

	For the year ended 31 December					
	2019 RMB'000	2018 RMB'000	2017 RMB'000	2016 RMB'000	2015 RMB'000	
<b>Operating revenue</b>	<b>3,492,783</b>	3,935,246	4,095,835	3,669,781	3,396,333	
Total profit	<b>55,045</b>	63,655	59,857	76,081	56,468	
Net profit attributable to the Shareholders of parent company	<b>40,153</b>	45,433	44,760	56,458	41,773	
Basic and diluted earnings per Share (expressed in RMB per share)	<b>0.37</b>	0.42	0.41	0.52	0.52	
		As at 31 December				
	2019 RMB'000	2018 RMB'000	2017 RMB'000	2016 RMB'000	2015 RMB'000	
<b>Total assets</b>	<b>2,503,808</b>	2,353,980	2,471,830	2,111,570	2,094,695	
Total liabilities	<b>2,020,215</b>	1,877,242	2,008,423	1,668,801	1,686,785	
Equity of Shareholders	<b>483,593</b>	476,737	463,407	442,769	407,911	
Net assets per Share (as stated in RMB per Share)	<b>4.48</b>	4.41	4.29	4.1	3.78	

# Management Discussion and Analysis





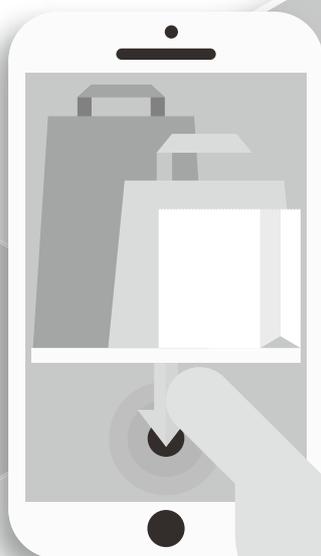
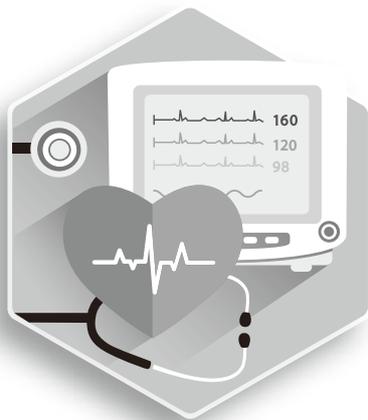
# Management Discussion and Analysis

## INDUSTRY OVERVIEW

The “13th Five-Year Plan” period is an important stage for building a well-off society in an all-round way and accomplishing the strategic goal of “Healthy China”. The government coordinates and resolves major and long-term health problems from the strategic macro perspective, and implemented the reform of “Three Medical Linkage\* (三醫聯動)”, which promotes the development of medicine, medical treatment and medical insurance. The comprehensive roll-out of the “Two-Invoice System\* (兩票制)” and the “Zero Mark-up for Medicine\* (藥品零加成)” policies has resulted in profound changes to the relationship among the structure, distribution channel and supply chain of the drug distribution market. The utilisation efficiency of the medical insurance funds will be further enhanced through centering on the “Control on Medical Insurance Fees\* (醫保控費)” to explore policies such as “Purchase in Quantity\* (帶量採購)” and “Diagnosis-Related Groups (DRGs) Payment\* (疾病診斷相關分組 (DRGs) 付費)”, and consistently implementing the “National Catalogue of Essential Drugs (2018 Version)\* (《國家基本藥物目錄》(2018年版))”. The advancement of the policies on “Social Hospitals\* (社會辦醫)”, “Establishment of Medical and Health Community\* (醫療衛生共同體建設)” and “Establishment of Urban Medical Consortium\* (城市醫療聯合體建設)” has further promoted the advancement of the “Hierarchical Diagnosis and Treatment\* (分級診療)” policy.

### Industry and market scale maintained stable growth against the backdrop of economic downturn

The growth rate of gross domestic product (“GDP”) has been decreasing year by year. According to the preliminary estimate of the National Bureau of Statistics, the year-on-year growth rate of GDP in 2019 is 6.1%, representing a decrease of 0.5 percentage point from the same period of the previous year.





## Management Discussion and Analysis

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

According to the Annual Report on the Development of China's Pharmaceutical Distribution Industry (2019) (《中國藥品流通行業發展報告》(2019)) (the "Report"), the sales of retail pharmacy stores have maintained a growth rate of approximately 10% since 2009, with its contribution to the pharmaceutical expenses on the three major terminals (which include public hospitals, primary medical and health institutions and retail pharmacy stores) rose from 18.59% to 57.83%. Under the influence of "Internet +" related policies, the retail drug market is transforming into innovative models such as DTP (Direct to Patient) specialised pharmacies, distribution specialised pharmacies, chronic disease management pharmacies and smart pharmacies.

### **Pharmaceutical e-commerce has been developing steadily and dominated by B2B mode**

According to the Report, the penetration rate of the pharmaceutical e-commerce in the pharmaceutical distribution market in China has been steadily increasing, and reached 4.53% in 2018, representing an increase of 1.66 percentage points as compared to that of 2015. The sales of pharmaceutical e-commerce companies in China ("**Total Pharmaceutical E-commerce Sales**") have been increasing year by year, so as the percentage of the sales under B2B mode. The Total Pharmaceutical E-commerce Sales in 2018 amounted to RMB97.8 billion, with the sales under B2B mode accounting for 95.19%.

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

According to the statistics of the National Bureau of Statistics, by the end of 2019, there were 176.03 million people who aged 65 and above, accounting for 12.6% of the total population, and representing an increase of 9.45 million in population who aged 65 and above and a growth of 0.7% in the percentage of people who aged 65 and above to the total population, as compared to the end of 2018.

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

### **Tightening regulation will result in a higher concentration of drug distribution industry**

In 2016, the China Food and Drug Administration issued the New Edition of Good Supply Practice for Pharmaceutical Products\* (《新版藥品經營品質管制規範》) which emphasised the effective control of the whole pharmaceutical industry chain.

On 26 August 2019, the twelfth meeting of the Standing Committee of the Thirteenth National People's Congress passed the second revision of the Drug Administration Law (《藥品管理法》), which was implemented on 1 December 2019. The Drug Administration Law mainly revised the definition and classification of drugs, clarified the drug marketing authorisation holder (MAH) system, redefined the scope of "counterfeit and inferior drugs" (假藥劣藥), enhanced the penalties for drug violations, and cancelled drug GMP and GSP certifications. The revised Drug Administration Law was enacted in accordance with the "four strictest" (四個最嚴) as principle, and to guarantee the safety of public medications with the strictest standards, the strictest supervision, the strictest punishment and the strictest accountability.

According to the Report, the aggregate income of the top 100 pharmaceutical wholesale enterprises from main businesses in 2018 accounted for 71.95% of the total sales of the national pharmaceutical market, representing an increase of 8.62 percentage points as compared to 63.33% in 2011. In the tightened regulatory environment, the concentration of the drug distribution industry will further intensify, and small and medium-sized drug distribution enterprises will still need to face the dual challenges of tightening regulation and more stringent supply chain standards.



## Management Discussion and Analysis

### **Xi Jinping made important instructions on the work in relation to traditional Chinese medicine, and new opportunities arise for the development of traditional Chinese medicine**

In October 2019, Xi Jinping, the General Secretary of the CPC Central Committee, the President of the PRC and the Chairman of the Central Military Commission, gave important instructions on the work in relation to Chinese medicine, emphasising inheritance of essences and innovation, and contributing to the construction of a healthy China. On 25 October 2019, the Opinions of the State Council under the Central Committee of the Communist Party of China on Promoting the Inheritance and Innovative Development of Traditional Chinese Medicine 《中共中央國務院關於促進中醫藥傳承創新發展的意見》) was released, which pointed out that it is necessary to improve the traditional Chinese medicine service system, give play to the unique role of traditional Chinese medicine in maintaining and promoting people's health, vigorously promote the improvement of the quality of traditional Chinese medicine and the high-quality development of the industry, and strengthen the building of the talent team for traditional Chinese medicine. The traditional Chinese medicine industry will usher in new development opportunities and bring new growth points to the primary medical market.

*Sources of the above information: MENET (Note: The three terminal markets do not include private medical institutions), Annual Report on China's Pharmaceutical Distribution Industry (2019) 《中國藥品流通行業發展報告》(2019)) and the National Statistical Bulletin on the Development of Health Industry in 2018 《2018年我國衛生健康事業發展統計公報》)*

## **BUSINESS REVIEW**

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

In 2019, we followed the operation target set, and continued to explore Guangdong market in depth and expand our coverage on surrounding areas, with a focus on developing the business with retail end-customers. We maintain close and good communication with customers, and provide customers with the most thoughtful services. As of 31 December 2019, our distribution network covered 8,301 customers, among which 645 were distributors, 5,582 were retail pharmacy stores and 2,704 were hospitals, clinics, health centres and others, representing an increase of 525 in the number of customers, including the decrease of 87 distributors, the increase of 387 retail pharmacy stores, and the increase of 225 hospitals, clinics, health centres and others compared to last year.

In order to meet the different needs of customers and enhance customer adhesion, we strengthened cooperation with well-known domestic and overseas manufacturers, and expanded the variety and scale of first-level distribution products; continued to optimise product structure by introducing marketable, high-quality products with high profit margin to enrich product categories. As of 31 December 2019, we had a total of 1,090 suppliers, of which 658 were pharmaceutical manufacturers and 432 were distributor suppliers, representing an increase of 15 suppliers compared to last year. As of 31 December 2019, we distributed 11,640 types of products, representing an increase of 147 types of products compared to last year.



## Management Discussion and Analysis

	Number of products for the year ended 31 December	
	2019	2018
<b>Products Category</b>		
Western medicines	3,850	3,871
Chinese patent medicines	4,328	3,871
Healthcare products	214	206
Others	3,248	3,545
Total	11,640	11,493

We actively promoted the diversion of terminal retail customers from offline to online, where they can place orders and make inquiries and payments through our own B2B e-commerce platform “Charmacy e-Medicine” (“e-commerce platform”) (<http://www.cmyynet.com/>). We increased online promotion activities and continued to optimise and improve the user experience on PC terminal, WAP mobile terminal, and WeChat mini program. For the year ended 31 December 2019, our e-commerce platform had 6,249 active trading clients in total, who are principally end customers such as retail pharmacy stores, clinics and health centres, representing an increase of 611 compared to last year. In 2019, the operating revenue from our B2B e-commerce platform was approximately RMB239.48 million in total, representing an increase of RMB21.68 million compared to last year.

The operating revenue of the Group in 2019 was RMB3,492.78 million, representing a decrease of 11.24% as compared to last year. The gross profit margin was 6.40%, representing an increase of 0.36 percentage point as compared to last year. The total expense ratio was 4.43%, representing an increase of 0.22 percentage point as compared to last year. Net profit amounted to RMB40.15 million, which represented a decrease of 10.30% as compared to last year. Our net profit margin was 1.15%, representing an increase of 0.01 percentage point as compared to last year.

### **Guangzhou Pharmaceutical Sorting and Distribution Center is about to be completed, breaking the warehousing bottleneck in the Pearl River Delta and contributing to the business development in the Guangdong-Hong Kong-Macau Greater Bay Area**

On 19 April 2019, the Group entered into a business contract with Beijing Vstrong Intelligent Technology Co., Ltd.\* (北京伍強智能科技有限公司) to carry out the development of logistics system integration by adopting advanced logistics solutions such as Automatic Storage and Retrieval System (“**AS/RS**”), Warehouse Control System (“**WCS**”) and Pick-to-Light (“**PTL**”) system, which, when combined with the Group’s existing SAP system, can realise visual management of warehouse distribution, and hence will establish an integrated logistics network operation mode which enables the realisation of linking the operation of each of logistics centers of the Group. The construction of the main body of the Pharmaceutical Sorting and Distribution Center has currently been completed, while the installation and commissioning of the supporting facilities and the logistics system facilities and equipment have been delayed due to the outbreak of COVID-19, and is expected to be completed in June this year and will be quickly put into operation.



## Management Discussion and Analysis

### PROSPECTS

The outbreak of COVID-19 in late January 2020 has impacted the real economy worldwide to different extent. The pandemic has been basically under control in China, and the Chinese government is implementing a series of tax and charge reduction measures and policies of providing special refinancing and free-interest fund to minimise the negative impact of the pandemic on China's real economy in every endeavour. In the long run, China's economy has both tenacity and growth potential, and the trend of steady progress will not change. Moreover, with the advancement of the reform of the medical and healthcare system, the market share of the non-tender market will gradually expand, which will be beneficial to our long-term business development.

During the battle against the pandemic, we stood firmly in the front line of pharmaceutical distribution, gave full play to our advantages of “multi-variety, small-batch, high-frequency” distribution capabilities, and intelligent and internet-based services to enable end customers to place orders and make inquiries and payments online anytime and anywhere through our own B2B e-commerce platform. The advantages of “Internet + Pharmaceutical Distribution” were fully demonstrated, and the number of our online trading customers and sales revenue increased significantly during the pandemic. Therefore, we will continue to promote the innovation and reform of “Internet + Pharmaceutical Distribution”, continuously upgrade and develop the functions and applications of the e-commerce platform, improve users' transaction experience, promote the better development of e-commerce business, and actively promote standardised, process-based and intelligent pharmaceutical distribution and delivery services, to achieve the operating results at low cost and high efficiency.

We will strengthen risk management, improve business quality, seize the opportunities arising from the expansion of the primary medical market, adhere to the market strategy of “Intensive Engagement in Guangdong Province and Extensive Coverage across Surrounding Areas”, and build a pharmaceutical retail terminal network with full coverage on Guangdong Province and surrounding areas. After the Charmacy (Guangzhou) Pharmaceutical Sorting and Distribution Centre is put into operation after completion, the Group's warehousing and sorting scale will be expanded, and multi-warehouse collaboration by integrating pharmaceutical warehousing and transportation resources will be attained, to give further play to our advantages in customers, products, management and services and better expand the terminal distribution network. At the same time, we will actively expand the third-party pharmaceutical logistics business to enhance the Group's market competitiveness and profitability.

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



## Management Discussion and Analysis

### FINANCIAL REVIEW

#### Operating revenue

	For the year ended 31 December	
	2019 RMB'000	2018 RMB'000
Principal business	3,472,158	3,906,600
Other business	20,625	28,646
Operating revenue	3,492,783	3,935,246

The operating revenue of the Group in 2019 was RMB3,492.78 million, representing a decrease of 11.24% as compared to last year.

Customer Type	For the year ended 31 December	
	2019 RMB'000	2018 RMB'000
Distributors	1,775,333	2,674,316
Retail pharmacy stores	1,582,398	1,133,835
Hospitals, clinics, health centers and others	114,426	98,449
Revenue from principal business	3,472,158	3,906,600

During 2019, our revenue from principal business was derived from product sales to (i) distributor customers; (ii) retail pharmacy stores; and (iii) hospitals, clinics, health centres and others. During 2019, over 97% of our revenue from principal business was derived from distributor customers and retail pharmacy stores.

Our revenue from principal business decreased in 2019, primarily because in response to the economic environment, our Group adopted a relatively conservative marketing strategy to improve our quality of operations, and in order to ensure receiving payment for our sales, we adopted appropriate control measures for some distributors, which resulted in the decline in our operating revenue.



## Management Discussion and Analysis

### Operating cost, gross profit and gross profit margin

The operating cost of the Group decreased by 11.59% to RMB3,269.11 million for the year ended 31 December 2019 from RMB3,697.48 million for the year ended 31 December 2018. Such change was in line with the change in operating revenue from sales of products.

The gross profit of the Group decreased by 5.93% to RMB223.67 million for the year ended 31 December 2019 from RMB237.76 million for the year ended 31 December 2018. The gross profit margin of the Group increased to 6.40% for the year ended 31 December 2019 from 6.04% for the year ended 31 December 2018. The increase in the gross profit margin of the Group was mainly due to the decrease in value-added tax rate from 16% to 13%.

### Selling expenses

The selling expenses of the Group increased by 4.63% to RMB77.40 million for the year ended 31 December 2019 from RMB73.98 million for the year ended 31 December 2018, which was mainly due to (i) the increase of RMB1.61 million in staff remuneration; and (ii) the inclusion of leased assets in the right-of-use assets and the monthly depreciation of the right-of-use assets according to the New Lease Standards, resulting in an increase of RMB1.98 million in depreciation and amortization.

### Management expenses

The management expenses of the Group decreased by 22.37% to RMB46.51 million for the year ended 31 December 2019 from RMB59.91 million for the year ended 31 December 2018, which was mainly due to (i) the fact that the original expenses for engaging intermediaries which amounted to RMB5.74 million were recorded one-off for 2018 after the Group's voluntary termination of the application for the listing of A shares in 2018 but no such expenses were incurred in 2019 and therefore the fees for engaging intermediaries reduced by RMB5.74 million compared to last year; (ii) the decrease of RMB3.43 million in office expenses; and (iii) the decrease of RMB2.98 million in employee compensation and benefits which mainly resulted from the streamlining of management staff.

### Finance costs

The finance costs of the Group decreased by 2.49% to RMB30.75 million for the year ended 31 December 2019 from RMB31.53 million for the year ended 31 December 2018, which was mainly due to the decrease of RMB0.84 million in discounted interest caused by the decline in discount rates in the market in 2019.

### Income tax expense

The income tax expenses of the Group decreased by 21.18% to RMB14.89 million for the year ended 31 December 2019 from RMB18.89 million for the year ended 31 December 2018, which was mainly due to the decrease in total assessable profit.

### Net profit

The net profit of the Group decreased by 10.30% to RMB40.15 million for the year ended 31 December 2019 from RMB44.76 million for the year ended 31 December 2018. In particular, the net profit attributable to the shareholders of parent company decreased by 11.62% to RMB40.15 million for the year ended 31 December 2019 from RMB45.43 million for the year ended 31 December 2018. This was mainly due to the decrease of RMB14.09 million in gross profit caused by the decrease in revenue. The total expenses only reduced by RMB10.76 million and profit before tax decreased which resulted in the decrease in net profit.

### Liquidity and financial resources

As at 31 December 2019, the cash and bank deposits of the Group amounted to RMB40.15 million, while the cash and bank deposits amounted to RMB55.74 million as at 31 December 2018.



## Management Discussion and Analysis

As at 31 December 2019 and 31 December 2018, the Group recorded net current assets of RMB140.44 million and RMB176.26 million, respectively. As at 31 December 2019, the current ratio (based on the calculation of current assets divided by current liabilities) of the Group was 1.07 (2018: 1.10).

The bank borrowings of the Group as at 31 December 2019 were RMB655.40 million (short-term borrowings: RMB502.19 million, long-term borrowings: RMB153.21 million, including the long-term borrowings due within one year: RMB 26.85 million). All the bank borrowings were provided by the banks within the PRC, which bear fixed interest rates. The carrying amount of the bank borrowings is presented in RMB, and is approximate to the fair value. The Group did not use any financial instruments for hedging purposes or did not have any existing borrowings and/or other hedging instruments for hedging net foreign currency investments.

### Bills receivables and trade receivables

As at 31 December 2019, the Group's bills receivables and trade receivables amounted to RMB734.51 million, representing a decrease of RMB93.46 million compared to those as at 31 December 2018. Such decrease was mainly due to our strengthened management for bills receivables and trade receivables, the strict implementation of customer credit management system and the enhancement of our effort to recover the receivables.

### Bills payables and trade payables

As at 31 December 2019, the Group's bills payables and trade payables amounted to RMB1,278.52 million, representing a decrease of RMB64.90 million compared to those as at 31 December 2018. Such decrease was mainly due to the decrease in drug purchases in 2019 and the corresponding decrease in trade payables.

### Treasury policy

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

### Foreign currency exchange risk

The transactions of the Group are denominated in RMB, and most of the assets and all liabilities are denominated in RMB. The foreign exchange risk that the Group has to bear is extremely low. During the year, the Group did not use any financial instruments for hedging the foreign currency risk.

### Interest rate risk

For the year ended 31 December 2019, the Group had no bank borrowings which bear interest at floating rate. (2018: Nil).

### Capital management

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

	31 December 2019	31 December 2018
Gearing ratio	55.99%	46.96%

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



## Management Discussion and Analysis

### Capital commitment

As at 31 December 2019, the Group's capital commitment amounted to RMB32.52 million (2018: RMB60.29 million).

### Employees' information

As at 31 December 2019, the Group had a total of 796 employees (including executive Directors), representing a decrease of 23 employees compared with the number of employees as at 31 December 2018. The total staff cost (including emoluments of directors and supervisors) was RMB66.96 million, as compared to RMB68.34 million for the year ended 31 December 2018, representing a decrease of 2.01%. The emoluments were determined with reference to market practice and the performance, qualification and experience of individual employees.

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

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

### Material investments, acquisitions and disposals held

Apart from investments in subsidiaries, the Group held no material investment, acquisition or disposal in the equity interests of any other company for the year ended 31 December 2019.

### Future plans related to the material investments and capital assets

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

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

During the year ended 31 December 2019, the Group had no material acquisitions and disposals related to subsidiaries, associates and joint ventures.

### Pledge of assets

As at 31 December 2019, the Group was granted a credit limit of RMB1,165.09 million by various banks, while the Group's utilized banking facilities totaled RMB1,035.58 million, which were secured by (i) property, plant and equipment held by the Group with a carrying amount of RMB151.30 million as at 31 December 2019; (ii) construction in progress held by the Group with a carrying amount of RMB108.36 million as at 31 December 2019; (iii) land use rights held by the Group with a carrying amount of RMB139.79 million as at 31 December 2019; and (iv) the Group's inventories with a carrying amount of RMB350.00 million as at 31 December 2019.

### Contingent liabilities

As at 31 December 2019, the Group had no material contingent liabilities (2018: Nil).



# Biographies of Directors, Supervisors and Senior Management

## DIRECTORS AND SUPERVISORS

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

Name	Date of appointment	Age
<b>Executive Directors</b>		
Yao Chuanglong (姚創龍)	6 March 2000	50
Zheng Yuyan (鄭玉燕)	25 May 2015	45
Lin Zhixiong (林志雄)	25 May 2015	50
<b>Non-executive Director</b>		
Li Weisheng (李偉生)	10 June 2017	55
<b>Independent Non-executive Directors</b>		
Wan Chi Wai Anthony (尹智偉)	1 December 2015	44
Zhou Tao (周濤)	1 December 2015	36
Guan Jian (關鍵) (also known as Guan Suzhe (關蘇哲))	1 December 2015	50
<b>Supervisors</b>		
Zhang Ling (張玲)	25 May 2015	47
Zheng Xiyue (鄭禧玥)	25 May 2015	40
Lin Zhijie (林志杰)	5 September 2017	36

### Chairman and Executive Director

**Mr. Yao Chuanglong (姚創龍)**, aged 50, is our Chairman, executive Director and Chief Executive Officer. He is responsible for the overall management of the Group, strategic planning and decision, formulation of annual business operation plan of the Group.

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

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



## Biographies of Directors, Supervisors and Senior Management

### Executive Directors

**Ms. Zheng Yuyan (鄭玉燕)**, aged 45, is our executive Director, vice president and Chief Marketing Officer. She joined the Group in September 2003 and had served various positions in the Group including procurement officer, procurement director and sales director. Ms. Zheng was promoted in August 2015 as the vice president of the Group. She has been appointed as our Director since 25 May 2015. Ms. Zheng is mainly responsible for the marketing and products management of the Group, the arrangement and maintenance of the sales network of the Group as well as planning and guidance on the management of operating commodities of the Group. She currently serves as the executive Director and general manager of Guangzhou Charmacy.

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

**Mr. Lin Zhixiong (林志雄)**, aged 50, is our executive Director, company secretary and Chief Financial Officer. He is responsible for the financial management, preparation of the three committee meetings, equity management information disclosure management and investor relationship management affairs of the Group.

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

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



## Biographies of Directors, Supervisors and Senior Management

### Non-executive Director

**Mr. Li Weisheng (李偉生)**, aged 55, has been our non-executive Director since June 2017. Mr. Li is a pharmacist-in-charge. In 1989, Mr. Li graduated from Guangdong Pharmaceutical University (formerly known as Guangdong Pharmaceutical Institute) with a bachelor's degree in medicine, majoring in preventive healthcare.

Mr. Li worked in Guangzhou Pharmaceutical Trading Co., Ltd. (廣州醫藥進出口有限公司) from July 1989 to November 2011, and was the deputy general manager of Guangzhou Pharmaceutical Baiyunshan Hong Kong Company Limited from November 2011 to December 2015. He has been the general manager and a director of Guangzhou Pharmaceutical Baiyunshan Hong Kong Company Limited since December 2015 and May 2018. He has also been a supervisor of Guangzhou Baiyunshan Qi Xing Pharmaceutical Co., Ltd. (廣州白雲山奇星藥業有限公司) since July 2015, the chairman of Guangzhou Pharmaceutical Baiyunshan Macau Company Limited (廣藥白雲山澳門有限公司) since January 2018, a director of Guangzhou Baiyunshan Guang Hua Pharmacy Co., Ltd. (廣州白雲山光華製藥股份有限公司) since February 2018, and a supervisor of Guangzhou Pharmaceutical (Zhuhai Hengqin) TCM Industry Co., Ltd. (廣藥國際(珠海橫琴)中醫藥產業有限公司) since July 2019.

### Independent non-executive Directors

**Mr. Wan Chi Wai Anthony (尹智偉)**, aged 44, was appointed as our independent non-executive Director on 1 December 2015.

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

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

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



## Biographies of Directors, Supervisors and Senior Management

**Mr. Zhou Tao (周濤)**, aged 36, was appointed as our independent non-executive Director on 1 December 2015.

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

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

**Mr. Guan Jian (關鍵) (also known as Guan Suzhe (關蘇哲))**, aged 50, was appointed as our independent non-executive Director on 1 December 2015.

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

Mr. Guan worked as a sales director in Yihaodian (一號店), a company engaging in business administration, responsible for marketing, sales and operational management in May 2008. During the period from July 2009 to August 2010, he was the vice president of Shanghai Haolijia Electronics Commerce Limited (上海好麗家電子商務有限公司), a company engaging in the business of marketing, sales and training, responsible for the business management. Since July 2011, he has been working as the chief executive officer of Mankedao (Shanghai) Information Technology Limited (慢客島 (上海) 網絡科技有限公司), overseeing the general management. Since 2 June 2015, he has been the executive director and president of Shanghai New Focus Investment Development Limited (上海新關點投資發展有限公司), responsible for integrated corporate management and currently acts as the supervisor of Sichuan Womijia Network Technology Limited\* (四川我迷家網絡科技有限公司). Mr. Guan has been the consultant of China Telecom Corporation Limited Jiangsu electronics channel operations centre (中國電信股份有限公司江蘇電子渠道營運中心). He has been an independent director of Hubei Forbon Technology Co., Ltd. (湖北富邦科技股份有限公司) since May 2019.

### Supervisors

**Ms. Zhang Ling (張玲)**, aged 47, was appointed as the chairlady of the Board of Supervisors on 25 May 2015.

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

From March 2000 to September 2002, Ms. Zhang was the assistant to general manager in the Company, responsible for overseeing financial and administrative matters. From January 2010 to April 2019, she was an associate professor in Shantou University Business School (汕頭大學商學院) in the PRC. Since December 2016, she has been an independent director of C.K.J Professional Dental Hospital Group Limited\* (深圳市愛康健齒科集團股份有限公司). Since March 2017, she has been the chief financial officer of Jiangsu Kunyee Environmental Engineering Co., Ltd. (江蘇坤奕環境工程有限公司), responsible for the financial management of the company.



