



# 創美藥業股份有限公司

CHARMACY PHARMACEUTICAL CO.,LTD.

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

Stock Code: 2289



ANNUAL REPORT  
2017

# 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, the Company established Guangdong Charmacy in 2011, acquired Zhuhai Charmacy and Guangzhou Charmacy in the first half of 2017, and set up Shenzhen Charmacy in early 2018, striving for intensive engagement in Guangdong and extensive coverage across surrounding areas. The Company 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 procurement orders online. In 2016, the Company ranked 37th among top 100 wholesalers nationally, in respect of principal business. According to the Market Research Report of the Chinese Pharmaceutical Industry (2016) (《中國醫藥行業市場研究報告》(2016)), in respect of sales scale, the Company ranked 7th among the pharmaceutical distribution businesses in Guangdong Province and second among private firms.

With its good reputation and quality services, the Company obtained the 2017 "Gold Ant" award 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 2017; in November 2017, the Company won the title "Top-10 Business with the Highest Innovation Value" (十佳創新價值企業) under the 2016-2017 Gold Award for Pharmaceutical Supply Chain Businesses (2016-2017年度醫藥供應商鏈金質獎), conferred by the Pharmaceutical Logistics Association under the China Federation of Logistics and Purchasing (中國物流與採購聯合會醫藥物流分會); and in December 2017, the Company was recognized as a "Headquarters Enterprise of Shantou City" (汕頭市總部企業) by Shantou People's Government.

# CONTENTS

2	Corporate Information
3	Chairman's Statement
5	Financial Summary
6	Management Discussion and Analysis
20	Biographies of Directors, Supervisors and Senior Management
26	Corporate Governance Report
38	Directors' Report
51	Board of Supervisors' Report
53	Auditor's Report
58	Consolidated Balance Sheet
61	Balance Sheet of the Parent Company
64	Consolidated Income Statement
66	Income Statement of the Parent Company
68	Consolidated Statement of Cash Flow
70	Statement of Cash Flow of the Parent Company
72	Consolidated Statement of Changes in Shareholder's Equity
74	Statement of Changes in Shareholder's Equity of the Parent Company
76	Notes to the Financial Statements





# 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)

## JOINT COMPANY SECRETARIES

Lin Zhixiong (林志雄)  
Ng Wing Shan (吳詠珊)

## AUDIT COMMITTEE

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

## NOMINATION COMMITTEE

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

## REMUNERATION COMMITTEE

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

## 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)  
Ng Wing Shan (吳詠珊)

## AUDITOR

ShineWing Certified Public Accountants (Special General Partnership)

## LEGAL ADVISORS

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

## REGISTERED OFFICE AND HEADQUARTERS

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

## PRINCIPAL PLACE OF BUSINESS IN HONG KONG

18/F, Tesbury Centre,  
28 Queen's Road East,  
Wanchai, Hong Kong

## PRINCIPAL BANKS

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

## H SHARE REGISTRAR

Computershare Hong Kong Investor Services Limited

## COMPANY WEBSITE

[www.chmyy.com](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 2017 (the “**Reporting Period**”) of the Company and its subsidiaries (the “**Group**” or “**us**” or “**we**” or “**Charmacy**”).

## BUSINESS OVERVIEW

The Company is principally engaged in the pharmaceutical distribution business. As part of the pharmaceutical circulation industry, the Company, with its focus on non-tendering markets, mainly distributes western medicine, Chinese patent medicine and healthcare products to downstream distributors and such retail terminals as pharmacies, clinics and private hospitals. It also provides consultation service on pharmaceutical products. As of 31 December 2017, the Company had operated as many as 11,230 products. Founded in eastern Guangdong in 2000, the Company established Guangdong Charmacy Pharmaceutical Co., Ltd.\* (廣東創美藥業有限公司) (“**Guangdong Charmacy**”) in 2011, acquired Zhuhai Charmacy Hengxiang Pharmaceutical Limited\* (珠海創美恒祥醫藥有限公司) (“**Zhuhai Charmacy**”) and Guangzhou Charmacy Pharmaceutical Limited\* (廣州創美藥業有限公司) (“**Guangzhou Charmacy**”) in the first half of 2017, and set up Shenzhen Charmacy Pharmaceutical Limited\* (深圳創美藥業有限公司) (“**Shenzhen Charmacy**”) in early 2018, striving to deliver full coverage across the Pearl River Delta. The Company 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) (www.cmynet.com), a platform for customers to place procurement orders online. In 2016, the Company ranked 37th among top 100 wholesalers nationally, in respect of principal business. According to the Market Research Report of the Chinese Pharmaceutical Industry (2016) (《中國醫藥行業市場研究報告》(2016)), in respect of sales scale, the Company ranked 7th among the pharmaceutical distribution businesses in Guangdong Province and second among private firms. In May 2017, the Company obtained the 2017 “Gold Ant” award 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 November 2017, the Company won the title “Top-10 Business with the Highest Innovation Value” (十佳創新價值企業) under the 2016-2017 Gold Award for Pharmaceutical Supply Chain Businesses (2016-2017年度醫藥供應商鏈金質獎), conferred by the Pharmaceutical Logistics Association under the China Federation of Logistics and Purchasing (中國物流與採購聯合會醫藥物流分會); and in December 2017, the Company was recognized as a “Headquarters Enterprise of Shantou City” (汕頭市總部企業) by Shantou People’s Government.

## PERFORMANCE FOR THE YEAR 2017

The Group’s operating revenue grew by 11.61% from RMB3,669.78 million in 2016 to RMB4,095.84 million in 2017, while its gross profit increased by 15.46% from RMB181.76 million in 2016 to RMB209.86 million in 2017. The Group’s gross profit margin was up from 4.95% in 2016 to 5.12% in 2017. The Group’s net profit attributable to the shareholders of parent company declined by 20.72%, from RMB56.46 million in 2016 to RMB44.76 million in 2017.

\* For identification purpose only.



## Chairman's Statement

### PROSPECT

In respect of market size, the Chinese pharmaceutical circulation industry has been growing rapidly in recent years. Frequent rollout of medical reform policies has brought both fresh opportunities and challenges to the industry. Among such policies are the “Two-Invoice System” and the separation of medical institutions from pharmaceutical business, which help the pharmaceutical circulation industry to make steady improvement in respect of industrial concentration. In addition to increasingly stringent regulation on pharmaceutical circulation, the industry is actively engaged in the “Internet + Pharmaceutical Circulation” model to integrate online and offline development. Pharmaceutical business with such core competitiveness will stand out. With that in mind, Charmacy Pharmaceutical will follow the underlying trend, and capitalize on the huge growth potential of Guangdong Province and the entire southern China. More specifically, the Company will strive to elevate the operating efficiency of its pharmaceutical supply chain, reduce the cost of pharmaceutical circulation, and solidify its leadership in the pharmaceutical circulation industry in Guangdong Province. Based on its own positioning and the future trends of industry development, the Company has set out its development strategy “Intensive Engagement in Guangdong and Extensive Coverage across Surrounding Areas”. By improving its distribution network and operating efficiency, enriching product mix and expand value-added service, the Company will leverage its merits, pursue progress while maintaining stability, and work to deliver sustainable development for the Group.

### 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, 21 March 2018



# Financial Summary

<b>Results</b>	<b>2017</b> <b>RMB'000</b>	<b>For the year ended 31 December</b>			
		2016 RMB'000	2015 RMB'000	2014 RMB'000	2013 RMB'000
Operating revenue	<b>4,095,835</b>	3,669,781	3,396,333	3,014,603	2,401,231
Total profit	<b>59,857</b>	76,081	56,468	43,600	29,314
Net profit attributable to the Shareholders of parent company	<b>44,760</b>	56,458	41,773	33,567	22,219
Basic and diluted earnings per Share (expressed in RMB per share)	<b>0.41</b>	0.52	0.52	0.42	N/A

  

<b>Financial Position</b>	<b>2017</b> <b>RMB'000</b>	<b>As at 31 December</b>			
		2016 RMB'000	2015 RMB'000	2014 RMB'000	2013 RMB'000
Total assets	<b>2,471,830</b>	2,111,570	2,094,695	1,551,766	1,444,602
Total liabilities	<b>2,008,423</b>	1,668,801	1,686,785	1,309,194	1,235,482
Equity of Shareholders	<b>463,407</b>	442,769	407,911	242,572	209,120
Net assets per Share (as stated in RMB per Share)	<b>4.29</b>	4.10	3.78	3.03	N/A

*Note:* Change in accounting policy of the Company to China Accounting Standards for Business Enterprises was approved on the Annual General Meeting of the Company on 10 June 2017. The data of Financial Summary for 2014 to 2017 were prepared in accordance with China Accounting Standards for Business Enterprises, whereas the data for 2013 were prepared in accordance with Hong Kong Accounting Standards. Apart from that, relevant financial information in the 2017 annual report of the Company was prepared in accordance with China Accounting Standards for Business Enterprises.



# **Management Discussion and Analysis**



# Management Discussion and Analysis

## INDUSTRY OVERVIEW

In recent years, the Chinese pharmaceutical circulation industry has undergone rapid growth in terms of market size, as the new medical reform takes place at a faster pace and residents witness an improvement in their quality of life. At the same time, the industry faces fresh opportunities and challenges, under a raft of new pharmaceutical policies.

During the reporting period, the General Office of the State Council of the PRC (the “**State Council**”) promulgated Several Opinions on Further Reforming and Improving the Policies Concerning Production, Circulation and Usage of Drugs (《關於進一步改革完善藥品生產流通使用政策的若干意見》) (“**Circular No.13**”) in January 2017 to deepen the reform of pharmaceutical and healthcare systems, improve the quality and therapeutic effect of pharmaceutical products, regulate pharmaceutical circulation and usage, better meet the public demand for medical consultation and treatment, and ultimately help develop a “Healthy China”. In respect of pharmaceutical circulation, Circular No.13 places its emphasis on rectifying the circulation order and improving the circulation system. Specifically, the following measures are raised: developing large modern businesses to serve the backbone in pharmaceutical circulation; enforcing the “Two-Invoice System” for pharmaceutical purchase and distribution; carrying out the policy for classified pharmaceutical purchase, and containing unreasonably high prices of pharmaceutical products; strengthening the management of purchase and distribution contracts for pharmaceutical products; imposing severe legal punishment on businesses that violate laws and regulations; enhancing the monitoring of price information; and promoting the “Internet + Pharmaceutical Circulation” model.





## Management Discussion and Analysis

### **Steadily improving industry concentration in pharmaceutical circulation**

According to Circular No.13, China will implement a “Two-Invoice System” on pharmaceutical purchase and distribution, which is expected to be promoted across the country in 2018. The new system will facilitate industrial integration among pharmaceutical circulation businesses, and raise the degree of industrial concentration in pharmaceutical circulation industry.

In December 2016, the Chinese Ministry of Commerce issued the National Development Plan for Drug Circulation Industry (2016–2020) (《全國藥品流通行業發展規劃(2016-2020年)》) (the “**Plan**”), in an attempt to continue to encourage pharmaceutical circulation businesses to grow stronger and larger through various approaches such as mergers and acquisitions, financing through listing, and bond issuance. In this way, the industry can achieve sizeable, intensive and modern operation more quickly. The plan also proposes that the country will develop a group of large pharmaceutical circulation businesses with nationwide coverage and a high degree of intensive and information-based operation by 2020, and that top 100 pharmaceutical distribution businesses will account for over 90% of the total annual sales of the pharmaceutical distribution market. According to the Report of Statistical Analysis on the Operation of Pharmaceutical Circulation Industry (《藥品流通行業運行統計分析報告》) issued by the Chinese Ministry of Commerce in June 2017, in respect of revenue from principal business, top 100 pharmaceutical wholesalers accounted for 70.9% of the Chinese pharmaceutical market in 2016, which represented a year-on-year increase of 0.2%.

The implementation of various policies will push pharmaceutical circulation into a period of rapid industrial concentration.

### **Increasingly strict regulation in the pharmaceutical circulation industry**

During the reporting period, China Food and Drug Administration (“**CFDA**”) targeted the rectification in pharmaceutical circulation, tightening the regulation of the industry. In February 2017, CFDA amended the Good Supply Practice (“**GSP**”) for Pharmaceutical Products – Guiding Principles for Onsite Inspection (《藥品經營質量管理規範現場檢查指導原則》), which sets out higher requirements on GSP certification and inspection for pharmaceutical operation firms. On 23 October 2017, CFDA issued a draft amendment to the PRC Law on the Administration of Pharmaceuticals (《中華人民共和國藥品管理法》). The draft amendment cancelled GMP (Good Manufacturing Practice for Pharmaceutical Products) and GSP systems, signaling that dynamic supervision and spot checks will replace “static” supervision.

By rolling out such regulatory policies, the Chinese authorities for pharmaceutical circulation have shown their determination to provide a safe and efficient circulation environment for the industry. Implementing such policies will result in tighter industrial supervision. This will be conducive to regulating and managing pharmaceutical circulation industry, and facilitate its healthy development.



## Management Discussion and Analysis

### **Regulating medical practice and medication, reforming and adjusting the profit-driven mechanism**

Circular No.13 proposes to further dismantle the mechanism in which doctors profit from medicine, and promote the separation of doctors from the provision of medicine. In January 2017, the State Council issued the “13th Five-Year Plan for Deepening the Reform of Pharmaceutical and Healthcare Systems” (《“十三五”深化醫藥衛生體制改革規劃》) which specifies that work will be done to improve the national policy and system on medicine, restructure the market, and allow retail pharmacies to grow into an important channel to sell medicine to patients and offer them pharmaceutical service.

In May 2017, the People’s Government of Guangdong Province issued the Notice of People’s Government of Guangdong Province on the 13th Five-Year Plan for Reforming Pharmaceutical and Healthcare Systems in Guangdong Province (廣東省“十三五”深化醫藥衛生體制改革規劃), which sets out the requirement that “comprehensive measures shall be taken to separate medical institutions from pharmaceutical business, and cut the profit chain that links hospitals and medical staff to pharmaceutical products and medical supplies”. Medical institutions shall not prevent their prescriptions from external use, and patients can take such prescriptions to retail pharmacies to purchase medicine. In addition, efforts shall be made to promote hierarchical management for pharmaceutical retailers, and establish a hierarchical management system. Furthermore, online pharmaceutical sales should be under tighter scrutiny, with efforts to develop standard pharmacies for medical institutions. Efforts shall also be made to promote sufficient competition, mergers and acquisitions among pharmaceutical companies, so as to realize sizable, intensive and modern operation. The market shall be adjusted to enable retail pharmacies to become an important channel to sell pharmaceutical products to patients and offer them pharmaceutical advice service.

The separation of doctors from medicine provision has regulated medical practice and medication, adjusted the profit mechanism, lowered the medication cost for residents and improved the medical service system. The implementation of the policy allows pharmacies to take on the role of selling prescription medicine and residents to change their consumption habits. As such, pharmacies have assumed an increasingly prominent role and accounted for a larger share in pharmaceutical sales, which in turn, has facilitated the development of pharmaceutical circulation industry.

### **Actively promoting the “Internet + Pharmaceutical Circulation” model to integrate the development of online and offline business**

In January 2017, the State Council cancelled the approval of B and C certificates for online pharmaceutical transactions. On 22 September 2017, the State Council issued the Decision of the State Council on Canceling a Group of Administrative Licensing Items (GF[2017]No.46) (《國務院關於取消一批行政許可事項的決定(國發[2017]46號)》) (the “Decision”). Among the cancelled items is the approval of online pharmaceutical transaction and service businesses (third parties), known as Pharmaceutical E-Commerce A Certificate (醫藥電商A證) (“**Pharmaceutical E-Commerce A Certificate**”). Since then A/B/C certificates have all been cancelled for online pharmaceutical businesses.

China’s support and trust will set “Internet + Pharmaceutical Circulation” as a fresh model and allow the industry to grow speedily. Stimulating extensive internet application in the pharmaceutical circulation industry, the Decision enriched industry development models and facilitated the integration of online and offline development.



## Management Discussion and Analysis

### BUSINESS REVIEW

Our principal business is pharmaceutical products distribution in the PRC, with most of our operating revenue derived from pharmaceutical products distribution. We procure pharmaceutical products from pharmaceutical manufacturers and distributor suppliers and then sell the products to distributor customers, retail pharmacies, and hospitals, clinics, health centres and others. In 2017, we followed the established operation target, continue to explore the market in Southern China, with a focus on developing the business of distribution to end-customers.

As of 31 December 2017, our distribution network covered 7,355 customers, among which 782 were distributors, 4,777 were retail pharmacies and 1,796 were hospitals, clinics, health centres and others. As of 31 December 2016, our distribution network covered 5,674 customers, among which 783 were distributors, 3,496 were retail pharmacies and 1,395 were hospitals, clinics, health centres and others.

As of 31 December 2017, we had a total of 1,066 suppliers, of which 687 were pharmaceutical manufacturers and 379 were distributor suppliers. As of 31 December 2016, we had 1,019 suppliers, among which 673 were pharmaceutical manufacturers and 346 were distributor suppliers.

As of 31 December 2017, we distributed 11,230 products, which represented an increase of 5,161 products as compared to 2016.

	Number of products for the year ended 31 December	
	2017	2016
<b>Products Category</b>		
Western medicines	4,180	2,881
Chinese patent medicines	3,438	2,392
Healthcare products	197	125
Others	3,415	671
Total	11,230	6,069

Our B2B e-commerce platform, “Charmacy e-Medicine” (創美e藥) (<http://www.cmyynet.com/>) commenced full operation in December 2015. As of 31 December 2017, our B2B e-commerce platform (“**e-commerce platform**”) had 6,240 registered customers who are mainly retail pharmacies. The operating revenue contributed by our e-transactions through our B2B e-commerce platform in 2017 was approximately RMB194.89 million. In 2017, we were comprehensively engaged in upgrading the PC application of our e-commerce platform and the mobile application of WAP, as well as developing the APP platform. Besides, in September 2017, we officially launched “Charmacy e-Medicine” APP platform where customers can enjoy convenient and efficient distribution experience through a series of convenient service such as customer query, order placement and payment.

The operating revenue of the Group in 2017 was RMB4,095.84 million, increasing by 11.61% as compared to last year. The gross profit margin was 5.12%, increasing by 0.17 percentage point as compared to last year. The total expense ratio was 3.54%, representing an increase of 0.79 percentage point as compared to last year. Net profit amounted to RMB44.29 million, which represented a decline of 21.54% as compared to last year. Our net profit margin was 1.08%, decreasing by 0.46 percentage point as compared to last year.



## Management Discussion and Analysis

### **Launching the construction of informatization program (Phase II) to facilitate corporate strategic development**

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

### **Penetrating into Zhuhai and Guangzhou to improve the distribution network**

In 2017, the Group proceeded with its acquisitions. Its successive increase of capital contribution to two pharmaceutical distribution companies in Zhuhai and Guangzhou has further improved the Group's distribution network in the Guangdong market, with extended service coverage of pharmaceutical delivery, higher service efficiency, greater coverage of the Group's end market in Guangdong, and a more competitive pharmaceutical distribution network.

On 13 March 2017, the Company increased its capital contribution to Zhuhai Hengxiang Pharmaceutical Limited\* (珠海市恒祥醫藥有限公司) to hold 70% of its shares, at a consideration of RMB18 million. Zhuhai Hengxiang Pharmaceutical Limited completed the registration for industrial and commercial changes on 30 March 2017, with its name changed to "Zhuhai Charmacy Hengxiang Pharmaceutical Limited\*" (珠海創美恒祥醫藥有限公司).

The increase of capital contribution to Zhuhai Charmacy is an important move for the Group to penetrate into Zhuhai region, with full coverage across the end markets of Zhuhai and neighboring Zhongshan and Jiangmen. As of 31 December 2017, Zhuhai Charmacy had added 1,085 downstream customers and 3,503 products under its operation (including 1,921 Chinese medicine decoction pieces) to the Group's portfolio.

On 19 June 2017, the Company increased its capital contribution to Guangzhou Wangkang Pharmaceutical Technology Limited\* (廣州王康醫藥科技有限公司) to hold 90% of its shares, at a consideration of RMB18 million. Guangzhou Wangkang Pharmaceutical Technology Limited completed the registration for industrial and commercial changes on 21 June 2017, with its name changed to "Guangzhou Charmacy Pharmaceutical Limited\*" (廣州創美藥業有限公司).

On 12 July 2017, the Company purchased the properties (the "**Properties**", including the land use rights attached thereunder and occupied land) of No.33, Liyu Street, Dongyong Township, Nansha District, Guangzhou City of the PRC, at an aggregate cash consideration of RMB131 million (tax included). The Properties comprise of (i) a factory, which has a total gross floor area of 15,293.80 square meters; and (ii) a dormitory, which has a total gross floor area of 4,881.06 square meters. Both properties are erected on the land with a site area of 31,141.57 square meters. In December 2017, the Company subleased its factory to Guangzhou Charmacy. Planned to commence operation in April 2018, the factory will better serve the small and medium-sized pharmaceutical distributors and retail end-customers in Guangzhou, provide efficient delivery service, and further improve the layout of the distribution network.



## Management Discussion and Analysis

### **Purchasing refrigerated transportation vehicles to provide high-quality pharmaceutical logistics service**

To ensure the quality of its pharmaceutical products during transportation, the Group has built on the “Good Supply Practice for Pharmaceutical Products” to set even higher requirements on the transportation conditions for its pharmaceutical products. With that in mind, the Group chose refrigerated transportation vehicles to serve as its new addition or replace obsolete ones. In 2017, the Group purchased 26 refrigerated transportation vehicles. As of 31 December 2017, the Group owned a total of 86 transportation vehicles, including 52 refrigerated ones, to ensure the quality and safety of its pharmaceutical products during transportation. With such vehicles came a larger distribution network and a highly efficient delivery mechanism, through which the Group can deliver its 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. All these are designed to provide customers with professional, high-quality pharmaceutical logistics service.

### **Prospects**

#### *Establish a wholly-owned subsidiary in Shenzhen to increase coverage in the end markets of Guangdong*

The Group plans to sustain its intensive engagement in the Guangdong market, expand the distribution network, and widen its coverage in the end market of Guangdong. The Group has set up Shenzhen Charmacy Pharmaceutical Limited\* (深圳創美藥業有限公司), a wholly-owned subsidiary in Shenzhen in January 2018, and plans to commence its operation by the end of 2018, through which the Group aims to further establish its presence in Shenzhen and extend its presence to neighboring cities. As such, the Group can further enhance its distribution network, with wider distribution coverage, higher operating efficiency, a broader customer base and greater operating revenue.

#### *Establish a pharmaceutical sorting and distribution center in Guangzhou to boost market competitiveness*

The Group plans to invest RMB165 million in a construction project to build Charmacy (Guangzhou) Pharmaceutical Sorting and Distribution Center (“**Guangzhou Pharmaceutical Sorting and Distribution Centre**”), a new center for sorting and distributing pharmaceutical products on a piece of vacant land between the properties at No.33, Liyu Street, Dongyong Township, Nansha District, Guangzhou, the PRC.

In recent years, the Group has experienced rapid business growth in Pearl River Delta. Such rapid growth has rendered warehousing and distribution a bottleneck in the development of the Company. Its warehousing and distribution capacity is unable to meet the demand for further development, which urgently requires a new center for pharmaceutical sorting and distribution. Hence, building such a center in Guangzhou helps to relieve the Company’s insufficient warehousing capacity in Pearl River Delta, and frees the Company from the current restriction caused by its warehousing and distribution capacity. Bringing larger supply, more extensive service coverage and higher service efficiency, the new center will elevate the Group’s distribution capacity across Pearl River Delta, enable the Group with more capability of negotiating better price with upstream factories, secure the primary distribution right of more high-quality products, and meet the purchase demand from end users who need a variety of products, purchase in small batches and make frequent purchases. Ultimately, the Company will have a greater influence in the end market. Upon the completion of its construction, Guangzhou Pharmaceutical Sorting and Distribution Center will increase the size of the Group, help unleash its merits in service, customer resource, branding and management, and enhance the Group’s market competitiveness and sustainability.



## Management Discussion and Analysis

### *Continuously optimize product structure and enhance product mix*

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

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

In respect of its principal business of pharmaceutical distribution, the Group will leverage on its advanced informatization system to analyze historical sales data and through the grasp of rich customer resources of both upstream and downstream as well as the market demands in different regions, to further expand its value-added service for upstream and downstream customers. In addition, the Group will offer a variety of activity solutions and new-product promotion to its pharmaceutical suppliers, to assist them in channel management and aggregation as well as product price control and protection. Also, as a bridge between upstream and downstream customers, the Group hosts trade fairs and factory training sessions for its customers, from whom the Group will not only charge a fee for such value-added service, but gain greater customer reliance and loyalty, more business opportunities and better profitability.

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

To better align with its long-term development strategy and objective, the Company is planning an initial public offering and listing of its A shares on Shenzhen Stock Exchange, with a total of no more than 20 million A shares to be issued. The proceeds from the A Share Listing will be invested in the construction project of Guangzhou Pharmaceutical Sorting and Distribution Center, the information system improvement project, and the project of expanding the pharmaceutical wholesale business. The implementation of such projects will help the Group enhance its competitive advantages in non-tendering markets, improve warehousing and delivery capabilities as well as its level of information-based development, lower capital costs, and ultimately further strengthen the Group's comprehensive competitiveness.

The Company filed its application for the initial public offering and listing of A shares with CSRC on 7 December 2017, and received a formal notice of acceptance from CSRC on 13 December 2017. In 2018, the Group will actively proceed with its A Share Listing, in an attempt to elevate its corporate image and brand recognition, widen financing channels, increase working capital and attain greater recognition from capital markets. The A share issuance will also bring more financial resources to the Group, lift its competitiveness, and ultimately benefit its long-term development.



## Management Discussion and Analysis

### FINANCIAL REVIEW

#### Operating revenue

	For the year ended 31 December	
	2017 RMB'000	2016 RMB'000
Principal business	4,061,633	3,641,948
Other business	34,202	27,833
Operating revenue	4,095,835	3,669,781

The operating revenue of the Group in 2017 was RMB4,095.84 million, representing an increase of 11.61% as compared to last year.

	For the year ended 31 December Customer type	
	2017 RMB'000	2016 RMB'000
Distributors	2,758,615	2,436,868
Retail pharmacies	1,214,657	1,113,904
Hospitals, clinics, health centres and others	88,361	91,176
Revenue from principal business	4,061,633	3,641,948

During 2017, our revenue from principal business was from product sales to (i) distributor customers; (ii) retail pharmacies; and (iii) hospitals, clinics, health centres and others. In 2017, over 97% of our revenue from principal business was derived from distributor customers and retail pharmacies.

Our revenue from principal business increased in 2017, which was primarily attributable to the higher operating revenue from sales to distributor customers and retail pharmacies.

Our operating revenue from sales to distributor customers and retail pharmacies increased during 2017, mainly because (i) our product offerings increased from 6,069 types in 2016 to 11,230 types in 2017; in particular, the product offerings provided by us as a primary distributor increased from 4,509 types in 2016 to 6,472 types in 2017; (ii) we kept expanding our sales to retail pharmacies and other end markets, with the number of our retail pharmacy clients up from 3,496 in 2016 to 4,777 in 2017; and (iii) our acquisition of Zhuhai Charmacy led to an additional operating revenue of RMB13.98 million.





## Management Discussion and Analysis

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

The operating cost of the Group increased by 11.41% to RMB3,885.97 million for the year ended 31 December 2017 from RMB3,488.02 million for the year ended 31 December 2016. The increase in operating cost was in line with the increase in operating revenue from sales of products.

The gross profit of the Group increased by 15.46% to RMB209.86 million for the year ended 31 December 2017 from RMB181.76 million for the year ended 31 December 2016. The gross profit margin of the Group increased to 5.12% for the year ended 31 December 2017 from 4.95% for the year ended 31 December 2016. The increase in the gross profit margin of the Group was primarily due to (i) more trade discounts from our suppliers, primarily attributable to the increase in procurement of products from us as a primary distributor from 4,509 in 2016 to 6,472 in 2017; and (ii) phasing-out of products with lower gross profit margin and turnover rate.

### Selling expenses

For the year ended 31 December 2017, the Group's selling expenses amounted to RMB68.01 million, representing a 31.94% increase from RMB51.54 million for the year ended 31 December 2016. Such increase was caused by (i) an increase of RMB12.03 million in employee salaries compared with the year ended 31 December 2016, mainly because (a) to improve operational capability, the Group and its subsidiary Guangdong Charmacy recruited more sales-related personnel to boost the development of end markets, provided reserve talents for such subsidiaries as Guangzhou Charmacy, and recruiting some E-commerce and product development personnel, which led to a year-on-year increase of 57 employees; in the meantime, employee salaries have been raised to a proper level to stay competitive with industry peers, which led to a year-on-year increase of RMB9.76 million in total salaries to employees of the Company and Guangdong Charmacy; (b) the Group acquired Zhuhai Charmacy and Guangzhou Charmacy, which resulted in an increase of 63 employees and an additional RMB2.27 million for employee salaries; and (ii) the Company's own warehouses approaching full-capacity storage, which led to a total of RMB1.93 million in rental fees incurred by the new warehouses of Guangdong Charmacy and Zhuhai Charmacy for the year 2017.

### Management expenses

For the year ended 31 December 2017, the Group's management expenses amounted to RMB49.58 million, representing a 27.15% increase from RMB38.99 million for the year ended 31 December 2016, mainly because (i) employee salaries increased by RMB5.66 million compared with the year ended 31 December 2016, mainly owing to the fact that (a) the Group enhanced its talent introduction by recruiting some experienced management talents, which led to an additional 35 employees recruited by the Company and Guangdong Charmacy on a year-on-year basis; in the meantime, the Group has raised its employee salaries to a proper level to stay competitive with its industry peers, which led to a year-on-year increase of RMB4.31 million in total salaries to employees of the Company and Guangdong Charmacy; (b) the Group acquired Zhuhai Charmacy and Guangzhou Charmacy, which led to an increase of 28 employees and an additional RMB1.36 million in total salaries to employees; (ii) the Group renovated its office areas, which led to an additional maintenance fee of RMB1.06 million; and (iii) in January 2017, Mr. Yao Chuanglong transferred some of his equity interests to Shantou Meizhi Investment Management Limited Partnership\* (汕頭市美智投資管理合夥企業(有限合夥)), Shantou Zhichuang Investment Management Limited Partnership\* (汕頭市智創投資管理合夥企業(有限合夥)) and Shantou Youran Investment Management Limited Partnership\* (汕頭市悠然投資管理合夥企業(有限合夥)), which led to the payment of an additional processing fee of RMB0.99 million for such equity transfer according to China Accounting Standards for Business Enterprise.



## Management Discussion and Analysis

### Finance costs

For the year ended 31 December 2017, the Group's finance costs amounted to RMB27.61 million, representing a 168.94% increase from RMB10.27 million for the year ended 31 December 2016, mainly because (i) the expansion of financing scale led to an increase of RMB184.42 million in short-term borrowings compared with the year ended 31 December 2016 and a 0.18% increase in weighted average interest rate of borrowings compared with the year 31 December 2016, which led to an additional interest expense of RMB8.34 million; and (ii) the depreciation of HKD against RMB caused a foreign exchange loss of RMB1.74 million, as opposed to the foreign exchange gain of RMB5.83 million for the year ended 31 December 2016, which resulted in a reduction of RMB7.57 million in foreign exchange gains.

### Income tax expense

For the year ended 31 December 2017, the Group's income tax expense amounted to RMB15.56 million, representing a 20.69% decline from RMB19.62 million for the year ended 31 December 2016, which was mainly caused by a decrease in total taxable profit. The effective tax rate (income tax expense divided by total profit) increased by 0.21 percentage point to 26.00% in 2017 from 25.79% in 2016.

### Net profit

The net profit of the Group declined by 21.54% to RMB44.29 million for the year ended 31 December 2017 from RMB56.46 million for the year ended 31 December 2016. In particular, the net profit attributable to the shareholders of parent company decreased by 20.72% to RMB44.76 million for the year ended 31 December 2017 from RMB56.46 million for the year ended 31 December 2016. Net profit attributable to the shareholders of parent company recorded a decline, mainly because (i) the Group increased its capital contribution to its subsidiaries Zhuhai Charmacy and Guangzhou Charmacy, with a total loss of RMB1.88 million for 2017; (ii) the Group introduced more sales and management personnel as well as e-commerce and product development personnel, and raised its employee salaries; the acquisition of Zhuhai Charmacy and Guangzhou Charmacy as subsidiaries led to more staff members and higher total staff costs; and (iii) there was an increase in finance costs caused by increase in RMB loans with higher interest rates, and less foreign exchange gains due to exchange rate fluctuations.

Pearl River Delta is the best-off area in Guangdong, with huge volume and great prospect of pharmaceutical circulation market. Guangdong Charmacy was able to deliver speedy business development by capitalizing on the favorable opportunities of such market development. Hence, the Company has replicated the mature operational experience of Foshan region to increase its investment in the pharmaceutical circulation market, which can lay a better foundation for the long-term sustainable development of its future business. Phase II of the informatization program was formally launched on 1 January 2018; Zhuhai Charmacy completed its informatization construction project on 1 February 2018; and Guangzhou Charmacy is about to complete its informatization construction project before 31 March 2018, whilst Guangzhou Nansha warehouse will complete its alteration project and commence operation in April 2018. As such new subsidiaries start the operation of warehousing and logistics facilities successively, they also enjoy a stable information system and increasingly mature marketing teams. The subsidiaries in Zhuhai Charmacy and Guangzhou Charmacy will soon start their business operation and become new profit growth points of the Company.

