創美·CH'MEI

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

INTERIM REPORT 2017

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FINANCIAL HIGHLIGHTS

Results	**Six months ended 30 June** **2017** **RMB'000** **(Unaudited)**	2016 RMB'000 (Unaudited)	Change (%)
Operating revenue	**1,903,942**	1,777,949	7.09
Profit before taxation	**56,688**	49,229	15.15
Net profit attributable to the owners of parent company	**42,009**	36,762	14.27
Basic and diluted earnings per share (expressed in RMB per share)	**0.39**	0.34	14.27

Financial Position	**As at 30 June 2017** **RMB'000** **(Unaudited)**	As at 31 December 2016 RMB'000 (Audited)	Change (%)
Total assets	**2,316,055**	2,230,794	3.82
Total liabilities	**1,841,335**	1,778,327	3.54
Total equity	**474,720**	452,467	4.92
Net assets per share (expressed in RMB per share)	**4.32**	4.19	3.19
Net debt to equity ratio	**0.62**	0.67	-6.74

CORPORATE INFORMATION

Board of Directors

Executive Directors
Yao Chuanglong (姚創龍)
Zheng Yuyan (鄭玉燕)
Fan Jianbo (范劍波) (resigned on 19 July 2017)
Lin Zhixiong (林志雄)

Non-executive Directors
You Zeyan (游澤燕)
Li Weisheng (李偉生)
(appointed on 10 June 2017)

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)
Zhang Hanzi (張寒孜)

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)*
(appointed as Chairman on 10 June 2017)
Yao Chuanglong (姚創龍)
(ceased to be Chairman on 10 June 2017)
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)
You Zeyan (游澤燕) (ceased to be a member on 24 August 2017)
Lin Zhixiong (林志雄)
(appointed as a member on 24 August 2017)

Strategic Development Committee (established on 10 June 2017)
Yao Chuanglong (姚創龍) *(Chairman)*
Zheng Yuyan (鄭玉燕)
Zhou Tao (周濤)

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

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

Auditor
SHINEWING Certified Public Accountants (LLP)

Legal Advisers
Li & Partners (as to Hong Kong law)
Xinge Law Firm (as to PRC law)

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

Principal Place of Business in Hong Kong
18/F, Tesbury Centre,
28 Queen's Road East,
Wanchai,
Hong Kong

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

H Share Registrar
Computershare Hong Kong Investor Services Limited

Company's Website
www.chmyy.com

Stock Code
2289.HK

MANAGEMENT DISCUSSION AND ANALYSIS

INDUSTRY OVERVIEW

The year 2017 is an important year for in-depth reform on pharmaceutical and healthcare system and propelling structural reform on the supply side. The year 2017 is in the midst of the adjustment period and a market volatility period for the policies of pharmaceutical industry. The industry faces new opportunities and challenges as national pharmaceutical policies are implemented frequently, in particular, as new medical reform policies are constantly propelling, a large amount of policies such as the two-invoice system, separation of treatment and medicine, zero medicine mark-up, control on medical insurance fees, consistency evaluation has been implemented.

The launch of "13th Five-Year Plan" in-depth reform on pharmaceutical and healthcare system in Guangdong, aiming at promoting the separation of treatment and medicine

On 12 May 2017, the launch of "13th Five-Year Plan" in-depth reform on pharmaceutical and healthcare system in Guangdong province. One of the major purposes is to conduct the reform of the pharmaceutical supply system by taking integrated measures to promote the separation of treatment and medicine, so as to cut off the chain of interests between hospitals and medical staff and the medicine and medical supplies. Medical institutions shall not limit the outflow of the prescription, so that patients could purchase medicines in retail stores with the prescription. Adjustment on the market landscape enables the retail stores to gradually become the key channel of selling medicines and providing pharmacy services to patients, thus improving the medicine policy system.

In June 2017, the Ministry of Commerce issued the "Statistical Analysis Report on the Operation of the Pharmaceutical Distribution Industry in 2016" (the "**Report**"), the Report pointed out that due to the implementation of "Healthy China" (「健康中國」) strategy and the propelling of "13th Five-Year Plan" in-depth reform on pharmaceutical and healthcare system, the development of the pharmaceutical distribution industry is standing on a new starting point, of which:

Sales growth of pharmaceutical wholesale enterprises slowed down; slight increase of concentration in the industry

In 2016, the revenue from principal business of the top 100 pharmaceutical wholesale enterprises had a year-on-year increase of 14.0%, while the growth rate decreased by 1.6 percentage points. In terms of market share, the concentration of pharmaceutical wholesale industry has further increased. In 2016, the revenue from principal business of the top 100 pharmaceutical wholesale enterprises accounted for 70.9% of the whole pharmaceutical wholesale market in the PRC for the same period, representing a year-on-year increase of 2.0 percentage points.

Consistent enhancement on operating efficiency and service functions among pharmaceutical distribution operations

The modern logistics technologies have greatly enhanced the operating efficiency of the pharmaceutical distribution enterprises, lowered the management cost and facilitated the development of supply chain. According to a non-comprehensive statistics, among the modern pharmaceutical logistics enterprises in the PRC, 74.5% are equipped with warehousing management system, 93.8% are equipped with automatic temperature and humidity monitoring system, 85.4% are equipped with order management system, 50.5% are equipped with Digital Picking System (DPS), 55.2% are equipped with Radio Frequency Identification (RFID), 55.7% are equipped Warehouse Control System (WCS), and 53.6% are equipped with Transportation Management System (TMS).

The increasing assistance on enterprise integration from the capital market

During the "13th Five-Year Plan" period, the integration of pharmaceutical distribution enterprises has been speeded up under the assistance from the capital market, continuously achieving dual-strong alliance. The annual reports of various listed companies showed that the merger and acquisition transactions among pharmaceutical distribution enterprises are relatively active.