## Biographies of Directors, Supervisors and Senior Management

**Ms. Zheng Xiyue (鄭禧玥)**, aged 40, was appointed as our employee representative Supervisor on 25 May 2015.

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

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

**Mr. Lin Zhijie (林志杰)**, aged 36, is our chief logistics officer. He became a supervisor of the Company since September 2017. Mr. Lin graduated from the Science and Technology College of Jiangxi University of Traditional Chinese Medicine\* (江西中醫學院科技學院) in the PRC in July 2007, majoring in pharmaceuticals formulation, and obtained a postgraduate diploma in “Organization and Human Resources Management” from the School of Professional and Continuing Education of the University of Hong Kong in May 2019.

Mr. Lin joined our Group in January 2007 and has been responsible for the logistics planning and operation of the Group, including the matters such as logistics budget and cost control.

### SENIOR MANAGEMENT

**Ms. Liu Yingyu (劉映玉)**, aged 40, was appointed as our Quality Director on 7 March 2019, and is responsible for the medicine quality management of the Company.

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

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

### COMPANY SECRETARY

**Mr. Lin Zhixiong (林志雄)**, aged 50, is our company secretary. Biographical details of Mr. Lin are set out in the paragraph headed “Executive Directors” in this section.



# Corporate Governance Report

## CORPORATE GOVERNANCE PRACTICES

The Company had been complying with the code provisions (the “**Code Provisions**”) set out in the Corporate Governance Code contained in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the “**Listing Rules**”) for the year ended 31 December 2019, save for the deviation as stated below:

Pursuant to Code Provision A.2.1, the responsibilities between the chairman and chief executive officer should be separated and should not be performed by the same individual. Mr. Yao Chuanglong is our chief executive officer, and he also performs as the chairman of our Board as he has considerable experience in the pharmaceutical distribution industry. Our Board believes that vesting the roles of both the chairman of our Board and the chief executive officer in the same person has the benefit of ensuring consistent leadership within our Group and enables more effective and efficient overall strategic planning of our Group.

## MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS AND SUPERVISORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “**Model Code**”) set out in Appendix 10 to the Listing Rules as the code of conduct in dealings with securities transaction for the Directors and Supervisors of the Company. Having made enquiries with all Directors and Supervisors of the Company, the Company confirmed that all Directors and Supervisors have complied with the required standards as set out in the Model Code for the year ended 31 December 2019.



# Corporate Governance Report

## MEMBERS OF THE BOARD

### Composition

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

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

Directors	Age	Position	Duration of service contract/ letter of appointment
Mr. Yao Chuanglong	50	Chairman, executive Director and Chief Executive Officer	28 May 2018 to 27 May 2021
Ms. Zheng Yuyan	45	Executive Director, vice president and Chief Marketing Officer	28 May 2018 to 27 May 2021
Mr. Lin Zhixiong	50	Executive Director, company secretary and Chief Financial Officer	28 May 2018 to 27 May 2021
Mr. Li Weisheng	55	Non-executive Director	28 May 2018 to 27 May 2021
Mr. Wan Chi Wai Anthony	44	Independent non-executive Director	28 May 2018 to 27 May 2021
Mr. Zhou Tao	36	Independent non-executive Director	28 May 2018 to 27 May 2021
Mr. Guan Jian (also known as Guan Suzhe)	50	Independent non-executive Director	28 May 2018 to 27 May 2021

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

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

Details for each of the Directors’ profile are set out on pages 16 to 20 in the section “Biographies of Directors, Supervisors and Senior Management”.



## Corporate Governance Report

### The Board meeting

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

board meetings shall be convened when necessary for the discussion of the overall strategy and financial performance of the Company's operation. During the year ended 31 December 2019, the Company convened 6 Board meetings. Their details are as follows:

Name	Position	Number of Meetings Attended/Available for Attendance
Mr. Yao Chuanglong	Chairman, executive Director and Chief Executive Officer	6/6
Ms. Zheng Yuyan	Executive Director, vice president and Chief Marketing Officer	6/6
Mr. Lin Zhixiong	Executive Director, company secretary and Chief Financial Officer	6/6
Mr. Li Weisheng	Non-executive Director	6/6
Mr. Wan Chi Wai Anthony	Independent non-executive Director	6/6
Mr. Zhou Tao	Independent non-executive Director	6/6
Mr. Guan Jian (also known as Guan Suzhe)	Independent non-executive Director	6/6

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

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

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

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



## Corporate Governance Report

### General meeting

During the year ended 31 December 2019, the Company held one general meeting. The detail is as follows:

Date	Location	Meeting
3 June 2019	3rd Floor, No. 235 Song Shan North Road, Longhu District, Shantou City, Guangdong Province, the People's Republic of China	2018 Annual General Meeting

### The Attendance of the Directors

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



## Corporate Governance Report

### RESPONSIBILITIES OF THE BOARD AND MANAGEMENT

The Board is primarily responsible for monitoring and managing the Company's affairs, including the adoption of long-term strategies, appointment of and supervision on senior management, to ensure that the operations of the Group are conducted in accordance with its own objectives. The Board is also responsible for determining the Company's corporate governance policies which include: (i) the preparation of and review on the Company's corporate governance policies and practices; (ii) the review and regulation on the training and continuous professional development of Directors and senior management; (iii) the review and regulation on the code of conduct and compliance manual (if any) applicable to employees and Directors; (iv) the review and monitoring of the Company's policies and practices regarding the compliance with legal and regulatory requirements and (v) the review on the Company's disclosure in the Corporate Governance Report. The Board has discharged its duties in respect of the corporate governance function mentioned above during 2019.

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

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

The Board acknowledges its responsibility for the preparation of the financial statements which give a true and fair view of the state of affairs of the Group. The Financial Statements set out on pages 53 to 66 were prepared on the basis set out in note IV to the Financial Statements. Financial results of the Group are announced in a timely manner in accordance with statutory and/or regulatory requirements. The declaration of reporting responsibility issued by the external auditor of the Company on the Company's Financial Statements is set out in the Auditor's Report on page 48.

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

### CONFIRMATION OF INDEPENDENCE OF THE INDEPENDENT NON-EXECUTIVE DIRECTORS

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



## Corporate Governance Report

### CONTINUOUS PROFESSIONAL DEVELOPMENT OF THE DIRECTORS

During the year ended 31 December 2019, all Directors have been given relevant guidance materials and participated related training regarding the duties and responsibilities of being a Director, the relevant laws and regulations applicable to the Directors, duty of disclosure of interests and business of the Group. Such guidance materials and relevant overview will be provided

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

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

In the year 2019, continuing professional development participated by the Directors is summarized as follows:

#### Training in relation to corporate governance, regulatory developments and other relevant professional topics

#### Directors

##### Executive Directors

Yao Chuanglong (*Chairman*)  
Zheng Yuyan  
Lin Zhixiong

✓  
✓  
✓

##### Non-executive Director

Li Weisheng

✓

##### Independent non-executive Directors

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

✓  
✓  
✓

### APPOINTMENT, RE-ELECTION AND DISMISSAL

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

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

### NON-EXECUTIVE DIRECTOR

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

### INDEPENDENT NON-EXECUTIVE DIRECTORS

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

### NOMINATION COMMITTEE

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



## Corporate Governance Report

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

For the year ended 31 December 2019, the Nomination Committee convened a meeting on 25 March 2019 to review the structure, size and composition of the Board and review the independence of independent non-executive Directors and recommend the board diversity policy and director nomination policy to the Board. All the members of the Nomination Committee, including Mr. Yao Chuanglong, Mr. Zhou Tao and Mr. Guan Jian, attended the above meeting.

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

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

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

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

### REMUNERATION COMMITTEE

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

The primary duties of the Remuneration Committee are to make recommendation to the Board on the overall remuneration policy and structure relating to all Directors and senior management of the Group and ensure none of the Directors determine their own remuneration. The remuneration of executive Directors are determined based on the skills, knowledge, individual performance and contributions, the scope of responsibility and duties of such Directors, taking into consideration of the Company's results performance and prevailing market conditions. The remuneration policy of independent non-executive Directors is to ensure that the independent non-executive Directors are adequately compensated for their efforts and time dedicated to the Company's affairs including their participation in respective Board committees. The remuneration of independent non-executive Directors are determined with reference to their skills, experience, knowledge, duties and market trends. As at 31 December 2019, the Remuneration Committee consists of three members, two of them are independent non-executive Directors, namely Mr. Zhou Tao (chairman of the Remuneration Committee) and Mr. Wan Chi Wai Anthony and one of them is executive Director, namely Mr. Lin Zhixiong.

According to the Code Provision B.1.5, the remuneration paid to the Directors, Supervisors and senior management by the Group based on the remuneration benchmark for the year ended 31 December 2019 is as follows:

Remuneration benchmark	Number of individuals
Nil to RMB50,000	4
RMB50,001 to RMB250,000	3
RMB250,001 to RMB500,000	1
Above and including RMB500,001	3

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



## Corporate Governance Report

For the year ended 31 December 2019, the Remuneration Committee held one meeting on 25 March 2019 to review the overall remuneration policy for the Directors, Supervisors and senior management, determine such policies and propose them to the Board. The meeting was attended by all the members of the Remuneration Committee, including Mr. Zhou Tao, Mr. Wan Chi Wai Anthony and Mr. Lin Zhixiong.

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

### AUDIT COMMITTEE

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

The Audit Committee reports to the Board and has held regular meetings since its establishment to review and make recommendations to improve the Group’s financial reporting process and internal controls. Other than that, the primary duties of the Audit Committee are to make recommendations to the Board on the appointment, reappointment and removal of external auditor, review the financial statements and material advice in respect of financial reporting and overseas internal control of the Company. As at the date of this annual report, the Audit Committee consists of three members and three of them are independent non-executive Directors, namely Mr. Wan Chi Wai Anthony (chairman of the Audit Committee), Mr. Zhou Tao and Mr. Guan Jian.

As at the date of this annual report, the Audit Committee reviewed with the management of the Company the accounting principles and practices adopted by the Group, and discussed internal controls and financial reporting matters. The Audit Committee also discussed and reviewed the annual results for the year ended 31 December 2019 of the Company with the external auditor of the Company.

For the year ended 31 December 2019, the Audit Committee held two meetings on 25 March 2019 and 22 August 2019. On both occasions, the Audit Committee reviewed, amongst others, the Group’s annual results for the year ended 31 December 2018 and the interim results for the six months ended 30 June 2019, and believed that the preparation of such results was in compliance with applicable accounting standards and the Listing Rules, in addition to reviewing the changing of the accounting policies adopted for preparing the Company’s financial statements and the re-appointment of auditors. The above two meetings were attended by all the members of the Audit Committee, including Mr. Wan Chi Wai Anthony, Mr. Zhou Tao and Mr. Guan Jian.

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

For the year ended 31 December 2019, the Board has not taken a different view from the Audit Committee on the selection, appointment, designation or dismissal of external auditor.

### RISK MANAGEMENT COMMITTEE

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



## Corporate Governance Report

The primary duties of the Risk Management Committee are to review the general goals and fundamental policies of our risk and compliance management, internal control and risk management and internal audit functions and made recommendations to our Board on the same. As of 31 December 2019, the Risk Management Committee comprises three members, namely Mr. Yao Chuanglong, our Chairman and executive Director, Mr. Lin Zhixiong, our executive Director and Mr. Wan Chi Wai Anthony, our independent non-executive Director. Mr. Yao Chuanglong is the chairman of our Risk Management Committee.

For the year ended 31 December 2019, the Risk Management Committee held one meeting on 25 March 2019 where the Risk Management Committee reviewed the strategy, policy and guideline of the Company's risk management, the effectiveness of the Group's risk management and internal control systems, and the adequacy of resources. The meeting was attended by all the members of the Risk Management Committee, including Mr. Yao Chuanglong, Mr. Lin Zhixiong and Mr. Wan Chi Wai Anthony.

### STRATEGIC DEVELOPMENT COMMITTEE

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

The Strategic Development Committee is mainly responsible for studying the overall development strategies for the Company, major investment and financing plans, and other material issues that influence the development of the Company, and making recommendations to the Board. As of 31 December 2019, the Strategic Development Committee consisted of three members, namely Mr. Yao

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

For the year ended 31 December 2019, the Strategic Development Committee held one meeting on 25 March 2019, on which the study was carried out on the development strategies and future development plans of the Company. All the members of the Strategic Development Committee, including Mr. Yao Chuanglong, Ms. Zhen Yuyan and Mr. Zhou Tao, attended the meeting.

### BOARD DIVERSITY POLICY

The Board adopted the following board diversity policy:

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

Set out below is the Board diversity achieved by the Company:

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



## Corporate Governance Report

### AUDITOR'S REMUNERATION

During the year, the Company engaged ShineWing Certified Public Accountants (Special General Partnership) as the external auditor of the Company. The fees in respect of audit services provided by ShineWing Certified Public Accountants (Special General Partnership) for the year ended 31 December 2019 amounted to RMB0.8 million (tax exclusive). No other non-audit service was provided in addition to the above.

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

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

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

The statement of the auditor of the Company in respect of their reporting responsibilities on the Company's financial statements for the year ended 31 December 2019 is set out in the "Auditors' Report" contained in this annual report.

### COMPANY SECRETARY

For the year ended 31 December 2019, Mr. Lin Zhixiong, being our company secretary, is primarily responsible for the company secretarial work of the Group.

Pursuant to Rule 3.29 of the Listing Rules, for the year ended 31 December 2019, Mr. Lin had attended no less than 15 hours of relevant professional training.

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

### SYSTEM OF INTERNAL CONTROL AND RISK MANAGEMENT

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

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

#### The Board

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

#### The Risk Management Committee and the Audit Committee

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

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



## Corporate Governance Report

### The Board of Supervisors

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

### The Management

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

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

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

The Board has conducted its annual review of the effectiveness of the system of internal control and risk management as of 31 December 2019, discovered no material defect in internal control, and considered the existing system to be effective and adequate. The Company also had adequate resources, staff qualifications, training courses and budgets in its accounting, internal audit and financial reporting functions.

### DISCLOSURE OF INSIDE INFORMATION

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

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

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

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

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



## Corporate Governance Report

### SHAREHOLDERS' RIGHTS

#### Convening an extraordinary general meeting by the Shareholders

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

#### Proposals put forward at the general meeting

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

#### Making enquiry to the Board

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

#### Contact Details

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

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

Fax: 86-0754-82752026

Email: linzhixiong@charmacy.cn

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

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

### CONSTITUTIONAL DOCUMENT

There was no material change in the Articles of the Company during 2019.

### INVESTOR RELATIONS AND COMMUNICATION

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

The Company updates its Shareholders on its latest business developments and financial performance through its corporate publications including annual reports and public announcements. Extensive information about the Company's business for the year ended 31 December 2019 has been provided in this annual report. While the annual general meeting provides a valuable forum for direct communication between the Board and its Shareholders, the Company also maintains its website (<http://www.chmyy.com>) to provide an alternative communication channel for the public and its Shareholders. All corporate communication and Company's latest updates are available on the Company's website.

By the year ended 31 December 2019, there was no material change in the Company's legal documents.



# Directors' Report

The Board of the Company are pleased to present 2019 annual report together with the Financial Statements of the Group for the year ended 31 December 2019.

## PRINCIPAL BUSINESS AND BUSINESS REVIEW

The principal business of the Company is pharmaceutical products distribution in the PRC. The principal activities of the subsidiaries of the Company are set out in Note VIII of the Financial Statements. Business review during the Reporting Period and discussion on the future business development of the Group are set out in the Management Discussion and Analysis on pages of 7 to 11 of this annual report; Performance analysis of the Group within the year based on key financial performance indicators are set out in the Management Discussion and Analysis on pages 12 to 15 of this annual report.

## RESULTS AND DIVIDENDS

The Group's annual results for the year ended 31 December 2019 and its financial positions as at 31 December 2019 are set out in the Financial Statements on pages 53 to 66.

The Board recommends the distribution of a final dividend of RMB0.20 per Share (tax inclusive) for the year ended 31 December 2019, which is subject to approval by the shareholders of the Company at the annual general meeting (the "AGM") to be convened on 25 May 2020 and, if approved, will be paid on or before 10 July 2020. The dividend of domestic shares will be paid in RMB, whereas that of H shares will be paid in HK\$. The Company will publish a circular in respect of, among others, the record date of H share dividend payment and the relevant dates when the registration of the H shares of the Company will be closed, when appropriate.

## DIVIDEND POLICY

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

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

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

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



## Directors' Report

### LAST FIVE-YEAR FINANCIAL SUMMARY

A financial summary of the results, assets and liabilities of the Group for the last five years ended 31 December 2015 to 31 December 2019 is set out on page 5. This summary does not form part of the Financial Statements.

### SHARE CAPITAL

Details of changes in share capital of the Company for the year ended 31 December 2019 are set out in Note VI. 27 to the Financial Statements.

### UNALLOCATED PROFITS AT THE END OF THE YEAR

As at 31 December 2019, the Group's unallocated profits amounted to RMB80.87 million. Details of the movements in the unallocated profits of the Group in 2019 are set out in Note VI. 30 to the Financial Statements.

### PRINCIPAL RISKS AND UNCERTAINTIES

#### (1) Suppliers and the quality of products provided

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

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

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

#### (2) Low gross profit margin and net profit margin

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

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



## Directors' Report

### (3) Risk of adjustments to policies and regulations

The pharmaceutical distribution industry is a strictly regulated industry and is greatly affected by policies. In order to promote the healthy development of the industry, the State Council of the PRC, the Ministry of Commerce of the PRC, the National Development and Reform Commission, the State Food and Drug Administration, local food and drug administrations and other administrative authorities have successively formulated and promulgated various policies and regulations including Good Supply Practice for Pharmaceutical Products, Two-Invoice System and separation of pharmacy and medicine. The implementation of these policies and regulations has profoundly affected the development direction of the industry and the future competitive landscape of the market. Enterprises that do not standardize operations, and do not attach importance to product quality management and have small service networks and weak service capabilities, will be gradually eliminated or consolidated. As the pharmaceutical reform continues to deepen, the relevant policies and regulations will change accordingly. If the current business strategy of the Company cannot keep up with the future changes in industry policies, the Company will lose its advantageous position in future competition.

The Company will continue to strictly regulate its own operations and management in the process of continuous adjustments of industry policies and regulations, and while adapting itself to the development trend of the pharmaceutical distribution industry, it will continue to adhere to its strategic planning, and adjust business focus according to market demand in order to achieve sustainable development.

## MAJOR RELATIONSHIP WITH EMPLOYEES, CUSTOMERS AND SUPPLIERS

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

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

## MAJOR CUSTOMERS AND SUPPLIERS

The aggregate sales attributable to the Group's five largest customers were 14.15% of the Group's operating revenue for the year ended 31 December 2019, and sales to the largest customer accounted for 3.89% of the Group's total turnover during the year thereof. The aggregate purchases attributable to the Group's five largest suppliers were 25.84% of the Group's total procurement cost for the year ended 31 December 2019, and purchases from the largest supplier accounted for 14.39% of the Group's total procurement cost during the year thereof.

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

## SUBSIDIARIES

Details of the subsidiaries of the Company for the year ended 31 December 2019 are set out in Note VIII to the Financial Statements.



## Directors' Report

### FIXED ASSETS

Details of changes in fixed assets of the Group during the year of 2019 are set out in Note VI.8 to the financial statements.

### BORROWINGS

Particulars of borrowings of the Group as at 31 December 2019 are set out in Note VI.15 and 24 to the Financial Statements. As at 31 December 2019, the Group's property, plant and equipment, construction in progress, land use right and inventories with total carrying amount of approximately RMB749.45 million have been pledged to secure banking facilities granted to the Group (2018: approximately RMB654.83 million).

### ENVIRONMENTAL PROTECTION

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

### COMPLIANCE WITH LAWS AND REGULATIONS

As the Company incorporated and operates its business in mainland China, the operation and management are strictly regulated by relevant laws and regulations in the mainland. Meanwhile, as the Company is listed on the Main Board of the Hong Kong Stock Exchange, it is subject to the relevant regulations. Due to the certain differences in relevant laws and regulations between two places, the Company could be bound in various areas such as corporate governance, information disclosure, dividend policy, merger and acquisition, and related transactions. The Board is concerned about the policies and practices to comply with the requirements of laws and regulations in relation to the Group. The Group has engaged, legal advisors to PRC and Hong Kong laws to ensure the transactions and business of the Group are conducted subject to the applicable laws. The Group has included the related laws and regulations into the internal management system in order to supervise the staff to comply on an ongoing basis. The Group has strictly complied with relevant laws and regulations in 2019.

### SERVICE CONTRACTS WITH DIRECTORS AND SUPERVISORS

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

#### Executive Directors

Yao Chuanglong (*Chairman*)  
Zheng Yuyan  
Lin Zhixiong

#### Non-executive Director

Li Weisheng



## Directors' Report

### Independent non-executive Directors

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

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

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

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

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

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

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

### Supervisors

Zhang Ling (*Chairlady*)  
Zheng Xiyue  
Lin Zhijie

The Board of Supervisors of the Company held two meetings during 2019. Details of the meetings and events conducted by the Board of Supervisors during 2019 are set out in the Board of Supervisors' report of this annual report. The employee representative supervisor of second session of the Board of Supervisors was re-elected at the representative congress held on 28 May 2018.

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

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

## EMOLUMENTS OF THE DIRECTORS, SUPERVISORS AND EMPLOYEES

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

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



## Directors' Report

### REMUNERATION POLICY

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

### DIRECTORS AND SUPERVISORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

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

### MANAGEMENT CONTRACTS

Other than the service contracts of the Directors, the Company has not entered into any contract with any individual, firm or body corporate to manage the whole or any substantial part of any business of the Company during 2019.

### BIOGRAPHIES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Biographical details of the Directors, Supervisors and senior management of the Group are disclosed in the section headed "Biographies of Directors, Supervisors and Senior Management" on pages 16 to 20 of this annual report.

### DEED OF NON-COMPETITION BY CONTROLLING SHAREHOLDER

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

- (a) not directly or indirectly engage, participate or hold any right or interest in or render any services to or otherwise be involved in any business in competition with or likely to be in competition with the existing business activities of the Group or any business activities which the Group may undertake in the future;
- (b) not take any direct or indirect action which constitutes an interference with or a disruption to the business activities of the Group including, but not limited to, solicitation of customers, suppliers and staff of the Group;
- (c) keep our Board informed of any matter of potential conflicts of interests between Mr. Yao Chuanglong (including his associates) and the Group, in particular, a transaction between Mr. Yao Chuanglong (including his associates) and the Group; and
- (d) provide as soon as practicable upon the Company's request a written confirmation in respect of compliance by it with the terms of the deed of non-competition and their respective consent to the inclusion of such confirmation in the Company's annual report and all such information as may be reasonably requested by the Company for its review.



## Directors' Report

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

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

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

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

Mr. Yao Chuanglong, the controlling shareholder, has confirmed to the Company of his compliance with the deed of non-competition provided to the Company for the year ended 31 December 2019.

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

## CONNECTED TRANSACTIONS

We had not conducted any transactions which constitute non-exempt continuing connected transactions within the meaning of the Listing Rules for the year ended 31 December 2019.

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



## Directors' Report

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

As at 31 December 2019, the interests of the Directors, Supervisors and Chief Executives in the Shares, underlying Shares and debentures of the Company, its members of the Group and/or any of its associated corporations (as defined in Part XV of the Securities and Futures Ordinance (“SFO”)) as recorded in the register required to be kept under Section 352 of the SFO or as notified to the Company and the Stock Exchange pursuant to the Model Code were as follows:

Name of Director	Capacity/ Nature of interest	Class and number of Shares	Approximate shareholding percentage in the relevant class of Shares <sup>(1)</sup>	Approximate shareholding percentage of the total issued share capital <sup>(2)</sup>
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) <sup>(3)</sup>	4.00%	2.96%

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

*Notes:*

- (1) The calculation is based on the total number of 80,000,000 domestic shares in issue of the Company as at 31 December 2019.
- (2) The calculation is based on the total number of 108,000,000 Shares in issue of the Company as at 31 December 2019.
- (3) These Shares are held by Shantou Meizhi Investment Management Limited Partnership (汕頭市美智投資管理合夥企業(有限合夥)) (“**Meizhi Investment**”). As Mr. Lin Zhixiong is the general partner of Meizhi Investment, he is deemed to be interested in the Shares of the Company held by Meizhi Investment under the SFO.

Save as disclosed above, as at 31 December 2019, none of the Directors, Supervisors and chief executives of the Company has any other interests or short positions in the Shares, underlying Shares or debentures of the Company, its members of the Group or any of its associated corporations (as defined in Part XV of the SFO) which have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which he/she is taken or deemed to have under such provisions of the SFO) or which are required to be entered in the register referred to therein pursuant to section 352 of the SFO or which are required pursuant to the Model Code.

### DIRECTORS' AND SUPERVISORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in the section headed “Interests or Short Positions of the Directors, Supervisors and Chief Executives in the Shares, Underlying Shares, and Debentures”, at no time during the year 2019, the Company, any of its subsidiaries or fellow subsidiaries was a party to any arrangement to enable the Directors and Supervisors to acquire benefits by means of acquisition of shares in, or debentures of, the Company or any other body corporate, or any Directors, Supervisors or their spouses or children under 18 years of age was granted any right to subscribe for Shares or debentures of the Company or any other body corporate or exercised any such right.



## Directors' Report

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

As at 31 December 2019, 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	Number and class of securities	Approximate shareholding percentage in the relevant class of Shares <sup>(1)</sup>	Approximate shareholding percentage of the total issued share capital <sup>(2)</sup>
Ms. You Zeyan	Interest of spouse	59,000,000 Domestic Shares (L) <sup>(3)</sup>	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) <sup>(4)</sup>	28.24%	7.32%
Guangzhou Baiyunshan Pharmaceutical Holdings Company Limited	Interest in controlled corporation	7,906,500 H Shares (L) <sup>(4)</sup>	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) <sup>(4)</sup>	28.24%	7.32%
Kingworld Medicines Health Management Limited	Beneficial owner	2,302,000 H Shares (L) <sup>(5)</sup>	8.22%	2.13%
Kingworld Medicines Group Limited	Interest in controlled corporation	2,302,000 H Shares (L) <sup>(5)</sup>	8.22%	2.13%
Mr. Wang Yonghui	Beneficial owner	3,488,000 H Shares (L)	12.46%	3.23%



## Directors' Report

Name of shareholder	Nature and capacity of interest	Number and class of securities	Approximate shareholding percentage in the relevant class of Shares <sup>(1)</sup>	Approximate shareholding percentage of the total issued share capital <sup>(2)</sup>
Asian Equity Special Opportunities Portfolio Master Fund Limited	Beneficial owner	5,130,000 H Shares (L) <sup>(6)</sup>	18.32%	4.75%
RAYS Capital Partners Limited	Investment manager	5,534,000 H Shares (L) <sup>(6)</sup>	19.76%	5.12%
RUAN David Ching Chi	Interests in controlled corporation	5,534,000 H Shares (L) <sup>(6)</sup>	19.76%	5.12%

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

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

*Notes:*

- (1) The calculation is based on the total number of 80,000,000 domestic shares in issue and the total number of 28,000,000 H shares in issue of the Company as at 31 December 2019.
- (2) The calculation is based on the total number of 108,000,000 Shares in issue of the Company as at 31 December 2019.
- (3) Ms. You Zeyan is the spouse of Mr. Yao Chuanglong, the Chairman and executive Director of the Company, and is deemed to be interested in these Shares under the SFO.
- (4) These shares are held by Guangzhou Pharmaceutical Baiyunshan Hong Kong Company Limited. As Guangzhou Pharmaceutical Baiyunshan Hong Kong Company Limited is a wholly-owned subsidiary of Guangzhou Baiyunshan Pharmaceutical Holdings Company Limited, which in turn is held by Guangzhou Pharmaceutical Holdings Limited as to 45.23%. Guangzhou Baiyunshan Pharmaceutical Holdings Company Limited and Guangzhou Pharmaceutical Holdings Limited are deemed to be interested in the shares of the Company held by Guangzhou Pharmaceutical Baiyunshan Hong Kong Company Limited.
- (5) These shares are held by Kingworld Medicines Health Management Limited. As Kingworld Medicines Health Management Limited is a wholly-owned subsidiary of Kingworld Medicines Group Limited, Kingworld Medicines Group Limited is deemed to be interested in the shares of the Company held by Kingworld Medicines Health Management Limited.
- (6) These shares are held by Asian Equity Special Opportunities Portfolio Master Fund Limited. Since Asian Equity Special Opportunities Portfolio Master Fund Limited is a wholly-owned subsidiary of RAYS Capital Partners Limited and 95.24% interest of RAYS Capital Partners Limited is held by Ms. RUAN David Ching Chi, RAYS Capital Partners Limited and RUAN David Ching Chi are deemed to be interested in the Shares of the Company held by Asian Equity Special Opportunities Portfolio Master Fund Limited.