### Liquidity and financial resources

As at 31 December 2017, the cash and bank deposits of the Group amounted to RMB75.10 million, while the cash and bank deposits amounted to RMB119.57 million as at 31 December 2016.

At at 31 December 2017 and 31 December 2016, the Group recorded net current assets of RMB96.43 million and RMB212.87 million, respectively. As at 31 December 2017, the current ratio (based on the calculation of current assets divided by current liabilities) of the Group was 1.05 (2016: 1.13).



## Management Discussion and Analysis

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

### Trade receivables and bill receivables

As at 31 December 2017, the Group's trade receivables and bills receivables amounted to RMB970.25 million, representing an increase of RMB39.93 million compared to those as at 31 December 2016. Such increase was mainly caused by sales expansion.

### Trade payables and bill payables

As at 31 December 2017, the Group's trade payables and bill payables amounted to RMB1,408.61 million, representing an increase of RMB148.19 million compared to those as at 31 December 2016. Such increase was mainly caused by the expanded use of bills receivables.

### Treasury policy

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

### Foreign currency exchange risk

The transactions of the Group are mainly denominated in RMB. Except for part of the unused funds raised from listing which are denominated in HK\$ and deposited in designated accounts of commercial banks within the PRC and Hong Kong, most of the assets and all liabilities are denominated in RMB. The Group's deposits which are denominated in HK\$ and deposited in designated accounts of commercial banks within the PRC and Hong Kong are subject to exchange risks. 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 2017, the Group had no bank borrowings which bears a floating interest rate (2016: Nil).

### Capital management

Set out below is the Group's gearing ratios as at 31 December 2017 and 2016, respectively:

	31 December 2017	31 December 2016
Gearing ratio (%)	49.14%	33.08%

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



## Management Discussion and Analysis

### Capital commitment

As at 31 December 2017, the Group's capital commitment amounted to RMB8.93 million.

### Employees' information

As at 31 December 2017, the Group had a total of 842 employees (including executive Directors), representing an increase of 183 employees compared with the number of employees as at 31 December 2016. The total staff cost (including emoluments of directors and supervisors) was RMB63.18 million, as compared to RMB45.48 million for the year ended 31 December 2016, representing a growth rate of 38.90%. 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 Labour 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.

### Change of auditors and the adoption of China Accounting Standards for Business Enterprise

On 10 June 2017, the Company convened the 2016 annual general meeting to approve the change of auditors. At the meeting, ShineWing Certified Public Accountants (Special General Partnership) was appointed as the auditors of the Group for the year 2017. In addition, the standard for preparing the Company's financial statements has been changed to China Accounting Standards for Business Enterprise.

### Material investments, acquisitions and disposals held

Apart from investment in subsidiaries, the Group held no material investment, acquisition or disposal in the equity interests of any other company for the year ended 31 December 2017.

### Acquisition of the Properties

On 12 July 2017, the Company (as the purchaser) entered into a sale and purchase agreement with KTL (Guangzhou Jewellery Manufacturer Ltd. (an independent third party) in relation to the properties situated at No.33, Liyu Street, Dongyong Township, Nansha District, Guangzhou City, the PRC, to purchase the Properties (including the land use rights attached thereunder and occupied land) at an aggregate cash consideration of RMB131 million (tax included). The Properties comprise of (i) a factory, which has a total gross floor area of 15,293.80 square metres; and (ii) a dormitory, which has a total gross floor area of 4,881.06 square metres. Both properties are erected on the land with a site area of 31,141.57 square metres. For details, please refer to the Company's announcement dated 12 July 2017.



## Management Discussion and Analysis

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

Save as disclosed in the Prospectus, the Group has no other future plans related to the material investments and capital assets.

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

During the year ended 31 December 2017, the Group had no material acquisitions and disposals related to the subsidiary, associates and joint ventures.

### **Pledge of assets**

As of 31 December 2017, the Group was granted a credit limit of RMB1,091.52 million by various banks, while the Group's utilized banking facilities totalled RMB993.01 million, which were secured by (i) property, plant and equipment held by the Group with a carrying amount of RMB153.97 million as at 31 December 2017; (ii) land use rights held by the Group with a carrying amount of RMB148.62 million as at 31 December 2017; and (iii) inventories with a carrying amount of RMB250.00 million as at 31 December 2017.

### **Contingent liabilities**

As at 31 December 2017, the Group had no material contingent liabilities (2016: 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	48
Zheng Yuyan (鄭玉燕)	25 May 2015	43
Lin Zhixiong (林志雄)	25 May 2015	48
<b>Non-executive Director</b>		
Li Weisheng (李偉生)	10 June 2017	53
<b>Independent Non-executive Directors</b>		
Wan Chi Wai Anthony (尹智偉)	1 December 2015	42
Zhou Tao (周濤)	1 December 2015	34
Guan Jian (關鍵) (also known as Guan Suzhe (關蘇哲))	1 December 2015	48
<b>Supervisors</b>		
Zhang Ling (張玲)	25 May 2015	45
Zheng Xiyue (鄭禧玥)	25 May 2015	38
Lin Zhijie (林志杰)	5 September 2017	34



## Biographies of Directors, Supervisors and Senior Management

### Chairman and Executive Director

**Mr. Yao Chuanglong (姚創龍)**, aged 48, 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 Positioning 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 manager and executive Director of Guangdong Charmacy. Mr. Yao has been acting as the chairman of the Company since May 2015. He has also been the chairman of Zhuhai Charmacy since March 2017, the general manager of Zhuhai Charmacy since August 2017, the chairman of Guangzhou Charmacy since June 2017, and an executive Director and the general manager of Shenzhen Charmacy since February 2018.

### Executive Directors

**Ms. Zheng Yuyan (鄭玉燕)**, aged 43, is our vice president, executive Director 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.

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).



## Biographies of Directors, Supervisors and Senior Management

**Mr. Lin Zhixiong (林志雄)**, aged 48, is our executive Director, joint company secretary and Chief Financial Officer. He is responsible for the financial management of the Group. He joined the Group in March 2010 as the financial director of the Group. He has also been a director of Zhuhai Charmacy since March 2017 and a director of Guangzhou Charmacy since June 2017.

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

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

### Non-executive Director

**Mr. Li Weisheng (李偉生)**, aged 53, 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 of Guangzhou Pharmaceutical Baiyunshan Hong Kong Company Limited since December 2015. He has also been a supervisor of Guangzhou Baiyunshan Qi Xing Pharmaceutical Co., Ltd. (廣州白雲山奇星藥業有限公司) since July 2015, the chairman of Guangzhou Pharmaceutical Baiyunshan Macau Company Limited (廣藥白雲山澳門有限公司) since January 2018, and a director of Guangzhou Baiyunshan Guang Hua Pharmacy Co., Ltd. (廣州白雲山光華製藥股份有限公司) since February 2018.





## Biographies of Directors, Supervisors and Senior Management

### Independent non-executive Directors

**Mr. Wan Chi Wai Anthony (尹智偉)**, aged 42, was appointed as our independent non-executive Director on 1 December 2015.

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

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

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

**Mr. Zhou Tao (周濤)**, aged 34, 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.



## Biographies of Directors, Supervisors and Senior Management

**Mr. Guan Jian (關鍵) (also known as Guan Suzhe (關蘇哲)),** aged 48, 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. Mr. Guan has been the consultant of China Telecom Corporation Limited Jiangsu electronics channel operations centre (中國電信股份有限公司江蘇電子渠道營運中心).

### Supervisors

**Ms. Zhang Ling (張玲),** aged 45, 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.

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

**Ms. Zheng Xiyue (鄭禧玥),** aged 38, 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.

Ms. Zheng joined the Group in July 2001 and held positions including accounting officer and manager of settlement department. She is currently the assistant to the marketing officer and the treasury manager of the Group and is responsible for providing assistance to our Chief Marketing Officer in the operation of our sales centre and overseeing treasury management of the Group. She served as the supervisor of Guangzhou Charmacy in June 2017, the supervisor of Zhuhai Charmacy and Guangdong Charmacy in July 2017, and the supervisor of Shenzhen Charmacy in January 2018.



## Biographies of Directors, Supervisors and Senior Management

**Mr. Lin Zhijie (林志杰)**, aged 34, is our vice logistics officer. He became a supervisor of the Company in September 2017. Mr. Lin graduated from the Science and Technology College of Jiangxi University of Traditional Chinese Medicine\* (江西中醫學院科技學院) in the PRC in July 2007, majoring in pharmaceuticals formulation.

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

### SENIOR MANAGEMENT

**Ms. Wan Xiaohua (萬曉華)**, aged 42, is our quality supervisor, mainly responsible for the quality management of pharmaceutical products.

Ms. Wan graduated from Jiangxi College of Traditional Chinese Medicine\* (江西中醫學院) in July 1997 with a bachelor's degree in engineering, majoring in the manufacturing of traditional Chinese medicine (TCM). She passed the exam for practicing pharmacists in 2000 and TCM pharmacists-in-charge in 2006.

Ms. Wan was a teacher at the training center for the Shangrao Branch of Jiangxi Medicines Group\* (江西醫藥集團) from July 1997 to December 2002, a manager at the quality management department of Guangzhou Gelite Pharmaceutical Company Limited\* (廣州市格利特醫藥有限公司) from December 2002 to December 2005, a freelance quality consultant from January 2006 to November 2009, a manager at the quality management department of Guangzhou Traditional & Herbal Qingping Co. Ltd. (廣州國藥藥材清平醫藥有限公司) from November 2009 to June 2010, a freelance quality consultant from June 2010 to February 2011, and a manager at the quality management department of Guangdong Charmacy since March 2011.

### JOINT COMPANY SECRETARIES

**Mr. Lin Zhixiong (林志雄)**, aged 48, is our joint company secretary. Biographical details of Mr. Lin are set out in the paragraph headed "Executive Directors" in this section.

**Ms. Ng Wing Shan (吳詠珊)** was appointed as our joint company secretary on 1 December 2015. Ms. Ng is an assistant vice president of SW Corporate Services Group Limited and is responsible for assisting listed companies in professional company secretarial work. She has over 10 years of professional experience in the company secretarial field and is a fellow member of The Hong Kong Institute of Chartered Secretaries and The Institute of Chartered Secretaries and Administrators in the United Kingdom.



# Corporate Governance Report

## CORPORATE GOVERNANCE PRACTICES

The Company had been complying with the code provisions (the “**Code Provisions**”) set out in the Corporate Governance Code contained in Appendix 14 to Rules Governing the Listing of Securities on the Stock Exchange (the “**Listing Rules**”) for the year ended 31 December 2017, save for the deviation as stated below:

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

## MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS AND SUPERVISORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “**Model Code**”) set out in Appendix 10 to the Listing Rules as the code of conduct in dealings with securities transaction for the Directors and supervisors of the Company. Having made enquiries with all Directors and supervisors of the Company, the Company confirmed that all Directors and supervisors have complied with the required standard as set out in the Model Code for the year ended 31 December 2017.



## Corporate Governance Report

### MEMBERS OF THE BOARD

is non-executive Director and three are independent non-executive Directors. The composition of the Board is as follow:

#### Composition

Currently, the Board consists of seven Directors (“Directors”), of which three are executive Directors, one

Directors	Age	Position	Duration of service contract/ letter of appointment
Mr. Yao Chuanglong	48	Chairman, executive Director and Chief Executive Officer	14 December 2015 to 13 December 2018
Ms. Zheng Yuyan	43	Vice president, executive Director and Chief Marketing Officer	14 December 2015 to 13 December 2018
Mr. Lin Zhixiong	48	Executive Director, joint company secretary and Chief Financial Officer	14 December 2015 to 13 December 2018
Mr. Li Weisheng	53	Non-executive Director	10 June 2017 to 9 June 2020
Mr. Wan Chi Wai Anthony	42	Independent non-executive Director	1 December 2015 to 30 November 2018
Mr. Zhou Tao	34	Independent non-executive Director	1 December 2015 to 30 November 2018
Mr. Guan Jian (also known as Guan Suzhe)	48	Independent non-executive Director	1 December 2015 to 30 November 2018

For the year ended 31 December 2017, there was change to the composition of the Board. In particular, Mr. Fan Jianbo resigned as an executive Director on 19 July 2017, Ms. You Zeyan resigned as a non-executive Director on 5 September 2017, and Mr. Li Weisheng was appointed as a non-executive Director on 10 June 2017.

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 20 to 25 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 2017, the Company convened 22 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	22/22
Ms. Zheng Yuyan	Former Vice president, executive Director and Chief Marketing Officer	22/22
Mr. Fan Jianbo (Resigned as a Director on 19 July 2017)	Former Vice president, former executive Director and Chief Technical Officer	16/16
Mr. Lin Zhixiong	Executive Director, joint company secretary and Chief Financial Officer	22/22
Ms. You Zeyan (Resigned as a Director on 5 September 2017)	Former Non-executive Director	19/19
Mr. Li Weisheng (Appointed as a Director on 10 June 2017)	Non-executive Director	12/12
Mr. Wan Chi Wai Anthony	Independent non-executive Director	9/9
Mr. Zhou Tao	Independent non-executive Director	9/9
Mr. Guan Jian (also known as Gunan Suzhe)	Independent non-executive Director	9/9

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 joint company secretaries 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 2017, the Company held three general meetings. Their details are as follows:

Date	Location	Meeting
10 June 2017	3rd Floor, No. 235 Song Shan North Road, Longhu District, Shantou City, Guangdong Province, the People's Republic of China	2016 Annual General Meeting
5 September 2017	3rd Floor, No. 235 Song Shan North Road, Longhu District, Shantou City, Guangdong Province, the People's Republic of China	2017 First Extraordinary General Meeting
13 November 2017	3rd Floor, No. 235 Song Shan North Road, Longhu District, Shantou City, Guangdong Province, the People's Republic of China	2017 Second Extraordinary General Meeting

The attendance of the Directors is stated as follows:

Name	Position	Number of Meetings Attended/Available for Attendance
Mr. Yao Chuanglong	Chairman, executive Director and Chief Executive Officer	3/3
Ms. Zheng Yuyan	Vice president, executive Director and Chief Marketing Officer	3/3
Mr. Fan Jianbo (Resigned as a Director on 19 July 2017)	Former Vice president, former executive Director and Chief Technical Officer	1/1
Mr. Lin Zhixiong	Executive Director, joint company secretary and Chief Financial Officer	3/3
Ms. You Zeyan (Resigned as a Director on 5 September 2017)	Former Non-executive Director	2/2
Mr. Li Weisheng (Appointed as a Director on 10 June 2017)	Non-executive Director	2/2
Mr. Wan Chi Wai Anthony	Independent non-executive Director	3/3
Mr. Zhou Tao	Independent non-executive Director	3/3
Mr. Guan Jian (also known as Gunan Suzhe)	Independent non-executive Director	3/3



## Corporate Governance Report

### RESPONSIBILITIES OF THE BOARD AND MANAGEMENT

The Board is primarily responsible for monitoring and managing the Company's affairs, including the adoption of long-term strategies, appointment of and supervision on senior management, to ensure that the operations of the Group are conducted in accordance with its own objectives. The Board is also responsible for determining the Company's corporate governance policies which include: (i) the preparation of and review on the Company's corporate governance policies and practices; (ii) the review and regulation on the training and continuous professional development of Directors and senior management; (iii) the review and regulation on the code of conduct and compliance manual (if any) applicable to employees and Directors; and (iv) the review on the Company's disclosure in the Corporate Governance Report. The Board has discharged its duties in respect of the corporate governance function mentioned above during 2017.

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 58 to 75 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 53.

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 2017, 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 2017, 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 term of Mr. Li Weisheng, the Company's incumbent non-executive Director started on 10 June 2017 and will terminate upon the conclusion of the current session of the Board.

### NOMINATION COMMITTEE

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



## Corporate Governance Report

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

For the year ended 31 December 2017, the Nomination Committee convened a meeting on 21 March 2017 to review the structure, size and composition of the Board and review the independence of independent non-executive Directors. The Nomination Committee also convened a meeting on 7 July 2017 to review the nomination and engagement of the Directors and senior management from January 2014 to June 2017. All the members of the Nomination Committee, including Mr. Yao Chuanglong, Mr. Zhou Tao and Mr. Guan Jian, attended the above two meetings.

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. Qualified candidates will then be recommended to the Shareholders' meeting for approval.

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 2017 is as follows:

Remuneration benchmark	Number of individuals
Nil to RMB50,000	5
RMB50,001 to RMB250,000	5
RMB250,001 to RMB500,000	2
More than and including RMB500,001	1

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

## 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 2017, the Remuneration Committee consists of three members, two of them are independent non-executive Directors, namely Mr. Zhou Tao (chairman) and Mr. Wan Chi Wai Anthony and one of them is executive Director, namely Mr. Lin Zhixiong.



## Corporate Governance Report

For the year ended 31 December 2017, the Remuneration Committee held one meeting on 21 March 2017 to review the overall remuneration policy for the Directors and senior management, determine such policies and propose them to the Board. The meeting was attended by all the members of the Remuneration Committee, including Mr. Zhou Tao (chairman), Mr. Wan Chi Wai Anthony and Mr. Lin Zhixiong.

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

### AUDIT COMMITTEE

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

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

As at the date of this annual report, the Audit Committee reviewed with the management of the Company the accounting principles and practices adopted by the Group, and discussed internal controls and financial reporting matters. The Audit Committee also discussed and reviewed the annual results for the year ended 31 December 2017 of the Company with the external auditor of the Company.

For the year ended 31 December 2017, the Audit Committee held three meetings on 21 March 2017, 13 April 2017 and 24 August 2017. On all three occasions, the Audit Committee reviewed, amongst others, the Group’s annual results for the year ended 31 December 2016 and the interim results for the six months ended 30 June 2017, 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 change of auditors. The above three 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 2017, 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 2017, 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 2017, the Risk Management Committee held one meeting on 21 March 2017 where the Risk Management Committee reviewed the strategy, policy and guideline of the Company's risk management, the effectiveness of the Group's risk management and internal control systems, and the adequacy of resources. The meeting was attended by all the members of the Risk Management Committee, including Mr. Yao Chuanglong, Mr. Lin Zhixiong and Mr. Wan Chi Wai Anthony.

### THE STRATEGIC DEVELOPMENT COMMITTEE

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

The Strategic Development Committee is mainly responsible for studying the overall development strategies for the Company, major investment and financing plans, and other material issues that influence the development of the Company, and making recommendations to the Board. As of 31 December 2017, 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 2017, the Strategic Development Committee held one meeting on 10 July 2017, on which views were expressed on the change of use of the H share proceeds and the investment projects for the proceeds of A share issuance; and studies were 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.

### 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 2017 amounted to RMB0.8 million (tax exclusive).

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

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

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



## Corporate Governance Report

The statement of the auditors of the Company in respect of their reporting responsibilities on the Company's financial statements for the year ended 31 December 2017 is set out in the "Auditors' Report" contained in this annual report.

### JOINT COMPANY SECRETARY

Mr. Lin Zhixiong and Ms. Ng Wing Shan, being our joint company secretaries, are primarily responsible for the company secretarial work of the Group. Mr. Lin Zhixiong currently does not possess the qualifications as required under Rule 3.28 of the Listing Rules. Ms. Ng Wing Shan is an assistant vice president of SW Corporate Services Group Limited and her major contact of the Company is Mr. Lin Zhixiong, an executive Director and joint company secretary.

Pursuant to Rule 3.29 of the Listing Rules, for the year ended 31 December 2017, Ms. Ng and Mr. Lin each have attended no less than 15 hours of relevant professional training.

### 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. By a comprehensive evaluation of the effectiveness of internal control, the Company identifies the risks with potential impacts on its operation, and assesses and controls the risks in the environment and process. By a comparison of risk assessment results, the Company ranks the priority of its risks and determines its risk management strategies and internal control procedures, to curb, prevent or reduce risks.

The Board has conducted its annual review of the effectiveness of the system of internal control and risk management as at 31 December 2017, 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.

## **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.



## Corporate Governance Report

### 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 Joint Company Secretary)

Fax: 86-0754-82752026

Email: [linzhixiong@charmacy.cn](mailto:linzhixiong@charmacy.cn)

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

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

### CONSTITUTIONAL DOCUMENT

On the 2016 annual general meeting convened on 10 June 2017, the Company approved the amendments to its articles of association and scope of operation to fit into the demand of its business development; change of the number of the members of the Board, to determine the appointment of Mr. Li Weisheng as a non-executive Director of the Company; and change of the accounting policy to PRC Accounting Standards. The change of the number of Board members was approved at the 2017 first extraordinary general meeting convened on 5 September 2017, to adjust the structure of the Board and improve its operational efficiency. Save for the above, there was no material change in the Articles of the Company during 2017.

### 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 2017 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 2017, there was no material change in the Company's legal documents.



# Directors' Report

The Board of the Company are pleased to present 2017 annual report together with the Financial Statements of the Group for the year ended 31 December 2017.

## PRINCIPAL BUSINESS AND BUSINESS REVIEW

The principal business of the Company is pharmaceutical products distribution in the PRC. The principal activities of the subsidiary of the Company are set out in note VIII of the Financial Statements. Business review during the Reporting Period and discussion on the future business development of the Group are set out in the Management Discussion and Analysis on pages of 10 to 13 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 14 to 19 of this annual report.

## USE OF PROCEEDS

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

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

Planned use	Budgeted amount (RMB million)	Budgeted amount after the use of proceeds changed on 10 June 2017 and 5 September 2017	Actual usage amount by the year ended 31 December 2017
		(RMB million)	(RMB million)
To strengthen, expand and integrate our existing distribution network and capabilities	55.62	36.30	35.91
To enhance and promote our B2B e-commerce platform	15.89	9.88	9.88
To repay bank borrowings	47.67	47.67	47.67
To acquire pharmaceutical distribution business in Southern China region	23.84	36.00	36.00
For working capital and general corporate purposes	15.89	15.89	15.89
<b>Additional use</b>			
Used for the establishment of Shenzhen Company	–	13.17	0
<b>Total</b>	<b>158.91</b>	<b>158.91</b>	<b>145.35</b>





### RESULTS AND DIVIDENDS

The Group's annual results for the year ended 31 December 2017 and its financial positions as at 31 December 2017 are set out in the Financial Statements on pages 58 to 75.

The Board recommends the distribution of a final dividend of RMB0.20 per share for the year ended 31 December 2017 (tax inclusive), which is subject to approval by the shareholders of the Company at the annual general meeting (the "AGM") to be convened on 28 May 2018 and, if approved, will be paid on or before 3 July 2018. 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.

### 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 2013 to 31 December 2017 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 2017 are set out in note VI. 23 to the Financial Statements.

### UNALLOCATED PROFITS AT THE END OF THE YEAR

As at 31 December 2017, the Group's unallocated profits amounted to RMB55.80 million. Details of the movements in the unallocated profits of the Group in 2017 are set out in the Financial Statements on page 72.

### PRINCIPAL RISKS AND UNCERTAINTIES

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

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

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

#### (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.



## Directors' Report

### MAJOR RELATIONSHIP WITH EMPLOYEES, CUSTOMERS AND SUPPLIERS

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

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

### MAJOR CUSTOMERS AND SUPPLIERS

The aggregate sales attributable to the Group's five largest customers were 11.34% of the Group's operating revenue for the year ended 31 December 2017, and sales to the largest customer accounted for 3.09% of the Group's total turnover during the year thereof. The aggregate purchases attributable to the Group's five largest suppliers were 34.69% of the Group's total procurement cost for the year ended 31 December 2017, and purchases from the largest supplier accounted for 19.38% 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.

### SUBSIDIARY

Details of the subsidiary of the Company for the year ended 31 December 2017 are set out in note VIII to the Financial Statements.

### FIXED ASSETS

Details of changes in fixed assets of the Group during the year of 2017 are set out in Note VI.8 to the financial statements.

### BORROWINGS

Particulars of borrowings of the Group as at 31 December 2017 are set out in note VI.14 to the Financial Statements. As at 31 December 2017, the Group's property, plant and equipment, prepaid land use right and inventories with total carrying amount of approximately RMB552.59 million have been pledged to secure banking facilities granted to the Group (2016: approximately RMB432.68 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

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.

### SERVICE CONTRACTS WITH DIRECTORS AND SUPERVISORS

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

#### Executive Directors

Yao Chuanglong (*Chairman*)  
Zheng Yuyan  
Lin Zhixiong  
Fan Jianbo (Resigned on 19 July 2017)

#### Non-executive Director

Li Weisheng (Appointed on 10 June 2017)  
You Zeyan (Resigned on 5 September 2017)

#### Independent non-executive Directors

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

Mr. Fan Jianbo resigned as a Director of the Company on 19 July 2017, due to his need to spend more time on the affairs of the Company and its subsidiaries. Ms. You Zeyan resigned as a Director of the Company on 5 September 2017, due to her need to spend more time on other business commitments.

Each of the executive Directors has entered into a service contract with the Company for a term of three years from the Listing Date 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 26 November 2015 for a term of three years from 1 December 2015 and subject to termination by not less than three months' notice in writing served by either party on the other.



## Directors' Report

Mr. Li Weisheng, a non-executive Director has entered into the appointment letter with the Company on 10 June 2017 for a term that started on 10 June 2017 and will terminate upon the conclusion of the current session of the Board, subject to termination by not less than three months' notice in writing served by either party on the other. Pursuant to the announcement of the Board dated 21 March 2018, the term of the first session of the Board shall expire on 25 May 2018, and the second session of the Board shall be re-elected at the annual general meeting on 28 May 2018.

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

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

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

### Supervisors

Zhang Ling (*Chairlady*)

Zheng Xiyue

Zhang Hanzi (Resigned on 5 September 2017)

Lin Zhijie (Appointed on 5 September 2017)

The Board of Supervisors of the Company was set up on 25 May 2015 and held five meetings during 2017. Details of the meetings and events conducted by the Board of Supervisors during 2017 are set out in the Board of Supervisors' report of this annual report.

Each of the Supervisors has entered into a service contract with the Company for a term of three years 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.

According to the announcement of the Board dated 21 March 2018, the term of the first session of the Board shall expire on 25 May 2018, and the second session of the board of supervisors, independent supervisors, and shareholder representative supervisors shall be re-elected at the annual general meeting on 28 May 2018.

## EMOLUMENTS OF THE DIRECTORS, SUPERVISORS AND EMPLOYEES

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

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

## REMUNERATION POLICY

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



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

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

### MANAGEMENT CONTRACTS

Other than the service contracts of the Directors, the Company has not entered into any contract with any individual, firm or body corporate to manage the whole or any substantial part of any business of the Company during 2017.

### 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 20 to 25 of this annual report.

### DEED OF NON-COMPETITION BY CONTROLLING SHAREHOLDER

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

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

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



## Directors' Report

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 2017.

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

## 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 2017.

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



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

As at 31 December 2017, 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 of our Company <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 Share.

Notes:

- (1) The calculation is based on the total number of 80,000,000 domestic shares in issue of the Company as at 31 December 2017.
- (2) The calculation is based on the total number of 108,000,000 Shares in issue of the Company as at 31 December 2017.
- (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 2017, 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 2017, 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 SHARE AND UNDERLYING SHARES OF THE COMPANY

As at 31 December 2017, so far as the Directors are aware, the following persons/entities (other than any Directors or chief executives of the Company) had or deemed to have an interest or short position in the Shares or underlying Shares of the Company which fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or which had entered in the register required to be kept by the Company pursuant to section 336 of the SFO:

Name of shareholder	Nature and Capacity of interest	Class and number of Shares	Approximate shareholding percentage in the relevant class of Shares <sup>(1)</sup>	Approximate shareholding percentage of the total issued share capital of our Company <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%





## Directors' Report

Name of shareholder	Nature and Capacity 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 of our Company <sup>(2)</sup>
Mr. Wang Yonghui (王永輝)	Beneficial owner	3,488,000 H Shares (L)	12.46%	3.23%
Deutsche Bank Aktiengesellschaft	Beneficial owner/ Person having a security interest in shares	2,545,500 H shares (L) 5,500 H shares(S)	9.09% 0.02%	2.36% 0.01%
Asian Equity Special Opportunities Portfolio Master Fund Limited	Beneficial owner	2,540,000 H shares (L) <sup>(6)</sup>	9.07%	2.35%
RAYS Capital Partners Limited	Investment manager	2,836,000 H shares (L) <sup>(6)</sup>	10.13%	2.63%
RUAN David Ching Chi	Interests in controlled corporation	2,836,000 H shares (L) <sup>(6)</sup>	10.13%	2.63%

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 2017.
- (2) The calculation is based on the total number of 108,000,000 Shares in issue of the Company as at 31 December 2017.
- (3) Ms. You Zeyan is the spouse of Mr. Yao Chuanglong, the Chairman and executive Director of the Company, and is deemed to be interested in these Shares under the SFO.
- (4) These shares are held by Guangzhou Pharmaceutical Baiyunshan Hong Kong Company Limited. As Guangzhou Pharmaceutical Baiyunshan Hong Kong Company Limited is a wholly-owned subsidiary of Guangzhou Baiyunshan Pharmaceutical Holdings Company Limited, which in turn is held by Guangzhou Pharmaceutical Holdings Limited as to 45.23%. Guangzhou Baiyunshan Pharmaceutical Holdings Company Limited and Guangzhou Pharmaceutical Holdings Limited are deemed to be interested in the shares of the Company held by Guangzhou Pharmaceutical Baiyunshan Hong Kong Company Limited.
- (5) These shares are held by Kingworld Medicines Health Management Limited. As Kingworld Medicines Health Management Limited is a wholly-owned subsidiary of Kingworld Medicines Group Limited, Kingworld Medicines Group Limited is deemed to be interested in the shares of the Company held by Kingworld Medicines Health Management Limited.
- (6) These shares are held by Asian Equity Special Opportunities Portfolio Master Fund Limited. Since Asian Equity Special Opportunities Portfolio Master Fund Limited is a wholly-owned subsidiary of RAYS Capital Partners Limited and 95.24% interest of RAYS Capital Partners Limited is held by Mr. RUAN David Ching Chi), RAYS Capital Partners Limited and RUAN David Ching Chi are deemed to be interested in the Shares of the Company held by Asian Equity Special Opportunities Portfolio Master Fund Limited.



## Directors' Report

Save as disclosed herein, our Directors are not aware of any person who will, as at 31 December 2017, 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 2017, 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 2017, 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 2017, the Company and its subsidiary 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 subsidiary 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**

During the year ended 31 December 2017, the Company and its subsidiary have not purchased, sold or redeemed any 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.



### **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 2017, the Company and its subsidiaries actively participated in public charities and donating RMB0.07 million in total.

### **IMPORTANT EVENTS AFTER THE END OF REPORTING PERIOD**

On 2 January 2018, the Company established its wholly-owned subsidiary, Shenzhen Charmacy Pharmaceutical Company Limited\* (深圳創美藥業有限公司) in Shenzhen, with a registered capital of RMB20.80 million. The establishment of Shenzhen Charmacy is in line with the Group's development strategy and needs, and will help the Group improve its market position in general.

### **CORPORATE GOVERNANCE REPORT**

The details of the corporate governance practices of the Group are set out in the corporate governance report on pages 26 to 37 of this annual report.

### **CLOSURE OF REGISTER OF MEMBERS**

For the purpose of determining the entitlement of the members of the Company to attend the forthcoming AGM to be held on 28 May 2018, the register of members of the Company will be closed from 28 April 2018 to 28 May 2018 (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 27 April 2018.

### **AGM**

The AGM will be held on 28 May 2018. The Shareholders should refer to the circular to be issued by the Company on 12 April 2018 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 2017.



## Directors' Report

### AUDITORS

The Company will submit a resolution to appoint ShineWing Certified Public Accountants (Special General Partnership) as the auditor of the Group in the year of 2018 at the forthcoming annual general meeting.

By order of the Board

**Charmacy Pharmaceutical Co., Ltd.**

**Yao Chuanglong**

*Chairman and Executive Director*

Shantou, PRC, 21 March 2018



# Board of Supervisors' Report

In 2017, the Board of Supervisors fully performed its supervisory duties on members of the Board, managers and other senior executives of the Company as authorised at the general meeting in accordance with the Company laws of the PRC (the “**Company Law**”) and the Articles.

## DAILY WORK OF THE BOARD OF SUPERVISORS

On 21 March 2017, it considered and approved the proposal on the work report of the Board of Supervisors of the Company for 2016, the Financial Statements for 2016, the result announcement for 2016, the Annual Report for 2016.

On 24 May 2017, it considered and approved the proposal of the Company on resignation of Zhang Hanzi as the supervisor, and the nomination of Lin Zhijie as the candidate for the new supervisor.

On 20 July 2017, it considered and approved the relevant proposal of the Company on the application for the issuance of A shares.

On 7 August 2017, it considered and approved relevant proposals on cancellation of the original validity of application for the issuance of A shares, the validity of the authorized Board and the feasibility programs, and the increase in the validity of new applications for the issuance of A shares, the validity of the authorized Board, and feasibility programs.

On 24 August 2017, it considered and announced the proposal on the 2017 Interim Financial Statements, the 2017 Interim Results Announcement, and the 2017 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 2017, with care and strong support from all the Shareholders of the Company, as well as the diligent work of all its staff, the operation of the Company was in compliance with the Company Law and the Articles of Association, and the procedures for making decisions on production and operation of the Company are lawful and normative, thus making satisfactory achievements in the business.
2. During the Reporting Period, each member of the Board, manager and other senior executives of the Company diligently performed his/her jobs and duties in the Company and, for the benefit of the Company, strictly observed relevant laws, regulations and the Articles of Association, and regulated the work procedures for production, operation and management of the Company, thereby protecting the interest of the Company and its shareholders.