It is anticipated in the Report that with the full implementation of various reform initiatives, there will be new opportunities and challenges for developing the pharmaceutical distribution industry in 2017: the accelerating adjustment and transformation on the development pattern and landscape in the industry, the increasing integration assistance to enterprises from the capital market, the rapid upgrades of pharmaceutical supply chain management services, the continuous implementation on the cross-boundary integration of pharmaceutical e-commerce, the continuous innovation on the mode of operations of pharmaceutical retailing, and the increasing enhancement on the functionality of industry infrastructures.

BUSINESS REVIEW

The principal business of Charmacy Pharmaceutical Co., Ltd. (the "**Company**" or "**our**" or "**we**") and its subsidiaries (collectively referred to as the "**Group**") is distribution of pharmaceutical products in the PRC, and substantially all of our operating revenue was contributed by distribution of pharmaceutical products. We also derive our services income by providing consultancy services on marketing strategies and related information services to our suppliers.

As of 30 June 2017, our distribution network covered 6,330 customers, among which 680 were distributors, 4,040 were retail pharmacy stores and 1,610 were hospitals, clinics, health centres and others. As of 30 June 2016, we had a distribution network covering 4,626 customers, among which 657 were distributors, 2,816 were retail pharmacy stores, and 1,153 were hospitals, clinics, health centres and others.

As of 30 June 2017, we had a total of 926 suppliers, among which 626 were pharmaceutical manufacturers and 300 were distributor suppliers. As of 30 June 2016, we had a total of 1,015 suppliers, among which 712 were pharmaceutical manufacturers and 303 were distributor suppliers.

For the six months ended 30 June 2017, we distributed 9,617 products. For the six months ended 30 June 2016, we distributed 5,734 products.

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

Categories of Products	Number of Products For the six months ended 30 June 2017	2016
Western medicines	**4,143**	2,766
Chinese patent medicines	**2,546**	2,242
Healthcare products	**167**	116
Others	**2,761**	610
Total	**9,617**	5,734

As of 30 June 2017, our B2B e-commerce platform, "Charmacy e-Medicine" (創美e藥) (http://www.cmyynet.com/) had 5,621 registered customers which are mainly retail pharmacy stores. The operating revenue contributed by e-commerce transactions through our B2B e-commerce platform was approximately RMB111.48 million for the six months ended 30 June 2017.

During the six months ended 30 June 2017, the Company was awarded the "China Internet Industry Honesty Demonstration Unit" (中國互聯網行業誠信示範單位) by the Digital Service Center of China E-Commerce Association (中國電子商務協會數字服務中心), the "China Logistics Industry Golden Ants Award in 2017" (2017年度中國物流行業金螞蟻獎) by the Organization Committee of the China (Guangzhou) International Logistics Equipment and Technology Exhibition (中國(廣州)國際物流裝備與技術展組委會), the "Model Enterprise of Trustworthiness in Guangdong Province for Six Consecutive Years from 2011 to 2016" (2011-2016連續六年廣東省誠信示範企業) by the Guangdong Provincial Enterprise Confederation (廣東省企業聯合會) and the Guangdong Provincial Association of Entrepreneurs (廣東省企業家協會), the "Special Contribution Enterprise of Pharmaceutical Industry in Guangdong Province in 2016" (2016年廣東省醫藥行業特殊貢獻企業) by the Guangdong Pharmaceutical Industry Association (廣東省醫藥行業協會), the "Annual Major Wholesaler and Retailer in 2016" (2016年度批零大戶) and the "Annual Major Tax Payer in 2016" (2016年度納稅大戶) by the Longhu District Committee, Shantou, CPC (中共汕頭市龍湖區委) and the People's Government of Longhu District, Shantou (汕頭市龍湖區人民政府).

Launch 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 three modules, namely, SAP EWM, SAP TM and SAP HR. It is our aims to: (i) construct and enhance the warehousing management system and transportation system, coupled with a supply-chain collaboration platform, to realize the visualized management of warehousing and distribution; (ii) establish a model of logistic integrated network, to breakthrough the independent operations model among logistics and distribution centers to achieve support among warehouses; deliver a standardized operations in terms of logistics and distribution to develop a replicable operational model; and (iii) develop a three-pillars HR management model (namely HR expert center, HR platform, and HR business partners), as well as the shared services and HRBP, to achieve the principle of "the sharing of resources, teams, capabilities, and information", providing an one-stop HR solution to all departments, so as to improve the work efficiency of teams and better serve the corporate strategies.

Penetrating into Zhuhai and Guangzhou regions to improve its own distribution network

During the reporting period, the Group has continued to promote the progress of its acquisitions, and has made additional capital contributions to two pharmaceutical distribution companies in Zhuhai and Guangzhou. It has further improved the distribution network of the Group in Southern China region, extended the coverage of service area of pharmaceutical delivery, increased the service efficiency, enhanced the Group's coverage in the end markets of Southern China region, and formed a more competitive pharmaceutical distribution network.

On 13 March 2017, the Company increased the registered capital in Zhuhai Hengxiang Pharmaceutical Limited* (珠海市恒祥醫藥有限公司) to 70% of its equity interests and became its controlling shareholder, at a consideration of RMB18 million. The completion of the industrial and commercial registration in respect of such increase took place on 30 March 2017, and Zhuhai Hengxiang Pharmaceutical Limited* changed its name to "Zhuhai Charmacy Hengxiang Pharmaceutical Limited*" (珠海創美恒祥醫藥有限公司) ("**ZCH**").

The increase of capital in ZCH is an important move to penetrate into Zhuhai region, which will fully cover the end markets in Zhuhai as well as the end markets of the nearby Jiangmen and Zhongshan. As of 30 June 2017, ZCH has increased the number of downstream customers by 920, and increased the number of products by 2,898, including 1,537 Chinese medicine decoction pieces.

On 19 June 2017, the Company entered into a capital contribution agreement with the owner of Guangzhou Wangkang Pharmaceutical Technology Limited* (廣州王康醫藥科技有限公司) to increase the Company's registered capital in Guangzhou Wangkang Pharmaceutical Technological Limited to 90% of its equity interest and became its controlling shareholder, at a consideration of RMB18 million (the "**Investment**"). The Investment has completed the registration of alteration with the Administration of Industry and Commerce (廣州市天河區工商行政管理局) on 21 June 2017, and had changed its name to "Guangzhou Charmacy Pharmaceutical Limited*" (廣州創美藥業有限公司) ("**Guangzhou Charmacy**").