Save as disclosed herein, our Directors are not aware of any person who will, as at 31 December 2019, have an interest or short position in Shares or underlying Shares which would fall to be disclosed to our Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or be directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of our Group.

Save as disclosed above, as at 31 December 2019, none of the Directors was aware that any other persons/entities (other than any Directors or chief executives of the Company) had an interest or short position in the Shares or underlying Shares of the Company, its members of the Group or associated corporations which fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or which had entered in the register required to be kept by the Company pursuant to section 336 of the SFO.



### **COMPETITIONS AND CONFLICTS OF INTERESTS**

For the year ended 31 December 2019, save as disclosed in the Prospectus, none of the Directors or substantial Shareholders of the Company or any of their respective associates conducted any business which competes, or is likely to compete, with the business of the Group or had any other conflicts of interests with the Group.

### **INDEMNITY OF DIRECTORS**

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

### **MATERIAL CONTRACTS**

For the year ended 31 December 2019, the Company and its subsidiaries did not enter into any contracts of significance with any controlling shareholders or any of its subsidiaries.

### **CONTROLLING SHAREHOLDERS' INTERESTS IN CONTRACTS**

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

### **PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY**

For the year ended 31 December 2019, the Company and its subsidiaries did not purchase, sell or redeem any of the listed securities of the Company.

### **TAX REDUCTION**

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

### **PRE-EMPTIVE RIGHTS**

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



## Directors' Report

### SUFFICIENT PUBLIC FLOAT

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

### CHARITY DONATION

During the year ended 31 December 2019, the Company and its subsidiaries actively participated in public charities and donating RMB70,000 in total.

### SIGNIFICANT EVENT AFTER THE REPORTING PERIOD

After the end of the Reporting Period, there was an outbreak of the novel coronavirus disease (COVID-19) across the country. During the Spring Festival holiday, the Group arranged our employees to return to work in the front line of drug distribution before the end of the holiday, and expedited the distribution of pandemic prevention drugs and materials which effectively ensured the normal supply of pandemic prevention drugs and materials in the pharmaceutical retail terminal market in Guangdong, and ensure the supply of pandemic prevention drugs and materials in the pandemic prevention and control frontline, thereby taking practical actions to fulfill its social responsibility as a pharmaceutical company, and putting into practice the Group's corporate mission and responsibility of "Creating Healthy and Beautiful Life".

After assessment, the Group is of the preliminary view that the financial position and operating results of the Group have not been materially affected subsequent to the year ended 31 December 2019 and up to the date of this annual report, and the operating revenue is expected to record a slight increase as compared to the first quarter of last year. The Group will closely monitor the development of the COVID-19 to assess the impact of the pandemic on its business and make proactive response. If COVID-19 causes any significant impact on the Group's financial condition and operating results, the Group will issue a separate announcement in due course and reflect the impact in the Group's interim and annual financial statements for 2020.

### CORPORATE GOVERNANCE REPORT

The details of the corporate governance practices of the Group are set out in the Corporate Governance Report on pages 21 to 32 of this annual report.



## Directors' Report

### CLOSURE OF REGISTER OF MEMBERS

For the purpose of determining the entitlement of the members of the Company to attend the AGM to be held on 25 May 2020, the register of members of the Company will be closed from 19 May 2020 to 25 May 2020 (both days inclusive), during which period no transfer of shares will be registered. In order to qualify for attending and voting at the AGM, all transfer documents accompanied by the relevant share certificates should be lodged for registration with the H share registrar of the Company, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong, no later than 4:30 pm on 18 May 2020.

### AGM

The AGM will be held on 25 May 2020. The Shareholders should refer to the circular to be issued by the Company on 22 April 2020 regarding the details of the AGM and the enclosed AGM notice and proxy form.

### AUDIT COMMITTEE

The Audit Committee, together with the management of the Company and the external auditor, had conducted review on the accounting principles and policies adopted by the Group and the financial statements for the year ended 31 December 2019.

### AUDITORS

The Company will propose a resolution to re-appoint ShineWing Certified Public Accountants (Special General Partnership) as the auditor of the Group for the year of 2020 at the forthcoming annual general meeting. The Company has not changed its auditor in the past three years.

By order of the Board

**Charmacy Pharmaceutical Co., Ltd.**

**Yao Chuanglong**

*Chairman and Executive Director*

Shantou, PRC, 30 March 2020



# Board of Supervisors' Report

In 2019, the Board of Supervisors fully performed its supervisory duties on members of the Board, managers and other senior management of the Company as authorised at the general meeting in accordance with the Company laws of the PRC (the “**Company Law**”) and the Articles.

## DAILY WORK OF THE BOARD OF SUPERVISORS

On 25 March 2019, it considered and approved the resolutions on the matters including the work report of the Board of Supervisors of the Company for 2018, the Financial Statements for 2018, the Results Announcement for 2018 and the Annual Report for 2018.

On 22 August 2019, it considered and approved the resolutions on the matters including the 2019 Interim Financial Statements, the 2019 Interim Results Announcement and the 2019 Interim Report.

## LAWFUL OPERATION OF THE COMPANY

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

In the opinion of the Board of Supervisors:

1. In 2019, with care and strong support from all the Shareholders of the Company, as well as the diligent work of all its staff, the operation of the Company was in compliance with the Company Law and the Articles, and the procedures for making decisions on production and operation of the Company are lawful and normative, thus making satisfactory achievements in the business.
2. During the Reporting Period, each member of the Board, manager and other senior management of the Company diligently performed his/her jobs and duties in the Company and, for the benefit of the Company, strictly observed relevant laws, regulations and the Articles, and regulated the work procedures for operation and management of the Company, thereby protecting the interest of the Company and its shareholders.

## INSPECTION ON FINANCIAL STATUS OF THE COMPANY

The Board of Supervisors has reviewed the 2019 Auditor's Report for submission. In the opinion of the Board of Supervisors, the financial report of the Company completely, objectively and fairly reflects its financial position and operating results. The annual operating results of the Company have been audited by ShineWing Certified Public Accountants (Special General Partnership) who has also issued an audit report which is true, objective and fair.



## Board of Supervisors' Report

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

The Board of Supervisors is of the view that the Group had no connected transaction in 2019 which were subject to the reporting, annual review, announcement and independent shareholders' approval requirements as set out in Chapter 14A of the Listing Rules.

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

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

### **IMPLEMENTATION OF RESOLUTIONS PASSED AT THE GENERAL MEETINGS**

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

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

**Zhang Ling**

*Chairlady of the Board of Supervisors*

Shantou, PRC, 30 March 2020



# Auditor's Report

信永中和  
ShineWing

信永中和会计师事务所

**ShineWing**  
certified public accountants

北京市东城区朝阳门北大街8号  
富华大厦A座9层

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

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

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

TO THE MEMBERS OF CHARMACY PHARMACEUTICAL CO., LTD.

## I. AUDIT OPINION

We have audited the financial statements of Charmacy Pharmaceutical Co., Ltd. (hereinafter referred to as Charmacy Pharmaceutical Company), which comprise the consolidated balance sheet and balance sheet of the parent company as at 31 December 2019, and the consolidated income statement and income statement of the parent company, consolidated statement of cash flow and statement of cash flow of the parent company and consolidated statement of changes in shareholders' equity and statement of changes in shareholders' equity of the parent company for the year 2019, and relevant notes to the financial statements.

In our opinion, the accompanying financial statements are prepared, in all material respects, in accordance with the requirements under the Accounting Standards for Enterprises, which give a fair view of the consolidated financial position and financial position of the parent company of Charmacy Pharmaceutical Company as at 31 December 2019 and the consolidated results of operation and cash flows and results of operation and cash flows of the parent company for the year 2019.

## II. BASIS FOR FORMING AUDIT OPINION

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



## III. KEY AUDIT MATTERS

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

### 1. Impairment of trade receivables

<b>Key audit matter</b>	<b>How the matter was addressed in our audit</b>
<p>As set out in the Note VI.3 to the consolidated financial statements of Charmacy Pharmaceutical Company, as of 31 December 2019, trade receivables balance amounted to RMB730,049,900, provision for bad debts amounted to RMB17,788,300 and the carrying amount of trade receivables amounted to RMB712,261,600. As the carrying amount of trade receivables accounts for a relatively high proportion of assets, there would be a material impact on the financial statements if the trade receivables cannot be recovered on schedule or fail to be recovered. Therefore, we regard the recoverability of trade receivables as a key audit matter.</p>	<p>The main procedures we performed are as follows:</p> <ol style="list-style-type: none"> <li>1) tested the management's internal control relating to the daily management of trade receivables and assessment on their recoverability as at the end of the period;</li> <li>2) reviewed the relevant consideration and objective evidence of impairment test on trade receivables by the management, and attached importance to the management's adequate identification of impaired items;</li> <li>3) selected samples of trade receivables for which bad debts was separately provided, and reviewed the basis and reasonableness of the management's estimation on the expected lifetime loss;</li> <li>4) as for trade receivables with provision made for bad debts based on credit risk characteristic groups by management, reviewed the expected credit loss rate appraised by the management after taking account of, amongst others, the historical default profile of trade receivables, current credit risk exposure and the forecast analysis on future economic condition, and reviewed the reasonableness of the provision for credit impairment of trade receivables accordingly;</li> <li>5) taking into account the checks on the subsequent recovery of amounts, evaluated the appropriateness of the provision for bad debts determined by the management.</li> </ol>



# Auditor's Report

## III. KEY AUDIT MATTERS (Continued)

### 2. Impairment of inventories

Key audit matter	How the matter was addressed in our audit
<p>As set out in the Note VI.6 Inventories to the consolidated financial statements of Charmacy Pharmaceutical Company, as of 31 December 2019, the balance of inventories amounted to RMB518,187,100, the provision for impairment of inventories amounted to RMB3,024,600 and the carrying amount of inventories amounted to RMB515,162,400. Inventories are measured at the lower of cost and net realizable value. The Management determined the provision for impairment of inventories based on the stock age and the level of approaching expiry date, taking into consideration the actual sales of inventories.</p> <p>We regard the impairment of inventories as a key audit matter due to the significance of the amount of inventories and the involvement of significant judgment by the management.</p>	<p>The main audit procedures we performed are as follows:</p> <ol style="list-style-type: none"> <li>1) tested the management's internal control relating to the validity period and stock-in time of inventories in the SAP system;</li> <li>2) performed the inventory-taking supervision procedure to check the quantity and condition of inventories;</li> <li>3) obtained the list of inventories of year-end stock age and approaching expiry date, to conduct analytical review on the inventories in storage for a longer period of time; checked if the Company made full provision for impairment of inventories which will expire within 180 days;</li> <li>4) obtained the table of subsequent sales performance of inventories as at the end of period, to test the accuracy of calculation of such provision for impairment of inventories.</li> </ol>

## IV. OTHER INFORMATION

The Management of Charmacy Pharmaceutical Company (hereinafter referred to as the "Management") is responsible for the other information. The other information comprises the information covered in the 2019 annual report of Charmacy Pharmaceutical Company, other than the financial statements and our auditor's report thereon.

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

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

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



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

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

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

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

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

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

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

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



## Auditor's Report

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

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

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

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

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

**ShineWing Certified Public Accountants** (Special General Partnership)

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

*Chinese Certified Public Accountant:* **Wang Yaming**

Beijing, China  
30 March 2020



# Consolidated Balance Sheet

31 December 2019

Prepared by: CHARMACY PHARMACEUTICAL CO., LTD.

Unit: RMB

Items	Note	Balance as at the end of the year	Balance as at the beginning of the year
<b>Current assets:</b>			
Monetary funds	VI.1	506,308,452.64	428,601,291.24
Bills receivables	VI.2	22,252,167.66	35,900,330.74
Trade receivables	VI.3	712,261,600.46	792,072,666.93
Prepayments	VI.4	212,710,994.97	196,342,436.27
Other receivables	VI.5	12,117,039.54	11,833,686.15
Inventories	VI.6	515,162,428.39	472,522,915.24
Other current assets	VI.7	37,890,955.07	24,810,498.20
<b>Total current assets</b>		<b>2,018,703,638.73</b>	1,962,083,824.77
<b>Non-current assets:</b>			
Fixed assets	VI.8	191,387,488.54	193,761,724.83
Construction in progress	VI.9	110,584,639.14	23,788,389.90
Right-of-use assets	VI.10	15,392,876.84	-
Intangible assets	VI.11	153,080,960.03	159,338,325.77
Goodwill	VI.12	3,127,688.00	3,127,688.00
Long-term deferred expenses	VI.13	5,503,512.35	6,244,160.99
Deferred income tax assets	VI.14	6,027,070.73	5,635,562.76
<b>Total non-current assets</b>		<b>485,104,235.63</b>	391,895,852.25
<b>Total assets</b>		<b>2,503,807,874.36</b>	2,353,979,677.02
<b>Current liabilities:</b>			
Short-term borrowings	VI.15	502,189,369.18	387,900,000.00
Bills payables	VI.16	833,561,059.77	778,925,488.11
Trade payables	VI.17	444,956,856.84	564,494,731.93
Receipts in advance		-	-
Contract liabilities	VI.18	2,864,226.16	1,879,275.48
Salaries payable to employees	VI.19	4,735,446.57	5,066,954.31
Tax payables	VI.20	48,989,151.02	37,441,066.12
Other payables	VI.21	11,798,422.22	9,658,239.15
Including: Interests payable		-	921,877.61
Non-current liabilities due within one year	VI.22	29,164,198.86	-
Other current liabilities	VI.23	-	457,060.50
<b>Total current liabilities</b>		<b>1,878,258,730.62</b>	1,785,822,815.60



## Consolidated Balance Sheet

31 December 2019

Items	Note	Balance as at the end of the year	Balance as at the beginning of the year
<b>Non-current liabilities:</b>			
Long-term borrowings	VI.24	<b>126,353,138.99</b>	90,000,000.00
Lease liabilities	VI.25	<b>14,384,222.63</b>	–
Deferred income	VI.26	<b>1,218,827.99</b>	1,218,827.99
Deferred income tax liabilities	VI.14	–	200,653.30
<b>Total non-current liabilities</b>		<b>141,956,189.61</b>	91,419,481.29
<b>Total liabilities</b>		<b>2,020,214,920.23</b>	1,877,242,296.89
<b>Shareholders' equity:</b>			
Share capital	VI.27	<b>108,000,000.00</b>	108,000,000.00
Capital reserve	VI.28	<b>278,990,829.04</b>	278,990,829.04
Surplus reserve	VI.29	<b>15,732,626.03</b>	13,665,514.85
Unallocated profits	VI.30	<b>80,869,499.06</b>	76,081,036.24
<b>Total equity attributable to the shareholders of parent company</b>		<b>483,592,954.13</b>	476,737,380.13
<b>Minority interests</b>		–	–
<b>Total shareholders' equity</b>		<b>483,592,954.13</b>	476,737,380.13
<b>Total liabilities and shareholders' equity</b>		<b>2,503,807,874.36</b>	2,353,979,677.02



# Balance Sheet of the Parent Company

31 December 2019

Prepared by: CHARMACY PHARMACEUTICAL CO., LTD.

Unit: RMB

Items	Note	Balance as at the end of the year	Balance as at the beginning of the year
<b>Current assets:</b>			
Monetary funds		244,235,929.10	205,670,048.69
Bills receivables	XIV.1	27,637,027.00	20,425,445.47
Trade receivables	XIV.2	330,133,012.64	428,739,001.52
Prepayments		103,005,466.66	77,312,305.05
Other receivables	XIV.3	22,218,991.16	9,557,464.77
Inventories		156,387,735.46	153,350,632.54
Other current assets		15,810,189.09	7,632,347.07
<b>Total current assets</b>		<b>899,428,351.11</b>	<b>902,687,245.11</b>
<b>Non-current assets:</b>			
Long-term investments in equity interest	XIV.4	216,510,000.00	216,510,000.00
Investment properties		36,016,197.27	208,929,644.60
Fixed assets		143,335,586.88	66,968,974.48
Construction in progress		110,584,639.14	23,788,389.90
Right-of-use assets		14,832,494.49	-
Intangible assets		131,966,081.20	39,136,292.71
Long-term deferred expenses		5,337,386.32	6,049,024.93
Deferred income tax assets		1,730,259.87	1,637,023.63
<b>Total non-current assets</b>		<b>660,312,645.17</b>	<b>563,019,350.25</b>
<b>Total assets</b>		<b>1,559,740,996.28</b>	<b>1,465,706,595.36</b>



## Balance Sheet of the Parent Company

31 December 2019

Items	Note	Balance as at the end of the year	Balance as at the beginning of the year
<b>Current liabilities:</b>			
Short-term borrowings		254,376,475.19	181,100,000.00
Bills payables		386,005,169.55	362,532,923.25
Trade payables		146,596,979.40	207,545,685.53
Contract liabilities		9,799,799.56	841,340.73
Salaries payable to employees		2,765,290.33	2,438,459.02
Tax payables		7,182,969.68	7,111,672.89
Other payables		164,490,307.51	182,328,744.27
Non-current liabilities due within one year		28,579,046.21	–
<b>Total current liabilities</b>		<b>999,796,037.43</b>	943,898,825.69
<b>Non-current liabilities:</b>			
Long-term borrowings		126,353,138.99	90,000,000.00
Lease liabilities		14,384,222.63	–
<b>Total non-current liabilities</b>		<b>140,737,361.62</b>	90,000,000.00
<b>Total liabilities</b>		<b>1,140,533,399.05</b>	1,033,898,825.69
<b>Shareholders' equity:</b>			
Share capital		108,000,000.00	108,000,000.00
Capital reserve		282,204,487.50	282,204,487.50
Surplus reserve		15,732,626.03	13,665,514.85
Unallocated profits		13,270,483.70	27,937,767.32
<b>Total shareholders' equity</b>		<b>419,207,597.23</b>	431,807,769.67
<b>Total liabilities and shareholders' equity</b>		<b>1,559,740,996.28</b>	1,465,706,595.36



# Consolidated Income Statement

For the year 2019

Prepared by: CHARMACY PHARMACEUTICAL CO., LTD.

Unit: RMB

Items	Note	Amount for the year	Amount for last year
<b>I. Operating revenue</b>		<b>3,492,782,912.20</b>	3,935,245,977.18
Including: operating revenue	VI.31	<b>3,492,782,912.20</b>	3,935,245,977.18
<b>II. Total operating cost</b>		<b>3,431,518,842.44</b>	3,869,206,579.54
Including: operating cost	VI.31	<b>3,269,110,594.14</b>	3,697,481,989.00
Taxes and surcharges	VI.32	<b>7,757,682.47</b>	6,312,584.52
Selling expenses	VI.33	<b>77,398,582.55</b>	73,976,620.95
Management expenses	VI.34	<b>46,505,776.94</b>	59,905,246.94
Finance costs	VI.35	<b>30,746,206.34</b>	31,530,138.13
Including: Interest expenses		<b>29,450,085.83</b>	31,093,279.95
Interest income		<b>3,624,533.27</b>	3,177,895.88
Add: Other gains	VI.39	<b>457,060.50</b>	457,060.50
Investment income (“-” for loss)		<b>99.25</b>	-
Impairment loss of credit (“-” for loss)	VI.36	<b>-4,245,401.56</b>	-2,044,408.31
Impairment loss of assets (“-” for loss)	VI.37	<b>-3,024,633.91</b>	-4,107,513.65
Gains on disposal of assets (“-” for loss)	VI.38	<b>-45,128.34</b>	-40,522.27
<b>III. Operating profit (“-” for loss)</b>		<b>54,406,065.70</b>	60,304,013.91
Add: Non-operating revenue	VI.40	<b>706,361.40</b>	3,611,103.89
Less: Non-operating expenses	VI.41	<b>67,606.81</b>	259,691.95
<b>IV. Total profit (“-” for loss)</b>		<b>55,044,820.29</b>	63,655,425.85
Less: Income tax expense	VI.42	<b>14,891,464.77</b>	18,893,432.91
<b>V. Net profit (“-” for loss)</b>		<b>40,153,355.52</b>	44,761,992.94
(1) By continuity of operations		<b>40,153,355.52</b>	44,761,992.94
1. Net profit from continuing operation (“-” for loss)		<b>40,153,355.52</b>	44,761,992.94
2. Net profit from discontinued operation (“-” for loss)			
(2) By ownership		<b>40,153,355.52</b>	44,761,992.94
1. Net profit attributable to owners of the parent company (“-” for loss)		<b>40,153,355.52</b>	45,432,949.87
2. Profit or loss of minority shareholders (“-” for loss)			-670,956.93
<b>VI. Total comprehensive income</b>		<b>40,153,355.52</b>	44,761,992.94
Total comprehensive income attributable to the shareholders of parent company		<b>40,153,355.52</b>	45,432,949.87
Total comprehensive income attributable to minority shareholders		-	-670,956.93
<b>VII. Earnings per share:</b>			
Basic and diluted earnings per share	XVI.2	<b>0.3718</b>	0.4207



# Income Statement of the Parent Company

For the year 2019

Prepared by: CHARMACY PHARMACEUTICAL CO., LTD.

Unit: RMB

Items	Note	Amount for the year	Amount for last year
<b>I. Operating revenue</b>	XIV.5	<b>1,371,152,956.22</b>	1,603,236,297.38
Less: operating cost	XIV.5	<b>1,260,308,953.01</b>	1,499,974,987.63
Taxes and surcharges		<b>4,996,548.53</b>	4,722,457.62
Selling expenses		<b>49,085,941.72</b>	30,922,894.10
Management expenses		<b>25,870,406.72</b>	31,216,998.48
Finance costs		<b>14,823,264.91</b>	16,395,346.74
Including: Interest expenses		<b>13,417,925.17</b>	15,761,951.95
Interest income		<b>1,960,634.48</b>	1,445,761.72
Add: Other gains		-	-
Investment income (“-” for loss)	XIV.6	<b>10,000,000.00</b>	20,000,000.00
Impairment loss of credit (“-” for loss)		<b>-344,694.97</b>	-1,068,246.75
Impairment loss of assets (“-” for loss)		<b>-1,096,496.73</b>	-675,780.47
Gains on disposal of assets (“-” for loss)		<b>-50,700.14</b>	-44,802.29
<b>II. Operating profit (“-” for loss)</b>		<b>24,575,949.49</b>	38,214,783.30
Add: Non-operating revenue		<b>131,349.71</b>	3,010,066.41
Less: Non-operating expenses		<b>57,541.10</b>	159,270.07
<b>III. Total profit (“-” for loss)</b>		<b>24,649,758.10</b>	41,065,579.64
Less: Income tax expense		<b>3,978,646.27</b>	5,569,336.09
<b>IV. Net profit (“-” for loss)</b>		<b>20,671,111.83</b>	35,496,243.55
(1) Net profit from continuing operation (“-” for loss)		<b>20,671,111.83</b>	35,496,243.55
(2) Net profit from discontinued operation (“-” for loss)		-	-
<b>V. Total comprehensive income</b>		<b>20,671,111.83</b>	35,496,243.55



# Consolidated Statement of Cash Flow

For the year 2019

Prepared by: CHARMACY PHARMACEUTICAL CO., LTD.

Unit: RMB

Items	Note	Amount for the year	Amount for last year
<b>I. Cash flow from operating activities:</b>			
Cash received from sales of goods and rendering of services		3,014,760,994.90	3,366,910,150.60
Tax refund received		1,675,821.86	-
Other cash received relating to operating activities	VI.43	12,627,914.23	9,351,215.71
<b>Sub-total of cash inflow from operating activities</b>		<b>3,029,064,730.99</b>	3,376,261,366.31
Cash paid for purchases of goods and receiving services		2,873,077,978.65	3,159,079,116.50
Cash paid to employees and on behalf of employees		67,413,835.37	68,051,189.09
Cash paid for various taxes		40,869,187.97	40,719,718.35
Other cash paid relating to operating activities	VI.43	43,684,797.18	59,259,943.14
<b>Sub-total of cash outflow from operating activities</b>		<b>3,025,045,799.17</b>	3,327,109,967.08
<b>Net cash flow from operating activities</b>		<b>4,018,931.82</b>	49,151,399.23
<b>II. Cash flow from investing activities:</b>			
Cash received from investment gains		99.25	-
Net cash received from disposal of fixed assets, intangible assets and other long-term assets		159,700.00	157,070.00
Other cash received relating to investing activities	VI.43	10,000.00	-
<b>Sub-total of cash inflow from investing activities</b>		<b>169,799.25</b>	157,070.00
Cash paid for acquisition and construction of fixed assets, intangible assets and other long-term assets		73,903,316.53	97,726,342.44
Other cash paid relating to investing activities	VI.43	10,000.00	-
<b>Sub-total of cash outflow from investing activities</b>		<b>73,913,316.53</b>	97,726,342.44
<b>Net cash flow from investing activities</b>		<b>-73,743,517.28</b>	-97,569,272.44
<b>III. Cash flow from financing activities:</b>			
Cash received from borrowings		784,883,883.00	692,100,000.00
Other cash received relating to financing activities	VI.43	1,609,601,019.47	1,871,555,799.44



## Consolidated Statement of Cash Flow

For the year 2019

Items	Note	Amount for the year	Amount for last year
<b>Sub-total of cash inflow from financing activities</b>		<b>2,394,484,902.47</b>	2,563,655,799.44
Cash paid for repayment of debts		<b>574,926,048.00</b>	671,300,000.00
Cash payment for distribution of dividends and profits or interest payment		<b>61,574,696.49</b>	48,359,810.07
Other cash paid relating to financing activities	VI.43	<b>1,703,857,530.46</b>	1,814,835,727.74
<b>Sub-total of cash outflow from financing activities</b>		<b>2,340,358,274.95</b>	2,534,495,537.81
<b>Net cash flow from financing activities</b>		<b>54,126,627.52</b>	29,160,261.63
<b>IV. Effect of change in exchange rates on cash and cash equivalents</b>		<b>8,606.82</b>	-100,538.85
<b>V. Net increase in cash and cash equivalents</b>		<b>-15,589,351.12</b>	-19,358,150.43
Add: Opening balance of cash and cash equivalents for the period	VI.43	<b>55,738,786.02</b>	75,096,936.45
<b>VI. Closing balance of cash and cash equivalents for the period</b>	VI.43	<b>40,149,434.90</b>	55,738,786.02



# Statement of Cash Flow of the Parent Company

For the year 2019

Prepared by: CHARMACY PHARMACEUTICAL CO., LTD.