## INSPECTION ON FINANCIAL STATUS OF THE COMPANY

The Board of Supervisors reviewed the 2017 Audit Report to be submitted. In the opinion of the Board of Supervisors, the financial report of the Company reflects its financial position and operating results that are complete, objective and fair. The annual operating results of the Company have been audited by ShineWing Certified Public Accountants (Special General Partnership) who has also issued an audit report which is true, objective and fair.



## Board of Supervisors' Report

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

The Board of Supervisors is of the view that the Group had no connected transaction in 2017 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.

Convinced 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, 21 March 2018



# Auditor's Report



信永中和会计师事务所

**ShineWing**  
certified public accountants

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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 2017, and the consolidated income statement and income statement of the parent company, consolidated statement of cash flow and statement of cash flow of the parent company and consolidated statement of changes in shareholders' equity and statement of changes in shareholders' equity of the parent company for the year then ended, and relevant notes to the financial statements.

In our opinion, the accompanying financial statements are prepared, in all material respects, in accordance with the requirements under the Accounting Standards for Enterprises, which give a fair view of the consolidated financial position and financial position of the parent company of Charmacy Pharmaceutical Company as at 31 December 2017 and the consolidated results of operation and cash flows and results of operation and cash flow of the parent company for the year 2017.

## II. BASIS FOR FORMING AUDIT OPINION

We conducted our audit in accordance with China's Auditing Standards for the Certified Public Accountants (中國註冊會計師審計準則). 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.



## Auditor's Report

### 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 2017, trade receivables balance amounted to RMB894,355,200, provision for bad debts amounted to RMB11,784,700 and the carrying amount of trade receivables amounted to RMB882,570,500. 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 paid 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 future cash flow;</li><li>4) as for trade receivables with provision made for bad debts based on credit risk characteristic groups by management, evaluated the reasonableness of the proportion of provision for bad debts determined by the management;</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>





## 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 IV.6 to the consolidated financial statements of Charmacy Pharmaceutical Company, as of 31 December 2017, the balance of inventories amounted to RMB434,035,400, the provision for impairment of inventories amounted to RMB2,443,000 and the carrying amount of inventories amounted to RMB431,592,400. 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>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; 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>
<p>We regard the impairment of inventories as a key audit matter due to the significance of the amount of inventories.</p>	

## IV. OTHER INFORMATION

The Management of Charmacy Pharmaceutical Company (hereinafter referred to as the "Management") are responsible for the other information. The other information comprises the information covered in the 2017 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.



## Auditor's Report

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

The Management are 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 are 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 skepticism 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.



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

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

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

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

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

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

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

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

Beijing, China  
21 March 2018



# Consolidated Balance Sheet

As at 31 December 2017

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	512,413,395.71	477,305,523.55
Financial assets at fair value through profit or loss			
Bills receivables	VI.2	87,683,853.38	69,645,078.79
Trade receivables	VI.3	882,570,454.98	860,680,207.96
Prepayments	VI.4	149,275,256.35	92,812,741.10
Interests receivables			
Dividend receivables			
Other receivables	VI.5	9,674,650.78	4,435,258.37
Financial assets purchased under agreements to resell			
Inventories	VI.6	431,592,426.38	351,522,843.15
Held-for-sale assets			
Non-current assets due within one year			
Other current assets	VI.7	30,031,737.79	25,266,982.42
<b>Total current assets</b>		<b>2,103,241,775.37</b>	1,881,668,635.34
<b>Non-current assets:</b>			
Available-for-sale financial assets			
Held-to-maturity investments			
Long-term receivables			
Long-term equity investments			
Investment properties			
Fixed assets	VI.8	115,303,828.63	114,149,093.72
Construction in progress	VI.9	81,967,801.27	3,534,388.47
Construction materials			
Liquidation of fixed assets		73,448.54	
Intangible assets	VI.10	160,723,843.55	109,095,269.33
Goodwill	VI.11	4,593,625.31	
Long-term expenses to be amortised	VI.12	1,201,796.75	159,599.82
Deferred income tax assets	VI.13	4,723,418.55	2,962,930.71
Other non-current assets			
<b>Total non-current assets</b>		<b>368,587,762.60</b>	229,901,282.05
<b>Total assets</b>		<b>2,471,829,537.97</b>	2,111,569,917.39



## Consolidated Balance Sheet

As at 31 December 2017

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	VI.14	<b>522,900,000.00</b>	338,481,500.00
Financial liabilities at fair value through profit or loss			
Bills payables	VI.15	<b>928,824,897.42</b>	779,805,270.32
Trade payables	VI.16	<b>479,781,944.91</b>	480,614,637.48
Receipts in advance	VI.17	<b>5,382,568.81</b>	9,215,625.24
Salaries payable to employees	VI.18	<b>4,781,858.77</b>	4,711,472.83
Tax payables	VI.19	<b>50,867,274.80</b>	48,309,414.37
Interests payable		<b>1,050,789.84</b>	435,280.50
Dividend payables			
Other payables	VI.20	<b>12,700,257.58</b>	7,227,467.79
Held-for-sale liabilities			
Non-current liabilities due within one year			
Other current liabilities	VI.21	<b>520,000.00</b>	
<b>Total current liabilities</b>		<b>2,006,809,592.13</b>	1,668,800,668.53
<b>Non-current liabilities:</b>			
Long-term borrowings			
Debentures payable			
Including: Preferential shares			
Perpetual debentures			
Long-term payables			
Long-term salaries payable to employees			
Specific payables			
Expected liability			
Deferred income	VI.22	<b>1,612,948.99</b>	
Deferred income tax liabilities			
Other non-current liabilities			
<b>Total non-current liabilities</b>		<b>1,612,948.99</b>	–
<b>Total liabilities</b>		<b>2,008,422,541.12</b>	1,668,800,668.53



## Consolidated Balance Sheet

As at 31 December 2017

Items	Note	Balance as at the end of the year	Balance as at the beginning of the year
<b>Shareholders' equity:</b>			
Share capital	VI.23	<b>108,000,000.00</b>	108,000,000.00
Other equity instruments			
Including: Preferential shares			
Perpetual debentures			
Capital reserve	VI.23	<b>282,204,487.50</b>	281,215,559.50
Less: Treasury stock			
Other comprehensive income			
Specific reserve			
Surplus reserve	VI.25	<b>10,115,890.49</b>	5,644,834.02
General risk provision			
Unallocated profits	VI.26	<b>55,797,710.73</b>	47,908,855.34
<b>Total shareholders' equity attributable to the shareholders of parent company</b>		<b>456,118,088.72</b>	442,769,248.86
<b>Minority interests</b>		<b>7,288,908.13</b>	
<b>Total shareholders' equity</b>		<b>463,406,996.85</b>	442,769,248.86
<b>Total liabilities and shareholders' equity</b>		<b>2,471,829,537.97</b>	2,111,569,917.39

Legal representative:

**Yao Chuanglong**

The person in charge of the accounting function of the Company:

**Lin Zhixiong**

The person in charge of the accounting firm:

**Zhang Hanzi**



# Balance Sheet of the Parent Company

As at 31 December 2017

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		<b>254,783,149.75</b>	297,067,568.44
Financial assets at fair value through profit or loss			
Bills receivables		<b>47,581,534.98</b>	38,286,786.37
Trade receivables	XV.1	<b>547,434,671.32</b>	517,376,502.53
Prepayments		<b>227,720,501.67</b>	70,251,410.60
Interests receivables			
Dividend receivables			
Other receivables	XV.1	<b>8,895,142.07</b>	1,936,538.59
Inventories		<b>144,573,781.02</b>	126,781,007.97
Held-for-sale assets			
Non-current assets due within one year			
Other current assets		<b>9,275,042.10</b>	1,177,218.17
<b>Total current assets</b>		<b>1,240,263,822.91</b>	1,052,877,032.67
<b>Non-current assets:</b>			
Available-for-sale financial assets			
Held-to-maturity investments			
Long-term receivables			
Long-term equity investments	XV.3	<b>186,000,000.00</b>	150,000,000.00
Investment properties		<b>99,927,176.78</b>	103,449,345.21
Fixed assets		<b>47,486,136.71</b>	44,608,271.03
Construction in progress		<b>81,967,801.27</b>	3,534,388.47
Construction materials			
Liquidation of fixed assets		<b>73,448.54</b>	
Intangible assets		<b>91,378,073.15</b>	37,970,850.37
Goodwill			
Long-term expenses to be amortised		<b>1,050,416.67</b>	
Deferred income tax assets		<b>1,462,961.78</b>	2,240,416.39
Other non-current assets			
<b>Total non-current assets</b>		<b>509,346,014.90</b>	341,803,271.47
<b>Total assets</b>		<b>1,749,609,837.81</b>	1,394,680,304.14



## Balance Sheet of the Parent Company

As at 31 December 2017

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		<b>336,900,000.00</b>	227,430,000.00
Financial liabilities at fair value through profit or loss			
Bill payables		<b>415,708,561.42</b>	436,553,247.14
Trade payables		<b>185,439,391.17</b>	179,641,102.91
Receipts in advance		<b>8,572,778.98</b>	5,382,741.47
Salaries payable to employees		<b>2,187,707.73</b>	2,784,089.43
Tax payables		<b>14,635,237.97</b>	19,991,555.39
Interests payable		<b>725,745.15</b>	347,117.48
Dividend payables			
Other payables		<b>367,528,889.27</b>	117,938,416.85
Held-for-sale liabilities			
Non-current liabilities due within one year			
Other current liabilities			
<b>Total current liabilities</b>		<b>1,331,698,311.69</b>	990,068,270.67
<b>Non-current liabilities:</b>			
Long-term borrowings			
Debentures payable			
Including: Preferential shares			
Perpetual debentures			
Long-term payables			
Long-term salaries payable to employees			
Specific payables			
Expected liability			
Deferred income			
Deferred income tax liabilities			
Other non-current liabilities			
<b>Total non-current liabilities</b>			
<b>Total liabilities</b>		<b>1,331,698,311.69</b>	990,068,270.67





## Balance Sheet of the Parent Company

As at 31 December 2017

Items	Note	Balance as at the end of the year	Balance as at the beginning of the year
<b>Shareholders' equity:</b>			
Share capital		<b>108,000,000.00</b>	108,000,000.00
Other equity instruments			
Including: Preferential shares			
Perpetual debentures			
Capital reserve		<b>282,204,487.50</b>	281,215,559.50
Less: Treasury stock			
Other comprehensive income			
Specific reserve			
Surplus reserve		<b>10,115,890.49</b>	5,644,834.02
Unallocated profits		<b>17,591,148.13</b>	9,751,639.95
<b>Total shareholders' equity</b>		<b>417,911,526.12</b>	404,612,033.47
<b>Total liabilities and shareholders' equity</b>		<b>1,749,609,837.81</b>	1,394,680,304.14

Legal representative:

**Yao Chuanglong**

The person in charge of the accounting  
function of the Company:

**Lin Zhixiong**

The person in charge of  
the accounting firm:

**Zhang Hanzi**



# Consolidated Income Statement

For the year 2017

Prepared by: CHARMACY PHARMACEUTICAL CO., LTD.

Unit: RMB

Items	Note	Amount for the year	Amount for last year
<b>I. Total operating revenue</b>		<b>4,095,835,450.18</b>	3,669,781,092.20
Including: operating revenue	VI.27	<b>4,095,835,450.18</b>	3,669,781,092.20
<b>II. Total operating cost</b>		<b>4,040,191,663.78</b>	3,596,587,443.38
Including: operating cost	VI.27	<b>3,885,972,976.78</b>	3,488,020,014.20
Taxes and surcharges	VI.28	<b>4,612,627.66</b>	3,739,742.05
Selling expenses	VI.29	<b>68,005,339.09</b>	51,541,787.61
Management expenses	VI.30	<b>49,576,119.01</b>	38,991,686.54
Finance costs	VI.31	<b>27,606,978.42</b>	10,265,249.95
Impairment loss of assets	VI.32	<b>4,417,622.82</b>	4,028,963.03
Add: Gain arising from changes in fair value ("–" for loss)			
Returns on investments ("–" for loss) Including: Returns on investments in associates and joint ventures			
Exchange gain ("–" for loss)			
Gains on disposal of assets ("–" for loss)	VI.33	<b>–185,982.92</b>	–29,215.31
Other gains	VI.34	<b>467,051.01</b>	
<b>III. Operating profit ("–" for loss)</b>		<b>55,924,854.49</b>	73,164,433.51
Add: Non-operating revenue	VI.35	<b>4,077,127.40</b>	3,101,527.68
Less: Non-operating expenses	VI.36	<b>144,667.60</b>	184,495.45
<b>IV. Total profit ("–" for total loss)</b>		<b>59,857,314.29</b>	76,081,465.74
Less: Income tax expense	VI.37	<b>15,562,441.59</b>	19,623,195.96
<b>V. Net profit ("–" for net loss)</b>		<b>44,294,872.70</b>	56,458,269.78
Net profit attributable to the shareholders of parent company		<b>44,759,911.86</b>	56,458,269.78
Profit or loss of minority shareholders		<b>–465,039.16</b>	
(I) Net profit from continuing operation ("–" for net loss)		<b>44,294,872.70</b>	56,458,269.78
(II) Net profit from discontinued operation ("–" for net loss)			



## Consolidated Income Statement

For the year 2017

Items	Note	Amount for the year	Amount for last year
<b>VI. Other post-tax comprehensive income, net</b>			
Other post-tax comprehensive income attributable to the owners of parent company, net			
(I) Other comprehensive income that cannot be reclassified into profit or loss subsequently			
1. Remeasurement of changes in net liabilities or net assets of defined benefit plan			
2. Share of other comprehensive income that cannot be reclassified into profit or loss by the investee under the equity method			
(II) Other comprehensive income to be reclassified into profit or loss subsequently			
1. Share of other comprehensive income to be reclassified into profit or loss by the investee under the equity method			
2. Gain or loss arising from changes in fair value of available-for-sale financial assets			
3. Gain or loss arising from reclassification of held-to-maturity investment to available-for-sale financial assets			
4. Effective portion of cash flow hedging gain or loss			
5. Translation difference of foreign currency financial statements			
6. Others			
Other post-tax comprehensive income attributable to minority shareholders, net			
<b>VII. Total comprehensive income</b>		<b>44,294,872.70</b>	56,458,269.78
Total comprehensive income attributable to the shareholders of parent company		<b>44,759,911.86</b>	56,458,269.78
Total comprehensive income attributable to minority shareholders		<b>-465,039.16</b>	-
<b>VIII. Earnings per share:</b>			
(I) Basic earnings per share		<b>0.4144</b>	0.5228
(II) Diluted earnings per share		<b>0.4144</b>	0.5228

Legal representative:

**Yao Chuanglong**

The person in charge of the accounting function of the Company:

**Lin Zhixiong**

The person in charge of the accounting firm:

**Zhang Hanzi**



# Income Statement of the Parent Company

For the year 2017

Prepared by: CHARMACY PHARMACEUTICAL CO., LTD.

Unit: RMB

Items	Note	Amount for the year	Amount for last year
<b>I. Operating revenue</b>	XV.4	<b>1,644,119,714.18</b>	1,646,662,095.01
Less: Operating cost	XV.4	<b>1,555,693,792.27</b>	1,549,279,868.18
Taxes and surcharges		<b>3,543,302.94</b>	3,113,987.91
Selling expenses		<b>30,254,378.38</b>	27,408,265.39
Management expenses		<b>27,448,860.38</b>	21,643,607.33
Finance costs		<b>16,221,229.24</b>	7,103,508.69
Impairment loss of assets		<b>-2,116,689.84</b>	2,971,645.42
Add: Gain arising from changes in fair value (“-” for loss)			
Returns on investment (“-” for loss)	XV.5	<b>33,000,000.00</b>	
Including: Returns on investments in associates and joint ventures			
Gains on disposal of assets (“-” for loss)		<b>-92,717.30</b>	-29,215.31
Other gains			
<b>II. Operating profit (“-” for loss)</b>		<b>45,982,123.51</b>	35,111,996.78
Add: Non-operating revenue		<b>3,181,780.28</b>	577,201.35
Less: Non-operating expenses		<b>138,065.14</b>	122,149.02
<b>III. Total profit (“-” for total loss)</b>		<b>49,025,838.65</b>	35,567,049.11
Less: income tax expense		<b>4,315,274.00</b>	9,324,377.93
<b>IV. Net profit (“-” for net loss)</b>		<b>44,710,564.65</b>	26,242,671.18
(I) Net profit from continuing operation (“-” for net loss)		<b>44,710,564.65</b>	26,242,671.18
(II) Net profit from discontinued operation (“-” for net loss)			



## Income Statement of the Parent Company

For the year 2017

Items	Note	Amount for the year	Amount for last year
<b>V. Other post-tax comprehensive income, net</b>			
(I) Other comprehensive income that cannot be reclassified into profit or loss subsequently			
1. Remeasurement of changes in net liabilities or net assets of defined benefit plan			
2. Share of other comprehensive income that cannot be reclassified into profit or loss by the investee under the equity method			
(II) Other comprehensive income to be reclassified into profit or loss subsequently			
1. Share of other comprehensive income to be reclassified into profit or loss by the investee under the equity method			
2. Gain or loss arising from changes in fair value of available-for-sale financial assets			
3. Gain or loss arising from reclassification of held-to-maturity investment to available-for-sale financial assets			
4. Effective portion of cash flow hedging gain or loss			
5. Translation difference of foreign currency financial statements			
6. Others			
<b>VI. Total comprehensive income</b>		<b>44,710,564.65</b>	26,242,671.18

Legal representative:

**Yao Chuanglong**

The person in charge of the accounting function of the Company:

**Lin Zhixiong**

The person in charge of the accounting firm:

**Zhang Hanzi**



# Consolidated Statement of Cash Flow

For the year 2017

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		<b>3,368,338,888.08</b>	3,149,713,629.25
Refund of taxes received			2,118,338.59
Cash received relating to other operating activities	VI.38	<b>17,744,746.05</b>	29,626,531.23
<b>Sub-total of cash inflow from operating activities</b>		<b>3,386,083,634.13</b>	3,181,458,499.07
<b>II. Cash flow from investing activities:</b>			
Cash paid for purchases of goods and receiving services		<b>3,254,583,001.62</b>	3,160,176,484.38
Cash paid to employees and on behalf of employees		<b>63,255,083.66</b>	45,994,293.03
Cash paid for various taxes		<b>36,516,916.17</b>	34,092,269.02
Cash paid relating to other operating activities	VI.38	<b>64,688,766.84</b>	42,746,923.52
<b>Sub-total of cash outflow from operating activities</b>		<b>3,419,043,768.29</b>	3,283,009,969.95
<b>Net cash flow from operating activities</b>		<b>-32,960,134.16</b>	-101,551,470.88
<b>II. Cash flow from investing activities:</b>			
Cash received from disposal of investments			
Cash received from returns on investments			
Net cash received from disposal of fixed assets, intangible assets and other long-term assets		<b>177,010.00</b>	37,425.60
Net cash received from disposal of subsidiaries and other business units			
Cash received relating to other investing activities	VI.38	<b>2,186,078.94</b>	100,000.00
<b>Sub-total of cash inflow from investing activities</b>		<b>2,363,088.94</b>	137,425.60
Cash paid for acquisition and construction of fixed assets, intangible assets and other long-term assets		<b>125,625,449.03</b>	19,574,422.02
Cash paid for investment			
Net cash paid for acquisition of subsidiaries and other business units			
Cash paid relating to other investing activities	VI.38	<b>100,000.00</b>	100,000.00
<b>Sub-total of cash outflow from investing activities</b>		<b>125,725,449.03</b>	19,674,422.02
<b>Net cash flow from investing activities</b>		<b>-123,362,360.09</b>	-19,536,996.42



## Consolidated Statement of Cash Flow

For the year 2017

Items	Note	Amount for the year	Amount for last year
<b>III. Cash flow from financing activities:</b>			
Cash received from absorbing investments Including: Cash received by subsidiaries from absorbing investment from minority interests		<b>750,400,000.00</b>	449,622,756.40
Cash received from borrowings			
Cash received from issuing debentures			
Cash received relating to other financing activities	VI.38	<b>2,035,960,898.61</b>	2,016,961,480.50
<b>Sub-total of cash inflow from financing activities</b>		<b>2,786,360,898.61</b>	2,466,584,236.90
Cash paid for repayment of debts		<b>507,481,500.00</b>	320,819,756.40
Cash paid for distribution of dividends and profits or interest payment		<b>51,084,227.15</b>	37,102,185.42
Including: Dividends and profits paid to minority interests by subsidiaries			
Cash paid relating to other financing activities	VI.38	<b>2,114,177,028.36</b>	2,029,070,029.27
<b>Sub-total of cash outflow from financing activities</b>		<b>2,672,742,755.51</b>	2,386,991,971.09
<b>Net cash flow from financing activities</b>		<b>113,618,143.10</b>	79,592,265.81
<b>IV. Effect of change in exchange rates on cash and cash equivalents</b>			
		<b>-1,768,006.55</b>	5,925,778.23
<b>V. Net increase in cash and cash equivalents</b>			
Add: Opening balance of cash and cash equivalents for the period	VI.38	<b>-44,472,357.70</b>	-35,570,423.26
	VI.38	<b>119,569,294.15</b>	155,139,717.41
<b>VI. Closing balance of cash and cash equivalents for the period</b>			
	VI.38	<b>75,096,936.45</b>	119,569,294.15

Legal representative:

**Yao Chuanglong**

The person in charge of the accounting  
function of the Company:

**Lin Zhixiong**

The person in charge of the  
accounting firm:

**Zhang Hanzi**



# Statement of Cash Flow of the Parent Company

For the year 2017

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		1,394,047,768.82	1,576,925,645.93
Refund of taxes received			
Cash received relating to other operating activities		535,200,145.68	462,346,228.49
<b>Sub-total of cash inflow from operating activities</b>		<b>1,929,247,914.50</b>	2,039,271,874.42
Cash paid for purchases of goods and receiving services		1,615,336,882.15	1,726,493,257.97
Cash paid to employees and on behalf of employees		31,594,840.85	26,427,330.85
Cash paid for various taxes		20,795,386.40	22,602,412.79
Cash paid relating to other operating activities		303,078,337.90	217,686,580.24
<b>Sub-total of cash outflow from operating activities</b>		<b>1,970,805,447.30</b>	1,993,209,581.85
<b>Net cash flow from operating activities</b>		<b>-41,557,532.80</b>	46,062,292.57
<b>II. Cash flow from investing activities:</b>			
Cash received from disposal of investments			
Cash received from returns on investments		33,000,000.00	
Net cash received from disposal of fixed assets, intangible assets and other long-term assets		99,000.00	37,425.60
Net cash received from disposal of subsidiaries and other business units			
Cash received relating to other investing activities			
<b>Sub-total of cash inflow from investing activities</b>		<b>33,099,000.00</b>	37,425.60
Cash paid for acquisition and construction of fixed assets, intangible assets and other long-term assets		118,740,851.59	14,449,084.10
Cash paid for investment			
Net cash paid for acquisition of subsidiaries and other business units		36,000,000.00	
Cash paid relating to other investing activities			100,000,000.00
<b>Sub-total of cash outflow from investing activities</b>		<b>154,740,851.59</b>	114,449,084.10
<b>Net cash flow from investing activities</b>		<b>-121,641,851.59</b>	-114,411,658.50





## Statement of Cash Flow of the Parent Company

For the year 2017

Items	Note	Amount for the year	Amount for last year
<b>III. Cash flow from financing activities:</b>			
Cash received from absorbing investments			
Cash received from borrowings		<b>510,400,000.00</b>	336,130,000.00
Cash received relating to other financing activities		<b>892,966,632.46</b>	956,482,018.23
<b>Sub-total of cash inflow from financing activities</b>		<b>1,403,366,632.46</b>	1,292,612,018.23
Cash paid for repayment of debts		<b>342,430,000.00</b>	256,000,000.00
Cash paid for distribution of dividends and profits or interest payment		<b>45,143,650.51</b>	35,040,740.58
Cash paid relating to other financing activities		<b>916,773,735.85</b>	970,075,349.91
<b>Sub-total of cash outflow from financing activities</b>		<b>1,304,347,386.36</b>	1,261,116,090.49
<b>Net cash flow from financing activities</b>		<b>99,019,246.10</b>	31,495,927.74
<b>IV. Effect of change in exchange rates on cash and cash equivalents</b>			
		<b>-1,768,006.55</b>	5,925,778.23
<b>V. Net increase in cash and cash equivalents</b>			
Add: Opening balance of cash and cash equivalents for the period		<b>106,915,117.77</b>	137,842,777.73
<b>VI. Closing balance of cash and cash equivalents for the period</b>		<b>40,966,972.93</b>	106,915,117.77

Legal representative:

**Yao Chuanglong**

The person in charge of the accounting  
function of the Company:

**Lin Zhixiong**

The person in charge of the  
accounting firm:

**Zhang Hanzi**

# Consolidated Statement of Changes in Shareholder's Equity

For the year 2017

Prepared by: CHARMACY PHARMACEUTICAL CO., LTD.

Unit: RMB

Items	For the current year											Total shareholders' equity	
	Share capital	Other equity instruments	Equity attributable to shareholders of parent company			Less: Treasury stock	Other comprehensive income	Specific reserve	Surplus reserve	General risk provision	Unallocated profits		Minority interests
		Preferential shares	Perpetual debentures	Others	Capital reserve								
<b>I. Closing balance for last year</b>	108,000,000.00				281,215,559.50				5,644,834.02		47,908,855.34		442,769,248.86
Add: Changes in accounting policies													
Rectification of previous errors													
Business combinations under common control													
Others													
<b>II. Opening balance for the year</b>	108,000,000.00				281,215,559.50				5,644,834.02		47,908,855.34		442,769,248.86
<b>III. Movement for the year</b>													
<b>(*) for decrease)</b>					988,928.00				4,471,056.47		7,888,855.39	7,288,908.13	20,637,747.99
(I) Total comprehensive income											44,759,911.86	-465,039.16	44,294,872.70
(II) Contribution of shareholders and capital reduction					988,928.00							7,753,947.29	8,742,875.29
1. Shareholders' contribution to ordinary shares												7,753,947.29	7,753,947.29
2. Capital contribution by holders of other equity instruments													
3. Share-based payment credited to shareholders' equity					988,928.00								988,928.00
4. Others													
(III) Profit allocation									4,471,056.47		-36,871,056.47		-32,400,000.00
1. Appropriation of surplus reserve									4,471,056.47		-4,471,056.47		
2. Appropriation of general risk provision													
3. Allocation to shareholders											-32,400,000.00		-32,400,000.00
4. Others													
(IV) Transfers within 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. Others													
(V) Specific reserve													
1. Appropriation for the year													
2. Used in the year													
(VI) Others													
<b>IV. Closing balance for the year</b>	108,000,000.00				282,204,487.50				10,115,890.49		55,797,710.73	7,288,908.13	463,406,996.85



## Consolidated Statement of Changes in Shareholder's Equity

For the year 2017

Prepared by: CHARMACY PHARMACEUTICAL CO., LTD.

Unit: RMB

Items	Share capital	Other equity instruments			Equity attributable to shareholders of parent company				Specific reserve	Surplus reserve	General risk provision	Unallocated profits	Minority interests	Total shareholders' equity
		Preferential shares	Perpetual debentures	Others	Capital reserve	Less: Treasury stock	For last year	Other comprehensive income						
<b>I. Closing balance for last year</b>	108,000,000.00				281,215,559.50				3,020,566.90			15,674,852.68		407,910,979.08
Add: Changes in accounting policies														
Rectification of previous errors														
Business combinations under common control														
Others														
<b>II. Opening balance for the year</b>	108,000,000.00				281,215,559.50				3,020,566.90			15,674,852.68		407,910,979.08
<b>III. Movement for the year</b>														
<b>(*) for decrease)</b>									2,624,267.12			32,234,002.66		34,858,269.78
(i) Total comprehensive income												56,458,289.78		56,458,289.78
(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									2,624,267.12			-24,224,267.12		-21,600,000.00
1. Appropriation of surplus reserve									2,624,267.12			-2,624,267.12		
2. Appropriation of general risk provision														
3. Allocation to shareholders												-21,600,000.00		-21,600,000.00
4. Others														
(iv) Transfers within 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. Others														
(v) Specific reserve														
1. Appropriation for the year														
2. Used in the year														
(vi) Others														
<b>IV. Closing balance for the year</b>	108,000,000.00				281,215,559.50				5,644,834.02			47,908,855.34		442,789,248.86

Legal representative:

**Yao Chuanglong**

The person in charge of the accounting function of the Company:

**Lin Zhixiong**

The person in charge of the accounting firm:

**Zhang Hanzi**



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

For the year 2017

Prepared by: CHARMACY PHARMACEUTICAL CO., LTD.

Unit: RMB

Items	Other equity instruments				Capital reserve	For the current year			Surplus reserve	Unallocated profits	Total shareholders' equity
	Share capital	Preferential shares	Perpetual debentures	Others		Less: Treasury stock	Other comprehensive Income	Specific reserve			
<b>I. Closing balance for last year</b>	108,000,000.00				281,215,559.50				5,644,834.02	9,751,639.95	404,612,033.47
Add: Changes in accounting policies											
Rectification of previous errors											
Others											
<b>II. Opening balance for the year</b>	108,000,000.00				281,215,559.50				5,644,834.02	9,751,639.95	404,612,033.47
<b>III. Movement for the year</b>											
<b>(“-” for decrease)</b>					988,928.00				4,471,056.47	7,839,508.18	13,299,492.65
(I) Total comprehensive income										44,710,564.65	44,710,564.65
(II) Contribution of shareholders and capital reduction					988,928.00						988,928.00
1. Shareholders' contribution to ordinary shares											
2. Capital contribution by holders of other equity instruments											
3. Share-based payment credited to shareholders' equity					988,928.00						988,928.00
4. Others											
(III) Profit allocation									4,471,056.47	-36,871,056.47	-32,400,000.00
1. Appropriation of surplus reserve									4,471,056.47	-4,471,056.47	
2. Allocation to shareholders											
3. Others										-32,400,000.00	-32,400,000.00
(IV) Transfers within 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. Others											
(V) Specific reserve											
1. Appropriation for the year											
2. Used in the year											
(VI) Others											
<b>IV. Closing 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



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

For the year 2017

Prepared by: CHARMACY PHARMACEUTICAL CO., LTD.

Unit: RMB

	Share capital	Other equity instruments			Capital reserve	For last year Less: Treasury stock	Other comprehensive income	Specific reserve	Surplus reserve	Unallocated profits	Total shareholders' equity
		Preferential shares	Perpetual debentures	Others							
<b>I. Closing balance for last year</b>	108,000,000.00				281,215,559.50				3,020,566.90	7,733,235.89	399,969,362.29
Add: Changes in accounting policies											
Rectification of previous errors											
Others											
<b>II. Opening balance for the year</b>	108,000,000.00				281,215,559.50				3,020,566.90	7,733,235.89	399,969,362.29
<b>III. Movement for the year</b>											
<b>("-" for decrease)</b>									2,624,267.12	2,018,404.06	4,642,671.18
(I) Total comprehensive income										26,242,671.18	26,242,671.18
(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									2,624,267.12	-24,224,267.12	-21,600,000.00
1. Appropriation of surplus reserve									2,624,267.12	-2,624,267.12	
2. Allocation to shareholders										-21,600,000.00	-21,600,000.00
3. Others											
(IV) Transfers within 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. Others											
(V) Specific reserve											
1. Appropriation for the year											
2. Used in the year											
(VI) Others											
<b>IV. Closing balance for the year</b>	108,000,000.00				281,215,559.50				5,644,834.02	9,751,639.95	404,612,033.47

Legal representative:

**Yao Chuanglong**

The person in charge of the accounting function of the Company:

**Lin Zhixiong**

The person in charge of the accounting firm:

**Zhang Hanzi**



# Notes to the Financial Statements

1 January 2017 to 31 December 2017

(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”, formerly named as Shantou City Chuangmei Pharmaceutical Company Limited (汕頭市創美藥業有限公司) (hereinafter referred to as “Chuangmei Company Limited”)) was restructured and established as a limited liability company by Shantou Medicine (Group) Limited (汕頭醫藥(集團)公司), Shantou Chuangmei Trading Limited (汕頭市創美貿易有限公司) and Shantou Chuangmei Advertising Limited (汕頭市創美廣告有限公司) with joint investments in 2000. The Company obtained the BUSINESS LICENSE OF THE ENTERPRISE LEGAL PERSON issued by Shantou Administration for Industry and Commerce on 6 March 2000. On 28 May 2015, the Company changed its name to Charmacy Pharmaceutical Co., Ltd.

### 2. Development History

(1) *Establishment of Shantou Medicine Trading Development Limited (汕頭市醫藥貿易發展公司)*

With approval of Shantou Economic Committee and Municipal Administration for Industry and Commerce (市工商局), “Material Station of Shantou Pharmaceutical Supplies Company” (汕頭市醫藥聯合公司物資站) was established in February 1984 with registered capital of RMB100,000. The supervising unit of such station was Shantou Pharmaceutical Supplies Company (汕頭市醫藥聯合公司), and its mode of operation was allocating and supplying pharmaceutical materials involved in the systems of Shantou Pharmaceutical Supplies Company (汕頭市醫藥聯合公司).

As approved by Shantou Pharmaceutical Supplies Company (汕頭市醫藥聯合公司) in January 1985, the name of “Material Station of Shantou Pharmaceutical Supplies Company” (汕頭市醫藥聯合公司物資站) was changed to “Shantou Medicine Trading Development Limited” (汕頭市醫藥貿易發展公司), and the mode of production and operation was changed to wholesale.