* *English name for identification purpose only*

PROSPECTS

Proposal of the initial public offering and listing of the ordinary shares denominated in Renminbi (the "A Shares"), promoting corporate image and the brand recognition

The Company has proposed the initial public offering and listing of A Shares (the "**A Shares Offering**") and the total amount of A Shares to be issued will not exceed 20,000,000 shares. The extraordinary general meeting and class meetings will be held on 5 September 2017 by the Company to discuss the matters in relation to the A Shares Offering.

A Shares Offering will further optimise the corporate governance structure of the Group, develop domestic and overseas financing platforms, and improve the liquidity of all the shares held by shareholders. Since the Group currently focuses mainly on its core business in the PRC, the A Shares Offering will enhance the Group's corporate image and brand awareness, further expand the Group's financing channels, increase the Group's working capital, and achieve stronger recognition from the capital market. A Shares Offering will be beneficial to the Group's business growth, financing flexibility and business development. It will also enable the Group to obtain more financial resources and improve the competitiveness of the Group, which would be beneficial to the long-term development of the Group.

Establish pharmaceutical classification and distribution center in Guangzhou; enhance the market competitiveness

On 12 July 2017, the Company as the purchaser entered into a sale and purchase agreement with a vendor, an independent third party to purchase the properties situated at No. 33, Liyu Street, Dongyong Town, Nansha District, Guangzhou, the PRC (the "**Properties**") at an aggregate cash consideration of RMB131 million (inclusive of tax). The Properties comprise of (i) the plants with a total gross floor area of 15,293.80 square metres; and (ii) the dormitory with a total gross floor area of 4,881.06 square metres, both of which are erected on the land with a site area of 31,141.57 square metres.

The Group intends to use the plants and the vacant land comprised in the Properties for the construction of the pharmaceutical classification and distribution center in Guangzhou, and the plants will be provided to Guangzhou Charmacy for use in the fourth quarter of 2017. The construction of the pharmaceutical classification and distribution center in Guangzhou will facilitate the Group's servicing capability in the Pearl River Delta region, and increase the supply capacity and meet the increasing market demand. Upon completion, the overall scale of the Group will be enlarged, the distribution capacity of the network will be enhanced, the advantage of the Group's services, the customer resources, branding and management resources will be further utilised, and the market competitiveness and sustainability of development of the Group will be strengthened.

Establish a wholly-owned subsidiary in Shenzhen; increase the coverage in the end markets of Southern China region

The Group will continue to intensively engage itself in the market of Southern China, expand the distribution network, and widen its coverage in the end market of Southern China region. The Group plans to set up a wholly-owned subsidiary in Shenzhen in the fourth quarter of 2017, which is expected to be put into operation in the first half of 2018, so as to provide an in-depth layout in Shenzhen region with the coverage to the surrounding cities, further enhancing its own distribution network, expanding the distribution coverage, increasing the operating efficiency, broadening its customer base, and increasing its operating revenue.

On 20 July 2017, the board (the "**Board**") of directors (the "**Directors**") of the Company resolved to propose a further change in the use of proceeds from the global offering, which was proposed at the extraordinary general meeting of the Company to be held on 5 September 2017 for consideration and approval. It was intended that part of the proceeds from the global offering would be used for the establishment of the wholly-owned subsidiary in Shenzhen. The establishment of the wholly-owned subsidiary in Shenzhen by the Company coincides with the needs of continual and rapid development of the Group. It will facilitate the enhancement of the overall distribution capability of the Group in Southern China region, to further enhance the Group's overall market position.

Continuously expand the product offerings and enhance the product mix

The Group will continuously introduce new products with high quality, including Chinese medicine decoction pieces, healthcare products, cosmetics and medical devices, as well as boost our product variety and enhance the product mix to meet the diversified purchasing demands from customers and enhance customers' reliance and loyalty. At the same time, the Group will phase out some of the products with lower gross profit margin and turnover rate, to increase the profitability of the Group so as to strengthen our competitive position.

Promote and integrate the construction of distribution network and enhance the distribution capability

The Group plans to upgrade the existing facilities and equipment of the logistics distribution centers of the Company and its subsidiaries, increase the operating efficiency, and reduce operating costs. We plan to purchase more refrigerated transportation vehicles to ensure a stable product quality in the distribution process, provide quality transportation services, increase distribution efficiency, and expand distribution coverage. We also plan to upgrade the information system in order to increase the operating efficiency. By adopting above measures, the overall distribution ability of the Group will be further enhanced.

FINANCIAL REVIEW

Operating revenue

The following table sets forth the breakdown of operating revenue by sales of goods and services income:

	Six months ended 30 June	
	2017	2016
	RMB'000	RMB'000
Sales of goods	**1,881,995**	1,765,243
Services income	**21,947**	12,706
Total operating revenue	**1,903,942**	1,777,949

The Group's operating revenue for the six months ended 30 June 2017 was RMB1,903.94 million, representing an increase of 7.09% over the corresponding period of last year.

The following table sets forth the breakdown of operating revenue from sales of goods by customer types:

	Six months ended 30 June	
	2017	2016
Customer Type	**RMB'000**	RMB'000
Distributors	**1,252,976**	1,248,742
Retail pharmacy stores	**577,992**	482,468
Hospitals, clinics, health centres and others	**51,026**	34,033
Total sales of goods	**1,881,995**	1,765,243

For the six months ended 30 June 2017, we generated substantially all of our operating revenue from sales of goods to (i) distributor customers, (ii) retail pharmacy stores, and (iii) hospitals, clinics, health centres and others. For the six months ended 30 June 2017, over 97% of total sales of goods was derived from distributor customers and retail pharmacy stores customers.

The increase in our operating revenue from sales of goods for the six months ended 30 June 2017 primarily attributable to the increase in sales to retail pharmacy stores customers.