Unit: RMB

Items	Note	Amount for the year	Amount for last year
<b>I. Cash flow from operating activities:</b>			
Cash received from sales of goods and rendering of services		1,293,956,602.42	1,389,543,127.49
Other cash received relating to operating activities		464,057,861.36	406,963,565.48
<b>Sub-total of cash inflow from operating activities</b>		<b>1,758,014,463.78</b>	1,796,506,692.97
Cash paid for purchases of goods and receiving services		1,302,018,604.87	1,360,999,699.38
Cash paid to employees and on behalf of employees		37,743,810.86	30,526,156.85
Cash paid for various taxes		13,928,340.56	21,594,671.75
Other cash paid relating to operating activities		409,151,602.25	292,645,407.11
<b>Sub-total of cash outflow from operating activities</b>		<b>1,762,842,358.54</b>	1,705,765,935.09
<b>Net cash flow from operating activities</b>		<b>-4,827,894.76</b>	90,740,757.88
<b>II. Cash flow from investing activities:</b>			
Cash received from investment gains		10,000,000.00	20,000,000.00
Net cash received from disposal of fixed assets, intangible assets and other long-term assets		134,700.00	62,929.22
<b>Sub-total of cash inflow from investing activities</b>		<b>10,134,700.00</b>	20,062,929.22
Cash paid for acquisition and construction of fixed assets, intangible assets and other long-term assets		72,378,815.33	91,614,403.01
Cash paid for investment		-	9,710,000.00
Net cash paid for acquisition of subsidiaries and other business units		-	20,800,000.00
<b>Sub-total of cash outflow from investing activities</b>		<b>72,378,815.33</b>	122,124,403.01
<b>Net cash flow from investing activities</b>		<b>-62,244,115.33</b>	-102,061,473.79



## Statement of Cash Flow of the Parent Company

For the year 2019

Items	Note	Amount for the year	Amount for last year
<b>III. Cash flow from financing activities:</b>			
Cash received from borrowings		<b>383,213,800.00</b>	408,800,000.00
Other cash received relating to financing activities		<b>573,346,907.60</b>	721,829,766.69
<b>Sub-total of cash inflow from financing activities</b>		<b>956,560,707.60</b>	1,130,629,766.69
<hr/>			
Cash paid for repayment of debts		<b>226,100,000.00</b>	408,800,000.00
Cash payment for distribution of dividends and profits or interest payment		<b>49,782,896.51</b>	38,067,266.49
Other cash paid relating to financing activities		<b>610,225,534.64</b>	679,632,831.72
<b>Sub-total of cash outflow from financing activities</b>		<b>886,108,431.15</b>	1,126,500,098.21
<b>Net cash flow from financing activities</b>		<b>70,452,276.45</b>	4,129,668.48
<hr/>			
<b>IV. Effect of change in exchange rates on cash and cash equivalents</b>		<b>8,606.82</b>	-100,538.85
<hr/>			
<b>V. Net increase in cash and cash equivalents</b>		<b>3,388,873.18</b>	-7,291,586.28
Add: Opening balance of cash and cash equivalents for the period		<b>33,675,386.65</b>	40,966,972.93
<hr/>			
<b>VI. Closing balance of cash and cash equivalents for the period</b>		<b>37,064,259.83</b>	33,675,386.65



# Consolidated Statement of Changes in Shareholder's Equity

For the year 2019

Prepared by: CHARMACY PHARMACEUTICAL CO., LTD.

Unit: RMB

Items	For the current year					Minority interests	Total shareholders' equity
	Share capital	Capital reserve	Surplus reserve	Unallocated profits	Subtotal		
<b>I. Closing balance for last year</b>	108,000,000.00	278,990,829.04	13,665,514.85	76,081,036.24	476,737,380.13	-	476,737,380.13
Add: changes in accounting policies				-897,781.52	-897,781.52		-897,781.52
Correction of previous errors							
Business combinations under common control							
Others							
<b>II. Opening balance for the year</b>	108,000,000.00	278,990,829.04	13,665,514.85	75,183,254.72	475,839,598.61	-	475,839,598.61
<b>III. Movement for the year ("-" for decrease)</b>			2,067,111.18	5,686,244.34	7,753,355.52		7,753,355.52
(I) Total comprehensive income				40,153,355.52	40,153,355.52		40,153,355.52
(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			2,067,111.18	-34,467,111.18	-32,400,000.00		-32,400,000.00
1. Appropriation of surplus reserve			2,067,111.18	-2,067,111.18			
2. Appropriation of general risk provision							
3. Allocation to shareholders				-32,400,000.00	-32,400,000.00		-32,400,000.00
4. Others							
(IV) Transfers within the shareholders' equity							
1. Transfer of capital reserve to share capital							
2. Transfer of surplus reserve to share capital							
3. Surplus reserve for making up losses							
4. Change in defined benefit plan carried forward to retained earnings							
5. Other comprehensive income carried forward to retained earnings							
6. Others							
(V) Specific reserve							
1. Appropriation for the year							
2. Use in the year							
(VI) Others							
<b>IV. Closing balance for the year</b>	108,000,000.00	278,990,829.04	15,732,626.03	80,869,499.06	483,592,954.13	-	483,592,954.13



# Consolidated Statement of Changes in Shareholder's Equity

For the year 2019

Prepared by: CHARMACY PHARMACEUTICAL CO., LTD.

Unit: RMB

Items	Share capital	Equity attributable to shareholders of parent company			Subtotal	Minority interests	Total shareholders' equity
		Capital reserve	Surplus reserve	For last year Unallocated profits			
<b>I. Closing balance for last year</b>	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
Add: changes in accounting policies							
Correction of previous errors							
Business combinations under common control							
Others							
<b>II. Opening balance for the year</b>	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
<b>III. Movement for the year ("-" for decrease)</b>		-3,213,658.46	3,549,624.36	20,283,325.51	20,619,291.41	-7,288,908.13	13,330,383.28
(I) Total comprehensive income				45,432,949.87	45,432,949.87	-670,956.93	44,761,992.94
(II) Contribution of shareholders and capital reduction		-3,213,658.46			-3,213,658.46	-6,617,951.20	-9,831,609.66
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		-3,213,658.46			-3,213,658.46	-6,617,951.20	-9,831,609.66
(III) Profit allocation		-	3,549,624.36	-25,149,624.36	-21,600,000.00		-21,600,000.00
1. Appropriation of surplus reserve			3,549,624.36	-3,549,624.36			
2. Appropriation of general risk provision							
3. Allocation to shareholders				-21,600,000.00	-21,600,000.00		-21,600,000.00
4. Others							
(IV) Transfers within the shareholders' equity							
1. Transfer of capital reserve to share capital							
2. Transfer of surplus reserve to share capital							
3. Surplus reserve for making up losses							
4. Change in defined benefit plan carried forward to retained earnings							
5. Other comprehensive income carried forward to retained earnings							
6. Others							
(V) Specific reserve							
1. Appropriation for the year							
2. Use in the year							
(VI) Others							
<b>IV. Closing balance for the year</b>	108,000,000.00	278,990,829.04	13,665,514.85	76,081,036.24	476,737,380.13	-	476,737,380.13



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

For the year 2019

Prepared by: CHARMACY PHARMACEUTICAL CO., LTD.

Unit: RMB

Items	For the current year				Total shareholders' equity
	Share capital	Capital reserve	Surplus reserve	Unallocated profits	
<b>I. Closing balance for last year</b>	108,000,000.00	282,204,487.50	13,665,514.85	27,937,767.32	431,807,769.67
Add: Changes in accounting policies				-871,284.27	-871,284.27
Correction of previous errors					
Others					
<b>II. Opening balance for the year</b>	108,000,000.00	282,204,487.50	13,665,514.85	27,066,483.05	430,936,485.40
<b>III. Movement for the year ("–" for decrease)</b>			2,067,111.18	-13,795,999.35	-11,728,888.17
(I) Total comprehensive income				20,671,111.83	20,671,111.83
(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			2,067,111.18	-34,467,111.18	-32,400,000.00
1. Appropriation of surplus reserve			2,067,111.18	-2,067,111.18	-
2. Allocation to shareholders				-32,400,000.00	-32,400,000.00
3. Others					
(IV) Transfers within the shareholders' equity					
1. Transfer of capital reserve to share capital					
2. Transfer of surplus reserve to share capital					
3. Surplus reserve for making up losses					
4. Change in defined benefit plan carried forward to retained earnings					
5. Other comprehensive income carried forward to retained earnings					
6. Others					
(V) Specific reserve					
1. Appropriation for the year					
2. Use in the year					
(VI) Others					
<b>IV. Closing balance for the year</b>	108,000,000.00	282,204,487.50	15,732,626.03	13,270,483.70	419,207,597.23



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

For the year 2019

Prepared by: CHARMACY PHARMACEUTICAL CO., LTD.

Unit: RMB

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



# Notes to the Financial Statements

1 January 2019 to 31 December 2019

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

## I. GENERAL INFORMATION ABOUT THE COMPANY

### 1. General Information

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

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

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

## II. SCOPE OF CONSOLIDATED FINANCIAL STATEMENTS

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

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



# Notes to the Financial Statements

1 January 2019 to 31 December 2019

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

## III. BASIS FOR THE PREPARATION OF FINANCIAL STATEMENTS

### (1) Preparation basis

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

### (2) Going concern

The Group, having evaluated its ability to continue as a going concern for the 12 months since 31 December 2019, did not find any event or condition which may cast significant doubt on the going concern ability. Hence, the preparation of these financial statements was based on the assumption of going concern.

## IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

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

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

### 2. Accounting period

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

### 3. Business cycle

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

### 4. Functional currency

The Group adopts Renminbi as its functional currency.

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

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



## Notes to the Financial Statements

1 January 2019 to 31 December 2019

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

### IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(Continued)

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

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

#### 6. Goodwill

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

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

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

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



# Notes to the Financial Statements

1 January 2019 to 31 December 2019

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

## IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(Continued)

### 7. Preparation methods of consolidated financial statements

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

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

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

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

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

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



## Notes to the Financial Statements

1 January 2019 to 31 December 2019

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

### IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(Continued)

#### 7. Preparation methods of consolidated financial statements (Continued)

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

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

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

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

#### 8. Cash and cash equivalents

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



## Notes to the Financial Statements

1 January 2019 to 31 December 2019

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

### IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(Continued)

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

##### (1) Foreign currency transactions

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

##### (2) Translation of financial statements denominated in foreign currency

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

#### 10. Financial assets and financial liabilities

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

##### (1) Financial assets

##### 1) Classification, recognition and measurement of financial assets

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

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



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### IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(Continued)

#### 10. Financial assets and financial liabilities (Continued)

##### (1) Financial assets (Continued)

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

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

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

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

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

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



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### IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(Continued)

#### 10. Financial assets and financial liabilities (Continued)

(1) *Financial assets* (Continued)

2) *Recognition and measurement of transfer of financial assets*

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

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

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



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### IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(Continued)

#### 10. Financial assets and financial liabilities (Continued)

##### (2) Financial liabilities

##### 1) Classification, recognition and measurement of financial liabilities

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

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

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

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

##### 2) Derecognition conditions of financial liabilities

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



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## IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(Continued)

### 11. Bills receivables

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

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

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

### 12. Receivables

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

- (1) For receivables of significant amounts and involving long-term cooperative relationships or abnormal situations in the cooperative relationship, etc., the Group, instead of using the impairment matrix, recognizes loss provisions for receivables at the initial recognition at an amount equal to the lifetime expected credit loss based on the specific credit risk characteristics of the receivables, such as customers' credit ratings, industry and business characteristics, historical collections and bad debt losses. At each reporting date, the Group re-evaluates the changes in the amount of expected credit losses in the remaining duration of the receivables and adjusts the loss provisions accordingly.
- (2) For other receivables that do not fall into the above circumstances, the Group divides financial instruments into different groups based on shared characteristics of credit risks, and uses the impairment matrix to determine the credit losses of related financial instruments on a grouping basis. The shared characteristics of credit risks adopted by the Group include: credit risk rating, initial recognition date, remaining contract term, industry of the debtor, type of collateral and value of the collateral relative to financial assets, etc.

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



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### IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(Continued)

#### 13. Inventories

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

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

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

The Group maintains a perpetual inventory system.

#### 14. Contract assets

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

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

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

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

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

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



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### IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(Continued)

#### 15. Contract costs

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

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

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

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

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

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

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

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

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



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### IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(Continued)

#### 16. Long-term equity investment

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

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

The Group directly or indirectly through its subsidiaries owns more than 20% (inclusive) but less than 50% of the voting right of the investee, which is usually deemed to have significant influence on the investee. For voting rights of less than 20% in the investee, significant influence over the investee will be judged by comprehensively taking into consideration of such facts and circumstances as 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.



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### IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(Continued)

#### 16. Long-term equity investment (Continued)

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

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

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

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

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



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### IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(Continued)

#### 16. Long-term equity investment (Continued)

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

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

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

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

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



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### IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(Continued)

#### 17. Investment property

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

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

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

#### 18. Fixed assets

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

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



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### IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(Continued)

#### 18. Fixed assets (Continued)

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

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

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

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

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

#### 19. Construction in progress

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

#### 20. Borrowing costs

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



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

### IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(Continued)

#### 20. Borrowing costs (Continued)

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

#### 21. Right-of-use assets

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

##### (1) Initial recognition

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

##### (2) Subsequent measurement

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

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

##### (3) Depreciation of right-of-use assets

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

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

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

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



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### IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(Continued)

#### 22. Intangible assets

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

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

#### 23. Impairment of long term assets

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

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

#### 24. Long-term deferred expenses

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



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### IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(Continued)

#### 25. Contract liabilities

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

#### 26. Staff remuneration

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

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

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

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

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

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



## Notes to the Financial Statements

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### IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(Continued)

#### 26. Staff remuneration (Continued)

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

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

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

#### 27. Lease liabilities

##### (1) Initial recognition

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

##### 1) Lease payments

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



## Notes to the Financial Statements

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

### IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(Continued)

#### 27. Lease liabilities (Continued)

##### (1) Initial recognition (Continued)

##### 2) Discount rate

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

##### (2) Subsequent measurement

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

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

##### (3) Re-measurement

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



## Notes to the Financial Statements

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

### IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(Continued)

#### 28. Recognition principle and measurement of income

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

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

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

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

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

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

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

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

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



# Notes to the Financial Statements

1 January 2019 to 31 December 2019

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

## IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(Continued)

### 28. Recognition principle and measurement of income (Continued)

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

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

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

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

### 29. Government grants

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

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



## Notes to the Financial Statements

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### IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(Continued)

#### 29. Government grants (Continued)

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.

#### 30. Leasing

##### (1) Identification of lease

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

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

##### (2) The Group as a lessee

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

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



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## IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(Continued)

### 30. Leasing (Continued)

#### (2) *The Group as a lessee* (Continued)

##### 1) *Lease variations*

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

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

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

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

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



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### IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(Continued)

#### 30. Leasing (Continued)

##### (3) *The Group as a lessor*

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

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

A lease is generally classified as a finance lease by the Group if one or more of the following conditions are met: ① upon the expiration of the lease term, the ownership of the leased assets is transferred to the lessee; ② the lessee has the option to purchase the leased assets, and the purchase price as agreed is sufficiently low compared to the fair value of the leased assets when the option is expected to be exercised, so it can be reasonably determined at the commencement date of the lease that the lessee will exercise the option; ③ although the ownership of the assets is not transferred, the lease term represents most of the useful life of the assets (not less than 75% of the useful life of the leased assets); ④ at the commencement date of the lease, the present value of the lease receipts is almost equal to the fair value of the leased assets (not less than 90% of the fair value of the leased assets); ⑤ the leased assets are of a special nature and can only be used by the lessee with any major modification. A lease may be classified as a finance lease by the Group if there are one or more of the following signs: ① if the lessee cancels the lease, the loss caused to the lessor by the cancellation of the lease shall be borne by the lessee; ② the gains or losses resulting from the fluctuations of the fair value of the residual value of the assets belong to the lessee; ③ the lessee has the ability to continue the lease to the next period at a rent far below the market level.

##### 1) *Accounting of financial leases*

###### Initial recognition

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

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



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### IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(Continued)

#### 30. Leasing (Continued)

##### (3) *The Group as a lessor* (Continued)

##### 1) *Accounting of financial leases* (Continued)

###### Subsequent measurement

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

###### Accounting of lease variations

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

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

##### 2) *Accounting of operating leases*

###### Accounting of rentals

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

###### Incentives provided

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

###### Initial direct costs

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



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### IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(Continued)

#### 30. Leasing (Continued)

##### (3) *The Group as a lessor* (Continued)

##### 2) *Accounting of operating leases* (Continued)

###### Depreciation

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

###### Variable lease payments

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

###### Variation of operating lease

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

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

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

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

#### 32. Discontinued operation

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



## Notes to the Financial Statements

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

### IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(Continued)

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

##### (1) Changes of significant accounting policies

###### ① New Lease Standards

On 7 December 2018, the Ministry of Finance issued the Notice on Amending and Releasing the Accounting Standards for Business Enterprises No. 21 – Leases (Cai Kuai [2018] No. 35) (《關於修訂印發〈企業會計準則第21號—租賃〉的通知》(財會[2018]35號)) to amend the Accounting Standards for Business Enterprises No. 21 – Leases, requiring the enterprises that are concurrently listed at home and abroad, as well as those that are listed overseas and adopt the International Financial Reporting Standards (IFRSs) or the Accounting Standards for Business Enterprises for the preparation of financial statements, to apply the standards from 1 January 2019, and other enterprises that adopt the Accounting Standards for Business Enterprises to apply the standards from 1 January 2021.

The newly amended lease standards require lessees to measure leased assets using a single accounting model, and account for all leases, other than short-term leases and leases of low-value assets, in the balance sheet, by recognizing right-of-use assets and lease liabilities and providing for depreciation and interest expenses separately. The Group has implemented the new lease standards from 1 January 2019, and the Group has since then confirmed, measured and reported its leases in accordance with the new lease standards.

The Group makes related adjustments in accordance with the requirements of the new lease standards. Based on the cumulative impact of the initial implementation of the new lease standards, the Group adjusts the retained earnings and the amounts of other related items in the financial statements on the date of initial implementation without adjusting the information for comparable periods.

On 1 January 2019, the Group recognized lease liabilities of RMB16,695,854.07 and right-of-use assets of RMB21,819,034.87. For operating leases before the date of initial implementation, the companies applying the new lease standards used the present value of the incremental borrowing rate discounted on the date of initial implementation to measure lease liabilities. The weighted average of the incremental borrowing rate was 5.39%.

On the date of initial implementation, the companies applying the new lease standards made the following adjustments in line with the new lease standards:

Item affected	Amount as at 31 December 2018	Amount adjusted for changes in accounting policies	Effect of the new lease standards implemented on 1 January 2019
Right-of-use assets		18,227,323.77	18,227,323.77
Non-current liabilities due within one year		2,429,251.22	2,429,251.22
Lease liabilities		16,695,854.07	16,695,854.07
Unallocated profit	76,081,036.24	-897,781.52	75,183,254.72



## Notes to the Financial Statements

1 January 2019 to 31 December 2019

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

### IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(Continued)

#### 33. Changes of significant accounting policies and accounting estimates (Continued)

(1) *Changes of significant accounting policies* (Continued)

② *Presentation of financial statements*

The Group has prepared the financial statements for year 2019 in accordance with the Notice on Amending and Releasing the Format of the Consolidated Financial Statements (2019 Edition) (Cai Kuai (2019) No.16) 《關於修訂印發合併財務報表格式(2019版)的通知》(財會(2019)16號)) (hereinafter referred to as the “Notice No.16”) issued on 19 September 2019 and the Notice on Amending and Releasing the Format of Corporate Financial Statements for Year 2019 (Cai Kuai (2019) No. 6) 《關於修訂印發2019年度一般企業財務報表格式的通知》(財會(2019)6號) (hereinafter referred to as the “Notice No. 6”) issued on 30 April 2019 by the Ministry of Finance. Notice No. 16 and Notice No. 6 revised the presentation items of the balance sheet, income statement, cash flow statement and statement of changes in owner’s equity/shareholders’ equity. The new lease standards added two new items, namely “right-of-use assets” and “lease liabilities”, split “bills receivables and trade receivables” into three items, namely “bills receivables”, “trade receivables” and “financing receivables”, and split “bills payables and trade payables” into two items, namely “bills payables” and “trade payables”. Notice No. 6 also clarified or amended the presentation content of “interest income”, “other gains”, “gains on the disposal of assets”, “non-operating income” and “non-operating expenses”, “capital investment from other equity instrument holders” under “other receivables”, “non-current assets due within one year”, “other payables”, “deferred income”, “other equity instruments”, “research and development expenses” and “financial costs”, specified the presentation requirements for making loss provisions for loan commitments, financial guarantee contracts and other items, added “gains from the derecognition of financial assets measured at amortized cost” under “investment income”, adjusted the position where certain items are presented in the income statement, and clarified the presentation item of government grant in the cash flow statement. For the changes in the above presentation items, the Group restated the comparative information of the previous year.

③ *New standards for the exchange of non-monetary assets and debt restructuring*

On 9 May 2019, the Ministry of Finance issued the Notice on Releasing and Amending the Accounting Standards for Business Enterprises No. 7 – Exchange of Non-Monetary Assets (Cai Kuai [2019] No. 8) 《關於印發修訂〈企業會計準則第7號–非貨幣性資產交換〉的通知》(財會[2019]8號) ) to amend the Accounting Standards for Business Enterprises No. 7 – Exchange of Non-Monetary Assets, effective from 10 June 2019.

On 16 May 2019, the Ministry of Finance issued the Notice on Releasing and Amending the Accounting Standards for Business Enterprises No. 12 – Debt Restructuring (Cai Kuai [2019] No. 9) 《關於印發修訂〈企業會計準則第12號–債務重組〉的通知》(財會[2019]9號)) to amend the Accounting Standards for Business Enterprises No. 12 – Debt Restructuring, effective from 17 June 2019.

The amended standards above require that the exchange of non-monetary assets and debt restructuring that took place between 1 January 2019 and the respective effective dates shall be adjusted in accordance with the newly amended standards, and those that took place before 1 January 2019 need not to be adjusted retrospectively.

The Group has implemented the new standards in accordance with the above requirements. Since there was no such business in the reporting period, the statements for the reporting period were not affected.

(2) *Changes of significant accounting estimates*

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



# Notes to the Financial Statements

1 January 2019 to 31 December 2019

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

## V. TAXATION

### 1. Main types of tax and tax rates

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

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

## VI. NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS

For data in the financial statements as disclosed below, "beginning of the year" represents 1 January 2019, "end of the year" represents 31 December 2019, "the year" represents the period from 1 January 2019 to 31 December 2019, "last year" represents the period from 1 January 2018 to 31 December 2018, and the monetary unit shall be RMB, unless specified otherwise.

### 1. Monetary funds

Items	Balance as the end of the year			Balance as the beginning of the year		
	Original currency	Exchange rate	RMB equivalent	Original currency	Exchange rate	RMB equivalent
<b>Cash on hand</b>			<b>915,427.73</b>			305,938.89
RMB	915,427.73	1.0000	915,427.73	305,938.89	1.0000	305,938.89
<b>Cash in bank</b>			<b>39,234,007.17</b>			55,432,847.13
RMB	38,838,336.20	1.0000	38,838,336.20	55,047,444.86	1.0000	55,047,444.86
HKD	441,705.51	0.89578	395,670.97	439,856.51	0.8762	385,402.27
<b>Other monetary funds</b>			<b>466,159,017.74</b>			372,862,505.22
RMB	466,159,017.74	1.0000	466,159,017.74	372,862,505.22	1.0000	372,862,505.22
<b>Total</b>			<b>506,308,452.64</b>			428,601,291.24

Note: The balance of utilized restricted funds for the issuance of bills business and loan business at the end of the period was RMB466,159,017.74. At the end of the period, total monetary funds deposited overseas was RMB399,940.18.



## Notes to the Financial Statements

1 January 2019 to 31 December 2019

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

### VI. NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

#### 2. Bills receivables

(1) *Classification of bills receivables*

Item	Balance as at the end of the year	Balance as at the beginning of the year
Bank acceptance bills	6,926,740.66	31,924,545.23
Commercial drafts	15,370,000.00	3,975,785.51
Subtotal	22,296,740.66	35,900,330.74
Less: Provision for bad debt	44,573.00	
Total	22,252,167.66	35,900,330.74

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

Item	Pledged amount as at the end of the year
Bank acceptance bills	6,000,000.00
Commercial drafts	
Total	6,000,000.00



## Notes to the Financial Statements

1 January 2019 to 31 December 2019

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

### VI. NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

#### 2. Bills receivables (Continued)

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

Item	Amount derecognized as at the end of the year	Amount not derecognized as at the end of the year
Bank acceptance bills	473,650,039.65	
Commercial drafts		
<b>Total</b>	<b>473,650,039.65</b>	

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

Item	Amount derecognized as at the end of the year	Amount not derecognized as at the end of the year
Bank acceptance bills	252,894,869.03	
Commercial drafts		9,370,000.00
<b>Total</b>	<b>252,894,869.03</b>	<b>9,370,000.00</b>

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



## Notes to the Financial Statements

1 January 2019 to 31 December 2019

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

### VI. NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

#### 2. Bills receivables (Continued)

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

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

Classification	Balance as at the beginning of the year				Book value
	Book balance		Provision for bad debt		
	Amount	Percentage (%)	Amount	Lifetime expected credit loss rate (%)	
Bad debt provision made on individual basis					
Bad debt provision made on a collective basis	35,900,330.74	100.00			35,900,330.74
Low risk portfolio	35,900,330.74	100.00			35,900,330.74
<b>Total</b>	<b>35,900,330.74</b>	<b>100.00</b>			<b>35,900,330.74</b>



## Notes to the Financial Statements

1 January 2019 to 31 December 2019

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

### VI. NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

#### 2. Bills receivables (Continued)

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

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

Item	Balance as at the end of the year		
	Book balance	Provision for bad debt	Provision ratio (%)
Within 1 year	15,370,000.00	44,573.00	0.29
<b>Total</b>	<b>15,370,000.00</b>	<b>44,573.00</b>	<b>0.29</b>

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

*Note 2:* The age of the aforementioned bills receivables of the Group as at the end of the year was within 1 year.