(2) *“Shantou Medicine Trading Development Limited” (汕頭市醫藥貿易發展公司) Transformed to “Shantou City Chuangmei Pharmaceutical Company Limited” (汕頭市創美藥業有限公司)*

On 17 January 2000, Shantou Medicine (Group) Limited (汕頭醫藥(集團)公司) formulated the IMPLEMENTATION PROPOSAL FOR SHANTOU MEDICINE TRADING DEVELOPMENT LIMITED (汕頭市醫藥貿易發展公司) CONVERTED TO A LIMITED LIABILITY COMPANY, which provided that in light of recording losses for consecutively three years for Shantou Medicine Trading Development Limited (汕頭市醫藥貿易發展公司) and in order to change the loss-making situation, Shantou Medicine (Group) Limited (汕頭醫藥(集團)公司) intended to convert Shantou Medicine Trading Development Limited (汕頭市醫藥貿易發展公司) to a limited liability company with joint share-investments from 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) and changed its name to “Shantou City Chuangmei Pharmaceutical Company Limited(汕頭市創美藥業有限公司)”. Meanwhile, after the entire assets of Shantou Medicine Trading Development Limited (汕頭市醫藥貿易發展公司) were liquidated and verified, they were taken over by Shantou Medicine (Group) Limited (汕頭醫藥(集團)公司) without payment for undertaking and management together with liabilities. The existing and retired employees of Shantou Medicine Trading Development Limited (汕頭市醫藥貿易發展公司) were properly relocated by Shantou Medicine (Group) Limited (汕頭醫藥(集團)公司), and Shantou Chuangmei Advertising Limited (汕頭市創美廣告有限公司) gave Shantou Medicine (Group) Limited (汕頭醫藥(集團)公司) an one-off compensation for life relocation.



## Notes to the Financial Statements

1 January 2017 to 31 December 2017

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

### I. GENERAL INFORMATION ABOUT THE COMPANY (Continued)

#### 2. Development History (Continued)

- (2) *“Shantou Medicine Trading Development Limited” (汕頭市醫藥貿易發展公司) Transformed to “Shantou City Chuangmei Pharmaceutical Company Limited” (汕頭市創美藥業有限公司)*  
(Continued)

On 26 January 2000, a REPLY ON APPROVAL OF SHANTOU MEDICINE TRADING DEVELOPMENT LIMITED (汕頭市醫藥貿易發展公司) CONVERTED TO A LIMITED LIABILITY COMPANY (Circular [2000] No.6 of Shantou Reform Commission) jointly issued by Shantou Commission for Restructuring the Economic Systems, Shantou Economic Committee, Shantou Finance Bureau and Shantou State-owned Property Management Office to Medicine Group, agreed the implementation proposal submitted by Shantou Medicine (Group) Limited (汕頭醫藥(集團)公司).

As of 3 March 2000, the registered capital of RMB0.88 million of Chuangmei Company Limited was fully paid up, of which Shantou Chuangmei Trading Limited (汕頭市創美貿易有限公司) made a monetary contribution of RMB0.48 million, representing 54.54% of the registered capital, Shantou Medicine (Group) Limited (汕頭醫藥(集團)公司) RMB0.20 million, representing 22.73% of the registered capital, and Shantou Chuangmei Advertising Limited (汕頭市創美廣告有限公司) RMB0.20 million, representing 22.73% of the registered capital. Such registered capital was confirmed by 汕頭市中瑞會計師事務所有限公司 with a Capital Contribution Verification Report of “(2000)Shan Zhongruikuai Yanzi No.11((2000) 汕中瑞會驗字第11號)”.

On 6 March 2000, the Company obtained the Business License of Enterprise Legal Person from Shantou Administration for Industry and Commerce with a registered number of 4405001002330.



# Notes to the Financial Statements

1 January 2017 to 31 December 2017

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

## I. GENERAL INFORMATION ABOUT THE COMPANY (Continued)

### 2. Development History (Continued)

- (3) *Equity Interests Transferred by Shantou Medicine (Group) Limited (汕頭醫藥(集團)公司) to Shantou Chuangmei Trading Limited (汕頭市創美貿易有限公司)*

On 20 August 2001, Shantou Medicine (Group) Limited (汕頭醫藥(集團)公司) signed an equity transfer agreement with Shantou Chuangmei Trading Limited (汕頭市創美貿易有限公司), pursuant to which Shantou Medicine (Group) Limited (汕頭醫藥(集團)公司) transferred 22.73% of its equity interests in Chuangmei Company Limited to Shantou Chuangmei Trading Limited (汕頭市創美貿易有限公司) at a contribution amount of RMB0.20 million.

- (4) *Equity Transfer in 2002*

On 8 July 2002, with a resolution passed by the Company's general meeting, Shantou Chuangmei Trading Limited (汕頭市創美貿易有限公司) signed an equity transfer agreement with Yao Chuanglong, and transferred its 77.27% equity interests in Chuangmei Company Limited to Yao Chuanglong at a contribution amount of RMB0.68 million.

On 8 November 2002, with a resolution passed by the Company's general meeting, Shantou Chuangmei Advertising Limited (汕頭市創美廣告有限公司) signed an equity transfer agreement with Yao Chuxiong, and transferred its 22.73% equity interests in Chuangmei Company Limited to Yao Chuxiong at a contribution amount of RMB0.20 million.

- (5) *Increase of Registered Capital of RMB9.12 Million in 2006*

On 20 June 2006, with a resolution passed by the Company's general meeting, the Company made an application for increase of registered capital of RMB9.12 million. In order to increase the capital by RMB9.12 million, Yao Chuanglong transferred its credit in Chuangmei Company Limited at cost to share capital. With registered capital changed to RMB10.00 million, Yao Chuanglong contributed RMB9.80 million, representing 98% of the registered capital, and Yao Chuxiong RMB0.20 million, representing 2% of the registered capital. Such Change in registered capital was confirmed by 汕頭市大地會計師事務所 with a Capital Contribution Verification Report of "Shan Dadikuai Yanzi [2006] No.044(汕大地會驗字[2006]044號)".

- (6) *Increase of Registered Capital of RMB20.00 million in 2008*

On 10 December 2008, with a resolution passed by the Company's general meeting, the Company made an application for increase of registered capital of RMB20.00 million. In order to increase the capital by RMB20.00 million, Yao Chuanglong transferred its credit in Chuangmei Company Limited at cost to share capital. The registered capital of Chuangmei Company Limited after the change was RMB30.00 million, of which Yao Chuanglong contributed RMB29.80 million, representing 99.33% of the registered capital, and Yao Chuxiong RMB0.20 million, representing 0.67% of the registered capital. Such change in registered capital was confirmed by 汕頭市立真會計師事務所 with a Capital Contribution Verification Report of "Shan Lizhenshi Yanzi (2008) No.29 (汕立真師驗字(2008) 29號)".





## Notes to the Financial Statements

1 January 2017 to 31 December 2017

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

### I. GENERAL INFORMATION ABOUT THE COMPANY (Continued)

#### 2. Development History (Continued)

(7) *Increase of Registered Capital of RMB40.00 million in 2010*

On 30 April 2010, with a resolution passed by the Company's general meeting, the Company made an application for increase of registered capital of RMB40.00 million. Such increase was satisfied by Yao Chuanglong contributing RMB12.00 million in cash and transferring its credit in Chuangmei Company Limited of RMB28.00 million at cost to share capital. Registered capital after the change was RMB70.00 million, of which Yao Chuanglong contributed 69.80 million yuan, representing 99.71% of the registered capital, and Yao Chuxiong 0.20 million yuan, representing 0.29% of the registered capital. Such change in registered capital was confirmed by 汕頭市立真會計師事務所 with a Capital Contribution Verification Report of "Shan Lizhenshi Yanzi (2010) No.21 (汕立真師驗字(2010) 21號)"

(8) *Increase of Registered Capital of RMB10.00 million in 2011*

On 30 June 2011, with a resolution passed by the Company's general meeting, the Company made an application for increase of registered capital of RMB10.00 million. Such increase was satisfied by Yao Chuanglong contributing RMB10.00 million in cash. With registered capital changed to RMB80.00 million, Yao Chuanglong contributed RMB79.80 million, representing 99.75% of the registered capital, and Yao Chuxiong RMB0.20 million, representing 0.25% of the registered capital. Such change in registered capital was confirmed by 汕頭市立真會計師事務所 with a Capital Contribution Verification Report of "Shan Lizhenshi Yanzi (2011) No.28 (汕立真師驗字(2011) 28號)".

(9) *Yao Chuanglong, A Controlling Shareholder, Contributed Monetary Fund of RMB57.12 million to Replace the Contribution of Original Credit in 2011*

To regulate the equity contribution form, on 16 December 2011, the Company's general meeting resolved that Yao Chuanglong was allowed to replace the contribution in aggregate of RMB57.12 million made by credit with equivalent cash, that is, the way of contribution of RMB57.12 million made by Yao Chuanglong to the Company would be changed from by credit to by currency. Contribution of RMB57.12 million made by credit was included into capital reserve of the Company.

廣東中海粵會計師事務所有限公司 issued a CONTRIBUTION VERIFICATION REPORT (Zhonghaiyue Yanzi(2011)No.0053) and a CORRECT LETTER on 23 December 2011 and 14 August 2015 respectively. As of 23 December 2011, total cash payments of RMB57.12 million received by Chuangmei Company Limited from Yao Chuanglong for regulation of the contribution made by credit, was used for replacing the total cash contribution of 57.12 million of Yao Chuanglong made by credit in June 2006, December 2008 and May 2010 respectively.



## Notes to the Financial Statements

1 January 2017 to 31 December 2017

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

### I. GENERAL INFORMATION ABOUT THE COMPANY (Continued)

#### 2. Development History (Continued)

##### (10) Equity Transfer for the Year 2014

On 27 December 2014, with a resolution passed by the Company's general meeting, shareholder Yao Chuanglong transferred its equity interests of 8.125% (contribution amount of RMB6.50 million) to Yao Xizhen without payment; shareholder Yao Chuxiong transferred its 0.25% equity interests to Shantou Youran Investment Management Limited Partnership (汕頭市悠然投資管理合夥企業(有限合夥)) (hereinafter referred to as "Youran Investment") at a consideration of RMB1.20 million; Yao Chuanglong transferred its 1% equity interests to Youran Investment at a consideration of RMB4.80 million; shareholder Yao Chuanglong transferred its 1.25% equity interests to Shantou Zhichuang Investment Management Limited Partnership (汕頭市智創投資管理合夥企業(有限合夥)) (hereinafter referred to as "Zhichuang Investment") at a consideration of RMB6.00 million; shareholder Yao Chuanglong transferred its 1.875% equity interests to Shantou Meizhi Investment Management Limited Partnership (汕頭市美智投資管理合夥企業(有限合夥)) (hereinafter referred to as "Meizhi Investment") at a consideration of RMB9.00 million. Formalities with relevant industry and commerce authorities for the above equity transfer and change of shareholders were properly completed.

##### (11) Chuangmei Company Limited Entirely Changed to Charmacy Pharmaceutical in May 2015

On 1 April 2015, Chuangmei Company Limited passed a RESOLUTION OF GENERAL MEETING ON THE ENTIRE CHANGE OF CHARMACY PHARMACEUTICAL CO.,LTD. FOR THE ESTABLISHMENT OF A JOINT STOCK LIMITED COMPANY (關於對汕頭市創美藥業有限公司整體變更設立股份有限公司股東會決議), and agreed to be changed entirely for the establishment of a joint stock limited liability company by taking 31 March 2015 as the benchmark date.

On 25 May 2015, Yao Chuanglong, Yao Xizhen, Meizhi Investment, Youran Investment and Zhichuang Investment signed the PROMOTER AGREEMENT ON THE ESTABLISHMENT OF CHARMACY PHARMACEUTICAL CO.,LTD (關於設立創美藥業股份有限公司之發起人協議書), pursuant to which each party agreed to translate the net carrying amount of assets of RMB219,649,626.55 of Chuangmei Company Limited at a proportion of 1 to 0.364216 audited by SHINEWING Certified Public Accountants (LLP) as of 31 March 2015 to total share capital comprising 80.00 million shares (RMB1 per share), and the remaining net assets of RMB139,649,626.55 was included into capital reserve.

Such joint stock change was confirmed by SHINEWING Certified Public Accountants (LLP) with the issuance of a verification report "No. XYZH/2015GZA20099". On 28 May 2015, Charmacy Pharmaceutical Company obtained the BUSINESS LICENSE OF THE ENTERPRISE LEGAL PERSON with registered number of 440500000024328.



## Notes to the Financial Statements

1 January 2017 to 31 December 2017

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

### I. GENERAL INFORMATION ABOUT THE COMPANY (Continued)

#### 2. Development History (Continued)

##### (12) Fund Raising by Public Issuance of H Shares in 2015

On 8 August 2015, with a resolution passed by the general meeting and the verification and approval of the Circular “Zhengjian Xuke[2015] No. 2419 (證監許可[2015]2419號)” of the China Securities Regulatory Commission and the Circular “IPO/APP/138/L2015016378” of the Stock Exchange of Hong Kong Limited (the Stock Exchange), the Company intended to issue 28.00 million overseas listed foreign shares (H share) (RMB1 per share) publicly, and increased share capital of RMB28.00 million. The registered capital after change was RMB108.00 million.

As of 16 December 2015, the Company actually issued 28.00 million ordinary H shares at the issuing price of RMB8.6 per share. The total fund raised was HK\$240.80 million (equivalent to RMB200,662,492.80), and the actual net fund raised after deducting various issuing expenses was equivalent to RMB166,012,092.89. Of the amount, the increased registered capital was RMB28.00 million and the increased capital reserve was RMB138,012,092.89. Such change in the registered capital was confirmed by SHINEWING Certified Public Accountants (LLP) with the issuance of a verification report of “No. XYZH/2016GZA20002”.

The change formalities with relevant industry and commerce authorities for the above fund-raising by issuing shares publicly and the matter of increasing registered capital to RMB108.00 million was properly completed. On 7 June 2016, the Company obtained a business license of the enterprise legal person issued by Shantou Administration for Industry & Commerce with a uniform social credit number of 91440500722414635C.

##### (13) Equity Transfer for the Year 2016

On 29 December 2016, Yao Chuanglong signed the SHARE TRANSFER AGREEMENT with Zhichuang Investment, Yonran Investment and Meizhi Investment respectively, pursuant to which shareholder Yao Chuanglong transferred its 0.74% non-overseas listed shares in the Company to Zhichuang Investment at a consideration of RMB5.76 million (RMB7.2 per share); shareholder Yao Chuanglong transferred its 0.65% non-overseas listed share in the Company to Youran Investment at a consideration of RMB5.04 million (RMB7.2 per share); shareholder Yao Chuanglong transferred its 1.57% non-overseas listed share in the Company to Meizhi Investment at a consideration of RMB12.24 million (RMB7.2 per share). On 3 January 2017, Shantou Nanbin Notary Office (汕頭市南濱公證處) confirmed that this share transfer was real and effective by issuing a NOTARY CERTIFICATE. On 6 January 2017, Charmacy Pharmaceutical Company completed share transfer registration in China Securities Depository and Clearing Corporation Limited.

On 29 December 2016, shareholder Yao Chuanglong signed SHARE TRANSFER AGREEMENT with Wu Wanping, pursuant to which Yao Chuanglong transferred its 3.24% non-overseas listed shares in the Company to Wu Wanping at a consideration of RMB25.20 million (RMB7.2 per share). On 3 January 2017, Shantou Nanbin Notary Office (汕頭市南濱公證處) confirmed that this share transfer was real and effective by issuing a NOTARY CERTIFICATE. On 6 January 2017, Charmacy Pharmaceutical Company completed share transfer registration in China Securities Depository and Clearing Corporation Limited.



## Notes to the Financial Statements

1 January 2017 to 31 December 2017

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

### I. GENERAL INFORMATION ABOUT THE COMPANY (Continued)

#### 2. Development History (Continued)

##### (14) Equity Transfer for the Year 2017

On 31 March 2017, Yao Chuanglong signed the SHARE TRANSFER AGREEMENT with Wu Binhua, pursuant to which Yao Chuanglong transferred its 3.98% non-overseas listed shares in the Company to Wu Binhua at a consideration of RMB32.68 million (RMB7.6 per share). On 31 March 2017, Xiamen Siming Notary Office (廈門市思明區公證處) confirmed that this share transfer was real and effective by issuing a NOTARY CERTIFICATE. On 13 April 2017, Charmacy Pharmaceutical Company completed share transfer registration in China Securities Depository and Clearing Corporation Limited.

On 31 March 2017, Yao Xizhen signed the SHARE TRANSFER AGREEMENT with Wu Binhua, pursuant to which Yao Xizhen transferred its 1.02% non-overseas listed shares in the Company to Wu Binhua at a consideration of RMB8.36 million (RMB7.6 per share). On 31 March 2017, Xiamen Siming Notary Office (廈門市思明區公證處) confirmed that this share transfer was real and effective by issuing a NOTARY CERTIFICATE. On 13 April 2017, the promoter completed share transfer registration in China Securities Depository and Clearing Corporation Limited.

On 31 March 2017, Yao Xizhen signed the SHARE TRANSFER AGREEMENT with Liu Jigui, pursuant to which Yao Xizhen transferred its 5% non-overseas listed shares in the Company to Liu Jigui at a consideration of RMB41.04 million (RMB7.6 per share). On 31 March 2017, Xiamen Siming Notary Office (廈門市思明區公證處) confirmed that this share transfer was real and effective by issuing a NOTARY CERTIFICATE. On 13 April 2017, Charmacy Pharmaceutical Company completed share transfer registration in China Securities Depository and Clearing Corporation Limited.

As of 31 December 2017, the shareholding structure of the Company was shown as follows:

No.	Shareholder	Capital contribution (RMB)	Shareholding proportion (%)
1	Yao Chuanglong	59,000,000.00	54.63
2	Wu Binhua	5,400,000.00	5.00
3	Liu Jigui	5,400,000.00	5.00
4	Wu Wanping	3,500,000.00	3.24
5	Meizhi Investment	3,200,000.00	2.96
6	Zhichuang Investment	1,800,000.00	1.67
7	Youran Investment	1,700,000.00	1.57
8	H-share Shareholders	28,000,000.00	25.93
<b>Total</b>		<b>108,000,000.00</b>	<b>100.00</b>



## Notes to the Financial Statements

1 January 2017 to 31 December 2017

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

### I. GENERAL INFORMATION ABOUT THE COMPANY (Continued)

#### 2. Development History (Continued)

##### (14) Equity Transfer for the Year 2017 (Continued)

On 15 June 2017, Shantou Administration for Industry and Commerce renewed the business license for Charmacy Pharmaceutical Company. The current basic profile of Charmacy Pharmaceutical Company is as follows:

Company name:	Charmacy Pharmaceutical Co., Ltd.
Uniform social credit number:	91440500722414635C
Type:	A joint stock limited company (listed, invested or controlled by natural person)
Domicile:	No.235, Song Shan North Road, Longhu District, Shantou City
Legal representative:	Yao Chuanglong
Registered capital:	RMB108.00million
Date of establishment:	18 February 1984

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, 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 1 wholly-owned subsidiary, Guangdong Chuangmei Pharmaceutical Co., Ltd. (廣東創美藥業有限公司) (hereafter referred to as "Guangdong Chuangmei Company") and 2 holding subsidiaries, Zhuhai Charmacy Hengxiang Pharmaceutical Limited (珠海創美恒祥醫藥有限公司) (hereinafter referred to as "Zhuhai Charmacy Company") and Guangzhou Charmacy Pharmaceutical Limited (廣州創美藥業有限公司) (hereafter referred to as "Guangzhou Charmacy Company").

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



## Notes to the Financial Statements

1 January 2017 to 31 December 2017

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

### III. BASIS FOR THE PREPARATION OF FINANCIAL STATEMENTS

#### (1) Preparation basis

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

#### (2) Going concern

The Group, having evaluated its ability to continue as a going concern for the 12 months since 31 December 2017, 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.



## Notes to the Financial Statements

1 January 2017 to 31 December 2017

(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

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

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

#### 6. Goodwill

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

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

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

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



## Notes to the Financial Statements

1 January 2017 to 31 December 2017

(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 period between the subsidiaries and the Company, necessary adjustments will be made to the financial statements of the subsidiaries based on the accounting policies or accounting period of the Company.

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

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

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





## Notes to the Financial Statements

1 January 2017 to 31 December 2017

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

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

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

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



## Notes to the Financial Statements

1 January 2017 to 31 December 2017

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

### IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(Continued)

#### 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 refers to the investment with a term less than 3 months, which are highly liquidated, easy to be converted into known amounts of cash and subject to an insignificant risk of change in value.

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

(1) *Foreign currency transactions*

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

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

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



## Notes to the Financial Statements

1 January 2017 to 31 December 2017

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

### IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(Continued)

#### 10. Financial assets and financial liabilities

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, basis of recognition and methods of measurement of financial assets*

Based on the investment purposes and economic substance, the Group classifies the financial assets owned by it into financial assets at fair value through profit or loss, held-to-maturity investments, receivables and available-for-sale financial assets.

Financial assets at fair value through profit or loss include financial assets held for trading and those designated as financial assets at fair value through profit or loss upon initial recognition. The Group classifies a financial asset as held for trading if it meets one of the following conditions: it is acquired for the purpose of selling in the short time; it is part of a portfolio of identifiable financial instruments for centralized management, and for which there is objective evidence that the company recently adopts a pattern of short-term profit-taking; it is a derivative, except for a derivative that is designated and effective hedging instrument, or a derivative under a financial guarantee contract, or a derivative that is linked to the investments in equity instrument that do not have a quoted price in an active market and whose fair value cannot be reliably measured, and which must be settled by delivery of such equity instrument. The Group designates a financial instrument as financial asset measured at fair value through profit or loss upon initial recognition only when it meets one of the following conditions: such designation may eliminate or significantly reduce recognition or measurement inconsistency of relevant gains or losses that would otherwise result from different measurement basis of such asset; according to the Company's documented risk management or investment strategy, the financial instrument portfolio shall be managed, evaluated and reported to the key management personnel on a fair value basis; it is a hybrid instrument containing one or more embedded derivatives, unless the embedded derivatives do not significantly change the cash flow of the hybrid instrument or obviously should not be separated from the relevant hybrid instrument; it contains embedded derivatives that need to be separated but cannot be measured separately by the time they are acquired or on the subsequent balance sheet date. Such financial assets are subsequently measured at fair value. Changes in fair value shall be recorded in profit or loss of changes in fair value; interests or cash dividends acquired for the period the assets are held shall be recognized as investment gains; in disposal, the balance between its fair value and the initial booked amount shall be recognized as investment profit or loss and profit or loss of changes in fair value will be adjusted simultaneously.

Held-to-maturity investments are non-derivative financial assets that have fixed maturity date, fixed or determinable payments, and the Group has the positive intention and ability to hold to maturity. Held-to-maturity investments are subsequently measured at amortized cost using the effective interest method. Gain or loss arising from derecognition, impairment or amortisation are recorded in profit or loss for the period.

Receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are subsequently measured at amortised cost using the effective interest rate method. Gain or loss arising from derecognition, its amortisation or impairment are recorded in profit or loss for the period.



## Notes to the Financial Statements

1 January 2017 to 31 December 2017

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

### IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(Continued)

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

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

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

Available-for-sale financial assets represent non-derivative financial assets that are designated as available-for-sale upon initial recognition and other financial assets that have not been classified as other types. For such assets, equity instrument investments that do not have a quoted price in an active market and whose fair value cannot be reliably measured and derivative financial assets that are linked to such equity instrument and which must be settled by delivery of such equity instrument, are subsequently measured at cost; others that have a quoted price in an active market or whose fair value can be reliably measured even without a quoted price in an active market are measured at fair value, and the changes in fair value are included in other comprehensive income. These financial assets are subsequently measured using fair value, except for impairment loss and foreign exchange profit or loss resulted from monetary financial assets in foreign currency, the changes in fair value of available-for-sale financial assets are included directly in shareholders' equity, and when the financial asset is derecognized, the cumulative amount of changes in fair value previously included directly in equity shall be transferred to profit or loss for the period. Interests of available-for-sale debt instruments investment which are calculated by the effective interest rate method during the period of holding, and cash dividends related to available for sale equity instrument investment declared by the investee are included as investment income in profit or loss for the period. As for equity instrument investments that do not have a quoted price in an active market and whose fair value cannot be reliably measured are measured at cost.

##### 2) Basis of recognition and methods of measurement of transfer of financial assets

A financial asset is derecognized 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 risk and rewards of ownership of the financial asset to the transferee; ③ although the financial asset has been transferred, the Group neither transfers nor retains substantially all the risk and rewards of ownership of the financial asset but has not retained control over such financial asset.

If the Group neither transfers nor retains substantially all the risks and rewards of ownership of a financial asset, and it retains control over the financial asset, it recognizes the financial asset to the extent of its continuing involvement in the financial asset transferred and recognizes an associated liability accordingly.

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

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



## Notes to the Financial Statements

1 January 2017 to 31 December 2017

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

### IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(Continued)

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

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

##### 3) Testing methods and accounting methods for impairment of financial assets

Other than financial assets measured at fair value through profit or loss, the Group assesses the carrying amount of other financial assets at balance sheet date. Impairment of a financial asset is provided if there is objective evidence that such financial asset is impaired.

When financial assets measured at amortized cost are impaired, impairment is provided for at the difference between the asset's carrying amount and the present value of its estimated future cash flows (excluding future credit losses that have not been incurred). If there is objective evidence indicating a recovery in value of such financial assets which can be related objectively to an event occurring after the recognition of such loss, the impairment loss previously recognized is reversed, and will be included in profit or loss for the period.

When an available-for-sale financial asset is impaired, the cumulative loss generated from the decline in fair value previously recorded directly in owners' equity shall be reversed and included in the impairment loss. For the available-for-sale debt instruments investment of which impairment loss has been recognized, if, in a subsequent period, the fair value of which increases and it can be objectively related to events occurring after the recognition of the impairment loss, the previously recognized impairment loss shall be reversed and recorded in profit or loss for the period. For the available-for-sale equity instruments investment of which impairment loss has been recognized, the increase in fair value in a subsequent period shall be directly included in owners' equity.

##### (2) Financial liabilities

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

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

Financial liabilities measured at fair value through profit or loss include financial liabilities for trading and those designated as measured at fair value through profit or loss upon initial recognition, (relevant classification basis shall be disclosed with reference to the financial assets classification basis). 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 (details of specific financial liabilities shall be disclosed based on actual circumstances) are subsequently measured at amortized cost by using the effective interest method.

##### 2) Derecognition criteria of financial liabilities

When the present obligation of a financial liability is discharged in total or in part, the discharged part of such financial liability or obligation will be derecognized. An agreement is entered into between the company and the creditor to replace the existing financial liability with a new financial liability. The new financial liability with substantially different terms to the existing financial liability is accounted for as an extinguishment of the existing financial liability and the recognition of a new financial liability. As for substantive changes made to all or part of the contract terms of the existing financial liabilities, the existing financial liabilities or part of it will be derecognized. And financial liabilities after term revision will be recognized as a new financial liability. The difference between the carrying amount of the financial liability derecognized and the consideration paid is included in profit or loss for the period.



## Notes to the Financial Statements

1 January 2017 to 31 December 2017

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

### IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(Continued)

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

(3) *Methods for determination of fair value of financial assets and financial liabilities*

The Group measures the fair value of financial assets and financial liabilities at the prices in principal market, or in the absence of a principal market, at the price in the most advantageous market, and uses valuation techniques that are appropriate in the circumstances and are supported by sufficient available data and other information. The inputs used to measure the fair value have been divided into 3 levels, to be specific, Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that can be acquired at the measurement date; Level 2 inputs are inputs other than Level 1 inputs that are observable for the related asset or liability, either directly or indirectly; Level 3 inputs are unobservable inputs for the related asset or liability.

#### 11. Bad debt provision for receivables

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

Bad debt provision is made using allowance account method. At the end of the year, receivables are assessed for impairment on individual or group basis and the provision for bad debt is recognized in the profit or loss for the period. When there are objective evidences indicating the receivable cannot be collected, it is written off against the provision for bad debt as a loss of bad debt according to the required procedures of approval of the Group.

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

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

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

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

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



## Notes to the Financial Statements

1 January 2017 to 31 December 2017

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

### IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(Continued)

#### 11. Bad debt provision for receivables

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

1) *Basis for determining the portfolio:*

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

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

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

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

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

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

#### 12. Inventories

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

At the balance sheet date, inventories are recognized at the lower of cost and net realisable value. If the cost of inventories is higher than the net realisable value due to 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 realisable value of the inventory and the cost on an item-by-item basis.

The net realisable 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.



## Notes to the Financial Statements

1 January 2017 to 31 December 2017

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

### IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(Continued)

#### 13. Long-term equity investment

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

The Group's basis for judgement in respect of common control is that all participated parties or a group of participated parties control such arrangement, and that policies of related business of such arrangement have to obtain unanimous agreement by all participant 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 implementation 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 consolidated 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 at the combination date is negative, long-term equity investment cost 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 combined party in the book value of net assets in the consolidated financial statements of the ultimate controlling party enjoyed upon the combination shall be deemed as the initial investment cost of the long-term equity investment on the combination date. The balance between the initial investment cost and the sum of the book value of long-term equity investment which has reached the amount before the combination and the book value of new payment consideration further obtained at the combination date shall be applied to adjust capital reserve. If the capital reserve is insufficient for offsetting, the retained earnings shall be offset.





## Notes to the Financial Statements

1 January 2017 to 31 December 2017

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

### IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(Continued)

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

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

For equity in an investee 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 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, other related comprehensive income originally calculated by equity method shall not be adjusted; and the accounting treatment shall be conducted as per the same basis as that of directly disposing related assets or liabilities of the investee when disposing the investment. If the equity held before the acquisition date is calculated by fair value in the available-for-sale financial assets, 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. If the company has any long-term equity investment obtained through debt restructuring, non-monetary assets exchange etc., the method to determine the investment cost shall be based on the requirements under relevant accounting standards for business enterprises in line with actual condition of the company.

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

For long-term equity investments for which the subsequent measurement is accounted for using cost method, when additional investment is made, carrying 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 invested company, it shall be recognized as investment income for the period at the amount to which it entitles.

For long-term equity investment for which the subsequent measurement is accounted for using equity method, carrying value of long-term equity investment shall be increased or decreased accordingly according to the change in the owners' equity of the invested company. When determining the share of net profit or loss in the invested company to which the Group entitles, the Group shall calculate the proportion which is attributable to the investing company in proportion to the shareholding based on the fair value of each identifiable assets of the invested company at the time when the investment is obtained according to the accounting policies and accounting period of the Group after offsetting profit or loss incurred in internal transaction between associates and joint ventures, and then recognize the net profit of the invested company after adjustment.



## Notes to the Financial Statements

1 January 2017 to 31 December 2017

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

### IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(Continued)

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

On disposal of a long-term equity investment, the difference between the carrying value and the proceeds actually received shall be included into investment income for the period. If the long-term equity investment accounted for under equity method is included into owners' equity due to the other change of the owners' equity of the invested company 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 Company's common control or significant influence over the invested entity is lost due to the disposal of partial equity investment, the residual equity after disposal will be calculated as per the financial assets available-for-sale, the balance between the fair value and carrying value thereof on the date the common control or significant influence is lost shall be included into the profit or loss for the period. Other comprehensive income recognized by calculating original equity investment by equity method shall be under accounting treatment on the same basis on which the invested company directly disposes the relevant assets or liabilities when ceasing to use equity method.

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

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



## Notes to the Financial Statements

1 January 2017 to 31 December 2017

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

### IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(Continued)

#### 14. 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

#### 15. Fixed assets

Fixed assets are tangible assets that are held for use in the production of goods, supply of labour service, rental or operation management, with a unit value of more than \$2,000 and having 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 the fixed asset, and the carrying amount of replaced part will be derecognized. Save for the above, other subsequent expenses are included in profit or loss for the period in which they are incurred.

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

No.	Category	Depreciable Life (year)	Estimated Residual Value Rate (%)	Annual Depreciation Rate (%)
1	Buildings and structures	30	5	3.17
2	Machinery and equipment	10, 13, 15	0	10.00, 7.69, 6.67
3	Transportation vehicle	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 that such asset is out of its expected useful life and in the condition expected at the end of its useful life.

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

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



## Notes to the Financial Statements

1 January 2017 to 31 December 2017

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

### IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(Continued)

#### 16. Construction-in-progress

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

#### 17. Borrowing costs

For borrowing costs incurred that are directly attributable to fixed assets, 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 discontinue when the acquired, constructed or produced qualifying asset for capitalization is ready for its intended use or sale, and borrowing costs subsequently incurred shall be recognized in profit or loss for the period. If the 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 is resumed.

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

#### 18. Intangible Assets

The Group's intangible assets include land use right, software and software license, etc. Intangible assets are measured at the actual costs upon acquisition, of which the purchased intangible assets, actual paid cost and other relevant expenses are presented as the actual cost. For intangible assets invested by investors, the actual cost is determined according to the values specified in the investment contract or agreement, for the unfair value agreed in contract or agreement, the actual cost is 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 statement, it shall be recognized as intangible asset at its fair value upon the initial recognition of the acquiree's assets.

The land use rights shall be evenly amortized over its remaining term when the transfer 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.