The increase in our operating revenue from sales to retail pharmacy stores for the six months ended 30 June 2017 mainly (i) due to our continued marketing efforts on the expansion of retail pharmacy stores network to prepare for our expansion of B2B e-commerce business, which increased the sales of goods to retail pharmacy stores customers, (ii) an increase in the number of our retail pharmacy stores customers from 2,816 as of 30 June 2016 to 4,040 as of 30 June 2017.

Operating cost, gross profit and gross profit margin

For the six months ended 30 June 2017, the operating cost of the Group was RMB1,778.79 million, representing an increase of 5.98% as compared to RMB1,678.35 million for the six months ended 30 June 2016. The increase in business cost was in line with the increase in operating revenue from sales of goods.

For the six months ended 30 June 2017, the gross profit of the Group was RMB125.15 million, representing an increase of 25.66% as compared to RMB99.60 million for the six months ended 30 June 2016. For the six months ended 30 June 2017, the gross profit margin of the Group was 6.57%, increased by 0.97 percentage point as compared to 5.60% for the six months ended 30 June 2016. This was mainly due to (i) the increase in proportion of operating revenue from sales to retail pharmacy stores which generally have higher gross profit margin as retail pharmacy stores usually sell the pharmaceutical products directly to consumers; and (ii) the increase in trade discount from our suppliers primarily attributable to the increase in procurement of products which we acted as primary distributor from 4,147 products for the six months ended 30 June 2016 to 5,542 products for the six months ended 30 June 2017.

Selling expenses

For the six months ended 30 June 2017, the selling expenses were RMB32.17 million, representing an increase of 46.69% as compared to RMB21.93 million for the six months ended 30 June 2016. It was mainly due to (i) the Group's greater efforts on the development of end-markets, as a result, sales staff increased from 191 as of 30 June 2016 to 269 as of 30 June 2017, the logistics classification and distribution staff increased from 265 as of 30 June 2016 to 320 as of 30 June 2017, leading to the increase of the salaries of employees, fringe benefits for employees, and the five social insurance and one housing fund amounts; and (ii) an increase in transportation expenses as a result of the operations of refrigerated transportation vehicles.

Management expenses

For the six months ended 30 June 2017, the management expenses maintained stable at RMB23.53 million, representing a slight decrease of 0.09% as compared to RMB23.55 million for the six months ended 30 June 2016.

Finance costs

For the six months ended 30 June 2017, the finance costs were RMB12.19 million, representing an increase of 141.88% as compared to RMB5.04 million for the six months ended 30 June 2016. It was mainly due to (i) the balance of short-term borrowings amounting to RMB392.20 million as of 30 June 2017, representing an increase of RMB123.05 million as compared to the balance of short-term borrowings of RMB269.15 million as of 30 June 2016; (ii) the significant increase in discount rate of bank promissory notes for the six months ended 30 June 2017 as compared to that for the six months ended 30 June 2016.

Non-operating revenue

For the six months ended 30 June 2017, non-operating revenue was RMB2.24 million, representing an increase of 165.12% as compared to non-operating revenue of RMB0.85 million for the six months ended 30 June 2016, mainly due to the receipt of the governmental rewarding fund of RMB2 million.

Income tax expense

For the six months ended 30 June 2017, the income tax expense of the Group was RMB14.64 million, increased by 17.40% as compared with that of RMB12.47 million for the six months ended 30 June 2016. For the six months ended 30 June 2017, the effective tax rate (income tax divided by profit before taxation) was 25.82%, representing an increase of 0.50 percentage point as compared to 25.32% for the six months ended 30 June 2016.

Net profit

The net profit of the Group was RMB42.05 million for the six months ended 30 June 2017 compared to RMB36.76 million for the six months ended 30 June 2016, representing an increase of 14.39%. Among which, the net profit attributable to the owners of parent company was RMB42.01 million compared to RMB36.76 million for the six months ended 30 June 2016, representing an increase of 14.27%. The increase in net profit attributable to the owners of parent company was mainly due to (i) the increase in operating revenue as compared to the corresponding period in 2016; (ii) the increase in the overall gross profit margin; (iii) the increased amount in gross profit exceeded the overall increased amount in expenses.

Liquidity and financial resources

As at 30 June 2017, the cash and bank deposits of the Group were RMB96.89 million, while the cash and bank deposits were RMB119.57 million as at 31 December 2016.

As at 30 June 2017 and 31 December 2016, the Group recorded net current assets of RMB241.69 million and RMB228.31 million respectively. As at 30 June 2017, the current ratio (based on the calculation of current assets divided by current liabilities) of the Group was 1.13 (31 December 2016: 1.13). The bank borrowings of the Group as at 30 June 2017 were RMB392.20 million (31 December 2016: RMB421.36 million).

All of the bank borrowings were provided by the banks within the PRC. All bank borrowings bore interest at fixed rates. The carrying amount of the bank borrowings is denominated in RMB, which is approximate to its fair value. The Group did not use any financial instruments for hedging purposes or any existing borrowings and/or other hedging instruments for hedging net foreign currency investments.

Trade receivables and bill receivables

As of 30 June 2017, the trade receivables and bill receivables amounted to RMB963.42 million, representing a decrease of RMB100.73 million as compared to the amount of trade receivables and bill receivables as of 31 December 2016, mainly due to our enhancement of management of receivables, and our greater effort on the collection of receivables.

Trade payables and bill payables

As of 30 June 2017, the trade payables and bill payables amounted to RMB1,368.64 million, representing an increase of RMB55.23 million compared to the amount of trade payables and bill payables as of 31 December 2016, mainly due to an increase in the procurement volume as a result of an increase in the sales volume.

Financial ratios

	Six months ended 30 June	
	2017	2016
Net profit margin	**2.21%**	2.07%

	As at 30 June 2017	As at 31 December 2016
Gearing ratio	**0.83**	0.93
Net debt to equity ratio	**0.62**	0.67

The net profit margin of the Group (based on the calculation of net profit attributable to the owners of parent company divided by operating revenue) for the six months ended 30 June 2017 was 2.21% as compared to 2.07% of the corresponding period of last year.