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

Classification	Balance as at the beginning of the year	Changes in the year			Balance as at the end of the year
		Accrued	Recovered or reversed	Written back or written off	
Commercial drafts		44,573.00			44,573.00
Total		44,573.00			44,573.00



## Notes to the Financial Statements

1 January 2019 to 31 December 2019

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

### VI. NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

#### 3. Trade receivables

Name of item	Balance as at the end of the year	Balance as at the beginning of the year
Trade receivables	<b>730,049,894.39</b>	805,660,132.30
Less: Provision for bad debts	<b>17,788,293.93</b>	13,587,465.37
<b>Net amount</b>	<b>712,261,600.46</b>	792,072,666.93

(1) *Aging analysis of trade receivables*

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

Age	Balance as at the end of the year			Balance as at the beginning of the year		
	Carrying amount	Percentage (%)	Provision for bad debts	Carrying amount	Percentage (%)	Provision for bad debts
Within 1 year	<b>688,345,188.22</b>	<b>94.29</b>	<b>2,117,508.29</b>	773,997,564.44	96.07	2,428,056.64
1 to 2 years	<b>27,446,105.74</b>	<b>3.76</b>	<b>4,448,569.09</b>	23,317,010.64	2.90	2,918,001.63
2 to 3 years	<b>6,229,802.08</b>	<b>0.85</b>	<b>3,193,418.20</b>	5,836,096.71	0.72	5,731,946.59
More than 3 years	<b>8,028,798.35</b>	<b>1.10</b>	<b>8,028,798.35</b>	2,509,460.51	0.31	2,509,460.51
<b>Total</b>	<b>730,049,894.39</b>	<b>100.00</b>	<b>17,788,293.93</b>	805,660,132.30	100.00	13,587,465.37



## Notes to the Financial Statements

1 January 2019 to 31 December 2019

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

### VI. NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

#### 3. Trade receivables (Continued)

(2) Classification of trade receivables

Classification	Balance as at the end of the year				Book value
	Carrying amount		Provision for bad debts		
	Amount	Percentage (%)	Amount	Lifetime expected credit loss rate (%)	
Bad debt provision made on individual basis	18,542,550.87	2.54	12,918,423.63	69.67	5,624,127.24
Bad debt provision made on group basis	711,507,343.52	97.46	4,869,870.30	0.68	706,637,473.22
Aging portfolio	711,507,343.52	97.46	4,869,870.30	0.68	706,637,473.22
<b>Total</b>	<b>730,049,894.39</b>	<b>100.00</b>	<b>17,788,293.93</b>	<b>-</b>	<b>712,261,600.46</b>

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



## Notes to the Financial Statements

1 January 2019 to 31 December 2019

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### VI. NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

#### 3. Trade receivables (Continued)

(2) Classification of trade receivables (Continued)

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

Company name	Balance as at the end of the year			Reasons for provision
	Trade receivables	Provision for bad debt	Lifetime expected credit loss rate (%)	
Guangdong Wei'er kang Pharmaceutical Co., Ltd. (廣東為爾康醫藥有限公司)	5,592,584.15	5,592,584.15	100.00%	Default in overdue goods payment, and involvement in a number of litigations
Huizhou Dachuan Pharmacy Co., Ltd. (惠州市大川藥業有限公司)	6,436,891.56	3,218,445.78	50.00%	Default in overdue goods payment, and involvement in a number of litigations
Fujian Minzhe Pharmaceutical Co., Ltd. (福建省閩浙醫藥有限責任公司)	2,010,786.55	2,010,786.55	100.00%	No cooperation relationship subsisting, low expected recoverability
Guangdong Guofeng Pharmacy Co., Ltd. (廣東國鳳藥業有限公司)	720,358.21	720,358.21	100.00%	Default in overdue goods payment, and involvement in a number of litigations
Shenzhen Yuanxin Pharmacy Co., Ltd. (深圳市源鑫藥業有限公司)	3,007,101.83	601,420.37	20.00%	Default in overdue goods payment, and involvement in a number of litigations
Shenzhen Jinshoukang Pharmaceutical Co., Ltd. (深圳市金壽康藥業有限公司)	349,400.92	349,400.92	100.00%	Default in overdue goods payment, weak repaying capability of the counterpart
Ningde Xianghe Pharmaceutical Chain Co., Ltd. (寧德市祥和醫藥有限責任公司)	271,939.56	271,939.56	100.00%	No cooperation relationship subsisting, low expected recoverability
Jiangxi Jinsheng Medicine Limited (江西金盛醫藥有限公司)	104,626.38	104,626.38	100.00%	No cooperation relationship subsisting, low expected recoverability
People's Hospital of Longhu District in Shantou (汕頭市龍湖區人民醫院)	15,772.68	15,772.68	100.00%	No cooperation relationship subsisting, low expected recoverability
The First Affiliated Hospital of Shantou University Medical College (汕頭大學醫學院第一附屬醫院)	15,340.34	15,340.34	100.00%	No cooperation relationship subsisting, low expected recoverability
Shantou Chaoyang District Chinese Medicine Hospital (汕頭市潮陽區中醫醫院)	4,931.74	4,931.74	100.00%	No cooperation relationship subsisting, low expected recoverability



## Notes to the Financial Statements

1 January 2019 to 31 December 2019

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

### VI. NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

#### 3. Trade receivables (Continued)

(2) Classification of trade receivables (Continued)

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

Company name	Balance as at the end of the year			Reasons for provision
	Trade receivables	Provision for bad debt	Lifetime expected credit loss rate (%)	
Shantou Chaonan District People's Hospital (汕頭市潮南區人民醫院)	4,697.76	4,697.76	100.00%	No cooperation relationship subsisting, low expected recoverability
Shantou Haojiang District Zhupu Hospital (汕頭市濠江區珠浦醫院)	1,846.52	1,846.52	100.00%	No cooperation relationship subsisting, low expected recoverability
Zhejiang Tongtaitang Pharmaceutical Co., Ltd. (浙江同泰堂藥品有限公司)	1,759.50	1,759.50	100.00%	No cooperation relationship subsisting, low expected recoverability
Joint Shantou International Eye Center of Shantou University and The Chinese University of Hong Kong (汕頭大學 - 香港中文大學聯合汕頭國際眼科中心)	1,395.33	1,395.33	100.00%	No cooperation relationship subsisting, low expected recoverability
Jiangxi Xinde Pharmaceutical Co., Ltd. (江西信德醫藥有限公司)	1,034.90	1,034.90	100.00%	No cooperation relationship subsisting, low expected recoverability
Others	2,082.94	2,082.94	100.00%	No cooperation relationship subsisting, low expected recoverability
<b>Total</b>	<b>18,542,550.87</b>	<b>12,918,423.63</b>	<b>-</b>	<b>-</b>



## Notes to the Financial Statements

1 January 2019 to 31 December 2019

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### VI. NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

#### 3. Trade receivables (Continued)

(2) Classification of trade receivables (Continued)

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

Age	Balance as at the end of the year		
	Trade receivables	Provision for bad debts	Lifetime expected credit loss rate (%)
Within 1 year	687,763,697.58	1,994,514.72	0.29
1 to 2 years	23,743,645.94	2,875,355.58	12.11
<b>Total</b>	<b>711,507,343.52</b>	<b>4,869,870.30</b>	<b>-</b>

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

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

Balance as at the beginning of the year	Changes in the year			Balance as at the end of the year
	Accrued	Recovered or reversed	Written back or written off	
13,587,465.37	4,291,561.03	90,732.47		17,788,293.93

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

Company name	Amount reversed (or recovered) during the year	Recovery method	Reason for reversal (or recovery) during the year
The First People's Hospital of Jinping District in Shantou (汕頭市金平區第一人民醫院)	65,488.50	Bank receipts	Recovered in current period
Central Hospital of Chaozhou City (潮州市中心醫院)	20,976.40	Bank receipts	Recovered in current period
Fujian Union Pharmaceutical Co., Ltd. (福建省協聯醫藥有限公司)	3,441.57	Bank receipts	Recovered in current period
<b>Total</b>	<b>90,732.47</b>	<b>-</b>	<b>-</b>



## Notes to the Financial Statements

1 January 2019 to 31 December 2019

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

### VI. NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

#### 3. Trade receivables (Continued)

(5) There were no trade receivables written off during the year.

(6) *Details of top five balances of trade receivables classified by borrowers as at the end of the year*

Company name	Balance as at the end of the year	Aging	Percentage of total balance of trade receivables as at the end of the year (%)	Balance of provision for bad debts as at the end of the year
Kangze Pharmaceutical Chains Co., Ltd. (康澤藥業連鎖有限公司)	49,291,092.08	Within 1 year	6.75	142,944.17
Guangdong Bangjian Pharmaceutical Chain Co., Ltd. (廣東邦健醫藥連鎖有限公司)	31,052,947.50	Within 1 year	4.25	90,053.55
DaSenLin Pharmaceutical Group Company Limited (大參林醫藥集團股份有限公司)	19,212,626.43	Within 1 year	2.63	55,716.62
Alibaba Health Pharmaceutical Limited (阿裏健康大藥房醫藥連鎖有限公司)	15,758,600.96	Within 1 year	2.16	45,699.94
Puning Lifeng Pharmaceutical Co., Ltd. (普寧市立豐藥業有限公司)	13,741,274.59	Within 1 year	1.88	39,849.70
<b>Total</b>	<b>129,056,541.56</b>		<b>17.68</b>	<b>374,263.98</b>



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### VI. NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

#### 4. Prepayments

##### (1) Aging of prepayments

Items	Balance as at the end of the year		Balance as at the beginning of the year	
	Amount	Proportion (%)	Amount	Proportion (%)
Within 1 year	208,871,658.90	98.20	196,196,269.21	99.92
1-2 years	3,783,117.86	1.77	50,610.95	0.03
2-3 years			95,556.11	0.05
Over 3 years	56,218.21	0.03		
<b>Total</b>	<b>212,710,994.97</b>	<b>100.00</b>	<b>196,342,436.27</b>	<b>100.00</b>

##### (2) Details of top five balances of prepayments classified by payees as at the end of the year

Company name	Balance as at the ended of the year	Aging	Percentage of total balance of prepayments as at the end of the year (%)
Guangzhou Baiyunshan Zhong Yi Pharmaceutical Company Limited (廣州白雲山中一藥業有限公司)	32,248,568.52	Within 1 year	15.16
Guangzhou Xiangxue Pharmaceutical Co., Ltd. (廣州市香雪製藥股份有限公司)	26,725,703.10	Within 1 year	12.56
Guangzhou Baiyunshan Pharmaceutical Marketing Co., Ltd. (廣州白雲山醫藥銷售有限公司)	13,660,187.15	Within 1 year	6.42
Shantou Yuedong Pharmacy Co., Ltd. (汕頭市粵東藥業有限公司)	13,225,038.17	Within 1 year	6.22
Jiangxi Jiminkexin Pharmaceutical Trading Co., Ltd. (江西濟民可信醫藥貿易有限公司)	10,940,763.04	Within 1 year	5.14
<b>Total</b>	<b>96,800,259.98</b>		<b>45.50</b>



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### VI. NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

#### 5. Other receivables

Item	Balance as at the end of the year	Balance as at the beginning of the year
Interests receivable		
Dividend receivable		
Other receivables	<b>12,117,039.54</b>	11,833,686.15
<b>Total</b>	<b>12,117,039.54</b>	11,833,686.15

#### 5.1 Other receivables

Item name	Balance as at the end of the year	Balance as at the beginning of the year
Other receivables	<b>12,122,937.74</b>	11,861,162.35
Less: Provision for bad debts	<b>5,898.20</b>	27,476.20
<b>Net amount</b>	<b>12,117,039.54</b>	11,833,686.15

#### (1) Aging analysis of other receivables

Age	Balance as at the end of the year			Balance as at the beginning of the year		
	Carrying amount	Percentage (%)	Provision for bad debts	Carrying amount	Percentage (%)	Provision for bad debts
Within 1 year	134,866.06	1.11		3,072,227.35	25.90	
1-2 years	3,325,433.48	27.43		6,146,044.80	51.82	
2-3 years	6,129,500.00	50.56		1,373,000.00	11.58	
Over 3 years	2,533,138.20	20.90	5,898.20	1,269,890.20	10.70	27,476.20
<b>Total</b>	<b>12,122,937.74</b>	<b>100.00</b>	<b>5,898.20</b>	11,861,162.35	100.00	27,476.20



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### VI. NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

#### 5. Other receivables (Continued)

##### 5.1 Other receivables (Continued)

##### (2) Classification of other receivables

Classification	Balance as at the end of the year				Book value
	Carrying amount		Provision for bad debts		
	Amount	Percentage (%)	Amount	Lifetime expected credit loss rate (%)	
Provision for bad debts made on individual basis	5,898.20	0.05	5,898.20	100.00	-
Provision for bad debts made on group basis	12,117,039.54	99.95			12,117,039.54
Aging portfolio					-
Portfolio with relatively low recovery risk	12,117,039.54	99.95			12,117,039.54
<b>Total</b>	<b>12,122,937.74</b>	<b>100.00</b>	<b>5,898.20</b>	<b>-</b>	<b>12,117,039.54</b>

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



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### VI. NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

#### 5. Other receivables (Continued)

##### 5.1 Other receivables (Continued)

##### (2) Classification of other receivables (Continued)

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

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

- 2) In the portfolio, there are no other receivables for which the bad debt provision is made by the aging analysis method
- 3) Other receivables for which the bad debt provision is made by the other methods in the portfolio

Name of portfolio	Balance as at the end of the year		Lifetime expected credit loss rate (%)
	Other receivables	Bad debt provision	
Portfolio of relatively low recovery risk	12,117,039.54		
<b>Total</b>	<b>12,117,039.54</b>		<b>-</b>

##### (3) Provisions for bad debt accrued, reversed (or recovered) in the year

Balance as at the beginning of the year	Change in the year			Balance as at the end of the year
	Accrued	Recovered or reversed	Written back or written off	
27,476.20			21,578.00	<b>5,898.20</b>

There were no other receivables actually written off by the Group in the year.



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### VI. NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

#### 5. Other receivables (Continued)

##### 5.1 Other receivables (Continued)

##### (4) Classification of other receivables by nature

Nature of amounts	Balance as at the end of the year	Balance as at the beginning of the year
Deposit	11,218,465.57	11,002,394.29
Reserve	898,573.97	857,869.86
Others	5,898.20	898.20
<b>Total</b>	<b>12,122,937.74</b>	<b>11,861,162.35</b>

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

Name of entity	Nature of amounts	Balance at the end of the year	Aging	Percentage of total other receivables (%)	Balance of provision for bad debts at the end of the year
Zhuhai Jinming Pharmacy Co., Ltd. (珠海市金明醫藥有限公司)	Deposit	5,600,000.00	2-3 years	46.19	
Shenzhen Kingworld Medicine Company Limited* (深圳市金活醫藥有限公司)	Deposit	1,471,200.00	1-2 years	12.14	
Taiji Group Chongqing Fuling Pharmacy Co., Ltd. (太極集團重慶涪陵製藥廠 有限公司)	Deposit	1,050,000.00	Over 3 years	8.66	
Fujian Nan'an Lianhuafeng Pharmaceutical Factory (福建省南安市蓮花峰藥廠)	Deposit	1,000,000.00	Over 3 years	8.25	
Guangzhou Pharmaceuticals Corporation* (廣州醫藥有限公司)	Deposit	300,000.00	1-2 years	2.47	
<b>Total</b>		<b>9,421,200.00</b>		<b>77.71</b>	

\* For identification purposes only



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### VI. NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

#### 6. Inventories

##### (1) Classification of inventories

Aging	Balance at the end of the year			Balance at the beginning of the year		
	Carrying amount	Provision for impairment	Book value	Carrying amount	Provision for impairment	Book value
Goods in stock	471,138,606.35	3,024,633.91	468,113,972.44	457,922,995.27	2,641,576.34	455,281,418.93
Goods in delivery	47,048,455.95		47,048,455.95	17,241,496.31		17,241,496.31
<b>Total</b>	<b>518,187,062.30</b>	<b>3,024,633.91</b>	<b>515,162,428.39</b>	475,164,491.58	2,641,576.34	472,522,915.24

##### (2) Provision for inventory impairment

Aging	Balance at the beginning of the year	Addition for the year		Reduction for the year		Balance at the end of the year
		Accrued	Others	Reversed or written back	Other transfer	
Goods in stock	2,641,576.34	3,024,633.91		2,641,576.34		3,024,633.91
<b>Total</b>	2,641,576.34	3,024,633.91		2,641,576.34		3,024,633.91

##### (3) Making provisions for inventory impairment

Item	Specific basis for determination of net realisable value	Reasons for reversal or writing-back during the year
Goods in stock	Fair values in market	Relevant goods in stock sold



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### VI. NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

#### 7. Other current assets

Item	Balance at the end of the year	Balance at the beginning of the year
Input tax to be credited	37,241,498.68	23,992,034.00
Deferred expenses	649,456.39	818,464.20
<b>Total</b>	<b>37,890,955.07</b>	<b>24,810,498.20</b>

#### 8. Fixed assets

Item	Balance at the end of the year	Balance at the beginning of the year
Fixed assets	191,387,488.54	193,761,724.83
Liquidation of fixed assets		
<b>Total</b>	<b>191,387,488.54</b>	<b>193,761,724.83</b>



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### VI. NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

#### 8. Fixed assets (Continued)

##### 8.1 Fixed assets

##### (1) Breakdown of fixed assets

Item	Buildings and structures	Machinery and equipment	Transportation facilities	Office equipment	Total
I. Original book value					
1. Balance at the beginning of the year	186,883,572.28	46,158,611.01	15,975,106.64	12,614,978.44	261,632,268.37
2. Addition for the year	2,931,401.97	7,103,264.64	2,359,949.02	249,862.22	12,644,477.85
(1) Purchase		533,816.68	2,359,949.02	249,862.22	3,143,627.92
(2) Transfer from construction in-progress	2,931,401.97	6,569,447.96			9,500,849.93
(3) Addition as a result of business combination					
3. Reduction for the year			677,490.02	3,800,197.59	4,477,687.61
(1) Disposal or retirement			677,490.02	3,800,197.59	4,477,687.61
(2) Other reduction					
4. Balance at the end of the year	189,814,974.25	53,261,875.65	17,657,565.64	9,064,643.07	269,799,058.61
II. Accumulated depreciation					
1. Balance at the beginning of the year	30,770,394.80	20,932,925.66	5,234,921.85	10,932,301.23	67,870,543.54
2. Addition for the year	6,710,046.69	5,040,715.06	2,122,529.54	964,951.90	14,838,243.19
(1) Provision	6,710,046.69	5,040,715.06	2,122,529.54	964,951.90	14,838,243.19
(2) Addition as a result of business combination					
3. Reduction for the year			497,019.07	3,800,197.59	4,297,216.66
(1) Disposal or retirement			497,019.07	3,800,197.59	4,297,216.66
(2) Other reduction					
4. Balance at the end of the year	37,480,441.49	25,973,640.72	6,860,432.32	8,097,055.54	78,411,570.07
III. Impairment provision					
1. Balance at the beginning of the year					
2. Addition for the year					
3. Reduction for the year					
4. Balance at the end of the year					
IV. Book value					
1. Book value at the end of the year	152,334,532.76	27,288,234.93	10,797,133.32	967,587.53	191,387,488.54
2. Book value at the beginning of the year	156,113,177.48	25,225,685.35	10,740,184.79	1,682,677.21	193,761,724.83



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### VI. NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

#### 8. Fixed assets (Continued)

##### 8.1 Fixed assets (Continued)

##### (1) Breakdown of fixed assets (Continued)

*Note 1:* Addition of fixed assets for the period included the amount of transfer from construction-in-progress of RMB9,500,849.93. Among the addition of accumulated depreciation for the period, RMB14,838,243.19 was provided for the period. Reduction for the period was a result of scrapped fixed assets which had lives of usage expired. At the end of the period, the original values of fixed assets that have been fully provided but were still in use amounted to RMB6,608,493.10.

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

*Note 3:* For the fixed assets mortgage, see Note VI. 44.

#### 9. Construction in progress

Item	Balance at the end of the year	Balance at the beginning of the year
Construction in progress	<b>110,584,639.14</b>	23,788,389.90
Construction materials		
Total	<b>110,584,639.14</b>	23,788,389.90

##### 9.1 Construction in progress

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

Item	Balance at the end of the year			Balance at the beginning of the year		
	Carrying amount	Provision for impairment	Book value	Carrying amount	Provision for impairment	Book value
Guangzhou Nansha Logistic Center Project (廣州南沙物流中心項目)	2,222,397.33		2,222,397.33	3,624,597.06		3,624,597.06
Construction project of Guangzhou Pharmaceutical Sorting and Distribution Center	108,362,241.81		108,362,241.81	19,803,560.37		19,803,560.37
Other sporadic constructions				360,232.47		360,232.47
Total	110,584,639.14		110,584,639.14	23,788,389.90		23,788,389.90



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### VI. NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

#### 9. Construction in progress (Continued)

##### 9.1 Construction in progress (Continued)

##### (2) Changes in major construction-in-progress

Name of project	Balance at the beginning of the year	Addition for the year	Reduction for the year		Balance at the end of the year
			Transfer to the fixed assets	Other reductions	
Guangzhou Nansha Logistic Center Project	3,624,597.06	1,529,202.24	2,931,401.97		2,222,397.33
Construction project of Guangzhou Pharmaceutical Sorting and Distribution Center	19,803,560.37	93,754,796.95	5,196,115.51		108,362,241.81
Other sporadic constructions	360,232.47	1,013,099.98	1,373,332.45		-
<b>Total</b>	23,788,389.90	96,297,099.17	9,500,849.93	-	<b>110,584,639.14</b>

(Continued)

Name of project	Budget (RMB0'000)	Percentage of accumulated investment in project to the budget (%)	Construction progress (%)	Accumulated amount of interest capitalized	Of which: the amount of interest capitalized for the year	Interest capitalization rate for the year (%)	Source of funds
Guangzhou Nansha Logistic Center Project	9,120.75	98.39	98.39				Raised funds and own funds
Construction Project of Guangzhou Pharmaceutical Sorting and Distribution Center	14,041.93	80.87	80.87	8,713,661.03	6,749,232.37	5.39%	Loans from financial institutions
Other sporadic constructions	225.55	100.00	100.00				Raised funds and own funds
<b>Total</b>	23,388.23	-	-	8,713,661.03	6,749,232.37		

Note 2: For the pledge of construction in progress, please see Note VI. 44.



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### VI. NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

#### 10. Right-of-use assets

Item	Buildings and structures	Machinery and equipment	Transportation vehicles	Total
I. Original book value				
Balance as at the beginning of the year				
Adjustments from changes in accounting policies	21,819,034.87			21,819,034.87
1. Balance as at the beginning of the period	21,819,034.87			21,819,034.87
2. Addition for the year				
(1) New lease				
(2) Increase from business combination				
3. Decrease for the year				
(1) Disposal				
4. Balance as at the end of the year	21,819,034.87			21,819,034.87
II. Accumulated depreciation				
Balance as at the beginning of the year				
Adjustments from changes in accounting policies	3,591,711.10			3,591,711.10
1. Balance as at the beginning of the period	3,591,711.10			3,591,711.10
2. Addition for the year	2,834,446.93			2,834,446.93
(1) Accrued	2,834,446.93			2,834,446.93
3. Decrease for the year				
(1) Disposal				
4. Balance as at the end of the year	6,426,158.03			6,426,158.03
III. Book value				
1. Book value as at the end of the year	15,392,876.84			15,392,876.84
Book value as at the beginning of the year				
Adjustments from changes in accounting policies	18,227,323.77			18,227,323.77
2. Book value as at the beginning of the period	18,227,323.77			18,227,323.77



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### VI. NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

#### 11. Intangible assets

(1) Details of intangible assets

Items	Land use rights	Computer software	Total
I. Original book value			
1. Balance at the beginning of the year	164,253,763.65	18,783,371.03	183,037,134.68
2. Addition for the year		9,433.96	9,433.96
(1) Purchase		9,433.96	9,433.96
(2) Transfer from construction in-progress			
3. Reduction for the year			
(1) Disposal			
4. Balance at the end of the year	164,253,763.65	18,792,804.99	183,046,568.64
II. Accumulated amortization			
1. Balance at the beginning of the year	20,140,629.43	3,558,179.48	23,698,808.91
2. Addition for the year	4,320,279.33	1,946,520.37	6,266,799.70
(1) Provision	4,320,279.33	1,946,520.37	6,266,799.70
(2) Addition as a result of business combination			
3. Reduction for the year			
(1) Disposal			
4. Balance at the end of the year	24,460,908.76	5,504,699.85	29,965,608.61
III. Provision for impairment			
1. Balance at the beginning of the year			
2. Addition for the year			
(1) Provision			
3. Reduction for the year			
(1) Disposal			
4. Balance at the end of the year			
IV. Book value			
1. Book value at the end of the year	139,792,854.89	13,288,105.14	153,080,960.03
2. Book value at the beginning of the year	144,113,134.22	15,225,191.55	159,338,325.77

Note 1: As at 31 December 2019, no intangible asset arose through the internal research and development of the Group.

Note 2: For the pledge of intangible assets, please refer to Note VI. 44.



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### VI. NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

#### 12. Goodwill

##### (1) Original value of goodwill

Name of investee	Balance at the beginning of the year	Addition for the year		Reduction for the year		Balance at the end of the year
		As a result of business combination	Others	Disposal	Others	
Zhuhai Charmacy Pharmaceutical Limited (珠海創美藥業有限公司)	4,567,297.19					4,567,297.19
Guangzhou Charmacy Pharmaceutical Limited (廣州創美藥業有限公司)	26,328.12					26,328.12
<b>Total</b>	<b>4,593,625.31</b>					<b>4,593,625.31</b>

##### (2) Provision for impairment of goodwill

Name of investee	Balance at the beginning of the year	Addition for the year		Reduction for the year		Balance at the end of the year
		Provision	Others	Disposal	Others	
Zhuhai Charmacy Pharmaceutical Limited (珠海創美藥業有限公司)	1,465,937.31					1,465,937.31
Guangzhou Charmacy Pharmaceutical Limited (廣州創美藥業有限公司)						
<b>Total</b>	<b>1,465,937.31</b>					<b>1,465,937.31</b>

In February 2017 and June 2017, the Company acquired the equity of Zhuhai Charmacy Company and Guangzhou Charmacy Company, respectively, which resulted in the goodwill of RMB4,567,300 and RMB26,300. We recognized the two companies as asset groups, and their asset groups were consistent with the goodwill upon initial recognition. At the end of the year, the management conducted an impairment test on goodwill. After test, there was no impairment during the year.



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### VI. NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

#### 13. Long-term deferred expenses

Item	Balance at the beginning of the year	Addition for the year	Amortization for the year	Other reduction for the year	Balance at the end of the year
Installation expenses for the guard house and delivery platform	143,160.34		8,219.74		<b>134,940.60</b>
Zhuhai Charmacy warehouse installation project (珠海創美倉庫安裝工程)	6,049,024.93		711,638.61		<b>5,337,386.32</b>
Zhuhai canteen decoration project	51,975.72		20,790.29		<b>31,185.43</b>
<b>Total</b>	6,244,160.99		740,648.64		<b>5,503,512.35</b>

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

(1) *Deferred income tax assets not offset*

Items	Balance at the end of the year		Balance at the beginning of the year	
	Deferred income tax assets	Deductible temporary differences	Deferred income tax assets	Deductible temporary differences
Provision for asset impairment	<b>5,215,849.77</b>	<b>20,863,399.04</b>	4,064,129.47	16,256,517.91
Government grants	<b>304,707.00</b>	<b>1,218,827.99</b>	418,972.12	1,675,888.49
Deductible losses	<b>62,476.56</b>	<b>249,906.25</b>	1,152,461.17	4,609,844.68
Unrealized internal sales gains and losses	<b>444,037.40</b>	<b>1,776,149.60</b>		
<b>Total</b>	<b>6,027,070.73</b>	<b>24,108,282.88</b>	5,635,562.76	22,542,251.08

(2) *Deferred income tax liabilities not offset*

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



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### VI. NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

#### 15. Short-term borrowings

Types of borrowings	Balance as at the end of the year	Balance as at the beginning of the year
Secured borrowings <sup>Note 2-Note 4</sup>	204,742,184.36	231,400,000.00
Guaranteed borrowings <sup>Note 5-Note 8</sup>	106,704,707.97	101,500,000.00
Pledged borrowings <sup>Note 9-Note 10</sup>	87,124,766.84	
Credit borrowings <sup>Note 11</sup>	40,103,675.01	40,000,000.00
Borrowings from discounted bills receivables <sup>Note 12</sup>	63,514,035.00	15,000,000.00
<b>Total</b>	<b>502,189,369.18</b>	<b>387,900,000.00</b>

*Note 1:* The Group has no short-term borrowings that have not yet been repaid after maturity. The repaid amount after the balance sheet date was RMB291,876,867.00.

*Note 2:* On 2 August 2019, Charmacy Pharmaceutical Company, using its existing and later pharmaceutical product inventories of not less than RMB110 million, its existing and later machinery and equipment of not less than RMB5 million, its self-owned property (No.65 North of Foshan Road, Chancheng District, Foshan City) valued at RMB303,326,900, the existing and later pharmaceutical product inventories of not less than RMB240 million and the existing and later machinery and equipment of not less than RMB20 million from Guangdong Charmacy Company as collateral, with Guangdong Charmacy Company as its guarantor, and China Guangfa Bank Co., Ltd. signed the Credit Line Contract (contract number: (2019) Shan Yin Zong Shou E Zi No.000051). As agreed in the contract, the maximum exposure limit of the credit line was up to RMB200 million and the credit term was 12 months. The borrowing rate was the benchmark lending rate announced and implemented by the People's Bank of China applicable on the actual lending date for similar loan with an increase of 20%. As of 31 December 2019, Charmacy Pharmaceutical Company had borrowed RMB100.2 million from China Guangfa Bank within the credit line with an outstanding interest of RMB214,300.