## Notes to the Financial Statements

1 January 2017 to 31 December 2017

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

### IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(Continued)

#### 18. Intangible Assets (Continued)

##### *Impairment of long term assets*

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

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

#### 19. Long-term deferred expenses

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

#### 20. Staff remuneration

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

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

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

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



## Notes to the Financial Statements

1 January 2017 to 31 December 2017

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

### IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(Continued)

#### 20. Staff remuneration (Continued)

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

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

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

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



## Notes to the Financial Statements

1 January 2017 to 31 December 2017

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

### IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(Continued)

#### 21. Share-based payment

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

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

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

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



## Notes to the Financial Statements

1 January 2017 to 31 December 2017

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

### IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(Continued)

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

The income of the Group included income from the sales of goods, income from provision of advisory services.

(1) *Income from the sales of goods*

The income from sales of goods shall be recognized when main risks and rewards related to the ownership of goods have been transferred to the buyers, the Group retains neither continuing management rights to the degree usually related to ownership nor effective control over the goods sold, and the amount of income, related cost incurred or to be incurred can be measured reliably and relevant economic benefits will probably flow into the enterprise.

(2) *Income from provision of advisory services*

The income from provision of advisory services shall be recognized by the Group after completion of provision of advisory services, provide that the amount of advisory services income, related cost incurred or to be incurred can be measured reliably and relevant economic benefits will probably flow into the enterprise.

The specific recognition policy for the Group's product income: the Group entered into a sales contract with the customer while the counterparty shall, within 3 days after receipt of the goods, conduct the inspection and acceptance according to the product quality requirements and the GSP acceptance criteria, the overdue acceptance is deemed to constitute standard product. Due to 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 the verification, the return procedures will be handled upon confirmation. Based on the above terms, the Group, has transferred the ownership and risks of the goods to the customers three days after the goods were shipped for the sake of prudence and the income will be recognized.

The specific recognition policies for the Group's service fee income: the Company's other business income 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 recognised 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.





## Notes to the Financial Statements

1 January 2017 to 31 December 2017

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

### IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(Continued)

#### 23. Government grants

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

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

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

The government grants related to business activities of an enterprises 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 enterprises are recognized as non-operating income or expense.

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

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

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



## Notes to the Financial Statements

1 January 2017 to 31 December 2017

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

### IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(Continued)

#### 25. Leasing

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

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

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

#### 26. Discontinued operation

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

#### 27. Changes of Significant Accounting Policies and Accounting Estimates

##### (1) *Changes of Significant Accounting Policies*

The “Notice on Issuing the Accounting Standards for Business Enterprises No. 42 – Non-Current Assets, Disposal Groups and Discontinued Operations Held for Sale” (關於印發《企業會計準則第42號—持有待售的非流動資產、處置組和終止經營》的通知) (Cai Kuai [2017] No. 13) was issued by the Ministry of Finance on 28 April 2017, which shall be implemented since 28 May 2017. The non-current assets, disposal groups and discontinued operations existing on the implementation date of the standard shall be accounted for on a prospective basis. The new standard has been implemented by the Group since 28 May 2017.

The “Notice on Issuing the Revised Accounting Standards for Business Enterprises No. 16 – Government Grants” (關於印發修訂《企業會計準則第16號—政府補助》的通知) (Cai Kuai [2017] No. 15) was issued by the Ministry of Finance on 10 May 2017, which revised the “Accounting Standards for Business Enterprises No. 16 – Government Grants”. The standard shall be implemented since 12 June 2017. Government grants existing on 1 January 2017 shall be accounted for on a prospective basis, while the new government grants received between 1 January 2017 and the implementation date of the standard shall be adjusted based on such standard. The new standard on government grants has been implemented by the Group since 1 January 2017. No retrospective adjustment was required in respect of comparative financial statements according to relevant regulations.



## Notes to the Financial Statements

1 January 2017 to 31 December 2017

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

### IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(Continued)

#### 27. Changes of Significant Accounting Policies and Accounting Estimates (Continued)

##### (1) *Changes of Significant Accounting Policies (Continued)*

The “Notice on Revising and Issuing the Format of Financial Statements of General Enterprises” (《關於修訂印發一般企業財務報表格式的通知》) (Cai Kuai [2017] No.30) was issued by the Ministry of Finance on 25 December 2017. According to the notice and based on the relevant requirement under the “Accounting Standards for Business Enterprises No. 42 – Non-current Assets, Disposal Groups and Discontinued Operations Held for Sale”(Cai Kuai [2017] No.13) and “Accounting Standards for Business Enterprises No. 16 – Government Grants” (Cai Kuai [2017] No.15) implement in 2017 by the Group, the Group revised the format of the financial statements. In the balance sheet, “Assets classified as held for sale” was amended to “Assets held for sale”, and “Liabilities classified as held for sale” was amended to “Liabilities held for sale”. The item “Gains on disposal of assets” is included to the income statement to reflect the gains or losses on disposal of assets classified as non-current assets held for sale (excluding financial instruments, long-term equity investments and investment property) or of disposal groups, the gains or losses on disposal of fixed assets, construction in progress, productive biological assets and intangible assets that are not classified as held-for-sale, and the gains or losses on disposal of non-current assets in the debt restructuring as well as those arising from the exchange of non-monetary assets. The item of “Other income” shall be presented separately above the item of “Operating profit”, and government grants included in other income shall be reflected in such item. The “(I) Net profit from continuing operations” and “(II) Net profit from discontinued operations” shall be included under the item of “Net profit”, to reflect the relationship between net profit and related net profit from continuing operations and discontinued operations respectively.

According to the “Notice on Revising and Issuing the Format of Financial Statements of General Enterprise” (Cai Kuai [2017] No.30) issued by the Ministry of Finance on 25 December 2017, Gains or losses from disposal of non-current assets and gains or losses from the exchange of non-monetary assets, which were originally recorded as “Non-operating revenue” and “Non-operating expenses” by the Group, are presented as “Gains on disposal of assets”. The change has no impact on the income statement for the year, and comparative information is adjusted by using a retrospective adjustment approach, increasing “Gains on disposal of assets” for the previous year by RMB29,215.31, and decreasing “Non-operating revenue – gains on disposal of non-current assets” and “ Non-operating expenses – losses on disposal of non-current assets”for previous year by RMB8,505.89 and RMB37,721.20, respectively, which had no impact on total assets and net profit.

##### (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 2017 to 31 December 2017

(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	5%, 6%, 13%, 17%
Urban maintenance and construction tax	Amount of actual payable turnover tax	7%
Education surcharge	Amount of actual payable turnover tax	3%
Local education surcharge	Amount of actual payable turnover tax	2%
Tax on land use	Land area	fixed rate
Property taxes	70% of original value of the properties or rental income	1.2% or 12%
Enterprise income tax	Amount of taxable income	25%

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

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

For data in the financial statements as disclosed below, “beginning of the year” represents 1 January 2017, “end of the year” represents 31 December 2017, “the year” represents from 1 January 2017 to 31 December 2017, “previous year” represents from 1 January 2016 to 31 December 2016, and the monetary unit shall be denominated in RMB, unless specified otherwise.

#### 1. Monetary funds

Items	Closing balance			Opening balance		
	Original currency	Exchange rate	RMB Equivalent	Original currency	Exchange rate	RMB Equivalent
<b>Cash on hand</b>			<b>202,101.04</b>			2,982,028.85
RMB	202,101.04	1.0000	202,101.04	2,982,028.85	1.0000	2,982,028.85
<b>Cash in bank</b>			<b>74,894,835.41</b>			116,587,265.30
RMB	74,527,143.66	1.0000	74,527,143.66	34,971,407.11	1.0000	34,971,407.11
HKD	439,870.02	0.8359	367,691.75	91,241,876.12	0.8945	81,615,858.19
<b>Other monetary funds</b>			<b>437,316,459.26</b>			357,736,229.40
RMB	437,316,459.26	1.0000	437,316,459.26	357,736,229.40	1.0000	357,736,229.40
<b>Total</b>			<b>512,413,395.71</b>			477,305,523.55

Note: The balance of unutilized restricted funds for the issuance of bills business and loan business at the end of the period was RMB437,316,459.26. At the end of the period, total monetary funds deposited overseas was RMB373,226.79.



## Notes to the Financial Statements

1 January 2017 to 31 December 2017

(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 receivable

##### (1) Classification of bills receivable

Item	Balance as at the end of the year	Balance as at the beginning of the year
Bank acceptance bills	49,483,853.38	42,145,078.79
Commercial drafts	38,200,000.00	27,500,000.00
<b>Total</b>	<b>87,683,853.38</b>	69,645,078.79

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

Item	Pledged amount as at the end of the year
Bank acceptance bills	27,934,276.03
Commercial drafts	13,700,000.00
<b>Total</b>	41,634,276.03

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

Item	Amount derecognized as at the end of the year	Amount not derecognized as at the end of the year
Bank acceptance bills	445,037,113.59	
Commercial drafts		
<b>Total</b>	<b>445,037,113.59</b>	



## Notes to the Financial Statements

1 January 2017 to 31 December 2017

(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 receivable (Continued)

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

Item	Amount derecognized as at the end of the year	Amount not derecognized as at the end of the year
Bank acceptance bills	150,642,483.98	
Commercial drafts		22,000,000.00
<b>Total</b>	<b>150,642,483.98</b>	<b>22,000,000.00</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.*

*Note:* The age of the aforementioned bills receivables of the Group was within 180 days as at the end of the year.

#### 3. Trade receivables

Name of item	Balance as at the end of the year	Balance as at the beginning of the year
Trade receivables	894,355,187.94	870,611,809.42
Less: Provision for bad debts	11,784,732.96	9,931,601.46
<b>Net amount</b>	<b>882,570,454.98</b>	<b>860,680,207.96</b>



## Notes to the Financial Statements

1 January 2017 to 31 December 2017

(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)

##### (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 three days after the products are shipped.

Age	Balance as at the end of the year		
	Trade receivables	Provision for bad debts	Percentage of provision(%)
Within 1 year	882,682,889.70	4,521,787.42	0.51
1 to 2 years	8,965,313.46	4,562,082.18	50.89
2 to 3 years	163,703.05	157,581.63	96.26
More than 3 years	2,543,281.73	2,543,281.73	100.00
<b>Total</b>	<b>894,355,187.94</b>	<b>11,784,732.96</b>	<b>-</b>

Age	Balance as at the beginning of the year		
	Trade receivables	Provision for bad debts	Percentage of provision (%)
Within 1 year	829,239,594.78	5,160,467.09	0.62
1-2 years	38,805,705.67	2,204,625.40	5.68
2-3 years	2,453,570.86	2,453,570.86	100.00
More than 3 years	112,938.11	112,938.11	100.00
<b>Total</b>	<b>870,611,809.42</b>	<b>9,931,601.46</b>	<b>-</b>



## Notes to the Financial Statements

1 January 2017 to 31 December 2017

(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	Percentage of provision (%)	
Trade receivables with significant individual amount and bad debt provision accrued on single item	10,477,855.70	1.17	6,244,321.13	59.60	4,233,534.57
Trade receivables with bad debt provision accrued on the combination of credit risk characteristics	882,760,202.66	98.70	4,423,282.25	0.50	878,336,920.41
Account age combination	882,760,202.66	98.70	4,423,282.25	0.50	878,336,920.41
Trade receivables with insignificant individual amount but bad debt provision accrued on single item	1,117,129.58	0.13	1,117,129.58	100.00	
<b>Total</b>	<b>894,355,187.94</b>	<b>100.00</b>	<b>11,784,732.96</b>	<b>-</b>	<b>882,570,454.98</b>

Classification	Balance as at the beginning of the year				Book value
	Carrying amount		Provision for bad debts		
	Amount	Percentage (%)	Amount	Percentage of provision (%)	
Trade receivables with significant individual amount and bad debt provision accrued on single item	2,013,875.90	0.23	2,013,875.90	100.00	
Trade receivables with bad debt provision accrued on the combination of credit risk characteristics	866,726,629.12	99.55	6,066,421.16	0.70	860,660,207.96
Account age combination	866,726,629.12	99.55	6,066,421.16	0.70	860,660,207.96
Trade receivables with insignificant individual amount but bad debt provision accrued on single item	1,871,304.40	0.22	1,851,304.40	98.93	20,000.00
<b>Total</b>	<b>870,611,809.42</b>	<b>100.00</b>	<b>9,931,601.46</b>	<b>-</b>	<b>860,680,207.96</b>





## Notes to the Financial Statements

1 January 2017 to 31 December 2017

(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) Trade receivables with significant individual amount and bad debt provision accrued on single item as at the end of the year

Company name	Balance as at the end of the year			
	Trade receivables	Provision for bad debts	Percentage of provision (%)	Reasons for provision
Fujian Minzhe Pharmaceutical Co., Ltd. (福建省閩浙醫藥有限公司)	2,010,786.55	2,010,786.55	100.00	Court's ruling in favour of the Company, outstanding amounts, weak repaying capability of the counterpart
Guangdong Wei'er kang Pharmaceutical Co., Ltd. (廣東為爾康醫藥有限公司)	8,467,069.15	4,233,534.58	50.00	Default on the part of the customer in overdue goods payment, settlement agreement being entered into currently
<b>Total</b>	10,477,855.70	6,244,321.13	-	-

- 2) Trade receivables for which bad debt has been provided based on the aging analysis in the portfolio:

Ageing	Balance as at the end of the year		
	Trade receivables	Provision for bad debts	Percentage of provision (%)
Within 1 year	882,575,014.19	4,412,875.06	0.50
1-2 years	177,536.70	8,876.84	5.00
2-3 years	7,651.77	1,530.35	20.00
<b>Total</b>	882,760,202.66	4,423,282.25	-



## Notes to the Financial Statements

1 January 2017 to 31 December 2017

(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)

##### 3) Trade receivables with insignificant individual amount but bad debt provision accrued on single item at the end of the year

Company name	Trade receivables	Balance as at the end of the year		
		Provision for bad debts	Percentage of provision (%)	Reasons for provision
Shenzhen Jinshoukang Pharmaceutical Co., Ltd. (深圳市金壽康藥業有限公司)	409,538.82	409,538.82	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
The First People's Hospital of Jinping District in Shantou (汕頭市金平區第一人民醫院)	138,397.45	138,397.45	100.00	No cooperation relationship subsisting, lower expected recoverability
Huilai Ciyun Hospital of Traditional Chinese Medicine (惠來縣慈雲中醫醫院)	132,521.53	132,521.53	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
Chaozhou Cental Hospital	21,096.40	21,096.40	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 Jinping District Chinese Medicine Hospital (汕頭市金平區中醫醫院)	7,168.22	7,168.22	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
Fujian Union Pharmaceutical Co., Ltd. (福建省協聯醫藥有限公司)	3,441.57	3,441.57	100.00	No cooperation relationship subsisting, lower expected recoverability
Shantou Haojiang District Zhupu Hospital (汕頭市濠江區珠浦醫院)	1,846.52	1,846.52	100.00	No cooperation relationship subsisting, lower expected recoverability
Zhejiang Tongtaitang Pharmaceutical Co., Ltd. (浙江同泰堂藥品有限公司)	1,759.50	1,759.50	100.00	No cooperation relationship subsisting, lower expected recoverability
Joint Shantou International Eye Center of Shantou University and The Chinese University of Hong Kong	1,395.33	1,395.33	100.00	No cooperation relationship subsisting, lower expected recoverability
Jiangxi Xinde Pharmaceutical Co., Ltd. (江西信德醫藥有限公司)	1,034.90	1,034.90	100.00	No cooperation relationship subsisting, lower expected recoverability
Other	2,091.32	2,091.32	100.00	No cooperation relationship subsisting, lower expected recoverability
<b>Total</b>	<b>1,117,129.58</b>	<b>1,117,129.58</b>		



## Notes to the Financial Statements

1 January 2017 to 31 December 2017

(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)

(3) *Aging analysis of amounts past due but not impaired as at the balance sheet date:*

<b>Age</b>	<b>Balance as at the end of the year</b>	<b>Balance as at the beginning of the year</b>
Within 1 year	<b>50,161,077.88</b>	130,821,147.00
1-2 years	<b>4,402,194.44</b>	560,389.93
2-3 years	<b>6,121.42</b>	
<b>Net amount</b>	<b>54,569,393.74</b>	131,381,536.93



## Notes to the Financial Statements

1 January 2017 to 31 December 2017

(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)

(4) *Conditions about the provision for bad debts drawn and reversed (or recovered) in the year*

In the year, the provision for bad debts drawn amounted to RMB5,960,328.28 and the provision for recovered or reversed bad debts was RMB3,978,894.78.

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
Tianjin Yuekang Pharmaceutical Wholesale Co., Ltd. (天津市躍康醫藥批發有限公司)	1,196,778.24	Bank receipts	Recovered in current period
Shantou Weilan Medicine Limited (汕頭市衛倫醫藥有限公司)	677,819.29	Bank receipts	Recovered in current period
Puning Jing Han Pharmaceutical Co., Ltd. (普寧市靖翰藥業有限公司)	513,208.00	Bank receipts	Recovered in current period
Chaoan Jinshi Health Center (潮安縣金石衛生院)	156,734.40	Bank receipts	Recovered in current period
Shantou Jinping District Chinese Medicine Hospital (汕頭市金平區中醫醫院)	111,640.27	Bank receipts	Recovered in current period
Shantou Renai Hospital (汕頭仁愛醫院)	88,648.77	Bank receipts	Recovered in current period
Shantou Jinsha Chinese Medicine Hospital	76,225.95	Bank receipts	Recovered in current period
Guangdong Heng Xiang Medicament Co., Ltd (廣東恒祥醫藥有限公司)	32,918.94	Bank receipts	Recovered in current period
Guangzhou Qi Lekang Pharmaceutical Chain Co., Ltd. (廣州七樂康藥業連鎖有限公司)	27,131.76	Bank receipts	Recovered in current period
Gansu Renweifeng Pharmaceutical Co., Ltd.	24,466.78	Bank receipts	Recovered in current period
Guangdong Dongguan Guoyao Group Co., Ltd. (廣東省東莞國藥集團有限公司)	23,666.41	Bank receipts	Recovered in current period
Guangdong Huafeng Pharmaceutical Co., Ltd. (廣東華豐藥業有限公司)	19,491.39	Bank receipts	Recovered in current period
Chaozhou Chaoan District People's Hospital (潮州市潮安區人民醫院)	19,466.00	Bank receipts	Recovered in current period
Guangdong Fanghe Pharmaceutical Co., Ltd. (廣東方和藥業有限公司)	16,591.11	Bank receipts	Recovered in current period
Guangzhou Yifan Pharmaceutical Co., Ltd. (廣州市揚帆藥業有限公司)	16,188.08	Bank receipts	Recovered in current period



## Notes to the Financial Statements

1 January 2017 to 31 December 2017

(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)

(4) *Conditions about the provision for bad debts drawn and reversed (or recovered) in the year*  
(Continued)

Company name	Amount reversed (or recovered) during the year	Recovery method	Reason for reversal (or recovery) during the year
Dongguan Hengsheng Medical Equipment Co., Ltd. (東莞市恒升醫療器械有限公司)	16,012.37	Bank receipts	Recovered in current period
Chaozhou Chaoan District Anbu Town Kanghui Pharmacy (潮州市潮安區庵埠鎮康惠藥店)	15,940.17	Bank receipts	Recovered in current period
Jieyang Kanghua Pharmaceutical Co., Ltd. (揭陽市康華醫藥有限公司)	15,865.55	Bank receipts	Recovered in current period
Qingyuan Bai Xing Pharmacy Pharmaceutical Chain Co., Ltd. (清遠百姓大藥房醫藥連鎖有限公司)	14,757.21	Bank receipts	Recovered in current period
Kangze Pharmaceutical Co., Ltd. (康澤藥業股份有限公司)	14,451.79	Bank receipts	Recovered in current period
Chaozhou Xiangqiao District Houdetang Pharmacy (潮州市湘橋區厚德堂藥店)	14,393.17	Bank receipts	Recovered in current period
The Sixth Store of Shantou Chenghai District Medicine Company (汕頭市澄海區藥材公司第六門市)	14,379.20	Bank receipts	Recovered in current period
Puning Tairong Pharmaceutical Co., Ltd. (普寧市泰嶸醫藥有限公司)	14,269.09	Bank receipts	Recovered in current period
Guangdong Kangzhijia Pharmaceutical Co., Ltd. (廣東康之家藥業有限公司)	13,282.88	Bank receipts	Recovered in current period
Shantou Chaonan District Yangbenyuan Drugstore (汕頭市潮南區揚本園藥行)	13,195.43	Bank receipts	Recovered in current period
Zhongjian Pharmaceutical Co., Ltd. (中健醫藥有限責任公司)	12,833.16	Bank receipts	Recovered in current period
Huazhou Jiqun Pharmaceutical Co., Ltd. (化州市濟群藥業有限公司)	11,160.76	Bank receipts	Recovered in current period
Puning Liusha Xinwanhe Drugstore (普寧市流沙新萬和藥行)	11,149.92	Bank receipts	Recovered in current period
Chaozhou Boda Anorectal Hospital (潮州博大肛腸醫院)	10,995.30	Bank receipts	Recovered in current period
Others	785,233.39	Bank receipts	Recovered in current period
<b>Total</b>	<b>3,978,894.78</b>	–	–



## Notes to the Financial Statements

1 January 2017 to 31 December 2017

(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) Trade receivables written off during the year

Item	Amount written-off
Trade receivables written-off	128,302.00

Significant Trade receivables written-off:

Company name	Nature of trade receivables	Amount written-off	Whether arising from related party transaction
Puning Jing Han Pharmaceutical Co., Ltd. (普寧市靖翰藥業有限公司)	Payment for Goods	128,302.00	No
<b>Total</b>		128,302.00	

(6) Details of top five closing balances of Accounts receivable classified by borrowers

Company name	Opening balance	Aging	Percentage of total closing balance of accounts receivable (%)	Closing balance of provision for bad debts
Kangze Pharmaceutical Chains Co., Ltd. (康澤藥業連鎖有限公司)	52,897,303.48	Within 1 year	5.91	264,486.52
Guangdong Shen Hua Pharmaceutical Co., Ltd. (廣東深華藥業有限公司)	17,918,519.29	Within 1 year	2.00	89,592.60
Puning Lifeng Pharmaceutical Co., Ltd. (普寧市立豐藥業有限公司)	17,261,188.62	Within 1 year	1.93	86,305.94
Kangmei Pharmaceutical Co., Ltd. (康美藥業股份有限公司)	16,771,361.26	Within 1 year	1.88	83,856.81
Guangdong Zhen Qun Pharmaceutical Co., Ltd. (廣東振群藥業有限公司)	14,535,126.82	Within 1 year	1.63	72,675.63
<b>Total</b>	119,383,499.47		13.35	596,917.50



## Notes to the Financial Statements

1 January 2017 to 31 December 2017

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

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

#### 4. Prepayments

##### (1) Aging of prepayments

Items	Closing balance		Opening balance	
	Amount	Proportion (%)	Amount	Proportion (%)
Within 1 year	147,646,211.95	98.91	92,530,121.03	99.70
1-2 years	1,629,044.40	1.09	282,620.07	0.30
<b>Total</b>	<b>149,275,256.35</b>	<b>100.00</b>	92,812,741.10	100.00

Note: Payments aging over 1 year are payments paid to Jiangsu Xinxian Pharmaceutical Co., Ltd. (江蘇新先製藥有限公司) in advance for goods.

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

Company name	Closing balance	Aging	Percentage of total closing balance of prepayments (%)
Guangzhou Pharmaceutical Import and Export Company Limited (廣州醫藥進出口有限公司)	18,289,866.32	Within 1 year	12.25
Guangzhou Baiyunshan Pharmaceutical Marketing Co., Ltd. (廣州白雲山醫藥銷售有限公司)	9,774,336.69	Within 1 year	6.55
Guangzhou Baiyunshan Xing Qun Pharmaceutical Co., Ltd. (廣州白雲山星群(藥業)股份有限公司)	9,533,548.70	Within 1 year	6.39
Foshan Winteam Pharmaceutical Sales Company Limited (佛山盈天醫藥銷售有限公司)	7,972,035.37	Within 1 year	5.34
Guangzhou Baiyunshan Pan Gao Shou Pharmaceutical Co., Ltd. (廣州白雲山潘高壽藥業股份有限公司)	6,980,828.50	Within 1 year	4.68
<b>Total</b>	<b>52,550,615.58</b>		<b>35.21</b>



## Notes to the Financial Statements

1 January 2017 to 31 December 2017

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

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

#### 5. Other receivables

Item name	Balance at the end of the year	Balance at the beginning of the year
Other receivables	9,697,126.98	4,440,838.52
Less: provision for bad debts	22,476.20	5,580.15
<b>Net amount</b>	<b>9,674,650.78</b>	4,435,258.37

(1) Aging analysis of other receivables

Age	Balance at the end of the year		
	Other receivables	Provision for bad debt	Percentage of provision (%)
Within 1 year	7,024,669.58		
1-2 years	1,391,319.20		
2-3 years	23,462.00		
over 3 years	1,257,676.20	22,476.20	1.79
<b>Total</b>	<b>9,697,126.98</b>	<b>22,476.20</b>	<b>-</b>

Age	Balance at the beginning of the year		
	Other receivables	Provision for bad debt	Percentage of provision (%)
Within 1 year	3,073,500.32	4,681.95	0.15
1-2 years	35,062.00		
2-3 years	27,178.00		
over 3 years	1,305,098.20	898.20	0.07
<b>Total</b>	<b>4,440,838.52</b>	<b>5,580.15</b>	<b>-</b>





## Notes to the Financial Statements

1 January 2017 to 31 December 2017

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

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

#### 5. Other receivables (Continued)

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

Class	Balance at the end of the year				Net book value
	Carrying amount	Percentage	Provision for bad debt	Percentage of	
	Amount	(%)	Amount	provision (%)	
Other receivables that are individually significant and for which bad debt provision is individually assessed					
Other receivables subject to provision for bad debts on the collective basis of their credit risk characteristics	9,674,650.78	99.77			9,674,650.78
Aging portfolio					
Portfolio of relatively low recovery risk	9,674,650.78	99.77			9,674,650.78
Other receivables that are not individually significant but for which bad debt provision is individually assessed	22,476.20	0.23	22,476.20	100.00	
<b>Total</b>	<b>9,697,126.98</b>	<b>100.00</b>	<b>22,476.20</b>	<b>-</b>	<b>9,674,650.78</b>

Class	Balance at the beginning of the year				Net book value
	Carrying amount	Percentage	Provision for bad debt	Percentage of	
	Amount	(%)	Amount	provision (%)	
Other receivables that are individually significant and for which bad debt provision is individually assessed					
Other receivables subject to provision for bad debts on the collective basis of their credit risk characteristics	4,440,838.52	100.00	5,580.15	0.13	4,435,258.37
Aging portfolio	959,587.05	21.61	5,580.15	0.58	954,006.90
Portfolio of relatively low recovery risk	3,481,251.47	78.39			3,481,251.47
Other receivables that are not individually significant but for which bad debt provision is individually assessed					
<b>Total</b>	<b>4,440,838.52</b>	<b>100.00</b>	<b>5,580.15</b>	<b>-</b>	<b>4,435,258.37</b>



## Notes to the Financial Statements

1 January 2017 to 31 December 2017

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

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

#### 5. Other receivables (Continued)

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

- 1) There are no other receivables with amounts that are individually significant and subject to separate assessment for provision for bad debts at the end of the year.
- 2) There are no other receivables for which bad debt has been provided based on the aging analysis in the portfolio.
- 3) *Other receivables subject to provision for bad debts based on other methods in the portfolio*

Portfolio name	Balance at end of the year		
	Other receivables	Provision for bad debt	Percentage of provision (%)
Portfolio of relatively low recovery risk	9,674,650.78		
Total	9,674,650.78		-

- 4) Other receivables that are not individually significant but for which bad debt provision is individually assessed at the end of the year

Unit name	Carrying amount	Bad debt amount	Percentage of provision (%)	Reasons for provision
Li Jiewen (李傑文)	21,578.00	21,578.00	100.00	The employee has resigned and a low recovery is expected
Zhengzhou Zhuofeng Pharmaceutical Co., Ltd. (鄭州卓峰製藥有限公司)	898.20	898.20	100.00	Currently do not have any corporation relationship and a low recovery is expected
<b>Total</b>	22,476.20	22,476.20	-	

##### (3) Provision, recovery (or reversal) of bad debt during the year

The amount of provision for bad debts was RMB18,295.95 during the year; the amount of bad debt provision recovered or reversed was RMB1,399.90 during the year.

- (4) The Group has no other receivables written off during the year.



## Notes to the Financial Statements

1 January 2017 to 31 December 2017

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

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

#### 5. 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		958,688.85
Deposit	<b>8,746,867.72</b>	2,641,147.12
Reserve	<b>949,361.06</b>	840,104.35
Others	<b>898.20</b>	898.20
<b>Total</b>	<b>9,697,126.98</b>	4,440,838.52

##### (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 debt at the end of the year
Zhuhai City Jinming Medicine Co., Ltd.	Deposit	5,600,000.00	Within 1 year	57.75	
Taiji Group Chongqing Fuling Pharmaceutical Plant Co., Ltd.	Deposit	1,050,000.00	1-2 years	10.83	
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	10.31	
Zhuhai ZhengBang Logistics Co., Ltd. (珠海正邦倉儲物流有限公司)	Deposit	300,000.00	Within 1 year	3.09	
Guangzhou Wang Lao Ji Pharmaceutical Co., Ltd.	Deposit	100,000.00	Within 1 year	1.03	
<b>Total</b>		<b>8,050,000.00</b>		<b>83.01</b>	



## Notes to the Financial Statements

1 January 2017 to 31 December 2017

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

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

#### 6. Inventories

##### (1) Classification of inventories

Item	Balance at the end of the year			Balance at the beginning of the year		
	Carrying amount	Provision for impairment	Net book value	Carrying amount	Provision for impairment	Net book value
Goods in stock	393,507,501.94	2,442,989.06	391,064,512.88	301,269,044.32	1,914,541.19	299,354,503.13
Goods sold	40,527,913.50		40,527,913.50	52,168,340.02		52,168,340.02
<b>Total</b>	<b>434,035,415.44</b>	<b>2,442,989.06</b>	<b>431,592,426.38</b>	<b>353,437,384.34</b>	<b>1,914,541.19</b>	<b>351,522,843.15</b>

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

Item	Balance at the beginning of the year	Addition for the year provision	Others	Reduction for the year reverse or resale	Other transfer	Balance at the end of the year
Goods in stock	1,914,541.19	2,442,989.06		1,914,541.19		2,442,989.06
<b>Total</b>	<b>1,914,541.19</b>	<b>2,442,989.06</b>		<b>1,914,541.19</b>		<b>2,442,989.06</b>

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

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

#### 7. Other current assets

Item	Balance at the end of the year	Balance at the beginning of the year
Input tax to be credited	29,982,360.69	23,679,889.02
Expenses to be amortised	49,377.10	25,695.90
Other		1,561,397.50
<b>Total</b>	<b>30,031,737.79</b>	<b>25,266,982.42</b>



## Notes to the Financial Statements

1 January 2017 to 31 December 2017

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

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

#### 8. Fixed assets

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

Item	Houses and buildings	Machineries and equipment	Transportation facilities	Office equipment	Total
I. Original book value					
1. Balance at the beginning of the year	106,897,577.41	33,850,630.81	10,271,284.70	11,124,683.69	162,144,176.61
2. Addition for the year	441,623.10	5,155,586.00	4,702,577.75	1,320,263.79	11,620,050.64
(1) Purchase		997,114.81	4,528,727.08	1,029,835.50	6,555,677.39
(2) Transfer from construction in-progress	441,623.10	4,158,471.19			4,600,094.29
(3) Addition as a result of business combination			173,850.67	290,428.29	464,278.96
3. Reduction for the year		61,863.25	1,477,193.01	425,452.65	1,964,508.91
(1) Disposal or write-off		61,863.25	1,477,193.01	425,452.65	1,964,508.91
(2) Other reduction					
4. Balance at the end of the year	107,339,200.51	38,944,353.56	13,496,669.44	12,019,494.83	171,799,718.34
II. Accumulated depreciation					
1. Balance at the beginning of the year	22,191,469.29	13,127,746.95	3,192,591.25	9,483,275.40	47,995,082.89
2. Addition for the year	3,770,928.02	1,827,185.49	3,337,429.37	1,111,237.12	10,046,780.00
(1) Provision	3,770,928.02	1,827,185.49	3,203,451.28	860,663.91	9,662,228.70
(2) Addition as a result of business combination			133,978.09	250,573.21	384,551.30
3. Reduction for the year		1,546.59	1,144,991.28	399,435.31	1,545,973.18
(1) Disposal or write-off		1,546.59	1,144,991.28	399,435.31	1,545,973.18
(2) Other reduction					
4. Balance at the end of the year	25,962,397.31	14,953,385.85	5,385,029.34	10,195,077.21	56,495,889.71
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. Net book value					
1. Net book value at the end of the year	81,376,803.20	23,990,967.71	8,111,640.10	1,824,417.62	115,303,828.63
2. Net book value at the beginning of the year	84,706,108.12	20,722,883.86	7,078,693.45	1,641,408.29	114,149,093.72

Note 1: Addition of fixed assets for the period included the amount of transfer from construction-in-progress of RMB4,600,094.29. Among the addition of accumulated depreciation for the period, RMB9,662,228.70 was provided for the period. Reduction for the period was a result of scrapped fixed assets which had lives of usage expired. At the end of the period, the original values of fixed assets that have been fully depreciated but were still in use amounted to RMB6,716,659.71.