The gearing ratio of the Group as at 30 June 2017 (based on the calculation of bank borrowings divided by total equity) was approximately 0.83 as compared to 0.93 as at 31 December 2016.

The net debt to equity ratio of the Group as at 30 June 2017 (based on the calculation of total debts net of cash and cash equivalents divided by total equity) was approximately 0.62 as compared to 0.67 as at 31 December 2016.

Treasury policies

The Group adopts a prudent financial management strategy in implanting the 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 the credit risks. In order to control the liquidity risks, the Board would closely monitor the liquidity position of the Group to ensure its assets, liabilities and other flow structure committed by the Group would satisfy the funding needs from time to time.

Foreign exchange risks

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 rate risks. During the six months ended 30 June 2017, the Group did not use any financial instruments for hedging the foreign currency risk.

Interest rate risks

For the six months ended 30 June 2017, the Group had no bank borrowings which bears interest at floating rate.

Capital structure

The shares of the Company were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") on 14 December 2015. There has been no change in the capital structure of the Company since that date. The capital structure of the Company comprises bank borrowings, secured bank deposits, bank balances and cash as well as equity attributable to the owners of the Company (including issued share capital and reserves).

Capital commitments

As at 30 June 2017, the Group has the capital commitments of RMB6.71 million (2016: nil) on the informatization (Phase II) construction projects and the purchase of logistics equipment.

Employees' information

As at 30 June 2017, the Group had 804 employees (as at 30 June 2016: 604), including the executive Directors. Total staff costs (including emoluments of Directors and supervisors) were approximately RMB24.73 million, as compared to approximately RMB18.71 million for the six months ended 30 June 2016. The emoluments were determined with reference to market practice and the performance, qualification and experience of individual employees.

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

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

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

Material investments, acquisitions and disposals being held

Save as its investments in the subsidiaries, during the six months ended 30 June 2017, the Group did not hold any material investments, acquisitions and disposals in the equity interests of any other companies.

Future plans for material investments and capital assets

Save as disclosed in the prospectus, the Group did not have other plans for material investments and capital assets.

Material acquisitions and disposals related to the subsidiaries and affiliated companies

During the six months ended 30 June 2017, the Group did not have any material acquisitions and disposals related to the subsidiaries and affiliated companies.

Pledge of assets

As at 30 June 2017, the Group was granted a credit limit of RMB859.17 million by various banks while the Group's utilized banking facilities amounted to RMB775.38 million, which were secured by:

(i) property, plant and equipment held by the Group with a carrying amount of RMB82.96 million as at 30 June 2017 (31 December 2016: RMB86.33 million).

(ii) land use rights held by the Group with a carrying amount of RMB94.92 million as at 30 June 2017 (31 December 2016: RMB96.35 million).

(iii) inventories with a carrying amount of RMB250.00 million as at 30 June 2017 (31 December 2016: RMB250.00 million).

Contingent liabilities

The Group had no material contingent liabilities as at 30 June 2017 (2016: nil).

EVENTS AFTER THE REPORTING PERIOD

On 12 July 2017, the Company as the purchaser entered into a sale and purchase agreement with a vendor, an independent third party, to purchase the Properties situated at No. 33, Liyu Street, Dongyong Town, Nansha District, Guangzhou City, the PRC, properties including the properties thereunder and the right of land use of the land occupied, at an aggregate cash consideration of RMB131 million (tax inclusive).

The Properties comprise of (i) the plants with a total gross floor area of 15,293.80 square metres; and (ii) the dormitory with a total gross floor area of 4,881.06 square metres, both of which are erected on the land with a site area of 31,141.57 square metres. The Group intends to use the plants and the vacant land comprised in the Properties for the construction of the Group's pharmaceutical classification and distribution center in Guangzhou.

The Company has proposed the A Shares Offering. Please refer to the announcement of the Board of the Company dated 20 July 2017, and the circular of the Company dated 15 August 2017 for details of the A Shares Offering.

USE OF PROCEEDS

The Company's ordinary shares were listed on the Stock Exchange on 14 December 2015. The net proceeds from the Global Offering after deduction of underwriting commissions, fees and listing related expenses payables amounted to approximately RMB158.91 million.

For the purpose of enhancing the utilization efficiency of the proceeds from the global offering, the reallocation of the use of proceeds has been resolved by the Board at the Board meeting held on 21 March 2017 and approved at the annual general meeting of the Company held on 10 June 2017, and the details of the actual usage of proceeds after reallocation as of 30 June 2017 are as follows:

Planned Use	Estimated usage amount (RMB million)	Estimated usage amount after changing the use of proceeds on 10 June 2017 (RMB million)	Actual usage amount as of 30 June 2017 (RMB million)
To strengthen, expand and integrate our existing distribution network and capabilities	55.62	45.62	24.55
To enhance and promote our B2B e-commerce platform	11.89	11.89	9.87
To repay bank borrowings	47.67	47.67	47.67
To acquire pharmaceutical distribution business in Southern China region	23.84	37.84	36.00
For working capital and general corporate purposes	15.89	15.89	15.89
Total	**158.91**	**158.91**	**133.98**

The proposed further change in use of proceeds was resolved by the Board at the Board meeting held on 20 July 2017, and will be proposed at the extraordinary general meeting of the Company to be held on 5 September 2017. Please refer to the circular of the Company dated 15 August 2017 for details of the proposed further change in use of proceeds.

INTERIM DIVIDEND

The Board proposed the payment of an interim dividend of RMB0.10 (tax inclusive) per share for the six months ended 30 June 2017 subject to approval by the shareholders of the Company at the extraordinary general meeting of the Company to be convened and, if approved, will be payable on or before 15 December 2017. Dividends on domestic shares will be paid in RMB and dividends on H shares will be paid in Hong Kong dollars. The Company will publish the information regarding the date of the extraordinary general meeting, the record date for the payment of H share dividends and the dates of closure of H share register of members of the Company in due course.

OTHER INFORMATION

CORPORATE GOVERNANCE

The Company confirms that, other than the deviation from code provision A.2.1, the Company has complied with all the code provisions (the "**Code Provisions**") set out in the Corporate Governance Code contained in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**") throughout the six months ended 30 June 2017.