*Note 3:* Charmacy Pharmaceutical Company, using its self-owned properties and lands (the logistic distribution center, warehouse supporting buildings, dormitories and whole parcel of land at No.235 Song Shan North Road) valued at RMB58,399,000 as collateral and with Guangdong Charmacy Company as its guarantor, and Industrial and Commercial Bank of China Limited signed 2016 Charmacy Gao Di Zi No. 001 《(2016年創美高抵字第001號)》 and 2018 Guangdong Charmacy Bao Zi No. 001 《(2018年廣東創美保字001號)》 for borrowings with a period of 12 months, and a borrowing rate of 5.22% per annum. As of 31 December 2019, Charmacy Pharmaceutical Co., Ltd. had borrowed RMB35 million from ICBC within its credit line with an outstanding interest of RMB101,200.

*Note 4:* On 2 August 2019, Charmacy Pharmaceutical Company, using its existing and later pharmaceutical product inventories of not less than RMB110 million, its existing and later machinery and equipment of not less than RMB5 million, its self-owned property (No.65 North of Foshan Road, Chancheng District, Foshan City) valued at RMB303,326,900, the existing and later pharmaceutical product inventories of not less than RMB240 million and the existing and later machinery and equipment of not less than RMB20 million from Charmacy Pharmaceutical Company as collateral, with Guangdong Charmacy Company as its guarantor, and China Guangfa Bank Co., Ltd. signed the Credit Line Contract (contract number: (2019) Shan Yin Zong Shou E Zi No.000052). As agreed in the contract, the maximum exposure limit of the credit line was up to RMB180 million and the credit term was 12 months. The borrowing rate was the benchmark lending rate announced and implemented by the People's Bank of China applicable on the actual lending date for similar loan with an increase of 20%. As of 31 December 2019, Guangdong Charmacy Company had borrowed RMB69.1 million from China Guangfa Bank within the credit line with an outstanding interest of RMB126,700.

*Note 5:* Guangdong Charmacy Company, with Charmacy Pharmaceutical Company as its guarantor, and Industrial and Commercial Bank of China Limited signed the Working Capital Loan Contracts (contract numbers: 0201300968-2018 (Gaoxin) Zi No. 00587, 0201300968-2019 (Gaoxin) Zi No. 00331, with the borrowing period of 12 months, and the borrowing rate of 5.4375% per annum; 0201300968-2019 (Gaoxin) Zi No. 00344, 0201300968-2019 (Gaoxin) Zi No. 00381, 0201300968-2019 (Gaoxin) Zi No. 00415, with the borrowing period of 12 months, and the borrowing rate of 5.2200% per annum). As of 31 December 2019, Guangdong Charmacy Company had borrowed the aggregate amount of RMB29.5 million with an outstanding interest of RMB47,700.



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## VI. NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

### 15. Short-term borrowings (Continued)

*Note 6:* On 14 June 2019, Charmacy Pharmaceutical Company, with Guangdong Charmacy Company as its guarantor, and CTBC Bank Co., Ltd. signed the Notice of Credit Conditions (《授信條件通知書》). As agreed in the contract, the total credit line of Charmacy Pharmaceutical Company and Guangdong Charmacy Company shall not exceed RMB75 million, of which, the short-term revolving loan limit is RMB35 million, the acceptance limit of bank acceptance bills is RMB20 million, and the discount limit of bank acceptance bills is RMB20 million. As of 31 December 2019, Guangdong Charmacy Company had borrowed RMB35 million from the trust bank within the credit line with an outstanding interest of RMB87,200.

*Note 7:* On 17 July 2019, Guangdong Charmacy Company, with Charmacy Pharmaceutical Company as its guarantor, and China Merchants Bank Co., Ltd. signed the Credit Agreement (contract number: 757XY2019016730) and Irrevocable Letter of Guarantee of Maximum Amount (《最高額不可撤銷擔保書》) (contract number: 757XY201901673003). As agreed in the contract, the maximum exposure limit of the credit line was RMB50 million, and the credit term was 12 months. The borrowing interest rate was 5.4375%. As of 31 December 2019, Guangdong Charmacy Company had borrowed RMB27 million from China Merchants Bank within its credit line with an outstanding interest of RMB44,900.

*Note 8:* On 1 March 2019, Guangdong Charmacy Company, with Charmacy Pharmaceutical Company as its guarantor, and Foshan Rural Commercial Bank Co., Ltd. (佛山農村商業銀行股份有限公司) signed the Borrowing Contract (contract number: Fo Nong Shang 0204 Jie Zi 2019 No. 03001). The borrowing term was 12 months. The borrowing interest rate was 5.4375%. As of 31 December 2019, Guangdong Charmacy Company had borrowed RMB15 million from Foshan Rural Commercial Bank with an outstanding interest of RMB24,900.

*Note 9:* On 25 March 2019, Charmacy Pharmaceutical Company, with RMB17.10 million as the security deposit, and China Construction Bank Corporation, Shantou Branch signed the RMB Liquidity Loan Contracts (contract numbers: HTZ440650000LDZJ201900010 and HTZ440650000LDZJ201900011). As agreed in the contracts, the loan limit shall not exceed RMB57 million in total, the borrowing term was 12 months. The borrowing interest rate was 5.655%. As of 31 December 2019, Charmacy Pharmaceutical Co., Ltd. had borrowed RMB57 million from China Construction Bank within its credit line with an outstanding interest of RMB75,800.

*Note 10:* On 11 September 2019, Guangdong Charmacy Company signed a Financing Letter with UOB (China) Co., Ltd. by pledging 15% of the loan amount as a deposit (contract number: LOGZ201909113001). As agreed in the contract, the credit limit is RMB35 million. The borrowing interest rate is 120% of the current one-year benchmark interest rate announced by the People's Bank of China and adjusted from time to time or other interest rates specified by the bank to the extent permitted by applicable law according to the actual situation. As of 31 December 2019, Guangdong Charmacy Company borrowed RMB29.9 million from UOB within the credit limit with an outstanding interest of RMB149,000.

*Note 11:* On 2 August 2017, Charmacy Pharmaceutical Company and The Bank of East Asia (China) Limited signed the Renminbi Loan Contract (《人民幣貸款合同》) (contract number: 2017 Dongya (Rendai) Zi No. 59). As agreed in the contract, the loan amount shall not exceed RMB40 million. The term of the loan was 5 years from the date of signing the contract. The borrowing rate was the benchmark lending rate announced and implemented by the People's Bank of China applicable on the actual lending date for similar loan with an increase of 30%. As of 31 December 2019, Charmacy Pharmaceutical Company had borrowed RMB40 million from BEA within its credit line with an outstanding interest of RMB103,700.

*Note 12:* As of 31 December 2019, the Group had obtained a borrowing of RMB63.51 million by discounting its bills receivable.

### 16. Bills payables

Classification of bills	Balance at the end of the year	Balance at the beginning of the year
Bank acceptance bills	829,061,059.77	778,925,488.11
Commercial drafts	4,500,000.00	
<b>Total</b>	<b>833,561,059.77</b>	<b>778,925,488.11</b>

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



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### VI. NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

#### 17. Trade payables

##### (1) Trade payables

Item	Balance at the end of the year	Balance at the beginning of the year
Loans	432,594,542.27	563,275,976.07
Equipment costs	12,132,400.27	
Project maintenance costs	229,914.30	1,218,755.86
<b>Total</b>	<b>444,956,856.84</b>	<b>564,494,731.93</b>

##### (2) Aging analysis of trade payables

Below is an aging analysis of trade payables based on transaction date as at 31 December 2019:

Age	Balance at the end of the year	Balance at the beginning of the year
Within 1 year	438,811,912.47	563,551,065.72
1 to 2 years	5,763,433.44	507,200.82
2 to 3 years	55,427.76	270,210.38
More than 3 years	326,083.17	166,255.01
<b>Total</b>	<b>444,956,856.84</b>	<b>564,494,731.93</b>

##### (3) Significant trade payables aged over 1 year

Name of entity	Balance at the end of the year	Reasons of outstanding or carrying forward
Shandong Fupai Ejiao Pharmacy Co., Ltd. (山東福牌阿膠藥業有限公司)	5,264,187.00	Settlement period is not yet due
Wei'ao Healthcare Technology (Chengdu) Co., Ltd. (維奧健康科技(成都)有限公司)	393,010.23	Settlement period is not yet due
Kunming Huarun Shenghuo Pharmacy Co., Ltd. (昆明華潤聖火藥業有限公司)	181,688.00	Settlement period is not yet due
Guangzhou Longxiang Pharmacy Co., Ltd. (廣州市龍祥藥業有限公司)	164,390.16	Settlement period is not yet due
<b>Total</b>	<b>6,003,275.39</b>	—



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### VI. NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

#### 18. Contract liabilities

Item	Balance at the end of the year	Balance at the beginning of the year
Payment for goods	2,864,226.16	1,879,275.48
<b>Total</b>	<b>2,864,226.16</b>	<b>1,879,275.48</b>

As at 31 December 2019, the Group had no significant contract liabilities aged over 1 year.

#### 19. Remuneration payable to employees

(1) *Classification of remuneration payable to employees*

Item	Balance at the beginning of the year	Addition for the year	Reduction for the year	Balance at the end of the year
Short-term remuneration	5,066,954.31	62,270,679.98	62,602,187.72	<b>4,735,446.57</b>
Post-employment benefits – defined contribution plan		4,621,693.08	4,621,693.08	
Termination benefits		69,652.35	69,652.35	
<b>Total</b>	5,066,954.31	66,962,025.41	67,293,533.15	<b>4,735,446.57</b>



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### VI. NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

#### 19. Remuneration payable to employees (Continued)

##### (2) Short-term remuneration

Item	Balance at the beginning of the year	Addition for the year	Reduction for the year	Balance at the end of the year
Salaries, bonuses, allowances and subsidies	4,828,770.49	52,932,145.84	53,080,684.74	<b>4,680,231.59</b>
Staff welfare payments		4,065,817.21	4,065,817.21	
Social insurance premiums		2,310,712.75	2,310,712.75	
Of which: medical insurance premium		1,927,926.69	1,927,926.69	
Industrial injury insurance premium		33,266.47	33,266.47	
Maternity insurance premium		349,519.59	349,519.59	
Housing provident fund		2,333,504.95	2,333,504.95	
Labor union expenses and staff education expenses	238,183.82	598,129.03	781,097.87	<b>55,214.98</b>
Others		30,370.20	30,370.20	
<b>Total</b>	5,066,954.31	62,270,679.98	62,602,187.72	<b>4,735,446.57</b>

##### (3) Defined contribution plan

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

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

Item	Balance at the beginning of the year	Addition for the year	Reduction for the year	Balance at the end of the year
Basic pension insurance		4,499,185.18	4,499,185.18	
Unemployment insurance premium		122,507.90	122,507.90	
<b>Total</b>		4,621,693.08	4,621,693.08	

The Group's contribution payable to the defined contribution plan that the Group participated in amounted to RMB4,621,693.08, which was fully paid as at 31 December 2019.



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### VI. NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

#### 20. Tax payables

Item	Balance at the end of the year	Balance at the beginning of the year
VAT	42,442,808.20	36,052,003.47
Enterprise income tax	6,202,620.75	181,066.42
Individual income tax	76,055.58	64,812.82
Property taxes		823,118.32
Tax on land use		720.00
Stamp duty	153,055.98	171,701.77
Urban maintenance and construction tax	66,243.63	85,512.77
Education surcharge	47,316.88	36,648.33
Other taxes	1,050.00	25,482.22
<b>Total</b>	<b>48,989,151.02</b>	<b>37,441,066.12</b>

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

#### 21. Other payables

Item	Balance at the end of the year	Balance at the beginning of the year
Interest payables		921,877.61
Dividend payables		
Other payables	11,798,422.22	8,736,361.54
<b>Total</b>	<b>11,798,422.22</b>	<b>9,658,239.15</b>



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### VI. NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

#### 21. Other payables (Continued)

(1) Classification of other payables by nature of payment

Nature of payment	Balance at the end of the year	Balance at the beginning of the year
Margin	6,365,800.00	2,262,217.65
Intermediary expenses	4,193,009.00	4,362,625.32
Transportation costs	630,398.94	444,181.13
Others	609,214.28	1,667,337.44
<b>Total</b>	<b>11,798,422.22</b>	<b>8,736,361.54</b>

(2) Significant other payables aged over 1 year

Name of entity	Balance as at the end of the year	Reasons for not being repaid or carried forward
Squire Patton Boggs	3,393,009.00	Settlement period is not yet due
Zhaoqing Xinhui Pharmacy Co., Ltd. (肇慶市新輝藥業有限公司)	300,000.00	Deposit
Guangdong Zhongtian Pharmacy Co., Ltd. (廣東中天醫藥有限公司)	240,000.00	Deposit
Guangdong Dakanghua Pharmacy Co., Ltd. (廣東大康華藥業有限公司)	200,000.00	Deposit
<b>Total</b>	<b>4,133,009.00</b>	

#### 22. Non-current liabilities due within one year

Item	Balance as at the end of the year	Balance as at the beginning of the year
Long-term borrowings due within one year	26,852,567.42	
Lease liabilities due within one year	2,311,631.44	
<b>Total</b>	<b>29,164,198.86</b>	



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### VI. NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

#### 23. Other current liabilities

(1) *Classification of other current liabilities*

Item	Balance at the end of the year	Balance at the beginning of the year
Deferred income from assets-related government grants carried forward within 1 year		457,060.50
<b>Total</b>		457,060.50

(2) *Government grants*

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



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### VI. NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

#### 24. Long-term borrowings

(1) Classification of long-term borrowings

Types of borrowings	Balance at the end of the year	Balance at the beginning of the year
Secured borrowings	153,205,706.41	90,000,000.00
Subtotal	153,205,706.41	90,000,000.00
Less: long-term borrowings due within one year	26,852,567.42	
<b>Total</b>	<b>126,353,138.99</b>	90,000,000.00

Note 1: On 15 August 2018, Charmacy Pharmaceutical Co., Ltd. signed the Fixed Assets Loan Contract (《固定資產借款合同》) (contract number: 2018 (Nansha) Zi No. 00539) with the Nansha Branch in Guangdong Pilot Free Trade Zone of Industrial and Commercial Bank of China Limited. The loan under the contract was for the construction of Guangzhou Nansha Sorting and Distribution Centre project and replacement of the liabilities resulting from the project construction. Guangdong Charmacy Pharmaceutical Co., Ltd. provided joint and several liability guarantee in respect of the loan contract, with the contract number of 2018 Nansha (Bao) Zi No.0028. Meanwhile, Charmacy Pharmaceutical Co., Ltd. provided guarantee with its self-owned plants valued at RMB68,363,000, and dormitories valued at RMB21,818,000 (contract number: 2018 Nansha (Di) Zi No. 00539). The amount of loan agreed in the Contract was RMB180 million (withdrawn by batch, calculated from the date of first withdrawal), with a term of not more than 7 years which commence from the date of actual withdrawal. Charmacy Pharmaceutical Co., Ltd. was required to repay the loan from the effective date of the Contract to 20 August 2020. The borrowing rate was the benchmark lending rate announced and implemented by the People's Bank of China applicable on the actual lending date for similar loan with an increase of 10%. As of 31 December 2019, Charmacy Pharmaceutical Company had borrowed RMB152.95 million from the Nansha Branch in Guangdong Pilot Free Trade Zone of Industrial and Commercial Bank of China Limited with an outstanding interest of RMB251,900.



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### VI. NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

#### 24. Long-term borrowings (Continued)

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

Item	Balance at the end of the year	Balance at the beginning of the year
1 to 2 years	26,600,660.84	13,636,363.60
2 to 5 years	79,801,982.52	49,090,908.96
Over 5 years	19,950,495.63	27,272,727.44
<b>Total</b>	<b>126,353,138.99</b>	<b>90,000,000.00</b>

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

#### 25. Lease liabilities

Item	Balance as at the end of the year
First year after the balance sheet date	3,155,859.66
Second year after the balance sheet date	2,630,057.40
Third year after the balance sheet date	2,630,057.40
Subsequent years	11,835,258.30
Total minimum lease payments	20,251,232.76
Less: finance costs not recognized	3,555,378.69
Present value of minimum lease payments	16,695,854.07
Including: lease liabilities due within one year	2,311,631.44
Lease liabilities due after one year	14,384,222.63

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



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### VI. NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

#### 26. Deferred income

(1) Classification of deferred income

Item	Balance at the beginning of the year	Addition for the year	Reduction for the year	Balance at the end of the year
Government grants	1,218,827.99			1,218,827.99
<b>Total</b>	1,218,827.99			1,218,827.99

(2) Government grant program

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

#### 27. Share capital

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



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### VI. NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

#### 28. Capital reserve

Item	Balance at the beginning of the year	Addition for the year	Reduction for the year	Balance at the end of the year
Share premium	278,001,901.04			<b>278,001,901.04</b>
Other capital reserve	988,928.00			<b>988,928.00</b>
<b>Total</b>	278,990,829.04			<b>278,990,829.04</b>

#### 29. Surplus reserve

Item	Balance at the beginning of the year	Addition for the year	Reduction for the year	Balance at the end of the year
Statutory surplus reserve	13,665,514.85	2,067,111.18		<b>15,732,626.03</b>
<b>Total</b>	13,665,514.85	2,067,111.18		<b>15,732,626.03</b>

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



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### VI. NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS

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#### 30. Undistributed profits

Item	Amount for the year	Amount for last year
<b>Balance at the end of last year</b>	<b>76,081,036.24</b>	55,797,710.73
Add: Adjustment to the balance of undistributed profit at the beginning of the year <sup>Note 1</sup>	<b>-897,781.52</b>	
<b>Balance at the beginning of the year</b>	<b>75,183,254.72</b>	55,797,710.73
Add: Net profit attributable to the owners of the parent company for the year	<b>40,153,355.52</b>	45,432,949.87
Less: Appropriation of statutory surplus reserve	<b>2,067,111.18</b>	3,549,624.36
Dividends payable on ordinary shares <sup>Note 2</sup>	<b>32,400,000.00</b>	21,600,000.00
Dividends on ordinary shares converted to share capital		
<b>Balance at the end of the year</b>	<b>80,869,499.06</b>	76,081,036.24

*Note 1:* Since 1 January 2019, the Company has implemented the new lease standards, and the amount of retained earnings at the beginning of the period is adjusted to RMB8,977,815,200 according to the cumulative impact of the new lease standards implemented for the first time.

*Note 2:* On 3 June 2019, the annual general meeting of Charmacy Pharmaceutical approved the final dividend of the Group as of 31 December 2018 at RMB0.3 per share, representing a total dividend of RMB32.4 million.



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

### VI. NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

#### 31. Operating revenue and operating cost

Item	Amount for the year		Amount for last year	
	Revenue	Cost	Revenue	Cost
Principal businesses	<b>3,472,157,546.80</b>	<b>3,269,110,594.14</b>	3,906,599,642.74	3,697,481,989.00
Other businesses	<b>20,625,365.40</b>		28,646,334.44	
<b>Total</b>	<b>3,492,782,912.20</b>	<b>3,269,110,594.14</b>	3,935,245,977.18	3,697,481,989.00

#### 32. Taxes and surcharges

Item	Amount for the year	Amount for last year
Property tax	<b>3,317,141.91</b>	2,605,233.95
Urban maintenance and construction tax	<b>1,567,897.54</b>	778,893.38
Stamp duty	<b>1,404,058.31</b>	2,014,822.24
Education surcharge	<b>1,119,926.81</b>	556,352.46
Tax on land use	<b>327,439.54</b>	322,133.26
Vehicle and vessel tax	<b>17,018.36</b>	30,949.23
Environment protection tax	<b>4,200.00</b>	4,200.00
<b>Total</b>	<b>7,757,682.47</b>	6,312,584.52



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### VI. NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

#### 33. Selling expenses

Item	Amount for the year	Amount for last year
Staff remuneration	46,346,702.69	44,736,534.32
Transportation costs	11,078,732.93	12,808,361.79
Depreciation and amortization	10,803,934.70	4,598,578.72
Office expenses	6,631,822.32	9,947,438.43
Promotion and advertising expenses	1,221,486.62	955,696.21
Travelling expenses	444,374.34	400,896.92
Business entertainment expenses	365,272.73	416,656.07
Others	506,256.22	112,458.49
<b>Total</b>	<b>77,398,582.55</b>	<b>73,976,620.95</b>

#### 34. Management expenses

Item	Amount for the year	Amount for last year
Staff remuneration	20,615,322.72	23,599,750.31
Depreciation and amortization	13,876,203.76	14,462,398.66
Office expenses	7,178,877.45	10,605,632.58
Expenses on engaging intermediary agencies	2,963,743.79	9,513,026.46
Of which: Auditor's remuneration	800,000.00	800,000.00
– Audit service expenses	800,000.00	800,000.00
Loss on inventory	1,314,158.11	1,026,423.31
Travelling expenses	257,239.12	336,439.21
Business entertainment expenses	198,719.51	187,908.84
Promotion and advertising expenses	1,549.30	6,559.23
Others	99,963.18	167,108.34
<b>Total</b>	<b>46,505,776.94</b>	<b>59,905,246.94</b>



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1 January 2019 to 31 December 2019

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

### VI. NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

#### 35. Finance costs

Item	Amount for the year	Amount for last year
Interest expenses	<b>29,450,085.83</b>	31,093,279.95
Less: Interest income	<b>3,624,533.27</b>	3,177,895.88
Add: Loss on foreign exchange	<b>909.48</b>	122,685.03
Add: Handling fees	<b>3,945,182.92</b>	3,492,069.03
Add: Interest on lease liabilities	<b>974,561.38</b>	
<b>Total</b>	<b>30,746,206.34</b>	31,530,138.13

#### 36. Impairment loss of credit

Item	Amount for the year	Amount for last year
Loss on bad debts	<b>4,245,401.56</b>	2,044,408.31
<b>Total</b>	<b>4,245,401.56</b>	2,044,408.31

#### 37. Impairment loss of assets

Item	Amount for the year	Amount for last year
Loss on impairment of inventories	<b>3,024,633.91</b>	2,641,576.34
Impairment loss on goodwill		1,465,937.31
<b>Total</b>	<b>3,024,633.91</b>	4,107,513.65



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

### VI. NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

#### 38. Gains on disposal of assets

Item	Amount for the year	Amount for last year	Amounts included in non-recurring profit and loss for the year
Gains on disposal of non-current assets	<b>-45,128.34</b>	-40,522.27	-45,128.34
Of which: Gains on disposal of non-current assets that are not classified as held for sale	<b>-45,128.34</b>	-40,522.27	-45,128.34
Of which: Gains on disposal of fixed assets	<b>-45,128.34</b>	-40,522.27	-45,128.34
<b>Total</b>	<b>-45,128.34</b>	-40,522.27	-45,128.34

#### 39. Other gains

Item	Amount for the year	Amount for last year	Sources & basis
Transfer-out of logistics program grant	<b>457,060.50</b>	457,060.50	Notice of the Bureau of Commerce of Foshan City on the Organization and Application of Logistics Standardization Pilot Program of Foshan City in 2015 (Fo Shangwu Fu Han <2015> No. 182)
<b>Total</b>	<b>457,060.50</b>	457,060.50	

#### 40. Non-operating income

(1) Breakdown of non-operating income

Item	Amount for the year	Amount for last year	Amounts included in non-recurring profit and loss for the year
Government grants	<b>640,359.73</b>	3,352,631.00	640,359.73
Others	<b>66,001.67</b>	258,472.89	66,001.67
<b>Total</b>	<b>706,361.40</b>	3,611,103.89	706,361.40



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### VI. NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

#### 40. Non-operating income (Continued)

##### (2) Breakdown of government grants

Item	Amount for the year	Amount for last year	Sources & basis	Asset-related/ Revenue-related
Incentives under Supporting Policies for Promoting the Development of Commerce and Trade (Domestic Trade) in 2019	250,000.00		Notice on the Announcement of the Results of the Award Assessment of the Enterprises in Commerce and Trade Industry in 2018 (First Batch) (關於2018年度商貿業企業獎勵評審結果(第一批)公示的通知)	Revenue-related
Receipt of "Top 100 Enterprise" incentive funds	177,618.00	585,775.00	Notice of Economy and Technology Promotion Bureau of Chancheng District, Foshan City on the Organization and Application of "Top 100 Enterprise" Incentive Funds of 2017 (《佛山市禪城區經濟和科技促進局關於組織申報2017年度“百企爭先”獎勵的通知》)	Revenue-related
Employment stabilization subsidy financed by unemployment insurance of Foshan City	118,786.89		Document of the Human Resources and Social Security Bureau of Foshan City (《佛山市人力資源和社會保障局文件》)	Revenue-related
Employment stabilization subsidy financed by unemployment insurance of Shantou City	64,439.35	80,856.00	Implementation Measures on Employment Stabilization Work under the Support of the Unemployment Insurance of Shantou City (《汕頭市失業保險支持企業穩定崗位工作實施辦法》)	Revenue-related
Social Security Subsidies for Stabilizing the Employment of Employers in Nansha District	8,609.67		Practical Answer Handbook for Supporting Enterprises to Stabilize Employment by Unemployment Insurance Subsidies (《失業保險支持企業穩定崗位補貼實用解答手冊》)	Revenue-related



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### VI. NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

#### 40. Non-operating income (Continued)

(2) Breakdown of government grants (Continued)

Item	Amount for the year	Amount for last year	Sources & basis	Asset-related/ Revenue- related
Tax benefits for veterans	7,500.00		Notice of the Veteran Department of the Ministry of Finance on the Relevant Tax Policy for Further Supporting the Self-employment and Employment of Veterans, Cai Shui [2019] No. 21 (財政部退役軍人部關於進一步扶持自主就業退役士兵創業就業有關稅收政策的通知，財稅[2019]21號)	Revenue-related
Employment stabilization subsidy financed by unemployment insurance of Zhuhai City	6,726.42		Government grants for unemployment insurance for the 2018 (2018年度失業保險政府補貼)	Revenue-related
Employment stabilization subsidy financed by unemployment insurance of Guangzhou City	4,219.40		Notice on Providing Subsidies for Employment Stabilization and Refunding Unemployment Insurance Premium to Enterprises for 2018 (《關於開展2018年度穩崗補貼及受影響企業失業保險費返還經辦工作的通知》)	Revenue-related
Support subsidies and employment promotion incentives for enterprises recruiting workers in Dongchong Town	2,460.00		Nansha Non-Headquarters Settlement Award Application Pass Picture, Non-Headquarters Domestic Trade Enterprise Settlement Award Application Number: 2019000009738 (南沙非總部落戶獎申請通過圖、非總部內貿企業落戶獎申請編號：2019000009738)	Revenue-related



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### VI. NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

#### 40. Non-operating income (Continued)

(2) Breakdown of government grants (Continued)

Item	Amount for the year	Amount for last year	Sources & basis	Asset-related/ Revenue- related
Special funds for the development of industry and information technology		736,000.00	Shan Long Cai [2018] No. 84 Notice on the Issuance of 2017 Special Funds for Provincial Industrial and Information Development (Promoting the Development of Private Economy) (First Batch) (汕龍財[2018]84號關於下達2017年省級工業與信息化發展專項資金(促進民營經濟發展)(第一批)的通知)	Revenue-related
The program of special funds for promoting private economic development in 2018 (incentives and subsidies for the financing for listing)		1,950,000.00	Notice of Guangdong Economic and Information Technology Commission on the Issuance of the Special Fund for Economic Development in 2018 (Private Economic Development and the Development of Small, Medium and Micro Enterprises) (《廣東省經濟和信息化委關於下達2018年促進經濟發展專項資金(民營經濟發展及中小微企業發展)計劃的通知》)	Revenue-related
<b>Total</b>	<b>640,359.73</b>	<b>3,352,631.00</b>		



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### VI. NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

#### 41. Non-operating expenses

<b>Item</b>	<b>Amount for the year</b>	Amount for last year	Amounts included in non-recurring profit and loss for the year
External donation	<b>67,520.00</b>	220,334.00	67,520.00
Others	<b>86.81</b>	39,357.95	86.81
<b>Total</b>	<b>67,606.81</b>	259,691.95	67,606.81



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1 January 2019 to 31 December 2019

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### VI. NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