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



## Notes to the Financial Statements

1 January 2017 to 31 December 2017

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

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

#### 9. Construction in progress

(1) Breakdown of construction-in-progress

Item	Balance at the end of the year			Balance at the beginning of the year		
	Carrying amount	Provision for impairment	Book value	Carrying amount	Provision for impairment	Book value
Construction of information based program	7,962,619.38		7,962,619.38	3,092,765.37		3,092,765.37
Guangzhou Nansha Logistic Center Project (廣州南沙物流中心項目)	73,555,723.05		73,555,723.05			
Other sporadic constructions	449,458.84		449,458.84	441,623.10		441,623.10
<b>Total</b>	<b>81,967,801.27</b>		<b>81,967,801.27</b>	<b>3,534,388.47</b>		<b>3,534,388.47</b>

(2) Changes in major construction-in-progress

Name of project	Balance at the end of the year	Addition for the year	Reduction for the year		Balance at the beginning of the year
			Transfer to the fixed assets	Other reductions	
Construction of information based program	3,092,765.37	8,221,593.75	3,351,739.74		7,962,619.38
Guangzhou Nansha Logistic Center Project		73,555,723.05			73,555,723.05
<b>Total</b>	<b>3,092,765.37</b>	<b>81,777,316.80</b>	<b>3,351,739.74</b>		<b>81,518,342.43</b>

Name of project	Budget (10'000)	Percentage of accumulated investment in project		Construction progress	Accumulated amount of interest capitalized	Of which:		Source of funds
		to the budget (%)	Construction progress			The amount of interest capitalized for the year	Interest capitalization rate for the year (%)	
Construction of information based program	1,733.53	96.75	96.75					Raised funds and own funds
Guangzhou Nansha Logistic Center Project	8,752.11	84.04	84.04					Raised funds and own funds
<b>Total</b>	<b>10,485.64</b>	<b>-</b>	<b>-</b>					



## Notes to the Financial Statements

1 January 2017 to 31 December 2017

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

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

#### 10. Intangible assets

(1) Details of intangible assets

Item	Land use rights	Computer software	Total
I. Original book value			
1. Balance at the beginning of the year	108,968,551.03	12,994,668.73	121,963,219.76
2. Addition for the year	55,285,212.62	802,693.46	56,087,906.08
(1) Purchase	55,285,212.62	802,693.46	56,087,906.08
(3) Addition as a result of business combination			
3. Reduction for the year			
(1) Disposal			
4. Balance at the end of the year	164,253,763.65	13,797,362.19	178,051,125.84
II. Accumulated amortization			
1. Balance at the beginning of the year	12,576,347.19	291,603.24	12,867,950.43
2. Addition for the year	3,053,862.25	1,405,469.61	4,459,331.86
(1) Provision	3,053,862.25	1,405,469.61	4,459,331.86
(2) Addition as a result of business combination			
3. Reduction for the year			
(1) Disposal			
4. Balance at the end of the year	15,630,209.44	1,697,072.85	17,327,282.29
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	148,623,554.21	12,100,289.34	160,723,843.55
2. Book value at the beginning of the year	96,392,203.84	12,703,065.49	109,095,269.33

As at 31 December 2017, no intangible asset arose through the internal research and development of the Group.

## Notes to the Financial Statements

1 January 2017 to 31 December 2017

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

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

#### 11. Goodwill

(1) Original value of goodwill

Name of investee	Balance at the beginning of the year	Addition for the period as a result of business combination		Reduction for the period		Balance at the end of the year
		Other	Other	Disposal	Other	
Zhuhai Charmacy Company (珠海創美公司)			4,567,297.19			4,567,297.19
Guangzhou Charmacy Company (廣州創美公司)			26,328.12			26,328.12
<b>Total</b>			4,593,625.31			4,593,625.31

Note: At the end of the year, the Group recognized the impairment loss of the goodwill asset group as the difference between the present value of the future net cash flow of the projected goodwill asset group and the carrying amount of the asset group. No impairment was identified after calculation.

#### 12. Long-term expenses to be amortized

Item	Balance at the beginning of the year	Addition for the year	Amortization for the year	Other reduction for the year	Balance at the end of the year
Zhuhai Charmacy warehouse installation project (珠海創美倉庫安裝工程)		1,068,898.53	18,481.86		1,050,416.67
<b>Total</b>	159,599.82	1,068,898.53	26,701.60		1,201,796.75

#### 13. Deferred income tax assets

(1) Deferred income tax assets not offset

Item	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	3,562,549.55	14,250,198.22	2,962,930.71	11,851,722.80
Government grants	533,237.25	2,132,948.99		
Deductible losses	627,631.75	2,510,527.02		
<b>Total</b>	4,723,418.55	18,893,674.23	2,962,930.71	11,851,722.80





## Notes to the Financial Statements

1 January 2017 to 31 December 2017

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

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

#### 14. Short-term borrowings

Types of borrowings	Balance at the end of the year	Balance at the beginning of the year
Borrowings from discounted bills receivables <sup>Note 15</sup>	22,000,000.00	71,551,500.00
Credit borrowings <sup>Note 2 – Note 4</sup>	89,900,000.00	48,630,000.00
Guaranteed borrowings <sup>Note 5 – Note 10</sup>	168,500,000.00	74,500,000.00
Secured borrowings <sup>Note 11 – Note 14</sup>	242,500,000.00	143,800,000.00
<b>Total</b>	<b>522,900,000.00</b>	<b>338,481,500.00</b>

*Note 1:* The Group has no short-term borrowings that have not yet been repaid. The repaid amount after the balance sheet date was RMB132,900,000.00.

*Note 2:* On 9 May 2017, Charmacy Pharmaceutical Company signed the Letter of Credit (《銀行授信函》) (letter number: CN11238000665-161116) with The Hongkong and Shanghai Banking Corporation Limited (匯豐銀行股份有限公司). The Letter of Credit stipulated that the maximum exposure limit of the credit line was RMB30 million, and the credit period was 12 months. The borrowing rate was the similar benchmark lending rate announced and implemented by the People's Bank of China that is available on the actual lending date with an increase of 15%~20%. As of 31 December 2017, Charmacy Pharmaceutical Company borrowed RMB29.9 million from HSBC within its credit line.

*Note 3:* 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 is 5 years from the date of signing the contract. The borrowing rate was the similar benchmark lending rate announced and implemented by the People's Bank of China that is available on the actual lending date with an increase of 30%. As of December 31 2017, Charmacy Pharmaceutical Company borrowed RMB40 million from BEA within its credit line.

*Note 4:* On 15 December 2017, Charmacy Pharmaceutical Company signed the RMB Working Capital Loan Contract (《人民幣流動資金貸款合同》) (Contract No.: 2017 Yingxiao Jie Zi No. 029) with China Construction Bank Corporation with its own credit endorsement. The Loan amount was RMB20 million in total, the loan period was 12 months and the borrowing rate is 4.35% per annum.

*Note 5:* On 28 November 2016, Charmacy Pharmaceutical Company, with Guangdong Chuangmei Company as its guarantor, and China CITIC Bank Corporation Limited signed the Comprehensive Credit Line Contract (《綜合授信合同》) (Contract No.: (2016) Xinchanyinzhong Shou Zi No. 001). As agreed in the Contract, the maximum exposure limit of the credit line is RMB30 million and the credit period is 10 months. As of 31 December 2017, Guangdong Chuangmei Company borrowed RMB24 million from China CITIC Bank within its credit line.

*Note 6:* On 22 June 2017, Guangdong Chuangmei Company, with Charmacy Pharmaceutical Company as its guarantor, and Industrial Bank Co., Ltd. signed the Working Capital Loan Contract (《流動資金借款合同》) (Contract number: Xing Yin Yue Jie Zi (Qiandenghu) No. 201705248888) for a loan of RMB20 million with a term of 12 months and a borrowing rate of 5.22% per annum. As of 31 December 2017, Guangdong Chuangmei Company borrowed RMB9 million from Industrial Bank Co., Ltd. in the form of guarantees.

*Note 7:* On 12 March 2017, Guangdong Chuangmei Company, with Charmacy Pharmaceutical Company as its guarantor, and China Merchants Bank Co., Ltd. signed the Credit Agreement and a Contract for Limit on Online Self-help Loan Business (《網上自助貸款業務額度合同》) (contract number: 2017 Chan Zi No. 0017360004). As agreed in the Contract, the maximum exposure limit of the credit line is RMB50 million, and the credit period was 12 months. The borrowing rate was the similar benchmark lending rate announced and implemented by the People's Bank of China that is available on the actual lending date with an increase of 20%. As of 31 December 2017, Guangdong Chuangmei Company borrowed RMB36 million from China Merchants Bank within its credit line.



## Notes to the Financial Statements

1 January 2017 to 31 December 2017

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

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

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

*Note 8:* Guangdong Chuangmei Company, with Charmacy Pharmaceutical Company as its guarantor, and Industrial and Commercial Bank of China Limited signed the Working Capital Loan Contracts (contract numbers: Foshan Branch Gaoxin Sub-branch 2017 Liu Dai Zi No.003, Foshan Branch Gaoxin Sub-branch 2017 Liu Dai Zi No.052, Foshan Branch Gaoxin Sub-branch 2017 Liu Dai Zi No.055, Foshan Branch Gaoxin Sub-branch 2017 Liu Dai Zi No.064, Foshan Branch Gaoxin Sub-branch 2017 Liu Dai Zi No.069, respectively) for a borrowing in the aggregate amount of RMB29,500,000 only, with a borrowing period of 12 months, and a borrowing rate of 4.785% per annum.

*Note 9:* On 22 June 2017, Guangdong Chuangmei Company, with Charmacy Pharmaceutical Company as its guarantor, and Foshan Rural Commercial Bank Company Limited signed the Loan Contract (contract number: Fo Nong Shang 0201 Jie Zi 2017 No. 07001(佛農商0201借字2017年第07001號)). As agreed in the Contract, the credit line shall not exceed RMB50 million only, each loan period shall up to 12 months, the maturity date of loans shall not less than 31 December 2018 and the interest rate of loans shall not lower than 5.22% per annum. As of 31 December 2017, Guangdong Chuangmei Company has borrowed RMB35,000,000 only from Foshan Rural Commercial Bank Company Limited by guarantee.

*Note 10:* On 15 December 2017, Guangdong Chuangmei Company, with Charmacy Pharmaceutical Company as its guarantor, and CTBC Bank Co., Ltd. signed the Notice of Credit Conditions (《授信條件通知書》). As agreed in the Contract, the total credit line of Charmacy Pharmaceutical Company and Guangdong Chuangmei Company shall not exceed RMB35 million only. As of 31 December 2017, Guangdong Chuangmei Company has borrowed RMB27 million from the trust bank within the credit line while Charmacy Pharmaceutical Company has borrowed RMB8 million from the trust bank within the credit line.

*Note 11:* On 1 June 2017, Charmacy Pharmaceutical Company, using its self-owned pharmaceutical product inventories of RMB100 million, its self-owned property (No.65 North of Foshan Road, Chancheng District, Foshan City) valued at RMB241,844,000, the pharmaceutical product inventories of RMB150 million and production facilities of RMB20 million from Guangdong Chuangmei Company as collateral, with Guangdong Chuangmei Company as its guarantor, and China Guangfa Bank Co., Ltd. signed the Credit Line Contract (contract number: (2017) Shan Yin Zong Shou E Zi No.000013). As agreed in the Contract, the exposure limit of the credit line was up to RMB200 million only and the credit period was 12 months. The borrowing rate was the similar benchmark lending rate announced and implemented by the People's Bank of China that is available on the actual lending date with an increase of 15%. As of 31 December 2017, Charmacy Pharmaceutical Company has borrowed RMB85 million from China Guangfa Bank within the credit line.

*Note 12:* On 1 June 2017, Charmacy Pharmaceutical Company, using its self-owned pharmaceutical product inventories of RMB100 million, its self-owned property (No.66 North of Foshan Road, Chancheng District, Foshan City) valued at RMB241,844,000, the pharmaceutical product inventories of RMB150 million and production facilities of RMB20 million from Guangdong Chuangmei Company as collateral, with Guangdong Chuangmei Company as its guarantor, and China Guangfa Bank Co., Ltd. signed the Credit Line Contract (contract number: (2017) Shan Yin Zong Shou E Zi No.000014). As agreed in the Contract, the exposure limit of the credit line was up to RMB180 million only and the credit period was 12 months. The borrowing rate was the similar benchmark lending rate announced and implemented by the People's Bank of China that is available on the actual lending date with an increase of 15%. As of 31 December 2017, Guangdong Chuangmei Company has borrowed RMB49,500,000 from China Guangfa Bank within the credit line.

*Note 13:* 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 Chuangmei Company as its guarantor, and Industrial and Commercial Bank of China Limited signed the Working Capital Loan Contracts (contract numbers: 2017 (Yingxiao) Zi No.00020, 2017 (Yingxiao) Zi No.00055, 2017 (Yingxiao) Zi No.00056, 2017 (Yingxiao) Zi No.00071, 2017 (Yingxiao) Zi No.00133, 2017 (Yingxiao) Zi No.00093 and 2017 (Yingxiao) Zi No.00114, respectively) for a borrowing in the aggregate amount of RMB48 million only, with a borrowing period of 12 months, and a borrowing rate of 4.785% to 5.22% per annum.

*Note 14:* On 10 November 2017, Charmacy Pharmaceutical Company, using its self-owned properties and lands (No.33 Liyu Street, Dongchong Town, Nansha District (Plant Aa), No.33 Liyu Street, Dongchong Town, Nansha District (Dormitory D)) valued at RMB105,300,000 as collateral, and China Construction Bank Corporation signed the RMB Working Capital Loan Contract (contract number: 2017 Yingxiao Jie Zi No.033) for a borrowing in the amount of RMB60 million only, with a borrowing period of 12 months, and a borrowing rate of 4.35% per annum.

*Note 15:* As of 31 December 2017, the Group has obtained a borrowing of RMB22,000,000 by discounting its commercial drafts.



## Notes to the Financial Statements

1 January 2017 to 31 December 2017

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

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

#### 15. Bill payables

Classification of bills	Balance as at the end of the year	Balance as at the beginning of the year
Bank acceptance bills	928,824,897.42	779,805,270.32
<b>Total</b>	<b>928,824,897.42</b>	<b>779,805,270.32</b>

Note: As at 31 December 2017, the Group's bank acceptance bills due and unpaid amounted to RMB1,194,400. Their delay of payment by banks was caused by 31 December 2017 being a nonworking day.

As at the end of the year, the age of the Group's bill payables mentioned above was within 180 days.

#### 16. Trade payables

##### (1) Trade payables

Item	Balance as at the end of the year	Balance as at the beginning of the year
Loans	445,909,395.68	480,614,637.48
Land costs	32,380,952.38	
Project maintenance costs	1,491,596.85	
<b>Total</b>	<b>479,781,944.91</b>	<b>480,614,637.48</b>

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

Below is an aging analysis of trade payables based on transaction date as at 31 December 2017:

Age	Balance as at the end of the year	Balance as at the beginning of the year
Within 1 year	477,997,374.71	479,994,973.65
1 to 2 years	1,527,649.39	281,791.69
2 to 3 years	12,988.20	337,872.14
More than 3 years	243,932.61	
<b>Total</b>	<b>479,781,944.91</b>	<b>480,614,637.48</b>



## Notes to the Financial Statements

1 January 2017 to 31 December 2017

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

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

#### 16. Trade payables (Continued)

(3) Significant trade payables aged over 1 year

Name	Balance as at the end of the year	Reasons of outstanding or carried over
Guizhou Deliangfang Pharmaceutical Co., Ltd. (貴州德良方藥業股份有限公司)	152,170.00	Settlement period is not yet due
Jilin Xinxian Lingzhi Biological Technology Co., Ltd. (吉林省新先靈芝生物科技有限公司)	507,042.91	Settlement period is not yet due
<b>Total</b>	<b>659,212.91</b>	–

#### 17. Receipts in advance

Item	Balance as at the end of the year	Balance as at the beginning of the year
Payments for goods	5,382,568.81	9,215,625.24
<b>Total</b>	<b>5,382,568.81</b>	9,215,625.24

As at 31 December 2017, the Group had no significant receipts in advance aged over 1 year.

#### 18. Salaries payable to employees

(1) Classification of salaries payable to employees

Item	Balance as at the beginning of the year	Addition for the year	Reduction for the year	Balance as at the end of the year
Short-term remuneration	4,711,472.83	58,707,661.38	58,637,275.44	4,781,858.77
Post-employment benefits – defined contribution plan		4,513,591.20	4,513,591.20	
Termination benefits		119,287.02	119,287.02	
<b>Total</b>	4,711,472.83	63,340,539.60	63,270,153.66	<b>4,781,858.77</b>



## Notes to the Financial Statements

1 January 2017 to 31 December 2017

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

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

#### 18. Salaries payable to employees (Continued)

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

Item	Balance as at the beginning of the year	Addition for the year	Reduction for the year	Balance as at the end of the year
Salaries, bonuses, allowances and subsidies	4,711,472.83	49,307,846.86	49,420,000.12	<b>4,599,319.57</b>
Staff welfare payments		3,783,581.15	3,783,581.15	
Social insurance premiums		2,149,841.19	2,149,841.19	
Of which: medical insurance premium		1,794,469.05	1,794,469.05	
Industrial injury insurance premium		104,518.86	104,518.86	
Maternity insurance premium		250,853.28	250,853.28	
Housing provident fund		2,373,234.40	2,373,234.40	
Labor union expenses and staff education expenses		558,391.58	375,852.38	<b>182,539.20</b>
Others		534,766.20	534,766.20	
<b>Total</b>	<b>4,711,472.83</b>	<b>58,707,661.38</b>	<b>58,637,275.44</b>	<b>4,781,858.77</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. 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 as at the beginning of the year	Addition for the year	Reduction for the year	Balance as at the end of the year
Basic pension insurance		4,314,697.66	4,314,697.66	
Unemployment insurance fees		198,893.54	198,893.54	
<b>Total</b>		<b>4,513,591.20</b>	<b>4,513,591.20</b>	

The Group's contribution payables for the defined contribution plan that the Group has participated in amounted to RMB4,513,591.20, which was fully paid on 31 December 2017.



## Notes to the Financial Statements

1 January 2017 to 31 December 2017

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

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

#### 19. Tax payables

Item	Balance as at the end of the year	Balance as at the beginning of the year
VAT	45,060,541.36	38,250,086.55
Enterprise income tax	2,683,509.38	6,482,232.23
Individual income tax	1,580,464.29	3,128,626.01
Property taxes	823,118.34	
Land taxes	381,444.00	135,344.00
Stamp duty	148,960.34	133,895.96
Urban maintenance and construction tax	110,388.31	104,550.60
Education surcharge	47,309.27	44,807.41
Other taxes	31,539.51	29,871.61
<b>Total</b>	<b>50,867,274.80</b>	<b>48,309,414.37</b>

At the end of the year, tax payables excluded Hong Kong profits tax.

#### 20. Other payables

(1) Classification of other payables by nature of payment

Nature of payment	Balance as at the end of the year	Balance as at the beginning of the year
Margin	7,330,984.95	1,593,826.13
Accrued intermediary expenses	3,393,009.00	4,132,938.98
Transportation costs	284,800.51	203,820.47
Equipment costs		287,048.29
Others	1,691,463.12	1,009,833.92
<b>Total</b>	<b>12,700,257.58</b>	<b>7,227,467.79</b>



## Notes to the Financial Statements

1 January 2017 to 31 December 2017

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

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

#### 20. Other payables (Continued)

(2) Significant other payables aged over 1 year

Name of entity	Balance as at the end of the year	Reasons of outstanding or carried over
Squire Patton Boggs	3,393,009.00	Settlement period is not yet due
<b>Total</b>	<b>3,393,009.00</b>	

#### 21. Other current liabilities

(1) Classification of other current liabilities

Item	Balance as at the end of the year	Balance as at the beginning of the year
Deferred income from assets – related government grants carried forward within 1 year	520,000.00	
<b>Total</b>	<b>520,000.00</b>	

(2) Government grant

Government grant program	Balance as at the beginning of the year	Addition of grant for the year	Included in non-operating income for the year	Other changes	Balance as at the end of the year	Asset-related/Income-related
Government grant for logistics standardization program				520,000.00	520,000.00	Asset-related
<b>Total</b>				520,000.00	520,000.00	

Note: Other changes referred to a transferred-in amount of RMB520,000.00 due to the reclassification of deferred income (see Note VI. 21).



## Notes to the Financial Statements

1 January 2017 to 31 December 2017

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

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

#### 22. Deferred income

##### (1) Classification of deferred income

Item	Balance as at the beginning of the year	Addition for the year	Reduction for the year	Balance as at the end of the year
Government grant		2,600,000.00	987,051.01	<b>1,612,948.99</b>
<b>Total</b>		<b>2,600,000.00</b>	<b>987,051.01</b>	<b>1,612,948.99</b>

##### (2) Government grant program

Government grant program	Balance as at the beginning of the year	Addition of grant for the year	Included in other gains for the year	Other changes	Balance as at the end of the year	Asset-related/ Revenue-related
Government grant for logistics standardization program		2,600,000.00	467,051.01	520,000.00	<b>1,612,948.99</b>	Asset-related
<b>Total</b>		<b>2,600,000.00</b>	<b>467,051.01</b>	<b>520,000.00</b>	<b>1,612,948.99</b>	

Note: Other changes referred to the Government grants of RMB520,000.00 expected to be carried forward in the income statement within 1 year was transferred to other current liabilities (see note VI. 20).

#### 23. Share capital

Name of shareholders	Balance as at the beginning of the year	Addition for the year	Reduction for the year	Balance as at the end of the year
Yao Chuanglong	70,000,000.00		11,000,000.00	<b>59,000,000.00</b>
Yao Xizhen	6,500,000.00		6,500,000.00	
Meizhi Investment	1,500,000.00	1,700,000.00		<b>3,200,000.00</b>
Youran Investment	1,000,000.00	700,000.00		<b>1,700,000.00</b>
Zhichuang Investment	1,000,000.00	800,000.00		<b>1,800,000.00</b>
H-Share Shareholders	28,000,000.00			<b>28,000,000.00</b>
Wu Binhua		5,400,000.00		<b>5,400,000.00</b>
Liu Jigui		5,400,000.00		<b>5,400,000.00</b>
Wu Wanping		3,500,000.00		<b>3,500,000.00</b>
<b>Total shares</b>	<b>108,000,000.00</b>	<b>17,500,000.00</b>	<b>17,500,000.00</b>	<b>108,000,000.00</b>





## Notes to the Financial Statements

1 January 2017 to 31 December 2017

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

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

#### 24. Capital reserve

Item	Balance as at the beginning of the year	Addition for the year	Reduction for the year	Balance as at the end of the year
Share premium	281,215,559.50			281,215,559.50
Other capital reserve		988,928.00		988,928.00
<b>Total</b>	281,215,559.50	988,928.00		282,204,487.50

Note: Other capital reserve newly added for the period were share-based payments of the Company, details of which are set out in the section headed "XI. Share-based payment" of these notes.

#### 25. Surplus reserve

Item	Balance as at the beginning of the year	Addition for the year	Reduction for the year	Balance as at the end of the year
Statutory surplus reserve	5,644,834.02	4,471,056.47		10,115,890.49
<b>Total</b>	5,644,834.02	4,471,056.47		10,115,890.49

Note: Additional statutory surplus reserve in 2017 was accrued by 10% of net profit of parent company in 2017.



## Notes to the Financial Statements

1 January 2017 to 31 December 2017

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

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

#### 26. Undistributed profits

Item	Amount for the year	Amount for last year
<b>Balance as at the end of last year</b>	<b>47,908,855.34</b>	15,674,852.68
Add: adjustment to the opening balance of undistributed profit		
<b>Balance as at the beginning of the year</b>	<b>47,908,855.34</b>	15,674,852.68
Add: Net profit attributable to the owners of the parent company for the year	<b>44,759,911.86</b>	56,458,269.78
Less: Appropriation of statutory surplus reserve	<b>4,471,056.47</b>	2,624,267.12
Dividends payable on ordinary shares	<b>32,400,000.00</b>	21,600,000.00
Dividends on ordinary shares converted to share capital		
<b>Balance as at the end of the year</b>	<b>55,797,710.73</b>	47,908,855.34

On 10 June 2017, Charmacy Pharmaceutical held its Annual General Meeting and approved the Group's profit distribution plan and declaration of a final dividend of RMB0.20 per share, totaling RMB21,600,000 for the year ended 31 December 2016. On 13 November 2017, Charmacy Pharmaceutical approved the Group's interim dividend of RMB0.10, totaling RMB10,800,000 for the six months ended 30 June 2017 at the second Extraordinary General Meeting.

#### 27. Operating revenue and operating cost

Item	Amount for the year		Amount for last year	
	revenue	cost	revenue	cost
Principal businesses	<b>4,061,633,057.77</b>	<b>3,885,972,976.78</b>	3,641,948,218.29	3,488,020,014.20
Other businesses	<b>34,202,392.41</b>		27,832,873.91	
<b>Total</b>	<b>4,095,835,450.18</b>	<b>3,885,972,976.78</b>	3,669,781,092.20	3,488,020,014.20



## Notes to the Financial Statements

1 January 2017 to 31 December 2017

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

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

#### 28. Taxes and surcharges

Item	Amount for the year	Amount for last year
Stamp duty	1,728,904.77	1,049,263.79
Property taxes	1,133,925.20	657,826.77
Urban maintenance and construction Tax	781,429.32	836,772.51
Education surcharge	558,163.81	597,594.67
Land taxes	380,722.00	273,358.00
Vehicle and vessel tax	29,482.56	27,403.25
Embankment protection costs		286,611.88
Business tax		10,911.18
<b>Total</b>	<b>4,612,627.66</b>	<b>3,739,742.05</b>

#### 29. Selling expenses

Item	Amount for the year	Amount for last year
Staff remuneration	43,667,997.86	31,639,721.60
Transportation costs	11,775,219.98	11,306,732.53
Office expenses	6,550,312.57	2,350,777.82
Depreciation and amortization	3,383,705.40	2,772,107.54
Promotion and advertising expenses	1,327,434.73	1,378,516.18
Business entertainment expenses	635,490.43	1,318,994.05
Travelling expenses	613,209.33	391,606.98
Others	51,968.79	383,330.91
<b>Total</b>	<b>68,005,339.09</b>	<b>51,541,787.61</b>



## Notes to the Financial Statements

1 January 2017 to 31 December 2017

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

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

#### 30. Management Expenses

Item	Amount for the year	Amount for last year
Staff remuneration	<b>19,507,988.00</b>	13,843,080.54
Office expenses	<b>11,861,215.77</b>	8,881,239.61
Depreciation and amortization	<b>10,764,556.76</b>	9,158,374.54
Expenses on engaging agencies	<b>4,013,372.46</b>	4,181,782.59
Of which: Auditor's remuneration	<b>382,264.14</b>	1,000,000.00
– Audit service expenses	<b>300,000.00</b>	1,000,000.00
– Other service Expenses	<b>82,264.14</b>	
Share-based payment	<b>988,928.00</b>	
Travelling expenses	<b>703,662.67</b>	532,883.61
Business entertainment expenses	<b>456,027.91</b>	427,856.65
Promotion and advertising expenses	<b>73,113.44</b>	236,584.92
Loss on inventory	<b>1,004,237.78</b>	519,738.10
Tax expenses		1,021,804.64
Others	<b>203,016.22</b>	188,341.34
<b>Total</b>	<b>49,576,119.01</b>	38,991,686.54

*Note:* The decrease in auditor's remuneration for the year compared with the previous period was due to the auditor's remuneration that related to A Share IPO reporting has been included in prepayments pursuant to the PRC accounting standards.

#### 31. Finance costs

Item	Amount for the year	Amount for last year
Interest expenses	<b>25,385,458.52</b>	17,041,424.74
Less: Interest income	<b>3,377,080.73</b>	3,513,121.93
Add: Loss on foreign exchange	<b>1,741,945.41</b>	–5,825,547.04
Add: Handling fees	<b>3,856,655.22</b>	2,562,494.18
<b>Total</b>	<b>27,606,978.42</b>	10,265,249.95



## Notes to the Financial Statements

1 January 2017 to 31 December 2017

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

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

#### 32. Impairment loss of assets

Item	Amount for the year	Amount for last year
Loss on bad debt	1,974,633.76	2,114,421.84
Loss on impairment of inventories	2,442,989.06	1,914,541.19
<b>Total</b>	<b>4,417,622.82</b>	4,028,963.03

#### 33. 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	-185,982.92	-29,215.31	-185,982.92
Of which: Gains on disposal of non-current assets that are not classified as held for sale	-185,982.92	-29,215.31	-185,982.92
Of which: Gains on disposal of fixed assets	-185,982.92	-29,215.31	-185,982.92
<b>Total</b>	<b>-185,982.92</b>	-29,215.31	-185,982.92

#### 34. Other gains

Item	Amount for the year	Amount for last year	Sources & Basis
Transfer-out of logistics program grant	467,051.01		Notice of the Bureau of Commerce of Foshan City on the Organization and Application of Logistics Standardization Pilot Program of Foshan City in 2015 (《佛山市商務局關於組織申報2015年佛山市物流標準化試點項目的通知》) (Fo Shangwu Fu Han <2015> No.182)
<b>Total</b>	<b>467,051.01</b>		



## Notes to the Financial Statements

1 January 2017 to 31 December 2017

(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. 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 grant	<b>3,764,446.82</b>	2,694,060.30	3,764,446.82
Others	<b>312,680.58</b>	407,467.38	312,680.58
<b>Total</b>	<b>4,077,127.40</b>	3,101,527.68	4,077,127.40

##### (2) Breakdown of Government grant

Item	Amount for the year	Amount for last year	Sources & Basis	Asset-related/revenue-related
Incentive funds for listing of enterprises	<b>2,000,000.00</b>		Notice on the Pre-issuance of the 2nd Batch of Incentive Funds for Listing of Enterprises of 2017 (《關於預下達2017年企業上市獎勵資金(第二批)的通知》)(Shan Shi Cai Jin [2017] No.10)	Revenue-related
Incentive funds for listing of enterprises	<b>1,000,000.00</b>		Notice on the Pre-issuance of the 6th Batch of Incentive Funds for Listing of Enterprises of 2017 (Shan Shi Cai Jin [2017] No. 68)	Revenue-related
Receipt of "Top 100 Enterprise" Incentive Funds for 2016 from Economy and Technology Promotion Bureau of Chancheng District	<b>616,076.00</b>		Notice of Economy and Technology Promotion Bureau of Chancheng District, Foshan City on the Organization and Application of "Top 100 Enterprise" Incentive Funds of 2016 (《佛山市禪城區經濟和科技促進局關於組織申報2016年度「百企爭先」獎勵的通知》)(Chan Jing Han <2017> No. 92)	Revenue-related
Employment stabilization subsidy financed by unemployment insurance of Shantou City	<b>79,664.00</b>	229,835.71	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



## Notes to the Financial Statements

1 January 2017 to 31 December 2017

(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. Non-operating income (Continued)

##### (2) Breakdown of Government grant (Continued)

Item	Amount for the year	Amount for last year	Sources & Basis	Asset-related/ revenue-related
Receipt of employment stabilization subsidy for 2014 and 2015	65,706.82		Document of the Department of Human Resources and Social Security of Foshan (Fo Ren She <2016> No.165)	Revenue-related
Notice on Payment of Project Funds in relation to the Special Funds (for the Statistics and Monitoring of Domestic Trade Circulation) from the Central Treasury for Promoting the Development of the Service Sector of 2016 (《關於撥付2016年中央財政服務業發展專項資金(內貿流通統計監測)項目資金的通知》)	3,000.00		Notice on Payment of Project Funds in relation to the Special Funds (for the Statistics and Monitoring of Domestic Trade Circulation) from the Central Treasury for Promoting the Development of the Service Sector of 2016 (Shan Shi Cai Gong [2017] No. 83)	Revenue-related
Return of embankment protection cost of 2014		845,123.78	Notice of Four Departments (including the Development and Reform Bureau of Foshan) on Matters Relating to the Adjustment of Levies on Embankment Protection Cost (《佛山市發展和改革局等4部門關於調整堤圍防護費徵收有關事項的通知》) (Fo Fai Gai Shou [2015] No.16)	Revenue-related
Return of embankment protection cost of 2015		1,273,214.81	Notice of Four Departments (including the Development and Reform Bureau of Foshan) on Matters Relating to the Adjustment of Levies on Embankment Protection Cost (Fo Fai Gai Shou [2015] No.16)	Revenue-related
Receipt of "Top 100 Enterprise" Incentive Funds for 2015 from Economy and Technology Promotion Bureau of Chancheng District		342,886.00	Notice of the Economy and Technology Promotion Bureau of Chancheng District, Foshan City on the Issuance of the 1st Batch of Incentive Funds for "Top 100 Enterprise" Incentive Funds of 2015 (《佛山市禪城區經濟和科技促進局關於下達2015年度「百企爭先」(第一批)獎勵資金的通知》) (Chan Jing Han [2016] No. 432)	Revenue-related
Funds for Promoting the Development of Service Sector		3,000.00	Notice on Payment of Project Funds in relation to the Special Funds from the Central Treasury for Promoting the Development of the Service Sector of 2013 and the 2nd Batch of Special Funds (for the Statistics and Monitoring of Domestic Trade Circulation) from the Central Treasury for Promoting the Development of the Service Sector of 2015 (關於撥付2013年中央財政服務業發展專項資金和2015年中央財政第二批服務業發展專項資金(市場監測統計費用)項目資金的通知) (Shan Shi Cai Gong [2016] No.66)	Revenue-related
<b>Total</b>	<b>3,764,446.82</b>	<b>2,694,060.30</b>		