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

CHANGES IN INFORMATION OF DIRECTORS

As of the date of this interim report, the changes in information of Directors are as follow:

1. Mr. Li Weisheng was appointed as the non-executive Directors of the Company on 10 June 2017.

2. Mr. Yao Chuanglong ceased to chair the nomination committee of the Company on 10 June 2017.

3. Mr. Zhou Tao was appointed as the chairman of the nomination committee of the Company on 10 June 2017.

4. The Strategic Development Committee was established on 10 June 2017, Mr. Yao Chuanglong was appointed as the Chairman of the Committee, and Ms. Zheng Yuyan and Mr. Zhou Tao were appointed as members of the Committee.

5. Mr. Fan Jianbo resigned as the executive Directors of the Company on 19 July 2017.

6. Ms. You Zeyan ceased to be the member of the remuneration committee of the Company on 24 August 2017.

7. Mr. Lin Zhixiong was appointed as the member of the remuneration committee of the Company on 24 August 2017.

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 for securities transactions for the Directors and supervisors of the Company (the "**Supervisors**"). Having made enquiries with all Directors and Supervisors, the Company confirmed that all Directors and Supervisors have complied with the required standards of dealing as set out in the Model Code during the six months ended 30 June 2017.

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

For the six months ended 30 June 2017, the Company did not redeem any of its listed securities, and neither did the Company nor any of its subsidiaries purchase or sell any of the listed securities of the Company.

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

As at 30 June 2017, the interests and short positions of the Directors, Supervisors and chief executives of the Company in the shares, underlying shares and debentures of the Company, and its associated corporations (as defined in Part XV of the Securities and Futures Ordinance ("**SFO**")), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code were as follows:

The Company

Name of Directors	Capacity/ Nature of interest	Class and number of shares(5)	Approximate shareholding percentage in the relevant class of shares(1)	Approximate percentage of the total issued share capital of the Company(2)
Mr. Yao Chuanglong	Beneficial owner	59,000,000 Domestic shares (L)	73.75%	54.63%
Ms. You Zeyan	Interest of spouse	59,000,000 Domestic shares (L)(3)	73.75%	54.63%
Mr. Lin Zhixiong	Interest of a controlled corporation	3,200,000 Domestic shares (L)(4)	4.00%	2.96%

Notes:

(1) The calculation is based on the total number of 80,000,000 domestic shares in issue of the Company as at 30 June 2017.

(2) The calculation is based on the total number of 108,000,000 shares in issue of the Company as at 30 June 2017.

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

(4) 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**"). Meizhi Investment is a limited partnership established in the PRC and is held by Mr. Lin Zhixiong as to 15.41%. 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.

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

Save as disclosed above, as at 30 June 2017, none of the Directors, Supervisors and the chief executives of the Company had any other interests or short positions in any shares, underlying shares or debentures of the Company, or its associated corporations (within the meaning of Part XV of the SFO) which were 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 they were taken or deemed to have under such provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Model Code.

DIRECTORS' AND SUPERVISORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in the section headed "Interests or Short Positions of the Directors, Supervisors and Chief Executives in the Shares, Underlying Shares, and Debentures", at no time during the six months ended 30 June 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 corporate body or exercised any such right.

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

As at 30 June 2017, so far as was known to the Directors, the following persons/entities (not being the Directors, Supervisors or chief executives of the Company) had, or deemed to have, interests or short positions in the shares or underlying shares of the Company, which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which recorded in the register required to be kept by the Company under Section 336 of the SFO:

Name of shareholder	Capacity/ Nature of interest	Class and number of shares[6]	Approximate shareholding percentage in the relevant class of shares[1]	Approximate percentage of the total issued share capital of the Company[2]
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 (廣藥白雲山香港有限公司)	Beneficial owner	7,906,500 H shares (L)[3]	28.24%	7.32%

Name of shareholder	Capacity/ Nature of interest	Class and number of shares[6]	Approximate shareholding percentage in the relevant class of shares[1]	Approximate percentage of the total issued share capital of the Company[2]
Guangzhou Baiyunshan Pharmaceutical Holdings Company Limited (廣州白雲山醫藥集團股份有限公司)	Interest of a controlled corporation	7,906,500 H shares (L)[3]	28.24%	7.32%
Guangzhou Pharmaceutical Holdings Limited (廣州醫藥集團有限公司)	Interest of a controlled corporation	7,906,500 H shares (L)[3]	28.24%	7.32%
Xiangxue Group (Hong Kong) Company Limited (香雪集團（香港）有限公司)	Beneficial owner	3,488,000 H shares (L)[4]	12.46%	3.23%
Xiangxue Pharmaceutical Co., Ltd. (廣州市香雪制藥股份有限公司)	Interest of a controlled corporation	3,488,000 H shares (L)[4]	12.46%	3.23%
Kingworld Medicines Health Management Limited	Beneficial owner	2,302,000 H shares (L)[5]	8.22%	2.13%
Kingworld Medicines Group Limited	Interest of a controlled corporation	2,302,000 H shares (L)[5]	8.22%	2.13%

Notes:

(1) The calculation is based on the total number of 80,000,000 domestic shares in issue and the total number of 28,000,000 H shares in issue of the Company as at 30 June 2017.

(2) The calculation is based on the total number of 108,000,000 shares in issue of the Company as at 30 June 2017.

(3) 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.

(4) These shares are held by Xiangxue Group (Hong Kong) Company Limited. As Xiangxue Group (Hong Kong) Company Limited is a wholly-owned subsidiary of Xiangxue Pharmaceutical Co., Ltd. Xiangxue Pharmaceutical Co., Ltd. is deemed to be interested in the shares of the Company held by Xiangxue Group (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) The letter "L" denotes a person's long position (as defined under Part XV of the SFO) in the shares of the Company.

Save as disclosed herein, the Directors are not aware of any person who will, as at 30 June 2017, have an interest or short position in shares or underlying shares of the Company which would fall to be disclosed to our Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or be directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of our Group.