#### 42. Income tax expenses

(1) *Income tax expenses*

Item	Amount for the year	Amount for last year
Current income tax calculated in accordance with the tax laws and relating requirements	<b>15,483,626.04</b>	19,604,923.82
– PRC	<b>15,483,626.04</b>	19,604,923.82
– Hong Kong		
Deferred income tax expenses	<b>-592,161.27</b>	-711,490.91
<b>Total</b>	<b>14,891,464.77</b>	18,893,432.91

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

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

Item	Amount for the year
Total combined profits for the year	<b>55,044,820.29</b>
Income tax expenses calculated at the statutory/applicable tax rate	<b>13,761,205.07</b>
Effect of non-deductible cost, expenses and loss	<b>1,143,122.26</b>
Tax effect of deductible loss and deductible temporary difference not recognized for the current period	<b>-12,862.56</b>
Income tax expenses	<b>14,891,464.77</b>



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### VI. NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

#### 43. Items of the Statement of Cash Flows

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

1) *Other cash received relating to operating activities*

Item	Amount for the year	Amount for last year
Inter-company current accounts	11,397,576.98	4,772,485.55
Government grant	640,359.73	3,352,631.00
Staff reserves	233,308.77	697,480.69
Interest income	185,895.52	195,947.69
Others	170,773.23	332,670.78
<b>Total</b>	<b>12,627,914.23</b>	<b>9,351,215.71</b>

2) *Other cash paid relating to operating activities*

Item	Amount for the year	Amount for last year
Transportation costs	11,604,001.14	14,735,904.83
Office expenses	8,528,226.73	11,248,518.99
Utilities	6,192,035.52	6,405,516.71
Inter-company current accounts	5,340,124.93	7,497,977.13
Handling fees	3,474,323.37	2,947,365.26
Expenses on engaging agencies	2,551,494.58	4,589,480.75
Staff borrowings	1,655,343.52	4,934,193.54
Telecommunication fees	1,269,328.55	1,345,895.60
Marketing expenses	1,017,096.67	725,662.47
Travelling expenses	726,018.57	721,734.00
Repair and Maintenance expenses	554,375.65	1,090,157.16
Business entertainment expenses	548,365.88	683,308.14
Promotion and advertising expenses	136,248.55	213,696.10
Others	87,813.52	2,120,532.46
<b>Total</b>	<b>43,684,797.18</b>	<b>59,259,943.14</b>



## Notes to the Financial Statements

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### VI. NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

#### 43. Items of the Statement of Cash Flows (Continued)

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

3) *Other cash received relating to investing activities*

Item	Amount for the year	Amount for last year
Recovery of bank financial products	10,000.00	
<b>Total</b>	<b>10,000.00</b>	

4) *Other cash paid relating to investing activities*

Item	Amount for the year	Amount for last year
Investment in bank financial products	10,000.00	
<b>Total</b>	<b>10,000.00</b>	

5) *Other cash received relating to financing activities*

Item	Amount for the year	Amount for last year
Receipt of bank acceptance margin	1,606,162,381.72	1,867,364,795.10
Interest income on margin	3,438,637.75	2,981,948.19
Receipt of borrowing margin		1,209,056.15
<b>Total</b>	<b>1,609,601,019.47</b>	<b>1,871,555,799.44</b>

6) *Other cash paid relating to financing activities*

Item	Amount for the year	Amount for last year
Payment of bank acceptance margin	1,699,458,894.24	1,800,819,897.21
Payment of lease Liabilities	3,433,923.86	
Handling fees for financing	964,712.36	1,005,830.53
Borrowing margin		3,300,000.00
Cash paid for acquiring minority equity interest		9,710,000.00
<b>Total</b>	<b>1,703,857,530.46</b>	<b>1,814,835,727.74</b>



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### VI. NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

#### 43. Items of the Statement of Cash Flows (Continued)

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

Item	Amount for the year	Amount for last year
<b>1. Reconciliation of net profit to cash flows from operating activities:</b>		
Net profit	40,153,355.52	44,761,992.94
Add: Provision for impairment on assets	3,024,633.91	4,107,513.65
Impairment loss of credit assets	4,245,401.56	2,044,408.31
Depreciation of fixed assets, depletion of oil and gas assets, depreciation of productive biological assets	14,838,243.19	12,066,714.75
Depreciation of right-of-use assets	2,834,446.93	
Amortization of intangible assets	6,266,799.70	6,374,495.39
Amortization of long-term deferred expenses	740,648.64	619,767.24
Loss on disposal of fixed assets, intangible assets and other long-term assets (“-” for gains)	45,128.34	40,522.27
Loss on retirement of fixed assets (“-” for gains)		
Gain or loss arising from changes in fair value (“-” for gains)		
Finance costs (“-” for gain)	27,950,721.82	29,117,162.29
Investment loss (“-” for gain)	-99.25	
Decrease in deferred income tax assets (“-” for increase)	-391,507.97	-912,144.21
Increase in deferred income tax liabilities (“-” for decrease)	-200,653.30	200,653.30
Decrease in inventories (“-” for increase)	-43,022,570.72	-41,129,076.14
Decrease in receivables from operating activities (“-” for increase)	-816,718.53	47,346,572.78
Increase in payables from operating activities (“-” for decrease)	-51,648,898.02	-55,487,183.34
Others		
<b>Net cash flow from operating activities</b>	<b>4,018,931.82</b>	<b>49,151,399.23</b>
<b>2. Non-cash significant investing and financing activities:</b>		
Conversion of debt into capital		
Convertible corporate bonds due within one year		
Fixed asset under finance lease		
<b>3. Net change in cash and cash equivalents:</b>		
Cash balance at the end of the year	40,149,434.90	55,738,786.02
Less: cash balance at the beginning of the year	55,738,786.02	75,096,936.45
Add: balance of cash equivalents at the end of the year		
Less: balance of cash equivalents at the beginning of the year		
Net increase in cash and cash equivalents	-15,589,351.12	-19,358,150.43

Note: During the Reporting Period, by discounting its commercial drafts, the Group raised RMB43.80 million and RMB43.06 million in 2018 and 2019, respectively.



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### VI. NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

#### 43. Items of the Statement of Cash Flows (Continued)

(3) *Cash and cash equivalents*

Item	Balance at the end of the year	Balance at the beginning of the year
Cash	<b>915,427.73</b>	305,938.89
Of which: cash on hand	<b>915,427.73</b>	305,938.89
Bank deposits readily available for payment	<b>39,234,007.17</b>	55,432,847.13
Other monetary funds readily available for payment		
Cash equivalents		
Of which: bonds investment due within three months		
Balance of cash and cash equivalents at the end of the year	<b>40,149,434.90</b>	55,738,786.02
Of which: Restricted cash and cash equivalents used by the parent company or the subsidiaries of the Group		

#### 44. Assets with restricted ownership and rights of use

Item	Book value at the end of the year	Reasons of Restriction
Monetary funds	<b>466,159,017.74</b>	Bank acceptance bills deposits, borrowing deposits
Bills receivables	<b>15,370,000.00</b>	Pledge and bills discounting
Fixed assets	<b>151,295,527.83</b>	Security
Construction in progress	<b>108,362,241.81</b>	Security
Intangible assets	<b>139,792,854.89</b>	Security
Inventories	<b>350,000,000.00</b>	Security
Total	<b>1,231,741,708.26</b>	

#### 45. Monetary items in foreign currencies

(1) *Monetary items in foreign currencies*

Item	Balance in foreign currency at the end of the year	Exchange rate	Equivalent RMB balance at the end of the year
Monetary funds	<b>441,705.51</b>	<b>0.89578</b>	<b>395,670.97</b>
Of which: Hong Kong Dollars	<b>441,705.51</b>	<b>0.89578</b>	<b>395,670.97</b>



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### VI. NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

#### 46. Government grants

(1) Basic information about government grants

Type	Amount	Item reported	Amount included in profit and loss for the period
Transfer-out of logistics program grant	457,060.50	Other gains	457,060.50
Incentives under Supporting Policies for Promoting the Development of Commerce and Trade (Domestic Trade) in 2019	250,000.00	Non-operating income	250,000.00
Receipt of "Top 100 Enterprise" incentive funds	177,618.00	Non-operating income	177,618.00
Employment stabilization subsidy financed by unemployment insurance of Foshan City	118,786.89	Non-operating income	118,786.89
Employment stabilization subsidy financed by unemployment insurance of Shantou City	64,439.35	Non-operating income	64,439.35
Social Security Subsidies for Stabilizing the Employment of Employers in Nansha District	8,609.67	Non-operating income	8,609.67
Tax benefits for veterans	7,500.00	Non-operating income	7,500.00
Employment stabilization subsidy financed by unemployment insurance of Zhuhai City	6,726.42	Non-operating income	6,726.42
Employment stabilization subsidy financed by unemployment insurance of Guangzhou City	4,219.40	Non-operating income	4,219.40
Support subsidies and employment promotion incentives for enterprises recruiting workers in Dongchong Town	2,460.00	Non-operating income	2,460.00

### VII. CHANGES IN SCOPE OF CONSOLIDATION

1. There was no change in the scope of consolidation during the year.



# Notes to the Financial Statements

1 January 2019 to 31 December 2019

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## VIII. INTERESTS IN OTHER ENTITIES

### 1. Interests in subsidiaries

#### (1) Composition of the corporation

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

## IX. RISKS RELATED TO FINANCIAL INSTRUMENTS

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

### 1. Objective and policies of various risks management

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



## Notes to the Financial Statements

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### IX. RISKS RELATED TO FINANCIAL INSTRUMENTS (Continued)

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

##### (1) Market risk

##### 1) Foreign exchange risk

Foreign exchange risk is the risk arising from changes in fair value or future cash flows of financial instrument resulted from changes in exchange rate. The Group's foreign exchange risk relates mainly to Hong Kong Dollars. Except for the proceeds from the H Share offering, payment of H Share dividends and minor expenses incurred in the Hong Kong Special Administrative Region, other main business activities of the Group are settled in RMB. As at 31 December 2019, the changes in the fair value or future cash flows from the assets and liabilities of the balance of the account denominated in HK\$ due to changes in exchange rates may have impact on the Group's operating results as set out in the flowing table.

Item	Balance at the end of the year (RMB equivalent)	Balance at the beginning of the year (RMB equivalent)
Monetary fund – HK\$	395,670.97	385,402.27

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

##### 2) Interest rate risk

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

##### 3) Other price risks

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

##### (2) Credit risk

As at 31 December 2019, the maximum credit risk exposure that might incur financial losses to the Group was mainly attributable to the losses of financial assets due to a contractual failure of counterparty to perform its obligations. Specifically, such losses include:

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

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



# Notes to the Financial Statements

1 January 2019 to 31 December 2019

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

## IX. RISKS RELATED TO FINANCIAL INSTRUMENTS (Continued)

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

#### (2) Credit risk (Continued)

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

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

#### (3) Liquidity risk

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

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

Item	Book value	Within 1 year	1 to 5 years	Over 5 years	Total
Monetary funds	506,308,452.64	506,308,452.64			506,308,452.64
Bills receivables	22,252,167.66	22,252,167.66			22,252,167.66
Trade receivables	712,261,600.46	712,261,600.46			712,261,600.46
Other receivables	12,117,039.54	12,117,039.54			12,117,039.54
Other current assets	37,890,955.07	37,890,955.07			37,890,955.07
Short-term borrowings	502,189,369.18	502,189,369.18			502,189,369.18
Bills payables	833,561,059.77	833,561,059.77			833,561,059.77
Trade payables	444,956,856.84	444,956,856.84			444,956,856.84
Contract liabilities	2,864,226.16	2,864,226.16			2,864,226.16
Salaries payable to employees	4,735,446.57	4,735,446.57			4,735,446.57
Other payables	11,798,422.22	11,798,422.22			11,798,422.22
Other current liabilities	29,164,198.86	29,164,198.86			29,164,198.86
Long-term borrowings	126,353,138.99		106,402,643.36	19,950,495.63	126,353,138.99

### 2. Fair value

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

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

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



## Notes to the Financial Statements

1 January 2019 to 31 December 2019

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### IX. RISKS RELATED TO FINANCIAL INSTRUMENTS (Continued)

#### 2. Fair value (Continued)

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

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

### X. RELATED PARTIES AND RELATED PARTY TRANSACTIONS

#### (I) Relationship with related parties

##### 1. Controlling shareholder and ultimate controller

##### (1) Controlling shareholder and ultimate controller

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

##### (2) Registered capital of controlling shareholder and its changes

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

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

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



## Notes to the Financial Statements

1 January 2019 to 31 December 2019

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

### X. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (Continued)

#### (I) Relationship with related parties (Continued)

##### 2. Subsidiaries

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

##### 3. Other related parties

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



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

### X. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (Continued)

#### (I) Relationship with related parties (Continued)

##### 3. Other related parties (Continued)

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

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

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



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1 January 2019 to 31 December 2019

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

## X. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (Continued)

### (I) Relationship with related parties (Continued)

#### 3. Other related parties (Continued)

Note 1: (Continued)

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



## Notes to the Financial Statements

1 January 2019 to 31 December 2019

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

### X. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (Continued)

#### (II) Related party transactions

##### 1. Details of related party transactions

Name of related party	Types of related party transactions	Pricing method and decision-making procedure for related party transactions	For the year 2019	For the year 2018
<b>1. Sales and rendering of services</b>				
Guangzhou Cai Zhi Lin Pharmaceutical Co., Ltd.	Sales of goods	Determined after negotiation by reference to market rates	20,693,212.55	24,761,743.87
Guangzhou Jianmin Pharmaceutical Company Limited	Sales of goods	Determined after negotiation by reference to market rates	4,212,520.03	984,243.85
Guangzhou Pharmaceutical Co., Ltd. Da Zhong Pharmaceutical Sales Branch	Sales of goods	Determined after negotiation by reference to market rates	1,376,861.30	370,087.40
Foshan GPC Jianze Pharmaceutical Co., Ltd.	Sales of goods	Determined after negotiation by reference to market rates	197,892.26	230,933.95
Guangzhou Pharmaceuticals Corporation	Sales of goods	Determined after negotiation by reference to market rates	171,409.39	3,711,035.75
Hainan Guangyao Chenfei Pharmaceutical Co., Ltd.	Sales of goods	Determined after negotiation by reference to market rates	48,318.58	
Guangzhou Cai Zhi Lin Corporation Bei Shang Chinese Raw Medicine Co., Ltd.	Sales of goods	Determined after negotiation by reference to market rates	34,242.02	207,682.36
Shenzhen Guangyao Liankang Pharmaceutical Company Limited	Sales of goods	Determined after negotiation by reference to market rates	22,075.87	71,660.18
Zhuhai Guang Yao Kangming Pharmaceutical Co., Ltd.	Sales of goods	Determined after negotiation by reference to market rates	17,375.49	1,667.24
Guangzhou Xin Te Pharmaceutical Co., Ltd.	Sales of goods	Determined after negotiation by reference to market rates	9,151.33	
Guangzhou Yiyao Pharmacy Co., Ltd.	Sales of goods	Determined after negotiation by reference to market rates	7,186.95	
Guangzhou Baiyunshan Pan Gao Shou Pharmaceutical Co., Ltd.	Rendering of services	Determined after negotiation by reference to market rates		9,433.96



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1 January 2019 to 31 December 2019

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

### X. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (Continued)

#### (II) Related party transactions (Continued)

##### 1. Details of related party transactions (Continued)

Name of related party	Types of related party transactions	Pricing method and decision-making procedure for related party transactions	For the year 2019	For the year 2018
<b>2. Sales and receiving of services</b>				
Guangzhou Pharmaceuticals Corporation	Procurement of goods	Determined after negotiation by reference to market rates	111,688,821.54	412,759,909.25
Guangzhou Cai Zhi Lin Pharmaceutical Co., Ltd.	Procurement of goods	Determined after negotiation by reference to market rates	54,927,915.29	54,262,834.84
Guangzhou Wang Lao Ji Pharmaceutical Co., Ltd.	Procurement of goods	Determined after negotiation by reference to market rates	40,512,152.97	40,589,079.26
Guangzhou Baiyunshan Pharmaceutical Marketing Co., Ltd.	Procurement of goods	Determined after negotiation by reference to market rates	37,376,742.03	41,581,113.54
Guangzhou Baiyunshan Pan Gao Shou Pharmaceutical Co., Ltd.	Procurement of goods	Determined after negotiation by reference to market rates	32,942,255.89	24,055,634.68
Guangzhou Baiyunshan Zhong Yi Pharmaceutical Company Limited	Procurement of goods	Determined after negotiation by reference to market rates	32,718,900.78	-22,132,147.74
Guangzhou Baiyunshan Xing Qun Pharmaceutical Co., Ltd.	Procurement of goods	Determined after negotiation by reference to market rates	31,290,282.87	29,034,970.66
Guangzhou Pharmaceutical Import and Export Company Limited	Procurement of goods	Determined after negotiation by reference to market rates	23,184,539.22	58,746,686.27
Guangzhou Baiyunshan Tian Xin Pharmaceutical Co., Ltd.*	Procurement of goods	Determined after negotiation by reference to market rates	19,668,387.91	19,509,594.43
Guangzhou Baiyunshan Pharmaceutical Holdings Co., Ltd. Baiyunshan He Ji Gong Pharmaceutical Factory	Procurement of goods	Determined after negotiation by reference to market rates	17,961,281.24	16,197,502.19
Guangzhou Baiyunshan Chen Li Ji Pharmaceutical Factory Co., Ltd.	Procurement of goods	Determined after negotiation by reference to market rates	16,165,887.64	15,912,401.97
Guangzhou Guo Ying Pharmaceutical Co., Ltd.	Procurement of goods	Determined after negotiation by reference to market rates	15,438,940.49	21,593,397.01



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1 January 2019 to 31 December 2019

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

### X. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (Continued)

#### (II) Related party transactions (Continued)

##### 1. Details of related party transactions (Continued)

Name of related party	Types of related party transactions	Pricing method and decision-making procedure for related party transactions	For the year 2019	For the year 2018
Guangzhou Baiyunshan Hutchison Whampoa Chinese Medicine Co., Ltd.	Procurement of goods	Determined after negotiation by reference to market rates	6,998,605.21	7,017,061.17
Guangzhou Baiyunshan Qi Xing Pharmaceutical Co., Ltd.	Procurement of goods	Determined after negotiation by reference to market rates	3,464,392.20	3,875,411.77
Guangzhou Baiyunshan Guang Hua Pharmacy Co., Ltd.	Procurement of goods	Determined after negotiation by reference to market rates	2,518,647.40	3,043,700.28
Hutchison Whampoa Guangzhou Baiyunshan Pharmaceutical Co., Ltd.	Procurement of goods	Determined after negotiation by reference to market rates	87,610.62	77,075.21
Guangzhou Xin Te Pharmaceutical Co., Ltd.	Procurement of goods	Determined after negotiation by reference to market rates	57,509.73	2,299,395.22
Guangzhou Baiyunshan Ming Xing Pharmaceutical Co., Ltd.	Procurement of goods	Determined after negotiation by reference to market rates	44,508.63	-58,651.64
Foshan GPC Jianze Pharmaceutical Co., Ltd	Procurement of goods	Determined after negotiation by reference to market rates	35,721.24	1,494,735.53
Guangzhou Chinese Medicine Corporation Chinese Medical Drink and Pill Factory	Procurement of goods	Determined after negotiation by reference to market rates	1,694.31	

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

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

\* For identification purposes only



## Notes to the Financial Statements

1 January 2019 to 31 December 2019

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### X. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (Continued)

#### (III) Related party balances

Name of item	Balance at the end of the year	Balance at the beginning of the year
<b>Trade receivables</b>		
Guangzhou Jianmin Pharmaceutical Company Limited	1,048,448.65	646,421.91
Guangzhou Pharmaceutical Co., Ltd. Da Zhong Pharmaceutical Sales Branch	723,770.00	306,648.00
Guangzhou Cai Zhi Lin Pharmaceutical Co., Ltd.	132,623.57	7,728,161.80
Guangzhou Cai Zhi Lin Corporation Bei Shang Chinese Raw Medicine Co., Ltd.	13,815.52	34,352.28
Guangzhou Yiyao Pharmacy Co., Ltd.	6,287.05	
Zhuhai Guang Yao Kangming Pharmaceutical Co., Ltd.	1,696.00	
Guangzhou Pharmaceuticals Corporation		1,465,202.32
Foshan GPC Jianze Pharmaceutical Co., Ltd.		12,615.51
<b>Prepayments</b>		
Guangzhou Baiyunshan Zhong Yi Pharmaceutical Company Limited	32,248,568.52	5,451,511.50
Guangzhou Baiyunshan Pharmaceutical Marketing Co., Ltd.	13,660,187.15	20,493,542.01
Guangzhou Wang Lao Ji Pharmaceutical Co., Ltd.	5,327,522.08	2,655,427.28
Guangzhou Baiyunshan Xing Qun Pharmaceutical Co., Ltd.	1,541,245.10	1,606,079.54
Guangzhou Baiyunshan Pharmaceutical Holdings Co., Ltd. Baiyunshan He Ji Gong Pharmaceutical Factory	859,299.04	925,781.41
Guangzhou Baiyunshan Chen Li Ji Pharmaceutical Factory Co., Ltd.	216,622.39	3,491,492.56
Guangzhou Baiyunshan Hutchison Whampoa Chinese Medicine Co., Ltd.	99,171.64	671,093.40
Guangzhou Pharmaceuticals Corporation	66,602.12	
Guangzhou Baiyunshan Ming Xing Pharmaceutical Co., Ltd.	14,143.01	58,651.64
Guangzhou Baiyunshan Qi Xing Pharmaceutical Co., Ltd.	3,103.19	
Guangzhou Pharmaceutical Import and Export Company Limited	516.55	10,011,636.55
Guangzhou Baiyunshan Pan Gao Shou Pharmaceutical Co., Ltd.		3,995,345.04
Guangzhou Baiyunshan Tian Xin Pharmaceutical Co., Ltd.		87,117.99
Guangzhou Baiyunshan Guang Hua Pharmacy Co., Ltd.		37,241.38
<b>Other receivables</b>		
Guangzhou Pharmaceuticals Corporation	300,000.00	450,000.00
Guangzhou Wang Lao Ji Pharmaceutical Co., Ltd.	150,000.00	150,000.00
Guangzhou Baiyunshan Jing Xiu Tang Pharmaceutical Co., Ltd.	20,000.00	20,000.00
Guangzhou Baiyunshan Hutchison Whampoa Chinese Medicine Co., Ltd.	20,000.00	20,000.00



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### X. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (Continued)

#### (III) Related party balances (Continued)

Name of item	Balance at the end of the year	Balance at the beginning of the year
<b>Trade payables</b>		
Guangzhou Pharmaceuticals Corporation	37,552,747.29	82,420,564.88
Guangzhou Cai Zhi Lin Pharmaceutical Co., Ltd.	14,187,677.96	15,859,533.12
Guangzhou Guo Ying Pharmaceutical Co., Ltd.	5,396,626.09	6,109,644.92
Guangzhou Baiyunshan Tian Xin Pharmaceutical Co., Ltd.	2,256,767.98	674,162.38
Guangzhou Baiyunshan Chen Li Ji Pharmaceutical Factory Co., Ltd.	460,762.42	62,575.70
Guangzhou Baiyunshan Pan Gao Shou Pharmaceutical Co., Ltd.	267,453.59	
Foshan GPC Jianze Pharmaceutical Co., Ltd.	40,365.00	444,122.40
Guangzhou Chinese Medicine Corporation Chinese Medical Drink and Pill Factory	1,846.80	
Guangzhou Baiyunshan Qi Xing Pharmaceutical Co., Ltd.		317,887.84
<b>Bills payables</b>		
Guangzhou Baiyunshan Zhong Yi Pharmaceutical Company Limited	45,304,680.08	
Guangzhou Pharmaceuticals Corporation	25,708,413.98	83,705,001.15
Guangzhou Wang Lao Ji Pharmaceutical Co., Ltd.	20,113,674.70	14,691,780.73
Guangzhou Cai Zhi Lin Pharmaceutical Co., Ltd.	19,926,326.18	9,948,460.46
Guangzhou Baiyunshan Pharmaceutical Marketing Co., Ltd.	14,225,462.09	23,548,089.77
Guangzhou Baiyunshan Pan Gao Shou Pharmaceutical Co., Ltd.	8,993,060.00	10,008,000.00
Guangzhou Baiyunshan Tian Xin Pharmaceutical Co., Ltd.	7,819,436.61	8,432,485.68
Guangzhou Baiyunshan Xing Qun Pharmaceutical Co., Ltd.	6,565,903.37	2,084,700.00
Guangzhou Baiyunshan Pharmaceutical Holdings Co., Ltd. Baiyunshan He Ji Gong Pharmaceutical Factory	4,293,535.25	1,392,900.00
Guangzhou Baiyunshan Chen Li Ji Pharmaceutical Factory Co., Ltd.	4,088,988.98	8,404,553.20
Guangzhou Guo Ying Pharmaceutical Co., Ltd.	3,300,942.57	2,214,609.64
Guangzhou Baiyunshan Qi Xing Pharmaceutical Co., Ltd.	2,381,238.76	918,580.00
Guangzhou Baiyunshan Hutchison Whampoa Chinese Medicine Co., Ltd.	1,973,439.40	2,318,482.96
Guangzhou Baiyunshan Guang Hua Pharmacy Co., Ltd.	1,032,356.00	1,350,000.00
Guangzhou Pharmaceutical Import and Export Company Limited		10,412,782.73
Foshan GPC Jianze Pharmaceutical Co., Ltd.		152,900.00



## Notes to the Financial Statements

1 January 2019 to 31 December 2019

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

### X. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (Continued)

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

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

Item	Salaries and allowances	Social insurance, housing fund and pension	Bonuses	Share-based payment	Total
<b>Amounts for the year</b>					
Executive Directors					
Yao Chuanglong	650,000.00	64,156.16			714,156.16
Lin Zhixiong	483,135.36	51,186.88			534,322.24
Zheng Yuyan	485,000.00	39,782.20			524,782.20
Subtotal	1,618,135.36	155,125.24			1,773,260.60
Non-executive directors					
Li Weisheng					
Subtotal					
Supervisors					
Zheng Xiyue	168,598.00	27,627.85			196,225.85
Lin Zhijie	392,541.50	30,800.22			423,341.72
Zhang Ling	40,000.00				40,000.00
Subtotal	601,139.50	58,428.07			659,567.57
Independent non-executive directors					
Wan Chi Wai, Anthony	127,845.60				127,845.60
Guan Jian	50,000.00				50,000.00
Zhou Tao	50,000.00				50,000.00
Subtotal	227,845.60				227,845.60
<b>Total</b>	<b>2,447,120.46</b>	<b>213,553.31</b>			<b>2,660,673.77</b>



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1 January 2019 to 31 December 2019

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

### X. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (Continued)

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

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

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

Note: There was no information relating to the loans or quasi loans of the Directors, legal bodies controlled by the Directors and entities related to the Directors, or any other transactions that benefited the same during the year.