## Notes to the Financial Statements

1 January 2017 to 31 December 2017

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

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

#### 36. Non-operating expenses

Item	Amount for the year	Amount for last year	Amounts included in non-recurring profit and loss for the year
Donation	<b>71,388.09</b>	120,442.25	71,388.09
Others	<b>73,279.51</b>	64,053.20	73,279.51
<b>Total</b>	<b>144,667.60</b>	184,495.45	144,667.60

#### 37. Income tax expense

(1) *Income tax expense*

Item	Amount for the year	Amount for last year
Current income tax calculated in accordance with the tax laws and relating requirements	<b>17,317,005.48</b>	20,174,973.13
– PRC	<b>17,317,005.48</b>	20,174,973.13
– Hong Kong		
Deferred income tax expenses	<b>-1,754,563.89</b>	-551,777.17
<b>Total</b>	<b>15,562,441.59</b>	19,623,195.96

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

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

Item	Amount for the year
Total combined profits for this year	<b>59,857,314.29</b>
Income tax expenses calculated by statutory/applicable tax rate	<b>14,964,328.57</b>
Effect of non-deductible cost, expenses and loss	<b>598,113.02</b>
Effect of deductible temporary differences or deductible loss for which no deferred income tax assets were recognized for the year	
Income tax expenses	<b>15,562,441.59</b>





## Notes to the Financial Statements

1 January 2017 to 31 December 2017

(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. Items of the Statement of Cash Flows

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

1) *Other cash received relating to operating activities*

Item	Amount for the year	Amount for last year
Government grant	6,364,446.82	575,721.71
Interest income	282,568.25	958,210.07
Inter-company current accounts	10,220,396.52	26,495,197.88
Staff reserves	546,585.34	1,167,209.37
Others	330,749.12	430,192.20
<b>Total</b>	<b>17,744,746.05</b>	<b>29,626,531.23</b>

2) *Other cash paid relating to operating activities*

Item	Amount for the year	Amount for last year
Transportation costs	12,650,175.53	12,606,032.13
Inter-company current accounts	11,424,537.25	8,827,298.16
Office expenses	8,399,060.92	5,442,991.46
Repair and Maintenance expenses	3,809,062.88	68,179.94
Expenses on engaging agencies	8,652,940.35	4,102,073.85
Staff borrowings	5,546,655.51	1,516,580.90
Utilities	4,194,301.30	2,903,775.92
Handling fees	2,463,562.46	1,730,353.65
Telecommunication fees	1,469,563.19	842,028.11
Travelling expenses	1,192,696.36	1,057,211.28
Business entertainment expenses	1,168,132.11	584,330.17
Promotion and advertising expenses	744,079.94	807,748.36
Marketing expenses	688,291.98	875,328.79
Others	2,285,707.06	1,382,990.80
<b>Total</b>	<b>64,688,766.84</b>	<b>42,746,923.52</b>



## Notes to the Financial Statements

1 January 2017 to 31 December 2017

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

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

3) *Other cash received relating to investing activities*

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

4) *Other cash paid relating to investing activities*

Item	Amount for the year	Amount for last year
Investment in bank financial products	100,000.00	100,000.00
<b>Total</b>	<b>100,000.00</b>	100,000.00

5) *Other cash received relating to financing activities*

Item	Amount for the year	Amount for last year
Receipt of bank acceptance margin	2,032,866,386.13	2,014,406,568.64
Interest income on margin	3,094,512.48	2,554,911.86
<b>Total</b>	<b>2,035,960,898.61</b>	2,016,961,480.50

6) *Other cash paid relating to investing activities*

Item	Amount for the year	Amount for last year
Payment of bank acceptance margin	2,107,121,615.99	2,026,775,067.11
Handling fees for financing	1,730,412.37	2,294,962.16
Borrowing margin	5,325,000.00	
<b>Total</b>	<b>2,114,177,028.36</b>	2,029,070,029.27



## Notes to the Financial Statements

1 January 2017 to 31 December 2017

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

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

Item	Amount for the year	Amount for last year
<b>1. Reconciliation of net profit to cash flows from operating activities:</b>		
Net profit	<b>44,294,872.70</b>	56,458,269.78
Add: Provision for impairment on assets	<b>4,417,622.82</b>	4,028,963.03
Depreciation of fixed assets, depletion of petroleum and natural gas properties, depreciation of productive biological assets	<b>9,662,228.70</b>	8,495,155.85
Amortization of intangible assets	<b>4,459,331.86</b>	2,983,045.77
Amortization of long-term deferred expenses to be amortized	<b>26,701.60</b>	17,132.16
Loss on disposal of fixed assets, intangible assets and other long-term assets (“-” for gains)	<b>185,982.92</b>	29,215.31
Loss on scrapped fixed assets (“-” for gains)		
Gain or loss arising from changes in fair value (“-” for gains)		
Finance costs (“-” for gain)	<b>24,021,358.41</b>	16,781,475.04
Investment loss (“-” for gain)		
Decrease in deferred income tax assets (“-” for increase)	<b>-1,760,487.84</b>	-551,777.17
Increase in deferred income tax liabilities (“-” for decrease)		
Decrease in inventories (“-” for increase)	<b>-80,598,031.10</b>	-31,849,082.42
Decrease in receivables from operating activities (“-” for increase)	<b>-157,763,293.39</b>	-105,387,887.47
Increase in payables from operating (“-” for decrease)	<b>120,093,579.16</b>	-52,555,980.76
Others		
<b>Net cash flow from operating activities</b>	<b>-32,960,134.16</b>	-101,551,470.88
<b>2. Non-cash significant investing and financing activities:</b>		
Conversion of debt into capital		
Convertible corporate bonds due within one year		
Finance leased fixed assets		
<b>3. Net change in cash and cash equivalents:</b>		
Cash balance as at the end of the year	<b>75,096,936.45</b>	119,569,294.15
Less: cash balance as at the beginning of the year	<b>119,569,294.15</b>	155,139,717.41
Add: balance of cash equivalents as at the end of the year		
Less: balance of cash equivalents as at the beginning of the year		
Net increase in cash and cash equivalents	<b>-44,472,357.70</b>	-35,570,423.26

Note: During the Reporting Period, by discounting its commercial drafts, the Group raised RMB53 million and RMB100.2 million in 2017 and 2016, respectively.



## Notes to the Financial Statements

1 January 2017 to 31 December 2017

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

##### (3) Cash and cash equivalents

Item	Balance as at the end of the year	Balance as at the beginning of the year
Cash	<b>202,101.04</b>	2,982,028.85
Of which: cash on hand	<b>202,101.04</b>	2,982,028.85
Bank deposits readily available for payment	<b>74,894,835.41</b>	116,587,265.30
Other monetary funds readily available for payment		
Cash equivalents		
Of which: bonds investment due within three months		
Balance of cash and cash equivalents as at the end of the year	<b>75,096,936.45</b>	119,569,294.15
Of which: Restricted cash and cash equivalents used by the parent company or the subsidiaries of the Group		

#### 39. Assets with restricted ownership and rights of use

Item	Book value as at the end of the year	Reasons of Restriction
Monetary funds	<b>437,316,459.26</b>	Bank acceptance bill margin, borrowing margin
Bills receivables	<b>63,634,276.03</b>	Pledged and bills discount
Fixed assets	<b>80,411,910.11</b>	secured
Construction in progress	<b>73,555,723.05</b>	secured
Intangible assets	<b>148,623,554.21</b>	secured
Inventories	<b>250,000,000.00</b>	secured



## Notes to the Financial Statements

1 January 2017 to 31 December 2017

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

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

#### 40. Monetary items in foreign currencies

(1) *Monetary items in foreign currencies*

Item	Balances of foreign currency at the beginning of the year	Exchange rate	Equivalent RMB balance as at the end of the year
Monetary funds			367,691.75
Among which: Hong Kong Dollars	439,870.02	0.8359	367,691.75

### VII. CHANGES IN SCOPE OF CONSOLIDATION

#### 1. Business combination not under common control

(1) *Business combination not under common control occurred in this year*

Name of acquiree	Date of acquiring the equity interests	Cost of acquiring the equity interests	Equity percentage acquired (%)	Acquiring method	Purchasing Date	Basis for determining the acquisition date	Revenue of the acquiree from purchasing date to the end of the year	Net profit of the acquiree from purchasing date to the end of the year
Zhu Hai Charmacy Company	2017-3-13	RMB18 million	70%	Capital contribution	2017-3-13	Obtained the control	32,508,436.42	-1,385,943.66
Guangzhou Charmacy Company	2017-6-30	RMB18 million	90%	Capital contribution	2017-6-30	Obtained the control		-492,560.62

(2) *Cost of combination and goodwill*

Item	Zhu Hai Charmacy Company	Guangzhou Charmacy Company
Cash	18,000,000.00	18,000,000.00
Fair value of non-cash assets		
Fair value of issued or assumed debts		
Fair value of issued equity securities		
Fair value of contingent consideration		
Total combined cost	18,000,000.00	18,000,000.00
Less: share of the fair value of the identifiable net assets acquired	832,702.81	17,973,671.88
Share of the fair value of capital contribution at acquiring date	12,600,000.00	
Shortfall between goodwill/cost of combination and the amount of the share of the fair value of the identifiable net assets acquired	4,567,297.19	26,328.12



## Notes to the Financial Statements

1 January 2017 to 31 December 2017

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

### VII. CHANGES IN SCOPE OF CONSOLIDATION (Continued)

#### 1. Business combination not under common control (Continued)

(3) Identifiable assets and liabilities of the acquiree as at the purchasing date

Item	Zhuhai Charmacy Company		Guangzhou Charmacy Company	
	Fair value as at purchasing date	Book value as at purchasing date	Fair value as at purchasing date	Book value as at purchasing date
Asset:	7,305,111.01	7,305,111.01	19,994,246.53	19,994,246.53
Monetary funds	92,149.84	92,149.84	993,929.10	993,929.10
Accounts receivable	4,715,461.73	4,715,461.73		
Prepayments	288,065.32	288,065.32	19,000,000.00	19,000,000.00
Other receivables	5,191.38	5,191.38	317.43	317.43
Inventories	2,070,969.13	2,070,969.13		
Other current assets	47,622.00	47,622.00		
Fixed assets	79,727.66	79,727.66		
Deferred income tax assets	5,923.95	5,923.95		
Liabilities:	6,115,535.56	6,115,535.56	23,500.00	23,500.00
Accounts payable	1,892,976.96	1,892,976.96		
Other payables	3,663,876.09	3,663,876.09	500.00	500.00
Salaries payable to employees	164,553.74	164,553.74	23,000.00	23,000.00
Tax payables	54,680.96	54,680.96		
Other current liabilities	339,447.81	339,447.81		
Net assets	1,189,575.45	1,189,575.45	19,970,746.53	19,970,746.53
Less: minority interests				
Net assets acquired	1,189,575.45	1,189,575.45	19,970,746.53	19,970,746.53

Note 1: Zhong Ming International Asset Appraisal (Beijing) Co., Ltd. (中銘國際資產評估(北京)有限責任公司) was entrusted by the Group to conduct an appraisal of the net assets of Zhuhai Charmacy Company as at 28 February 2017 and issued an Asset Appraisal Report (Zhong Ming Ping Bao Zi [2017] No. 1006) dated 18 September 2017. As at 28 February 2017, the carrying amount of net assets of Zhuhai Charmacy Company was RMB1,189,575.45, fair value of the identifiable net assets is RMB1,405,316.64, and asset appreciation was RMB215,741.19. Since there was little difference between the carrying amount and fair value of identifiable net assets, and the appreciation was mainly for inventories, the Group has applied its net book value as the fair value of the identifiable assets.

Note 2: Guangzhou Charmacy Company was established on 23 May 2017. As of date of merger in 30 June 2017, the carrying amount of all the assets of Guangzhou Charmacy Company were current assets, including prepayment made to Guangzhou Charmacy of RMB19 million and monetary funds of RMB990,000, thus the Group has applied its net book value as the fair value of the identifiable net assets.



## Notes to the Financial Statements

1 January 2017 to 31 December 2017

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

### VIII. INTERESTS IN OTHER ENTITIES

#### 1. Interests in subsidiaries

##### (1) Composition of the corporation

Name of subsidiary	Place of principal operation	Place of registration	Nature of business	Registered capital	Proportion of shareholding (%)		Method of acquisition
					Direct	Indirect	
Guangdong Chuangmei Company	Pearl River Delta	Foshan	Pharmaceutical distribution	RMB150 million	100		Established by investment
Zhuhai Charmacy Company	Pearl River Delta	Zhuhai	Pharmaceutical distribution	RMB3.6 million	70		Business combination not under common control
Guangzhou Charmacy Company	Pearl River Delta	Guangzhou	Pharmaceutical distribution	RMB20 million	90		Business combination not under common control

##### (2) Substantial non-wholly owned subsidiaries

Name of subsidiary	Shareholding percentage of minority shareholders	Profit or loss attributable to minority shareholders for the year	Dividends declared to minority shareholders for the year	Interests balance of minority shareholders at the end of the year
Zhuhai Charmacy Company	30%	-415,783.10		5,341,089.54

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

Name of subsidiary	Balance at the end of the year				
	Current assets	Non-current assets	Total assets	Current liabilities	Total liabilities
Zhuhai Charmacy Company	25,326,913.15	1,018,464.70	26,345,377.85	8,541,746.06	8,541,746.06

Name of subsidiary	Amount for the year			
	Operating revenue	Net profit	Total comprehensive income	Cash flows of operating activities
Zhuhai Charmacy Company	32,508,436.42	-1,385,943.66	-1,385,943.66	-9,811,242.24



## Notes to the Financial Statements

1 January 2017 to 31 December 2017

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

### IX. RISKS RELATED TO FINANCIAL INSTRUMENTS

The Group's major financial instruments include borrowings, receivables, payables, trading financial assets, trading financial liabilities, etc. Details of these financial instruments are set out in note 6. The risks associated with these financial instruments and the risk management policies adopted by the Group on how to mitigate these risks are set out below. The management of the Group manages and monitors these exposures to ensure such risks are contained within a prescribed scope.

#### 1. Objective and policies of various risks management

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

##### (1) Market risk

###### 1) Foreign exchange risk

Foreign exchange risk is the risk arising from changes in fair value or future cash flows of financial instrument resulted from changes in exchange rate. The Group's foreign exchange risk relates mainly to HK\$. Except for the proceeds from the H Share offering, payment of H Share dividends and minor expenses incurred in Hong Kong Special Administrative Region, other main business of the Group is denominated in RMB. As at 31 December 2017, the changes in the fair value or future cash flow for the balances of assets and liabilities denominated in HK\$ in the following table arising from changes in exchange rates may have an impact on the Group's operating results.

Item	Balance at the end of the year	Balance at the beginning of the year
Currency Fund – HK\$	<b>367,691.75</b>	81,615,858.19

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

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





## Notes to the Financial Statements

1 January 2017 to 31 December 2017

(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

As at 31 December 2017, 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, in particular, the carrying amount of financial assets recognized in the consolidated balance sheet. For the financial assets at fair value, the carrying amount reflects the risk exposure, but not the maximum risk exposure, which will vary in accordance with the changes in future fair value.

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

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 effects on fluctuations of cash flows. Management of the Group monitors the utilization of bank borrowings and makes sure the related borrowing agreements are complied with.

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

Items	Carrying amount	Within 1 year	1 to 5 years	Over 5 years	Total
Monetary funds	512,413,395.71	512,413,395.71			512,413,395.71
Bills receivables	87,683,853.38	87,683,853.38			87,683,853.38
Trade receivables	882,570,454.98	882,570,454.98			882,570,454.98
Other receivables	9,674,650.78	9,674,650.78			9,674,650.78
Other current assets	30,031,737.79	30,031,737.79			30,031,737.79
Short-term borrowings	522,900,000.00	522,900,000.00			522,900,000.00
Bill payables	928,824,897.42	928,824,897.42			928,824,897.42
Trade payables	479,781,944.91	479,781,944.91			479,781,944.91
Interests payable	1,050,789.84	1,050,789.84			1,050,789.84
Remuneration payable to employees	4,781,858.77	4,781,858.77			4,781,858.77
Other payables	12,700,257.58	12,700,257.58			12,700,257.58



## Notes to the Financial Statements

1 January 2017 to 31 December 2017

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

### IX. RISKS RELATED TO FINANCIAL INSTRUMENTS (Continued)

#### 2. Fair value

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

The fair value of financial assets and financial liabilities with standard terms and conditions for which there are active markets are determined by reference to the prevailing bids and offers in the corresponding active markets respectively;

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

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

The management of the Group considers that the carrying amounts of financial assets and financial liabilities measured at amortized costs 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	70,000,000.00		11,000,000.00	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	70,000,000.00	54.63	64.81



## Notes to the Financial Statements

1 January 2017 to 31 December 2017

(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 the 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 interests in the Company, a shareholding platform that is mainly consisted of employees of the Company
Zhichuang Investment	Holding 1.67% equity interests in the Company, a shareholding platform that is mainly consisted of employees of the Company
Meizhi Investment	Holding 2.96% equity interests in the Company, a shareholding platform that is mainly consisted of employees of the Company and an enterprise where Lin Zhixiong, the executive Director, secretary of the Board and Chief Financial Officer, serves as general partners
Guangzhou Baiyunshan Pharmaceutical Holdings Co., Ltd. (hereinafter referred to as “Baiyunshan”) and its holding subsidiaries and joint ventures	Guangzhou Pharmaceutical Baiyunshan Hong Kong Company Limited (hereinafter referred to as “Baiyunshan Hong Kong”), a 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 percentage of shareholding 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 substance over form principle, the Company deemed Baiyunshan and its holding subsidiaries and joint ventures as related parties
Guangzhou Baiyunshan Guang Hua Pharmacy Co., Ltd.	An enterprise where Li Weisheng, the non-executive Director, serves as Director
Guangzhou Pharmaceutical Baiyunshan Macau Company Limited	An enterprise where Li Weisheng, the non-executive Director, serves as the chairman of the Board
Zheng Yuyan, Lin Zhixiong, Li Weisheng, Wan Chi Wai, Zhou Tao, Guan Jian, Zhang Ling, Zheng Xiyue, Lin Zhijie, Wan Xiaohua	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
Yao Xizhen	Natural persons who once held more than 5% of the Company’s shares in the past 12 months
Fan Jianbo, You Zeyan, Zhang Hanzi, Xiang Zhixiong, Dong Jianfeng	Having served as Directors, Supervisors and senior management of the Company in the past 12 months
Shenzhen Lafang Investment Management Co., Ltd. (深圳市拉芳投資管理有限公司)	An enterprise where Wu Binhua, a shareholder holding more than 5% of shares, serves as general manager
Shenzhen Yijing Investment Co., Ltd. (深圳市億景投資有限公司)	An enterprise where Wu Binhua, a shareholder holding more than 5% of shares, serves as general manager
Kunming Tianqiao Express Co., Ltd. (昆明天樵快遞有限公司)	An enterprise where Fan Jianbo, former executive Director and former deputy general manager, served as the executive Director and general manager, and cancelled in September 2017
King & Wood Mallesons	An enterprise where Wan Chi Wai, the independent non-executive Director, serves as partner
HM International Holdings Limited	An enterprise where Wan Chi Wai, the independent non-executive Director, serves as the independent non-executive Director
Fung Ching Holdings Limited (豐展控股有限公司)	An enterprise where Wan Chi Wai, the independent non-executive Director, serves as the independent non-executive Director
C.K.J Professional Dental Hospital Group Limited	An enterprise where Zhang Ling, the Supervisor, serves as the independent non-executive Director
Shanghai New Focus Investment Development Limited	An enterprise where Guan Jian, the independent non-executive Director, holds 70% of shares and serves as the executive Director
Mankedao (Shanghai) Information Technology Limited	An enterprise where Guan Jian, the independent non-executive Director, holds 100% of shares and serves as the executive Director



## Notes to the Financial Statements

1 January 2017 to 31 December 2017

(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 parties	Types of related party transactions	Pricing method and decision-making procedure for related party transactions	The amount of this year	The amount of previous year
<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	<b>16,368,901.52</b>	13,407,632.70
Guangzhou Pharmaceuticals Corporation	Sales of goods	Determined after negotiation by reference to market rates	<b>4,607,264.71</b>	1,603,853.95
Foshan GPC Jianze Pharmaceutical Co., Ltd	Sales of goods	Determined after negotiation by reference to market rates	<b>275,723.54</b>	1,184,836.95
Guangzhou Pharmaceutical Co., Ltd. Da Zhong Pharmaceutical Sales Branch	Sales of goods	Determined after negotiation by reference to market rates	<b>1,552,030.76</b>	86,968.37
Guangzhou Cai Zhi Lin Corporation Bei Shang Chinese Raw Medicine Co., Ltd.	Sales of goods	Determined after negotiation by reference to market rates	<b>161,830.79</b>	835,354.86
Guangzhou Guo Ying Pharmaceutical Co., Ltd.	Sales of goods	Determined after negotiation by reference to market rates	<b>16,746.23</b>	3,048.62
Guangdong Meixian Pharmaceutical Co., Ltd.	Sales of goods	Determined after negotiation by reference to market rates		37,495.29
Zuhai Guang Yao Kangming Pharmaceutical Co., Ltd.	Sales of goods	Determined after negotiation by reference to market rates		127,114.79
Guangzhou Xin Te Pharmaceutical Co., Ltd.	Sales of goods	Determined after negotiation by reference to market rates	<b>5,846,153.85</b>	
Guangzhou Cai Zhi Lin Pharmaceutical Co., Ltd.	Rendering of services	Determined after negotiation by reference to market rates		26,981.13
Shenzhen Guangyao Liankang Pharmaceutical Company Limited	Rendering of services	Determined after negotiation by reference to market rates	<b>28,438.29</b>	



## Notes to the Financial Statements

1 January 2017 to 31 December 2017

(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 parties	Types of related party transactions	Pricing method and decision-making procedure for related party transactions	The amount of this year	The amount of previous year
<b>2. Procurement and receiving services</b>				
Guangzhou Pharmaceutical Corporations	Procurement of goods	Determined after negotiation by reference to market rates	379,839,876.44	417,180,894.16
Guangzhou Cai Zhi Lin Pharmaceutical Co., Ltd.	Procurement of goods	Determined after negotiation by reference to market rates	110,289,185.45	95,307,096.18
Guangzhou Baiyunshan Pharmaceutical Marketing Co., Ltd.	Procurement of goods	Determined after negotiation by reference to market rates	38,800,340.84	32,022,298.55
Guangzhou Wang Lao Ji Pharmaceutical Co., Ltd.	Procurement of goods	Determined after negotiation by reference to market rates	37,065,339.36	17,614,198.33
Guangzhou Guo Ying Pharmaceutical Co., Ltd.	Procurement of goods	Determined after negotiation by reference to market rates	36,048,263.55	65,253,381.34
Guangzhou Pharmaceutical Import and Export Company Limited	Procurement of goods	Determined after negotiation by reference to market rates	38,478,119.61	5,668.03
Guangzhou Baiyunshan Xing Qun Pharmaceutical Co., Ltd.	Procurement of goods	Determined after negotiation by reference to market rates	33,607,777.81	22,140,885.84
Guangzhou Baiyunshan Pan Gao Shou Pharmaceutical Co., Ltd.	Procurement of goods	Determined after negotiation by reference to market rates	24,175,640.70	37,354,572.45
Guangzhou Baiyunshan Pharmaceutical Holdings Co., Ltd. Guangzhou Baiyunshan He Ji Gong Pharmaceutical Factory	Procurement of goods	Determined after negotiation by reference to market rates	13,853,181.32	16,797,255.04
Guangzhou Baiyunshan Chen Li Ji Pharmaceutical Factory Co., Ltd.	Procurement of goods	Determined after negotiation by reference to market rates	17,377,149.85	12,389,767.77
Guangzhou Baiyunshan Zhong Yi Pharmaceutical Company Limited	Procurement of goods	Determined after negotiation by reference to market rates	-783,763.25	43,027,271.95
Guangzhou Baiyunshan Tian Xin Pharmaceutical Co., Ltd.	Procurement of goods	Determined after negotiation by reference to market rates	14,004,460.76	16,594,278.92
Guangzhou Baiyunshan Hutchison Whampoa Chinese Medicine Co., Ltd.	Procurement of goods	Determined after negotiation by reference to market rates	9,872,599.82	9,797,937.47
Guangzhou Baiyunshan Qi Xing Pharmaceutical Co., Ltd.	Procurement of goods	Determined after negotiation by reference to market rates	4,885,310.66	13,574,932.04
Guangzhou Baiyunshan Guang Hua Pharmacy Co., Ltd.	Procurement of goods	Determined after negotiation by reference to market rates	2,225,641.04	1,963,051.23
Guangzhou Xin Te Pharmaceutical Co., Ltd.	Procurement of goods	Determined after negotiation by reference to market rates	2,615,988.72	403,098.28
Foshan GPC Jianze Pharmaceutical Co., Ltd.	Procurement of goods	Determined after negotiation by reference to market rates	1,355,972.13	6,348,121.37
Guangzhou Chinese Medicine Corporation Chinese Medical Drink and Pill Factory	Procurement of goods	Determined after negotiation by reference to market rates		240,637.16
Guangzhou Baiyunshan Pharmaceutical Technology Development Co., Ltd.	Procurement of goods	Determined after negotiation by reference to market rates		-430.76
Guangzhou Baiyunshan Jing Xiu Tang Pharmaceutical Co., Ltd.	Procurement of goods	Determined after negotiation by reference to market rates		-66,261.40

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



## Notes to the Financial Statements

1 January 2017 to 31 December 2017

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

### X. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (Continued)

#### (III) Related party balances

Name of items	Balance at the end of the year	Balance at the beginning of the year
<b>Trade receivables</b>		
Guangzhou Cai Zhi Lin Pharmaceutical Co., Ltd.	2,508,868.30	390,948.13
Guangzhou Pharmaceuticals Corporation	3,071,738.62	614,230.54
Foshan GPC Jianze Pharmaceutical Co., Ltd.	26,310.30	483,305.52
Guangzhou Pharmaceutical Co., Ltd. Da Zhong Pharmaceutical Sales Branch	1,681,200.00	69,401.00
Guangzhou Cai Zhi Lin Corporation Bei Shang Chinese Raw Medicine Co., Ltd.	10,526.01	36,332.21
Guangzhou Guo Ying Pharmaceutical Co., Ltd.	3,566.88	3,566.88
Shenzhen Guangyao Liankang Pharmaceutical Company Limited	24,861.80	
<b>Prepayments</b>		
Guangzhou Pharmaceutical Import and Export Company Limited	18,289,866.32	
Guangzhou Baiyunshan Xing Qun Pharmaceutical Co., Ltd.	9,533,548.70	272,667.09
Guangzhou Baiyunshan Pan Gao Shou Pharmaceutical Co., Ltd.	6,980,828.50	4,328,256.59
Guangzhou Wang Lao Ji Pharmaceutical Co., Ltd.	3,193,442.84	8,722,212.83
Guangzhou Baiyunshan Chen Li Ji Pharmaceutical Factory Co., Ltd.	2,167,540.93	579,126.57
Guangzhou Baiyunshan Pharmaceutical Marketing Co., Ltd.	9,774,336.69	6,796,789.61
Guangzhou Baiyunshan Pharmaceutical Holdings Co., Ltd. Baiyunshan He Ji Gong Pharmaceutical Factory	58,475.61	8,717.95
Guangzhou Baiyunshan Zhong Yi Pharmaceutical Company Limited	2,190,068.55	15,318,995.93
Guangzhou Baiyunshan Qi Xing Pharmaceutical Co., Ltd.	470,272.50	7,795.14
Guangzhou Baiyunshan Hutchison Whampoa Chinese Medicine Co., Ltd.	631,912.41	184,703.45
Guangzhou Baiyunshan Guang Hua Pharmacy Co., Ltd.	306,000.00	137,435.90
<b>Other receivables</b>		
Guangzhou Wang Lao Ji Pharmaceutical Co., Ltd.	100,000.00	
Guangzhou Baiyunshan Jing Xiu Tang Pharmaceutical Co., Ltd.	20,000.00	20,000.00
Youran Investment		8,100.00
Zhichuang Investment		5,600.00
Meizhi Investment		8,600.00
Guangzhou Baiyunshan Hutchison Whampoa Chinese Medicine Co., Ltd.	20,000.00	



## Notes to the Financial Statements

1 January 2017 to 31 December 2017

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

### X. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (Continued)

#### (III) Related party balances (Continued)

Name of items	Balance at the end of the year	Balance at the beginning of the year
<b>Trade payables</b>		
Guangzhou Pharmaceuticals Corporation	<b>67,410,275.73</b>	59,448,577.23
Guangzhou Cai Zhi Lin Pharmaceutical Co., Ltd.	<b>27,196,494.09</b>	17,988,696.84
Guangzhou Guo Ying Pharmaceutical Co., Ltd.	<b>6,128,721.96</b>	13,207,918.86
Guangzhou Baiyunshan Tian Xin Pharmaceutical Co., Ltd.	<b>1,228,288.81</b>	1,042,897.09
Guangzhou Xin Te Pharmaceutical Co., Ltd.	<b>459,504.62</b>	162,500.00
Foshan GPC Jianze Pharmaceutical Co., Ltd.	<b>138,622.00</b>	4,690,410.71
Guangzhou Chinese Medicine Corporation Chinese Medical Drink and Pill Factory		191,920.00
Guangzhou Baiyunshan Zhong Yi Pharmaceutical Company Limited	<b>15,390.02</b>	15,390.02
Guangzhou Wang Lao Ji Pharmaceutical Co., Ltd.		54,391.09
Guangzhou Baiyunshan Pharmaceutical Holdings Co., Ltd. Baiyunshan He Ji Gong Pharmaceutical Factory		715,897.41
<b>Bill payables</b>		
Guangzhou Pharmaceuticals Corporation	<b>40,693,300.42</b>	61,531,133.97
Guangzhou Cai Zhi Lin Pharmaceutical Co., Ltd.	<b>12,526,528.26</b>	37,712,128.26
Guangzhou Pharmaceutical Import and Export Company Limited	<b>23,582,047.71</b>	
Guangzhou Baiyunshan Pharmaceutical Marketing Co., Ltd.	<b>12,353,027.59</b>	23,375,031.53
Guangzhou Wang Lao Ji Pharmaceutical Co., Ltd.	<b>8,569,939.50</b>	11,492,110.00
Guangzhou Baiyunshan Pan Gao Shou Pharmaceutical Co., Ltd.		15,302,280.00
Guangzhou Baiyunshan Pharmaceutical Holdings Co., Ltd. Baiyunshan He Ji Gong Pharmaceutical Factory	<b>501,630.00</b>	1,746,389.50
Guangzhou Baiyunshan Xing Qun Pharmaceutical Co., Ltd.	<b>11,893,620.74</b>	3,120,200.00
Guangzhou Baiyunshan Chen Li Ji Pharmaceutical Factory Co., Ltd.	<b>4,514,954.32</b>	5,606,903.80
Guangzhou Guo Ying Pharmaceutical Co., Ltd.	<b>4,261,411.74</b>	10,414,024.16
Guangzhou Baiyunshan Tian Xin Pharmaceutical Co., Ltd.	<b>5,313,501.31</b>	7,219,030.00
Guangzhou Baiyunshan Zhong Yi Pharmaceutical Company Limited	<b>4,783,983.28</b>	11,100,000.00
Guangzhou Baiyunshan Hutchison Whampoa Chinese Medicine Co., Ltd.	<b>1,160,537.20</b>	3,709,100.00
Foshan GPC Jianze Pharmaceutical Co., Ltd.	<b>2,258,000.00</b>	1,133,015.00
Guangzhou Baiyunshan Guang Hua Pharmacy Co., Ltd.	<b>600,000.00</b>	1,128,000.00
Guangzhou Baiyunshan Qi Xing Pharmaceutical Co., Ltd.	<b>762,220.00</b>	347,100.00
Guangzhou Xin Te Pharmaceutical Co., Ltd.	<b>162,500.00</b>	
Guangzhou Chinese Medicine Corporation Chinese Medical Drink and Pill Factory	<b>45,000.00</b>	
<b>Other payables</b>		
Guangzhou Baiyunshan Zhong Yi Pharmaceutical Company Limited		493.00



## Notes to the Financial Statements

1 January 2017 to 31 December 2017

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





## Notes to the Financial Statements

1 January 2017 to 31 December 2017

(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	470,000.00	54,763.26	14,000.00		538,763.26
Fan Jianbo	254,000.00	38,107.38	9,000.00		301,107.38
Lin Zhixiong	254,000.00	38,107.38	9,000.00		301,107.38
Zheng Yuyan	258,365.83	24,217.56	9,000.00		291,583.39
Subtotal	1,236,365.83	155,195.58	41,000.00		1,432,561.41
Supervisors					
Zhang Hanzi	197,323.34	22,757.58	5,233.33		225,314.25
Zheng Xiyue	153,110.06	20,391.10	3,975.00		177,476.16
Zhang Ling	40,000.00				40,000.00
Subtotal	390,433.40	43,148.68	9,208.33		442,790.41
Non-executive director					
You Zeyan	50,000.00				50,000.00
Subtotal	50,000.00				50,000.00
Independent non-executive directors					
Wan Chi Wai, Anthony	123,765.96				123,765.96
Guan Jian	50,000.00				50,000.00
Zhou Tao	50,000.00				50,000.00
Subtotal	223,765.96				223,765.96
<b>Total</b>	<b>1,900,565.19</b>	<b>198,344.26</b>	<b>50,208.33</b>		<b>2,149,117.78</b>

Notes: On 19 July 2017, Mr. Fan Jianbo, the executive director, resigned as director and Mr. Li Weisheng was appointed as non-executive director. On 5 September 2017, Mr. Lin Zhijie was appointed as supervisor and Ms. Zhang Hanzi resigned as supervisor.