Save as disclosed above, as at 30 June 2017, none of the Directors was aware that any other persons/entities (other than any Directors, Supervisors or chief executives of the Company) had an interest or short position in the shares or underlying shares of the Company, its members of the Group or associated corporations which fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or which had entered in the register required to be kept by the Company pursuant to section 336 of the SFO.

AUDIT COMMITTEE AND REVIEW ON THE INTERIM RESULTS

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

The interim report and the unaudited interim financial statements for the six months ended 30 June 2017 have been reviewed by the audit committee and the audit committee is of the view that the interim report for the six months ended 30 June 2017 is prepared in accordance with applicable accounting standards, rules and regulations and appropriate disclosures have been duly made.

DISCLOSURE OF INFORMATION

The interim report of the Company for the six months ended 30 June 2017 will also be published on the websites of both the Stock Exchange (http://www.hkexnews.hk) and the Company (http://www.chmyy.com) and shall be dispatched to the shareholders timely and properly.

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

Hong Kong, 24 August 2017

* For identification purpose only

CONSOLIDATED BALANCE SHEET

As at 30 June 2017

	Note V	30 June 2017 RMB (Unaudited)	31 December 2016 RMB (Audited)
Current assets			
Monetary funds	1	**491,820,125.81**	477,316,881.37
Bills receivables	2	**149,962,378.98**	199,205,471.36
Trade receivables	2	**813,453,074.63**	864,943,990.38
Prepayments	3	**132,113,616.53**	100,570,879.12
Other receivables	4	**11,849,216.27**	4,885,699.46
Inventories	5	**454,258,206.40**	356,939,289.82
Other current assets	6	**28,007,844.46**	2,777,436.24
Total current assets		**2,081,464,463.08**	2,006,639,647.75
Non-current assets			
Fixed assets	7	**115,614,590.56**	117,887,615.13
Construction in progress	8	**3,461,659.32**	–
Liquidation of fixed assets		**24,669.12**	–
Intangible assets	9	**107,706,634.93**	105,693,516.25
Goodwill	10	**4,593,625.31**	–
Long-term expenses to be amortised	11	**155,489.95**	–
Deferred income tax assets	12	**3,033,425.24**	573,283.57
Total non-current assets		**234,590,094.43**	224,154,414.95
Total assets		**2,316,054,557.51**	2,230,794,062.70

	Note V	30 June 2017 RMB (Unaudited)	31 December 2016 RMB (Audited)
Current liabilities			
Short-term borrowings	13	392,200,000.00	421,362,263.10
Bill payables	14	872,904,742.07	823,856,770.32
Trade payables	14	495,733,155.81	489,550,917.08
Receipts in advance	15	7,223,382.75	4,408,115.75
Salaries payable to employees	16	4,353,322.16	3,303,566.02
Tax payables	17	14,493,885.13	26,922,631.63
Interests payable		643,768.65	–
Dividend payables	18	5,600,000.00	–
Other payables	19	10,205,162.02	8,922,962.06
Other current liabilities	20	36,417,280.23	–
Total current liabilities		1,839,774,698.82	1,778,327,225.96
Non-current liabilities			
Deferred income	21	1,560,000.00	–
Total non-current liabilities		1,560,000.00	–
Total liabilities		1,841,334,698.82	1,778,327,225.96
Shareholders' equity			
Share capital	22	108,000,000.00	108,000,000.00
Capital reserve	23	282,204,487.50	299,981,515.02
Surplus reserve	24	5,669,742.65	10,872,532.49
Unallocated profits	25	71,048,178.67	33,612,789.23
Total equity attributable to owners of parent company		466,922,408.82	452,466,836.74
Minority interests		7,797,449.87	–
Total shareholders' equity		474,719,858.69	452,466,836.74
Total liabilities and shareholders' equity		2,316,054,557.51	2,230,794,062.70

CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2017

	Note V	Six months ended 30 June 2017 RMB (Unaudited)	2016 RMB (Unaudited)
Operating revenue	26	**1,903,941,547.86**	1,777,948,606.26
Less: operating cost	26	**1,778,787,008.02**	1,678,350,983.63
Taxes and surcharges	27	**2,031,413.15**	681,985.58
Selling expenses	28	**32,168,217.67**	21,929,614.40
Management expenses	29	**23,527,469.53**	23,549,305.81
Finance costs	30	**12,191,178.92**	5,040,246.53
Impairment loss of assets	31	**612,823.32**	–
Operating profit		**54,623,410.25**	48,396,470.31
Add: non-operating revenue	32	**2,240,617.59**	845,123.78
Less: non-operating expenses	33	**175,812.78**	12,288.17
Total profit		**56,688,215.06**	49,229,305.87
Less: income tax expense	34	**14,635,784.11**	12,466,605.65
Net profit		**42,052,430.95**	36,762,700.22
Net profit attributable to the owners of parent company		**42,008,928.37**	36,762,700.22
Profit or loss of minority shareholders		**43,502.58**	–
Total comprehensive income		**42,052,430.95**	36,762,700.22
Including:			
Total comprehensive income attributable to the owners of parent company		**42,008,928.37**	36,762,700.22
Total comprehensive income attributable to minority shareholders		**43,502.58**	–
Earnings per share			
Basic and diluted earnings per share	35	**0.39**	0.34

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

For the six months ended 30 June 2017

RMB

Items	For the six months ended 30 June 2017 Total equity attributable to owners of parent company Share capital	Capital reserve	Surplus reserve	Unallocated profits	Minority interests	Total shareholders' equity
Balance as at 1 January 2017 (Audited)	108,000,000.00	299,981,515.02	10,872,532.49	33,612,789.23	–	452,466,836.74
Movement for the period						
(I) Addition for the period	–	–	–	–	7,753,947.29	7,753,947.29
(II) Transfer of profit for the period	–	–	–	42,008,928.37	43,502.58	42,052,430.95
(III) Adjustments under PRC Accounting Standards	–	-18,765,955.52	-5,202,789.84	17,026,461.07	–	-6,942,284.29
(IV) Share-based payment	–	988,928.00	–	–	–	988,928.00
(V) Distribution of dividends	–	–	–	-21,600,000.00	–	-21,600,000.00
Balance as at 30 June 2017 (Unaudited)	108,000,000.00	282,204,487.50	5,669,742.65	71,048,178.67	7,797,449.87	474,719,858.69