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

### X. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (Continued)

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

##### 2. Five individuals with the highest emoluments

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

Item	Amount for the year	Amount for last year
Salaries and allowances	<b>561,139.50</b>	551,966.40
Social insurance, housing fund and relevant pension cost	<b>58,428.07</b>	78,087.56
Total	<b>619,567.57</b>	630,053.96

Scope of emoluments:

Item	Number of people for the year	Number of people for last year
Within RMB1,000,000	<b>5</b>	5

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

##### 4. Major management's emoluments

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

Item	Amount for the year	Amount for last year
Salaries and allowances	<b>2,667,694.86</b>	2,483,124.72
Social insurance, housing fund and relevant pension cost	<b>237,800.49</b>	222,938.74
Bonuses		5,200.00
Total	<b>2,905,495.35</b>	2,711,263.46



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1 January 2019 to 31 December 2019

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

### XI. CONTINGENCIES

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

Names of Guarantors	Names of Guarantees	Guarantee Amount	Commencement Date	Release Date	Whether the Guarantee has been fully performed	Explanation
Charmacy Pharmaceutical Company	Charmacy Pharmaceutical Company, Guangdong Charmacy Company	39,000.00	2015-05-25	2020-05-25	Yes	Building property mortgage
Charmacy Pharmaceutical Company	Guangdong Charmacy Company	12,000.00	2015-07-29	2020-12-31	No	
Guangdong Charmacy Company	Charmacy Pharmaceutical Company, Guangdong Charmacy Company	17,000.00	2015-10-21	2020-10-21	Yes	Chattel mortgage
Guangdong Charmacy Company	Charmacy Pharmaceutical Company	3,500.00	2017-05-26	2019-04-30	Yes	
Guangdong Charmacy Company	Charmacy Pharmaceutical Company	20,000.00	2017-11-20	2022-11-19	No	
Charmacy Pharmaceutical Company	Guangdong Charmacy Company	35,000.00	2017-12-15	2019-04-30	Yes	
Charmacy Pharmaceutical Company	Guangdong Charmacy Company	5,000.00	2018-06-12	2022-06-06	Yes	
Charmacy Pharmaceutical Company	Guangdong Charmacy Company	18,000.00	2018-07-10	2019-07-09	Yes	
Charmacy Pharmaceutical Company	Charmacy Pharmaceutical Company, Guangdong Charmacy Company	38,000.00	2018-07-10	2023-07-10	Yes	Chattel mortgage
Guangdong Charmacy Company	Charmacy Pharmaceutical Company	20,000.00	2018-07-10	2019-07-09	Yes	
Guangdong Charmacy Company	Charmacy Pharmaceutical Company	38,000.00	2018-07-10	2023-07-10	No	Chattel mortgage
Charmacy Pharmaceutical Company	Guangdong Charmacy Company	3,500.00	2018-07-12	2020-06-30	Yes	
Guangdong Charmacy Company	Charmacy Pharmaceutical Company	3,500.00	2018-07-12	2020-06-30	Yes	
Guangdong Charmacy Company	Charmacy Pharmaceutical Company	8,000.00	2018-08-03	2019-08-02	Yes	
Charmacy Pharmaceutical Company	Guangdong Charmacy Company	4,500.00	2018-08-06	2020-12-31	Yes	



## Notes to the Financial Statements

1 January 2019 to 31 December 2019

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

### XI. CONTINGENCIES (Continued)

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

Names of Guarantors	Names of Guarantees	Guarantee Amount	Commencement Date	Release Date	Whether the Guarantee has been fully performed	Explanation
Guangdong Charmacy Company	Charmacy Pharmaceutical Company	18,000.00	2018-08-15	2025-08-15	No	
Charmacy Pharmaceutical Company	Guangdong Charmacy Company	6,000.00	2018-12-03	2019-12-03	Yes	
Charmacy Pharmaceutical Company	Guangdong Charmacy Company	6,000.00	2018-12-03	2021-12-27	No	
Guangdong Charmacy Company	Charmacy Pharmaceutical Company	13,000.00	2018-12-03	2021-12-27	No	
Charmacy Pharmaceutical Company	Guangdong Charmacy Company	15,000.00	2019-03-29	2022-03-29	No	
Charmacy Pharmaceutical Company	Guangdong Charmacy Company	3,000.00	2019-06-05	2020-04-02	No	
Charmacy Pharmaceutical Company	Guangdong Charmacy Company	5,500.00	2019-06-21	2021-06-30	No	
Guangdong Charmacy Company	Charmacy Pharmaceutical Company	5,500.00	2019-06-21	2021-06-30	No	
Charmacy Pharmaceutical Company	Guangdong Charmacy Company	5,000.00	2019-07-15	2023-07-14	No	
Charmacy Pharmaceutical Company	Guangdong Charmacy Company	20,000.00	2019-08-02	2020-08-01	No	
Charmacy Pharmaceutical Company	Charmacy Pharmaceutical Company, Guangdong Charmacy Company	3,800.00	2019-08-02	2023-07-10	No	Chattel mortgage
Charmacy Pharmaceutical Company	Charmacy Pharmaceutical Company, Guangdong Charmacy Company	3,800.00	2019-08-02	2023-08-02	No	Building property mortgage
Guangdong Charmacy Company	Charmacy Pharmaceutical Company	20,000.00	2019-08-02	2020-08-01	No	
Charmacy Pharmaceutical Company	Guangdong Charmacy Company	3,500.00	2019-09-18	Note 1	No	
Guangdong Charmacy Company	Charmacy Pharmaceutical Company	3,500.00	2019-09-18	Note 1	No	



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1 January 2019 to 31 December 2019

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

### XI. CONTINGENCIES (Continued)

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

Names of Guarantors	Names of Guarantees	Guarantee Amount	Commencement Date	Release Date	Whether the Guarantee has been fully performed	Explanation
Charmacy Pharmaceutical Company	Guangdong Charmacy Company	4,000.00	2019-11-25	2022-12-31	No	
Guangdong Charmacy Company	Charmacy Pharmaceutical Company	3,300.00	2019-11-29	2021-11-29	No	
Guangdong Charmacy Company	Charmacy Pharmaceutical Company	3,500.00	2017-05-26	2019-04-30	Yes	
Guangdong Charmacy Company	Charmacy Pharmaceutical Company	20,000.00	2017-11-20	2022-11-19	No	

Note 1: The guarantee obligation became effective from 18 September 2019 for a term of 60 months from the expiration of the performance period of the guarantee obligation.

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

### XII. COMMITMENTS

Item	31 December 2019
Capital expenditure contracted but not recognized in the financial statements – Construction Project of Guangzhou Pharmaceutical Sorting and Distribution Center	<b>32,516,136.71</b>
Total	<b>32,516,136.71</b>

### XIII. EVENTS SUBSEQUENT TO BALANCE SHEET DATE

#### 1. Profit distribution

On 30 March 2020, the meeting of board of directors of Charmacy Pharmaceutical Company passed final dividend of RMB0.20 per share for the year ended 31 December 2019, and proposed it at general meeting for approving such distribution.



## Notes to the Financial Statements

1 January 2019 to 31 December 2019

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

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

#### 1. Bills receivables

##### (1) Classification of bills receivables

Item	Balance at the end of the year	Balance at the beginning of the year
Bank acceptance bills	12,311,600.00	16,449,659.96
Commercial drafts	15,370,000.00	3,975,785.51
Subtotal	27,681,600.00	20,425,445.47
Less: Provision for bad debt	44,573.00	
<b>Total</b>	<b>27,637,027.00</b>	20,425,445.47

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

Item	Pledged amount at the end of the year
Bank acceptance bills	
Commercial drafts	6,000,000.00
<b>Total</b>	<b>6,000,000.00</b>

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

Item	Amount derecognized at the end of the year	Amount not derecognized at the end of the year
Bank acceptance bills	76,558,687.56	
Commercial drafts		
<b>Total</b>	<b>76,558,687.56</b>	



## Notes to the Financial Statements

1 January 2019 to 31 December 2019

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

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

#### 1. Bills receivables (Continued)

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

Item	Amount derecognized at the end of the year	Amount not derecognized at the end of the year
Bank acceptance bills	70,190,980.85	
Commercial drafts		9,370,000.00
<b>Total</b>	<b>70,190,980.85</b>	<b>9,370,000.00</b>

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

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

Classification	Balance as at the end of the year				Book value
	Book balance		Provision for bad debt		
	Amount	Percentage (%)	Amount	Lifetime expected credit loss rate(%)	
Bad debt provision made on individual basis					
Bad debt provision made on a collective basis	27,681,600.00	100.00	44,573.00	0.16	27,637,027.00
Aging portfolio	15,370,000.00	55.52	44,573.00	0.29	15,325,427.00
Low risk portfolio	12,311,600.00	44.48			12,311,600.00
<b>Total</b>	<b>27,681,600.00</b>	<b>100.00</b>	<b>44,573.00</b>	<b>0.16</b>	<b>27,637,027.00</b>



## Notes to the Financial Statements

1 January 2019 to 31 December 2019

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

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

#### 1. Bills receivables (Continued)

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

Classification	Balance as at the beginning of the year			
	Book balance		Provision for bad debt	Book value
	Amount	Percentage (%)	Amount	Lifetime expected credit loss rate(%)
Bad debt provision made on individual basis				
Bad debt provision made on a collective basis	20,425,445.47	100.00		20,425,445.47
Low risk portfolio	20,425,445.47	100.00		20,425,445.47
<b>Total</b>	<b>20,425,445.47</b>	<b>100.00</b>		<b>20,425,445.47</b>

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

Item	Balance as at the end of the year		
	Book balance	Provision for bad debt	Provision ratio (%)
Within 1 year	15,370,000.00	44,573.00	0.29
<b>Total</b>	<b>15,370,000.00</b>	<b>44,573.00</b>	<b>0.29</b>

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



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1 January 2019 to 31 December 2019

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

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

#### 2. Trade receivables

Name of item	Balance at the end of the year	Balance at the beginning of the year
Trade receivables	335,907,982.37	434,213,849.28
Less: Provision for bad debts	5,774,969.73	5,474,847.76
<b>Net amount</b>	<b>330,133,012.64</b>	<b>428,739,001.52</b>

(1) *Aging analysis of trade receivables*

Before accepting new customers, the Group assessed the credit worthiness of potential clients and set corresponding credit limits according to the internal credit assessment policies. The Group applies different credit policies to different customers. Credit period is generally six months. As for commodity sales, the age of trade receivables and operating revenue is recognized and calculation started when the significant risks and rewards were transferred to buyers;

Age	Balance at the end of the year			Balance at the beginning of the year		
	Carrying amount	Percentage (%)	Provision for bad debts	Carrying amount	Percentage (%)	Provision for bad debts
Within 1 year	313,406,731.40	93.30	908,879.52	416,527,355.55	95.93	1,068,650.24
1 to 2 years	20,065,036.77	5.97	2,429,876.01	14,991,632.83	3.45	1,815,486.74
2 to 3 years				185,400.39	0.04	81,250.27
More than 3 years	2,436,214.20	0.73	2,436,214.20	2,509,460.51	0.58	2,509,460.51
<b>Total</b>	<b>335,907,982.37</b>	<b>100.00</b>	<b>5,774,969.73</b>	<b>434,213,849.28</b>	<b>100.00</b>	<b>5,474,847.76</b>



## Notes to the Financial Statements

1 January 2019 to 31 December 2019

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

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

#### 2. Trade receivables (Continued)

##### (2) Classification of trade receivables

Classification	Balance at the end of the year				
	Carrying amount		Provision for bad debts		Book value
	Amount	Percentage (%)	Amount	Lifetime expected credit loss rate (%)	
Bad debt provision made on individual basis	2,436,214.20	0.73	2,436,214.20	100.00	-
Bad debt provision made on a collective basis	333,471,768.17	99.27	3,338,755.53	1.00	330,133,012.64
Aging portfolio	333,471,768.17	99.27	3,338,755.53	1.00	330,133,012.64
Low risk portfolio					
<b>Total</b>	<b>335,907,982.37</b>	<b>100.00</b>	<b>5,774,969.73</b>	<b>-</b>	<b>330,133,012.64</b>

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



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

#### 2. Trade receivables (Continued)

##### (2) Classification of trade receivables (Continued)

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

Company name	Balance at the end of the year			Reasons for provision
	Trade receivables	Provision for bad debts	Lifetime expected credit loss rate(%)	
Fujian Minzhe Pharmaceutical Co., Ltd. (福建省閩浙醫藥有限責任公司)	2,010,786.55	2,010,786.55	100.00	No cooperation relationship subsisting, lower expected recoverability
Ningde Xianghe Pharmaceutical Chain Co., Ltd. (寧德市祥和醫藥連鎖有限責任公司)	271,939.56	271,939.56	100.00	No cooperation relationship subsisting, lower expected recoverability
Jiangxi Jinsheng Medicine Limited (江西金盛醫藥有限公司)	104,626.38	104,626.38	100.00	No cooperation relationship subsisting, lower expected recoverability
Shantou Longhu District People's Hospital (汕頭市龍湖區人民醫院)	15,772.68	15,772.68	100.00	No cooperation relationship subsisting, lower expected recoverability
The First Affiliated Hospital of Shantou University Medical College	15,340.34	15,340.34	100.00	No cooperation relationship subsisting, lower expected recoverability
Shantou Chaoyang District Chinese Medicine Hospital (汕頭市潮陽區中醫醫院)	4,931.74	4,931.74	100.00	No cooperation relationship subsisting, lower expected recoverability
Shantou Chaonan District People's Hospital (汕頭市潮南區人民醫院)	4,697.76	4,697.76	100.00	No cooperation relationship subsisting, lower expected recoverability
Shantou Haojiang District Zhupu Hospital (汕頭市濠江區珠浦醫院)	1,846.52	1,846.52	100.00	No cooperation relationship subsisting, lower expected recoverability



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

#### 2. Trade receivables (Continued)

##### (2) Classification of trade receivables (Continued)

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

Company name	Balance at the end of the year			Reasons for provision
	Trade receivables	Provision for bad debts	Lifetime expected credit loss rate(%)	
Zhejiang Tongtaitang Pharmaceutical Co., Ltd. (浙江同泰堂藥品有限公司)	1,759.50	1,759.50	100.00	No cooperation relationship subsisting, lower expected recoverability
Joint Shantou International Eye Center of Shantou University and The Chinese University of Hong Kong	1,395.33	1,395.33	100.00	No cooperation relationship subsisting, lower expected recoverability
Jiangxi Xinde Pharmaceutical Co., Ltd. (江西信德醫藥有限公司)	1,034.90	1,034.90	100.00	No cooperation relationship subsisting, lower expected recoverability
Others	2,082.94	2,082.94	100.00	No cooperation relationship subsisting, lower expected recoverability
<b>Total</b>	<b>2,436,214.20</b>	<b>2,436,214.20</b>		

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

Age	Balance at the end of the year		
	Trade receivables	Provision for bad debt	Lifetime expected credit loss rate (%)
Within 1 year	<b>313,406,731.40</b>	<b>908,879.52</b>	<b>0.29</b>
1 to 2 years	<b>20,065,036.77</b>	<b>2,429,876.01</b>	<b>12.11</b>
<b>Total</b>	<b>333,471,768.17</b>	<b>3,338,755.53</b>	<b>-</b>



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1 January 2019 to 31 December 2019

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

#### 2. Trade receivables (Continued)

(3) There is no amount past due but not impaired as at the balance sheet date.

(4) *Conditions about the provision for bad debts made and reversed (or recovered) in the year*

Balance at the beginning of the year	Change amount in the year			Balance at the end of the year
	Provision made	Recovered or reversed	Write-back or Write-off	
5,474,847.76	390,839.44	90,717.47		5,774,969.73

The significant amount of recovered or reversed bad debts provision for the year therein:

Company name	Amounts of reverse (or recovery) for the period	Recovery way	Reasons for reverse (or recovery) for the period
The First People's Hospital of Jinping District in Shantou (汕頭市金平區第一人民醫院)	65,488.50	Bank receipts	Recovered during the period
Chaozhou Central Hospital (潮州市中心醫院)	20,976.40	Bank receipts	Recovered during the period
Fujian Union Pharmaceutical Co., Ltd. (福建省協聯醫藥有限公司)	3,441.57	Bank receipts	Recovered during the period
<b>Total</b>	90,732.47	-	-

(5) There are no trade receivables written off during the year.



## Notes to the Financial Statements

1 January 2019 to 31 December 2019

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

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

#### 2. Trade receivables (Continued)

(6) Top five debtors by balance of trade receivables at the end of the year

Company name	Balance at the end of the year	Aging	Percentage of total balance of trade receivables at the end of the year (%)	Balance of provision for bad debts at the end of the year
Kangze Pharmaceutical Chains Co., Ltd. (康澤藥業連鎖有限公司)	49,291,092.08	Within 1 year	14.67	142,944.17
Guangdong Bangjian Pharmaceutical Chains Co., Ltd. (廣東邦健醫藥連鎖有限公司)	14,843,264.33	Within 1 year	4.42	43,045.47
Puning Li Feng Pharmaceutical Co., Ltd. (普寧市立豐藥業有限公司)	13,586,134.59	Within 1 year	4.04	39,399.79
Lufeng Xinte Medicine Co., Ltd. (陸豐市新特藥公司)	9,514,656.68	Within 1 year	2.83	27,592.50
Puning Bailiyuan Pharmaceutical Co., Ltd. (普寧市佰利源藥業有限公司)	9,851,651.90	Within 1 year	2.93	28,569.79
<b>Total</b>	<b>97,086,799.58</b>		<b>28.89</b>	<b>281,551.72</b>

#### 3. Other receivables

Item	Balance at the end of the year	Balance at the beginning of the year
Interests receivable		
Dividend receivable		
Other receivables	<b>22,218,991.16</b>	9,557,464.77
<b>Total</b>	<b>22,218,991.16</b>	<b>9,557,464.77</b>



## Notes to the Financial Statements

1 January 2019 to 31 December 2019

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

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

#### 3. Other receivables (Continued)

##### 3.1 Other receivables

Name of item	Balance at the end of the year	Balance at the beginning of the year
Other receivables	22,223,991.16	9,562,464.77
Less: provision for bad debts	5,000.00	5,000.00
<b>Net amount</b>	<b>22,218,991.16</b>	<b>9,557,464.77</b>

##### (1) Aging analysis of other receivables

Age	Balance at the end of the year			Balance at the beginning of the year		
	Carrying amount	Percentage (%)	Provision for bad debt	Carrying amount	Percentage (%)	Provision for bad debt
Within 1 year	13,611,057.68	61.24		2,360,012.77	24.68	
1 to 2 years	1,449,233.48	6.52		6,000,000.00	62.75	
2 to 3 years	6,000,000.00	27.00				
More than 3 years	1,163,700.00	5.24	5,000.00	1,202,452.00	12.57	5,000.00
<b>Total</b>	<b>22,223,991.16</b>	<b>100.00</b>	<b>5,000.00</b>	<b>9,562,464.77</b>	<b>100.00</b>	<b>5,000.00</b>

##### (2) Classification of other receivables

Classification	Balance at the end of the year				Book value
	Carrying amount	Provision for bad debt			
	Amount	Percentage (%)	Amount	Lifetime expected credit loss rate (%)	
Bad debt provision made on individual basis	5,000.00	0.02	5,000.00	100.00	-
Bad debt provision made on group basis	22,218,991.16	99.98			22,218,991.16
Aging portfolio					-
Portfolio of relatively low recovery risk	22,218,991.16	99.98			22,218,991.16
<b>Total</b>	<b>22,223,991.16</b>	<b>100.00</b>	<b>5,000.00</b>	<b>-</b>	<b>22,218,991.16</b>



## Notes to the Financial Statements

1 January 2019 to 31 December 2019

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

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

#### 3. Other receivables (Continued)

##### 3.1 Other receivables (Continued)

##### (2) Classification of other receivables (Continued)

Classification	Carrying amount		Balance at the beginning of the year		Book value
	Amount	Percentage (%)	Amount	Lifetime	
				expected credit loss rate (%)	
Bad debt provision made on individual basis	5,000.00	0.05	5,000.00	100.00	
Bad debt provision made on group basis	9,557,464.77	99.95			9,557,464.77
Aging portfolio					
Portfolio of relatively low recovery risk	9,557,464.77	99.95			9,557,464.77
<b>Total</b>	<b>9,562,464.77</b>	<b>100.00</b>	<b>5,000.00</b>	<b>-</b>	<b>9,557,464.77</b>

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

Company name	Balance at the end of the year			Reasons for provision
	Other receivables	Provision for bad debts	Lifetime expected credit loss rate (%)	
Qingyuan Runyue Pharmaceutical Co., Ltd. (清遠市潤粵醫藥有限公司)	5,000.00	5,000.00	100.00	The company has been cancelled
<b>Total</b>	<b>5,000.00</b>	<b>5,000.00</b>	<b>-</b>	



## Notes to the Financial Statements

1 January 2019 to 31 December 2019

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

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

#### 3. Other receivables (Continued)

##### 3.1 Other receivables (Continued)

##### (2) Classification of other receivables (Continued)

- 2) *In the portfolio, there are no other receivables for which the bad debt provision is made by the aging analysis method*
- 3) *Other receivables for which the bad debt provision is made by the other methods in the portfolio*

Name of portfolio	Balance as at the end of the year		
	Other receivables	Bad debt provision	Lifetime expected credit loss rate (%)
Low risk portfolio	22,218,991.16		
<b>Total</b>	<b>22,218,991.16</b>		<b>-</b>

- (3) There was no provision for bad debt accrued, reversed (or recovered) in the year.
- (4) There were no other receivables actually written off by the Group in the year.



## Notes to the Financial Statements

1 January 2019 to 31 December 2019

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

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

#### 3. Other receivables (Continued)

##### 3.1 Other receivables (Continued)

##### (5) Classification of other receivables by nature

Nature of amounts	Balance at the end of the year	Balance at the beginning of the year
Current accounts	14,445,267.62	1,952,726.34
Deposit	7,087,452.00	7,297,452.00
Reserve	691,271.54	312,286.43
<b>Total</b>	<b>22,223,991.16</b>	<b>9,562,464.77</b>

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

Name of entity	Nature of amounts	Balance at the end of the year	Age	Percentage of total other receivables (%)	Balance of provision for bad debts at the end of the year
Zhuhai Charmacy Pharmaceutical Limited (珠海創美藥業有限公司)	Current accounts	6,978,996.54	Within 1 year	31.40	
Guangzhou Charmacy Pharmaceutical Limited (廣州創美藥業有限公司)	Current accounts	7,316,271.08	Within 1 year	32.92	
Zhuhai Jinming Medicine Co., Ltd.	Deposit	5,600,000.00	1 to 2 years	25.20	
Fujian Nan'an Lianhuafeng Pharmaceutical Factory (福建省南安市蓮花峰藥廠)	Deposit	1,000,000.00	More than 3 years	4.50	
Zhuhai ZhengBang Logistics Co., Ltd. (珠海正邦倉儲物流有限公司)	Deposit	300,000.00	2 to 3 years	1.35	
<b>Total</b>		<b>21,195,267.62</b>		<b>95.37</b>	



## Notes to the Financial Statements

1 January 2019 to 31 December 2019

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

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

#### 4. Long-term equity investments

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

Item	Balance at the end of the year			Balance at the beginning of the year		
	Carrying amount	Provisions for impairment	Book value	Carrying amount	Provisions for impairment	Book value
Investment in the subsidiaries	216,510,000.00		216,510,000.00	216,510,000.00		216,510,000.00
<b>Total</b>	<b>216,510,000.00</b>		<b>216,510,000.00</b>	216,510,000.00		216,510,000.00

##### (2) Investment in the subsidiaries

Investees	Balance at the beginning of the year	Addition in the year	Reduction in the year	Balance at the end of the year		
				Balance at the end of the year	Provision for impairment for the year	Balance of provision for impairment at the end of the year
Guangdong Charmacy Company	150,000,000.00			150,000,000.00		
Zuhai Charmacy Company	25,710,000.00			25,710,000.00		
Guangzhou Charmacy Company	20,000,000.00			20,000,000.00		
Shenzhen Charmacy Company	20,800,000.00			20,800,000.00		
<b>Total</b>	216,510,000.00			216,510,000.00		



## Notes to the Financial Statements

1 January 2019 to 31 December 2019

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

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

#### 5. Operating revenue and operating cost

Item	Amount for the year		Amount for last year	
	Revenue	Cost	Revenue	Cost
Principal businesses	1,332,099,283.82	1,258,559,603.63	1,576,664,290.29	1,493,687,099.60
Other businesses	39,053,672.40	1,749,349.38	26,572,007.09	6,287,888.03
<b>Total</b>	<b>1,371,152,956.22</b>	<b>1,260,308,953.01</b>	<b>1,603,236,297.38</b>	<b>1,499,974,987.63</b>

#### 6. Investment income

Item	Amount for the year	Amount for last year
Long-term equity investment income accounted for using the cost method	10,000,000.00	20,000,000.00
<b>Total</b>	<b>10,000,000.00</b>	<b>20,000,000.00</b>

### XV. APPROVAL FOR FINANCIAL REPORT

The financial report was approved and published by the Board of the Company on 30 March 2020.



## Notes to the Financial Statements

1 January 2019 to 31 December 2019

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

### SUPPLEMENTARY INFORMATION TO FINANCIAL STATEMENTS

#### 1. Details of non-recurring profit or loss for the year

- (1) In accordance with the requirements of the “Explanatory Announcement on Information Disclosure for Companies Offering Securities to the Public No.1 – Non-recurring Profit or Loss (2008)” 《公開發行證券的公司信息披露解釋性公告第1號–非經常性損益(2008)》 issued by the China Securities Regulatory Commission, non-recurring profit or loss of the Group for 2019 are as follows:

Item	Amount for the year	Explanation
Gains and losses from disposal of non-current assets	-45,128.34	
Tax refunds and relief of ultra vires or without formal approval or incidental tax refunds or relief		
Government grants included in the profit or loss for the period (except for the government grants closely related to the corporate businesses and granted at a fixed amount or quantity in accordance with national uniform standards)	1,097,420.23	
Funds utilisation fees collected from non-financial enterprises included in the profit or loss for the period		
Gains from the excess of the fair value of identifiable net assets of the investee attributable to the enterprise at acquisition over the investment costs for the subsidiaries, associates and joint ventures		
Gains and losses from the exchange of non-monetary assets		
Gains and losses from investments on trust or asset management	99.25	
Provision for impairment of assets as a result of force majeure factors, such as natural disasters		
Gains and losses from debt restructuring		
Costs for enterprise reorganization, such as the expenses for the placement of workers, and integration cost		
Gains and losses from the excess of transaction without fair transaction price over the fair value		
Net gains or losses for the period of subsidiaries arising from business combination under common control from the beginning of the year to the date of combination		
Gains and losses arising from contingent matters not related to the normal operation of the Company		
Investment income derived from the holding of financial assets held for trading and derivative financial assets, gains and losses arising from changes in fair value of financial liabilities held for trading and derivative financial liabilities and disposal of financial assets held for trading, derivative financial assets, financial liabilities held for trading, derivative financial liabilities and other debt investment (excluding the effective hedging activities related to the normal operation of the Company)		
Reversal of impairment provision of receivables and contract assets tested on individual basis	90,732.47	
Gains and losses from external entrusted loan		
Gains and losses from the changes of fair value of investment properties measured by fair value model subsequently		
Effect of one-off adjustment in profit or loss for the period according to the laws and regulations regarding taxation and accounting		
Entrust fee income from entrusted operation		
Other non-operating income and expenditures apart from the above	-1,605.14	
Other items of profit and loss meeting the definition of non-recurring profit and loss		
Sub-total	1,141,518.47	
Less: Effect of income tax	285,379.62	
Effect of minority shareholders' equity (after tax)		
Total	856,138.85	



## Notes to the Financial Statements

1 January 2019 to 31 December 2019

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

### SUPPLEMENTARY INFORMATION TO FINANCIAL STATEMENTS (Continued)

#### 2. Return on net assets and earning per share

In accordance with the requirements of the “Preparation Rules for Information Disclosures by Companies Offering Shares to the Public No.9 – Calculations and Disclosures for Return on Net Assets and Earnings Per Share (Revised in 2010)” (《公開發行證券的公司信息披露編報規則第9號–淨資產收益率和每股收益的計算及披露(2010年修訂)》) issued by the China Securities Regulatory Commission, the weighted average return on net assets, basic earnings per share and diluted earnings per share of the Group for 2019 are as follows:

Profit for the reporting period	Weighted average return on net assets (%)	Earnings per share	
		Basic earnings per share	Diluted earnings per share
Net profit attributable to the shareholders of parent company	8.36	0.3718	0.3718
Net profit attributable to the shareholders of parent company (excluding non-recurring profit and loss)	8.18	0.3639	0.3639

Charmacy Pharmaceutical Co., Ltd.  
30 March 2020