## Notes to the Financial Statements

1 January 2017 to 31 December 2017

(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, four were directors (last year: four) for the year, and the emoluments of the directors among them are set out in Note "X. (IV).(1)" emoluments reflected in the emoluments of directors and supervisors. The emolument of additional one individual (last year: one) was as follows:

Item	Amounts for the year	Amounts for last year
Salaries and allowances	273,371.83	197,323.34
Social insurance, housing fund and relevant pension cost	39,894.48	22,757.58
Year-end bonuses	1,000.00	5,233.33
<b>Total</b>	<b>314,266.31</b>	225,314.25

Scope of emoluments:

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

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

##### 4. Major management's emoluments

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

Item	Amounts for the year	Amounts for last year
Salaries and allowances	3,402,800.37	2,166,479.19
Social insurance, housing fund and relevant pension cost	357,241.80	245,219.99
Bonuses	7,400.00	58,658.33
<b>Total</b>	<b>3,767,442.17</b>	2,470,357.51



## Notes to the Financial Statements

1 January 2017 to 31 December 2017

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

### XI. SHARE-BASED PAYMENT

#### 1. Overall situations on share-based payment

Item	Situation
Total amount of each equity instrument granted by the Company in the year	3,200,000.00
Total amount of each equity instrument exercised by the Company in the year	
Total amount of each lapsed equity instrument of the Company in the year	
The scope of exercise price of outstanding share option by the Company at the end of year and the remaining terms under the contract	
The scope of exercise price of Company's other equity instruments at the end of year and the remaining terms under the contract	

Yao Chuanglong, a controlling shareholder, transferred the non-overseas listed shares held by him to the following shareholding platform mainly formed by the staffs of Charmacy Pharmaceutical Company and its subsidiaries, respectively: 1) 0.74% of non-overseas listed shares of 800,000 shares were transferred to Zhichuang Investment at the price of RMB7.20 per share, totally RMB5.76 million; 2) 0.65% of non-overseas listed shares of 700,000 shares were transferred to Youran Investment at the price of RMB7.20 per share, totally RMB5.04 million; 3) 1.57% of non-overseas listed shares of 1,700,000 shares were transferred to Meizhi Investment at the price of RMB7.20 per share, totally RMB12.24 million.

The above shares were transferred on 3 January 2017. The notarization, issued by notary office in Nanbin, Shantou City (汕頭市南濱公證處), confirmed that the share transfers were true and effective. On 6 January 2017, the issuer completed the registration of the transfer of the shares with the China Securities Depository and Clearing Co., Ltd., which took effect on 6 January 2017 in accordance with equity transfer agreement. 6 January 2017 was the date to grant shares and exercise date. According to the closing price of H shares of HK\$8.48 (equivalent to RMB7.509) at that date, the share-based payment confirmation fee was RMB988,928.00.



## Notes to the Financial Statements

1 January 2017 to 31 December 2017

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

### XII. 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
Guangdong Chuangmei Company	Charmacy Pharmaceutical Company	20,000.00	16 September 2015	15 September 2018	No	
Guangdong Chuangmei Company	Charmacy Pharmaceutical Company	21,000.00	14 June 2016	1 June 2017	Yes	
Guangdong Chuangmei Company	Charmacy Pharmaceutical Company	13,000.00	18 July 2016	18 July 2017	Yes	
Guangdong Chuangmei Company	Charmacy Pharmaceutical Company	3,600.00	28 November 2016	12 September 2017	Yes	
Guangdong Chuangmei Company	Charmacy Pharmaceutical Company	3,500.00	26 May 2017	30 April 2019	No	
Guangdong Chuangmei Company	Charmacy Pharmaceutical Company	20,000.00	1 June 2017	1 June 2019	No	
Guangdong Chuangmei Company	Charmacy Pharmaceutical Company	13,000.00	5 September 2017	5 September 2018	No	
Charmacy Pharmaceutical Company	Guangdong Chuangmei Company	12,000.00	29 July 2015	31 December 2020	No	
Charmacy Pharmaceutical Company	Guangdong Chuangmei Company	18,000.00	14 June 2016	1 June 2017	Yes	
Charmacy Pharmaceutical Company	Guangdong Chuangmei Company	9,000.00	18 July 2016	18 July 2017	Yes	
Charmacy Pharmaceutical Company	Guangdong Chuangmei Company	5,000.00	20 March 2017	19 March 2018	No	
Charmacy Pharmaceutical Company	Guangdong Chuangmei Company	2,000.00	26 May 2017	21 December 2017	Yes	
Charmacy Pharmaceutical Company	Guangdong Chuangmei Company	1,000.00	20 June 2017	20 June 2018	No	
Charmacy Pharmaceutical Company	Guangdong Chuangmei Company	18,000.00	1 June 2017	1 June 2019	No	
Charmacy Pharmaceutical Company	Guangdong Chuangmei Company	5,000.00	10 July 2017	31 December 2020	No	
Charmacy Pharmaceutical Company	Guangdong Chuangmei Company	9,000.00	5 September 2017	5 September 2018	No	
Charmacy Pharmaceutical Co., Ltd.	Guangdong Chuangmei Company	5,600.00	1 December 2017	7 August 2018	No	
Charmacy Pharmaceutical Company	Guangdong Chuangmei Company	3,500.00	15 December 2017	30 April 2019	No	
Guangdong Chuangmei Company	Charmacy Pharmaceutical Company, Guangdong Chuangmei Company	17,000.00	21 October 2015	21 October 2020	No	Chattel mortgage
Charmacy Pharmaceutical Company	Charmacy Pharmaceutical Company, Guangdong Chuangmei Company	39,000.00	21 October 2015	25 May 2020	No	Chattel mortgage
Charmacy Pharmaceutical Company	Charmacy Pharmaceutical Company, Guangdong Chuangmei Company	39,000.00	25 May 2015	25 May 2020	No	Building property mortgage

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



## Notes to the Financial Statements

1 January 2017 to 31 December 2017

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

### XIII. COMMITMENTS

Item	31 December 2017
Capital expenditure contracted but not recognized in the financial statements	
– Zhuhai warehouse rebuilding project	<b>3,959,384.26</b>
– Construction of information-based program (Phase II)	<b>1,049,674.00</b>
– Guangzhou Nansha warehouse rebuilding project	<b>3,751,699.23</b>
– Warehouse central air-conditioning installation project	<b>168,760.00</b>
<b>Total</b>	<b>8,929,517.49</b>

### XIV. EVENTS SUBSEQUENT TO BALANCE SHEET DATE

#### 1. Profit distribution

On 21 March 2018, the meeting of board of directors of Charmacy Pharmaceutical Company passed final dividend of RMB0.20 per share for the year ended 31 December 2017, and proposed it at general meeting for approving such distribution.

#### 2. Important foreign investment:

On 2 January 2018, Charmacy Pharmaceutical Company made a contribution of RMB20.80 million to establish Shenzhen Charmacy Pharmaceutical Limited located at No. 06, Zone C, Floor 3, Building A, Grassroots Pioneer Park, Longgang Avenue No. 4004, Longgang Street, Longgang District, Shenzhen City (深圳市龍崗區龍崗街道龍崗大道4004號草根創業園A座3樓C區06號). The Company business scopes: non-licensed medical equipment operation; sales of sterilization products (except for items involving licensed operation); wholesale and retail of cosmetics and hygiene products; wholesale of chemical products (except for hazardous chemicals); engaging in advertising businesses; conference and exhibition services; enterprise management and consultation services, commodity information consultation services; marketing and planning services; information technology consultation services. Western medicine wholesale; wholesale of Chinese patent medicine and Chinese herbal pieces; wholesale of Chinese herbal medicine; medical diagnosis, monitoring and wholesale of treatment equipment; licensed medical equipment operation; wholesale of healthy food; wholesale of non-alcoholic beverages and tea, wholesale of pre-packaged food; general freight.

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



## Notes to the Financial Statements

1 January 2017 to 31 December 2017

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

### XV. NOTES TO MAJOR ITEMS OF FINANCIAL STATEMENTS OF PARENT COMPANY

#### 1. Accounts receivable

Name of item	Balance at the end of the year	Balance at the beginning of the year
Accounts receivable	552,238,738.61	525,472,126.00
Less: provision for bad debt	4,804,067.29	8,095,623.47
<b>Net</b>	<b>547,434,671.32</b>	517,376,502.53

#### (1) Aging analysis of accounts receivable

Prior to accept new customers, the Group used internal credit assessment policy to assess potential customers' credit quality and set up credit limits. The Group differentiated customers and formulate different credit policies. The credit period is generally six months. After the goods were delivered for three days, accounts receivable and operating revenues were recognized and the calculation of the aging began.

Aging	Balance at the end of the year		
	Accounts receivable	Provision for bad debt	Percentage of provision (%)
Within 1 year	549,335,172.84	2,075,282.79	0.38
1-2 years	196,580.99	27,921.13	14.20
2-3 years	163,703.05	157,581.64	96.26
Over 3 years	2,543,281.73	2,543,281.73	100.00
<b>Total</b>	<b>552,238,738.61</b>	<b>4,804,067.29</b>	<b>-</b>

Aging	Balance at the beginning of the year		
	Accounts receivable	Provision for bad debt	Percentage of provision (%)
Within 1 year	484,682,143.73	3,353,600.72	0.69
1-2 years	38,223,473.30	2,175,513.78	5.69
2-3 years	2,453,570.86	2,453,570.86	100.00
Over 3 years	112,938.11	112,938.11	100.00
<b>Total</b>	<b>525,472,126.00</b>	<b>8,095,623.47</b>	<b>-</b>



## Notes to the Financial Statements

1 January 2017 to 31 December 2017

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

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

#### 1. Accounts receivable (Continued)

##### (2) Risk classification of accounts receivable

Category	Book balance		Balance at the end of the year		Book value
	Amounts	Percentage	Amounts	Provision for bad debt	
		(%)		Percentage of provision	
				(%)	
Accounts receivable that are individually significant and are provided for bad debts on individual basis	2,010,786.55	0.36	2,010,786.55	100.00	
Accounts receivable that are provided for bad debts by portfolio of credit risk characteristics	549,520,361.30	99.51	2,085,689.98	0.38	547,434,671.32
Aging portfolio	415,241,747.43	75.19	2,085,689.98	0.50	413,156,057.45
Portfolio of relatively low recovery risk	134,278,613.87	24.32	134,278,613.87		134,278,613.87
Accounts receivable that are not individually significant but are provided for bad debts on individual basis	707,590.76	0.13	707,590.76	100.00	
<b>Total</b>	<b>552,238,738.61</b>	<b>100.00</b>	<b>4,804,067.29</b>	<b>-</b>	<b>547,434,671.32</b>



## Notes to the Financial Statements

1 January 2017 to 31 December 2017

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

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

#### 1. Accounts receivable (Continued)

##### (2) Risk classification of accounts receivable (Continued)

Category	Book balance		Balance at the beginning of the year Provision for bad debt		Book value
	Amounts	Percentage (%)	Amounts	Percentage of provision (%)	
Accounts receivable that are individually significant and are provided for bad debts on individual basis	2,013,875.90	0.38	2,013,875.90	100.00	
Accounts receivable that are provided for bad debts by portfolio of credit risk characteristics	521,586,945.70	99.26	4,230,443.17	0.81	517,356,502.53
Aging portfolio	504,771,121.94	96.06	4,230,443.17	0.84	500,540,678.77
Portfolio of relatively low recovery risk	16,815,823.76	3.20			16,815,823.76
Accounts receivable that are not individually significant but are provided for bad debts on individual basis	1,871,304.40	0.36	1,851,304.40	98.93	20,000.00
<b>Total</b>	<b>525,472,126.00</b>	<b>100.00</b>	<b>8,095,623.47</b>	<b>-</b>	<b>517,376,502.53</b>





## Notes to the Financial Statements

1 January 2017 to 31 December 2017

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

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

#### 1. Accounts receivable (Continued)

##### (2) Risk classification of accounts receivable (Continued)

- 1) Accounts receivable that are individually significant and are provided for bad debts on individual basis at the end of the year

Company name	Accounts receivable	Balance at the end of the year		
		Provision for bad debt	Percentage of provision (%)	Reasons for provision
Fujian Minzhe Pharmaceutical Co., Ltd. (福建省閩浙醫藥有限公司)	2,010,786.55	2,010,786.55	100.00	Court's ruling in favour of the Company, outstanding amounts, weak repaying capability of the counterpart
<b>Total</b>	<b>2,010,786.55</b>	<b>2,010,786.55</b>	<b>100.00</b>	

- 2) In the portfolio, accounts receivable provided for bad debt by aging analysis method

Aging	Balance at the end of the year		
	Accounts receivable	Provision for bad debt	Percentage of provision (%)
Within 1 year	<b>415,056,558.96</b>	<b>2,075,282.79</b>	<b>0.50</b>
1-2 years	<b>177,536.70</b>	<b>8,876.84</b>	<b>5.00</b>
2-3 years	<b>7,651.77</b>	<b>1,530.35</b>	<b>20.00</b>
<b>Total</b>	<b>415,241,747.43</b>	<b>2,085,689.98</b>	<b>-</b>

- 3) In the portfolio, accounts receivable provided for bad debt by other methods

Aging	Balance at the end of the year		
	Accounts receivable	Provision for bad debt	Percentage of provision (%)
Portfolio of relatively low recovery risk	<b>134,278,613.87</b>		
<b>Total</b>	<b>134,278,613.87</b>		<b>-</b>



## Notes to the Financial Statements

1 January 2017 to 31 December 2017

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

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

#### 1. Accounts receivable (Continued)

##### (2) Risk classification of accounts receivable (Continued)

##### 4) Accounts receivable that are not individually significant but are provided for bad debts on individual basis

Company Name	Book balance	Amounts on bad debt	Percentage of provision (%)	Reasons for provision
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
The First People's Hospital of Jinping District in Shantou (汕頭市金平區第一人民醫院)	138,397.45	138,397.45	100.00	No cooperation relationship subsisting, lower expected recoverability
Huilai Ciyun Hospital of Traditional Chinese Medicine (惠來縣慈雲中醫醫院)	132,521.53	132,521.53	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
Chaozhou Central Hospital	21,096.40	21,096.40	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 Jinping District Chinese Medicine Hospital (汕頭市金平區中醫醫院)	7,168.22	7,168.22	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
Fujian Union Pharmaceutical Co., Ltd. (福建省協聯醫藥有限公司)	3,441.57	3,441.57	100.00	No cooperation relationship subsisting, lower expected recoverability



## Notes to the Financial Statements

1 January 2017 to 31 December 2017

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

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

#### 1. Accounts receivable (Continued)

##### (2) Risk classification of accounts receivable (Continued)

##### 4) Accounts receivable that are not individually significant but are provided for bad debts on individual basis (Continued)

Company Name	Book balance	Amounts on bad debt	Percentage of provision (%)	Reasons for provision
Shantou Haojiang District Zhupu Hospital (汕頭市濠江區珠浦醫院)	1,846.52	1,846.52	100.00	No cooperation relationship subsisting, lower expected recoverability
Zhejiang Tongtaitang Pharmaceutical Co., Ltd. (浙江同泰堂藥品有限公司)	1,759.50	1,759.50	100.00	No cooperation relationship subsisting, lower expected recoverability
Joint Shantou International Eye Center of Shantou University and the Chinese University of Hong Kong	1,395.33	1,395.33	100.00	No cooperation relationship subsisting, lower expected recoverability
Jiangxi Xinde Pharmaceutical Co., Ltd. (江西信德醫藥有限公司)	1,034.90	1,034.90	100.00	No cooperation relationship subsisting, lower expected recoverability
Others	2,091.32	2,091.32	100.00	No cooperation relationship subsisting, lower expected recoverability
<b>Total</b>	<b>707,590.76</b>	<b>707,590.76</b>		



## Notes to the Financial Statements

1 January 2017 to 31 December 2017

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

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

#### 1. Accounts receivable (Continued)

(3) *Aging analysis of amount overdue but unimpaired at balance sheet date:*

Aging	Balance at the end of the year	Balance at the beginning of the year
Within 1 year	15,655,945.42	102,540,811.39
1-2 years	168,659.87	7,269.18
2-3 years	6,121.42	
<b>Net</b>	<b>15,830,726.71</b>	102,548,080.57

(4) *Conditions about provision for bad debts drawn and reversed (or received) in the year*

The amount of provision for bad debts for the year was RMB421,855.13 and the recovered or reversed bad debts provision was RMB3,585,109.31.

The important amount of recovered or reversed bad debts provision for the year therein:

Company name	Amounts of recovered (or received) for the period	Recovery way	Reasons for reverse (or recovery) for the period
Tianjin Yuekang Pharmaceutical Wholesale Co., Ltd. (天津市躍康醫藥批發有限公司)	1,196,778.24		Recovered during the period
Shantou Weilan Medicine Limited (汕頭市衛倫醫藥有限公司)	677,819.29	Bank receipts	Recovered during the period
Puning Jing Han Pharmaceutical Co., Ltd. (普寧市靖翰藥業有限公司)	513,208.00	Bank receipts	Recovered during the period
Chaoan Jinshi Health Center (潮安縣金石衛生院)	156,734.40	Bank receipts	Recovered during the period
Shantou Jinping District Chinese Medicine Hospital (汕頭市金平區中醫醫院)	111,640.27	Bank receipts	Recovered during the period
Shantou Renai Hospital (汕頭仁愛醫院)	88,648.77	Bank receipts	Recovered during the period
Shantou Jinsha Chinese Medicine Hospital	76,225.95	Bank receipts	Recovered during the period
Guangdong Heng Xiang Medicament Co., Ltd. (廣東恒祥醫藥有限公司)	32,918.94	Bank receipts	Recovered during the period
Gansu Renweifeng Pharmaceutical Co., Ltd.	24,466.78	Bank receipts	Recovered during the period
Chaozhou Chaoan District People's Hospital (潮州市潮安區人民醫院)	19,466.00	Bank receipts	Recovered during the period
Chaozhou Chaoan District Anbu Town Kanghui Pharmacy (潮州市潮安區庵埠鎮康惠藥店)	15,940.17	Bank receipts	Recovered during the period



## Notes to the Financial Statements

1 January 2017 to 31 December 2017

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

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

#### 1. Accounts receivable (Continued)

(4) Conditions about provision for bad debts drawn and reversed (or received) in the year (Continued)

Company name	Amounts of recovered (or received) for the period	Recovery way	Reasons for reverse (or recovery) for the period
Jieyang Kanghua Pharmaceutical Co., Ltd. (揭陽市康華醫藥有限公司)	15,865.55	Bank receipts	Recovered during the period
Kongze Pharmaceutical Co., Ltd. (康澤藥業股份有限公司)	14,451.79	Bank receipts	Recovered during the period
Chaozhou Xiangqiao District Houdetang Pharmacy (潮州市湘橋區厚德堂藥店)	14,393.17	Bank receipts	Recovered during the period
The Sixth Store of Shantou Chenghai District Medicine Company (汕頭市澄海區藥材公司第六門市)	14,379.20	Bank receipts	Recovered during the period
Puning Tairong Pharmaceutical Co., Ltd. (普寧市泰嶸醫藥有限公司)	14,269.09	Bank receipts	Recovered during the period
Shantou Chaonan District Yangbenyuan Drugstore (汕頭市潮南區揚本園藥行)	13,195.43	Bank receipts	Recovered during the period
Zhongjiang Pharmaceutical Co., Ltd. (中健醫藥有限責任公司)	12,833.16	Bank receipts	Recovered during the period
Puning Liusha Xinwanhe Drugstore (普寧市流沙新萬和藥行)	11,149.92	Bank receipts	Recovered during the period
Chaozhou Boda Anorectal Hospital (潮州博大肛腸醫院)	10,995.30	Bank receipts	Recovered during the period
Others	549,729.89	Bank receipts	Recovered during the period
Total	3,585,109.31	-	-



## Notes to the Financial Statements

1 January 2017 to 31 December 2017

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

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

#### 1. Accounts receivable (Continued)

##### (5) Trade receivables written off during the year

Item	Amount written off
Trade receivables written-off	128,302.00

Among which the important trade receivable written-off:

Company Name	Nature of trade receivables	Amount written off	Whether amount occurred from related transaction
Puning Jing Han Pharmaceutical Co., Ltd.* (普寧市靖翰藥業有限公司)	Payment of Goods	128,302.00	No
<b>Total</b>		128,302.00	

##### (6) Top five debtors by balance of trade receivables 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 (%)	Provision for bad debt Balance as at the end of the year
Guangdong Charmacy Pharmaceutical Co., Ltd (廣東創美藥業有限公司)	134,278,613.87	Within 1 year	24.32	-
Kangze Pharmaceutical Chain Co., Ltd. (康澤藥業連鎖有限公司)	52,897,303.48	Within 1 year	9.58	264,486.52
Guangdong Shenhua Pharmaceutical Co., Ltd. (廣東深華藥業有限公司)	17,918,519.29	Within 1 year	3.24	89,592.60
Kangmei Pharmaceutical Co., Ltd. (康美藥業股份有限公司)	16,771,361.26	Within 1 year	3.04	83,856.81
Puning Li Feng Pharmaceutical Co., Ltd. (普寧市立豐藥業有限公司)	13,963,313.62	Within 1 year	2.53	69,816.57
<b>Total</b>	235,829,111.52		42.71	507,752.50



## Notes to the Financial Statements

1 January 2017 to 31 December 2017

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

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

#### 2. Other receivables

Item	Balance as at the end of the year	Balance as at the beginning of the year
Other receivables	8,895,142.07	1,937,754.09
Less: provision for bad debt		1,215.50
<b>Net amount</b>	<b>8,895,142.07</b>	1,936,538.59

(1) Aging analysis of other receivables

Aging	Balance as at the end of the year		
	Other receivables	Provision for bad debt	Percentage of provision (%)
Within 1 year	7,671,442.07		
1-2 years	10,000.00		
2-3 years			
Over 3 years	1,213,700.00		
<b>Total</b>	<b>8,895,142.07</b>		-

Aging	Balance as at the beginning of the year		
	Other receivables	Provision for bad debt	Percentage of provision (%)
Within 1 year	709,854.09	1,215.50	0.17
1-2 years	6,600.00		
2-3 years	5,600.00		
Over 3 years	1,215,700.00		
<b>Total</b>	<b>1,937,754.09</b>	<b>1,215.50</b>	-



## Notes to the Financial Statements

1 January 2017 to 31 December 2017

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

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

#### 2. Other receivables (Continued)

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

Classification	Balance as at the end of the year		Provision for bad debt		Book value
	Carrying amount Amount	Percentage (%)	Amount	Percentage of provision (%)	
Other trade receivables with significant individual amount and bad debt provision accrued on single item					
Other trade receivables with bad debt provision accrued on the combination of credit risk characteristics	8,895,142.07	100.00			8,895,142.07
Aging portfolio					
Portfolio of relatively low recovery risk	8,895,142.07	100.00			8,895,142.07
Other trade receivables with insignificant individual amount but bad debt provision accrued on single item					
<b>Total</b>	<b>8,895,142.07</b>	<b>100.00</b>	<b>-</b>		<b>8,895,142.07</b>

Classification	Balance as at the beginning of the year		Provision for bad debt		Book value
	Carrying amount Amount	Percentage (%)	Amount	Percentage of provision (%)	
Other trade receivables with significant individual amount and bad debt provision accrued on single item					
Other trade receivables with bad debt provision accrued on the combination of credit risk characteristics	1,937,754.09	100.00	1,215.50	0.06	1,936,538.59
Ageing portfolio	243,098.43	12.55	1,215.50	0.50	241,882.93
Portfolio of relatively low recovery risk	1,694,655.66	87.45			1,694,655.66
Other trade receivables with insignificant individual amount and bad debt provision accrued on single item					
<b>Total</b>	<b>1,937,754.09</b>	<b>100.00</b>	<b>1,215.50</b>	<b>-</b>	<b>1,936,538.59</b>





## Notes to the Financial Statements

1 January 2017 to 31 December 2017

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

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

#### 2. Other receivables (Continued)

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

- 1) No other receivables with significant individual amount and bad debt provision accrued on single item as at the end of the year.
- 2) No other receivables for which bad debt has been provided based on the aging analysis in the groups.
- 3) Other receivables for which bad debt has been provided based on other methods in the groups.

Group	Balance as at 31 December 2017		
	Other receivables	Bad debt provision	Percentage of provision (%)
Portfolio with relatively low recovery risk	8,895,142.07		
<b>Total</b>	<b>8,895,142.07</b>		

- (3) *Bad debt provisions made and reversed (or recovered) in the year.*  
The bad debt provision recovered or reversed in the year was RMB1,215.50.
- (4) The Group has no other receivables written off during the year.
- (5) *Other receivables classified by nature of amount*

Nature of amount	Carrying amount as at the end of the year	Carrying amount as at the beginning of the year
Current account	1,275,956.78	265,398.43
Margin	7,213,700.00	1,214,700.00
Reserve	405,485.29	457,655.66
<b>Total</b>	<b>8,895,142.07</b>	1,937,754.09



## Notes to the Financial Statements

1 January 2017 to 31 December 2017

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

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

#### 2. Other receivables (Continued)

(6) Top five debtors by balance of other receivables as at the end of the year:

Company name	Nature of amount	Balance as at the end of the year	Aging	Percentage of total other receivables (%)	Balance of provision for bad debt as at the end of the year
Zuhai Jinming Medicine Co., Ltd.	Margin	5,600,000.00	Within 1 year	62.96	
Zuhai Charmacy Hengxiang Pharmaceutical Limited	Current account	1,275,956.78	Within 1 year	14.34	
Fujian Nanan Lianhuafeng Pharmaceutical Factory (福建省南安市蓮花峰藥廠)	Margin	1,000,000.00	Over 3 years	11.24	
Zuhai ZhengBang Logistics Co., Ltd (珠海正邦倉儲物流有限公司)	Margin	300,000.00	Within 1 year	3.37	
Guangzhou Wang Lao Ji Pharmaceutical Co., Ltd.	Margin	100,000.00	Within 1 year	1.12	
<b>Total</b>		<b>8,275,956.78</b>		<b>93.03</b>	

#### 3. Long-term equity investments

(1) Classification of long-term equity investments

Items	Balance as at the end of the year			Balance as at the beginning of the year		
	Carrying amount	Provisions for impairment	Net book value	Carrying amount	Provisions for impairment	Net book value
Investment in the subsidiaries	186,000,000.00		186,000,000.00	150,000,000.00		150,000,000.00
<b>Total</b>	<b>186,000,000.00</b>		<b>186,000,000.00</b>	<b>150,000,000.00</b>		<b>150,000,000.00</b>



## Notes to the Financial Statements

1 January 2017 to 31 December 2017

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

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

#### 3. Long-term equity investments (Continued)

##### (2) Investment in the subsidiaries

Investees	Balance as at the beginning of the year	Addition in the year	Reduction in the year	Balance of provision for impairment as at the end of the year		
				Balance as at the end of the year	Provision for impairment for the year	Balance of provision for impairment as at the end of the year
Guangdong Chuangmei Company	150,000,000.00			150,000,000.00		
Zhuhai Charmacy Company		18,000,000.00		18,000,000.00		
Guangzhou Charmacy Company		18,000,000.00		18,000,000.00		
<b>Total</b>	150,000,000.00	36,000,000.00		186,000,000.00		

#### 4. Operating revenue and operating cost

Item	Amount for the year		Amount for last year	
	Revenue	Cost	Revenue	Cost
Principal business	1,624,802,827.69	1,552,171,623.84	1,629,594,246.36	1,546,126,875.74
Other business	19,316,886.49	3,522,168.43	17,067,848.65	3,152,992.44
<b>Total</b>	1,644,119,714.18	1,555,693,792.27	1,646,662,095.01	1,549,279,868.18

#### 5. Investment income

Item	Amount for the year	Amount for last year
Long-term equity investments accounted for using the cost method	33,000,000.00	
Investment income from disposal of long-term equity investments		
<b>Total</b>	33,000,000.00	

### XVI APPROVAL FOR FINANCIAL REPORT

The financial report was approved and published by the Board of the Company on 21 March 2018.



## Notes to the Financial Statements

1 January 2017 to 31 December 2017

(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 2017 are as follows:

Item	Amount for the year	Explanation
Gains and losses from disposal of non-current assets	-185,982.92	
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	4,231,497.83	
Funds utilisation fees collected from non-financial enterprises included in the profit or loss for the period		
Gains from the excess of the fair value of identifiable net assets of the investee attributable to the enterprise at acquisition over the investment costs for the subsidiaries, associates and joint ventures		
Gains and losses from the exchange of non-monetary assets		
Gains and losses from investments on trust or asset management		
Provision for impairment of assets as a result of force majeure factors, such as natural disasters		
Gains and losses from debt restructuring		
Costs for enterprise reorganization		
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 Group		
Investment income derived from the holding of financial assets held for trading, gains and losses arising from changes in fair value of financial liabilities held for trading and disposal of financial assets held for trading, financial liabilities held for trading and available-for-sale financial assets (excluding the effective hedging activities related to the normal operation of the Group)		
Reversal of impairment provision of receivables tested on individual basis	1,018,453.11	



## Notes to the Financial Statements

1 January 2017 to 31 December 2017

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

### SUPPLEMENTARY INFORMATION TO FINANCIAL STATEMENTS (Continued)

#### 1. Details of non-recurring profit or loss for the year (Continued)

- (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 2017 are as follows: (Continued)

Item	Amount for the year	Explanation
Gains and losses from external entrusted loan		
Gains and or 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	168,012.98	
Other items of profit and loss meeting the definition of non-recurring profit and loss	-988,928.00	
Sub-total	4,243,053.00	
Effect of income tax	1,060,763.26	
Effect of minority shareholders' equity (after tax)	-9,622.50	
<b>Total</b>	<b>3,191,912.24</b>	

- (2) *Explanation by the Company for “Other items of profit and loss meeting the definition of non-recurring profit and loss” and defining items of non-recurring profit and loss as items of recurrent profit and loss according to the nature and characteristics of its normal operation*

Item	Amount	Reason
Share-based payment	988,928.00	The option incentive scheme exercisable upon granting

*Note:* A share-based payment represents a transaction of an enterprise granting equity instruments for exchange of services rendered by employees or other parties or assuming liabilities determined based on equity instruments. The costs arising from share-based payment is actually a component of costs of employees' remuneration, and is related to normal operating activities of the enterprises directly. Generally, the option incentives of listed companies are plans for several years and the expenditures on option incentive are allocated in average during the waiting term, which are not incidental expenditures. In such case, the option incentive expenditures should not be reorganized as non-recurring profit or loss.

However, the share-based payment set by the Group for the current period is the option incentive scheme exercisable upon granting. The cost of share-based payment is a component of staff remuneration, but its purpose is not only for services rendered by staff in the future and also implemented for full consideration of historical factors of the Company as well as the future. It's difficult to distinguish the effects to prior or future periods. The cost of share-based payment is included in profit or loss for the current period on a one-off basis. This part of cost actually doesn't consist with the profit or loss for the current period completely, and the probability of the case incurring frequently in the future for the enterprise is remote. Accordingly, this type of option incentive scheme is recognized as non-recurring profit or loss.



## Notes to the Financial Statements

1 January 2017 to 31 December 2017

(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 Securities to the Public No.9 – Calculations and Disclosures for Return on Net Assets and Earnings Per Share (Revised in 2010)” (《公開發行證券的公司信息披露編報規則第9號–淨資產收益率和每股收益的計算及披露(2010年修訂)》) issued by the China Securities Regulatory Commission, the weighted average return on net assets, basic earnings per share and diluted earnings per share of the Group for 2017 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	9.85	0.4144	0.4144
Net profit attributable to the shareholders of parent company (excluding non-recurring profit and loss)	9.15	0.3849	0.3849

#### 3. The explanation for adjustment for the differences of opening balance

According to the “Consultation Conclusions on Acceptance of Mainland Accounting and Auditing Standards and Mainland Audit Firms for Mainland Incorporated Companies Listed in Hong Kong” (《有關接受在香港上市的內地註冊成立公司採用內地的會計及審計準則以及聘用內地會計師事務所的諮詢總結》) published by the Stock Exchange in December 2010, the Group resolved on the board meeting on 13 April 2017 and which passed on the annual general meeting of the Company convened on 10 June 2017, starting from the financial year, the Company decided to prepare its financial statements in accordance with the Accounting Standards for Enterprises (《企業會計準則》) issued by the Ministry of Finance of the PRC and relevant requirements by reference to the general situation of the relevant accounting estimates of the same type of companies in Mainland. According to the requirements of the Explanation No.2 to the Accounting Standards for Enterprises, the original accounting estimates for assets impairment was adjusted in order to consistent with the accounting estimates in financial statements of Mainland.

The effects of differences in the two statements on shareholders' equity of the Group on 31 December 2016 and its profits are as following:

Item	Net profit	Net asset
Statements before adjustment	59,348,988.46	452,466,836.74
Adjustment for differences		
1.Adjustment for bad debt provision	-2,114,421.84	-4,865,403.16
2.Adjustment for inventory impairment provision	-92,686.78	-970,179.17
3.Other adjustments	-683,610.06	-3,862,005.55
Statements after adjustments	56,458,269.78	442,769,248.86

Charmacy Pharmaceutical Co., Ltd.  
21 March 2018