Items	For the six months ended 30 June 2016 Total equity attributable to owners of parent company Share capital	Capital reserve	Surplus reserve	Unallocated profits	Minority interests	Total shareholders' equity
Balance as at 1 January 2016 (Audited)	108,000,000.00	299,981,515.02	4,937,633.64	1,338,031.88	–	414,257,180.54
Movement for the period						
(I) Charge for the period	–	–	3,676,270.03	–	–	3,676,270.03
(II) Transfer of profit for the period	–	–	–	33,086,430.23	–	33,086,430.23
Balance as at 30 June 2016 (Unaudited)	108,000,000.00	299,981,515.02	8,613,903.67	34,424,462.11	–	451,019,880.80

CONSOLIDATED STATEMENT OF CASH FLOW

For the six months ended 30 June 2017

	Note V	For the six months ended 30 June 2017 RMB (Unaudited)	2016 RMB (Unaudited)
I. Cash flow from operating activities			
Cash received from sales of goods and rendering of services		**1,832,287,926.15**	1,497,331,846.65
Cash received relating to other operating activities		**8,256,045.93**	845,123.78
Sub-total of cash inflow from operating activities		**1,840,543,972.08**	1,498,176,970.43
Cash paid for purchases of goods and receiving services		**1,782,072,654.68**	1,447,532,463.39
Cash paid to employees and on behalf of employees		**30,761,345.43**	22,129,001.14
Cash paid for various taxes		**19,902,407.02**	19,013,017.33
Cash paid relating to other operating activities		**29,001,598.92**	21,872,686.24
Sub-total of cash outflow from operating activities		**1,861,738,006.05**	1,510,547,168.10
Net cash flow from operating activities	36	**–21,194,033.97**	–12,370,197.67
II. Cash flow from investing activities			
Cash received from returns on investments		**–**	1,970,817.02
Net cash received from disposal of fixed assets, intangible assets and other long-term assets		**161,510.00**	109,910.80
Cash received relating to other investing activities		**2,186,078.94**	–
Sub-total of cash inflow from investing activities		**2,347,588.94**	2,080,727.82

	Note V	For the six months ended 30 June 2017 RMB (Unaudited)	2016 RMB (Unaudited)
Cash paid for acquisition and contraction of fixed assets, intangible assets and other long-term assets		**14,455,825.65**	11,901,861.86
Cash paid relating to other investing activities		**100,000.00**	–
Sub-total of cash outflow from investing activities		**14,555,825.65**	11,901,861.86
Net cash flow from investing activities		**−12,208,236.71**	−9,821,134.04
III. Cash flow from financing activities			
Cash received from borrowings		**262,500,000.00**	71,800,000.00
Cash received relating to other financing activities		**999,540,592.16**	977,845,099.87
Sub-total of cash inflow from financing activities		**1,262,040,592.16**	1,049,645,099.87
Cash paid for repayment of debts		**189,130,000.00**	93,300,000.00
Cash payment for distribution of dividends and profits and interest payment		**23,631,590.07**	8,752,585.15
Cash paid relating to other financing activities		**1,036,866,496.94**	950,061,125.92
Sub-total of cash outflow from financing activities		**1,249,628,087.01**	1,052,113,711.07
Net cash flow from financing activities		**12,412,505.15**	−2,468,611.20
IV. Effect of change in exchange rates on cash		**−1,687,637.11**	–
V. Net increase in cash and cash equivalents	36	**−22,677,402.64**	−24,659,942.91
Add: Opening balance of cash and cash equivalents for the period		**119,569,294.15**	155,629,124.44
VI. Closing balance of cash and cash equivalents for the period	36	**96,891,891.51**	130,969,181.53

BALANCE SHEET OF THE COMPANY

As at 30 June 2017

	Note XIII	30 June 2017 RMB (Unaudited)	31 December 2016 RMB (Audited)
Current assets			
Monetary funds		**227,382,012.93**	297,078,926.26
Bills receivables		**53,512,579.48**	84,486,683.49
Trade receivables	1	**487,047,583.57**	503,100,268.20
Prepayments		**102,546,423.76**	26,797,707.19
Other receivables	2	**6,280,171.64**	2,339,026.68
Inventories		**161,020,411.45**	128,709,277.60
Other current assets		**2,959,101.79**	2,777,436.24
Total current assets		**1,040,748,284.62**	1,045,289,325.66
Non-current assets			
Long-term investments in equity interest	3	**186,000,000.00**	150,000,000.00
Investment properties		**101,688,261.00**	–
Fixed assets		**47,817,942.24**	82,371,175.07
Construction in progress		**3,461,659.32**	–
Liquidation of fixed assets		**24,669.12**	–
Intangible assets		**37,139,352.67**	103,193,767.82
Deferred income tax assets		**1,858,355.61**	573,283.58
Total non-current assets		**377,990,239.96**	336,138,226.47
Total assets		**1,418,738,524.58**	1,381,427,552.13

	30 June 2017 RMB (Unaudited)	31 December 2016 RMB (Audited)
Current liabilities		
Short-term borrowings	229,400,000.00	273,041,271.11
Bill payables	398,890,513.40	436,553,247.14
Trade payables	183,384,627.96	188,375,005.48
Receipts in advance	14,749,178.93	1,005,478.41
Salaries payable to employees	2,043,612.09	1,856,549.06
Tax payables	8,053,879.11	16,269,466.93
Interests payable	448,404.90	–
Dividend payables	5,600,000.00	–
Other payables	173,178,316.30	54,056,624.73
Other current liabilities	7,418,825.04	–
Total current liabilities	1,023,167,357.73	971,157,642.86
Total liabilities	1,023,167,357.73	971,157,642.86
Shareholders' equity		
Share capital	108,000,000.00	108,000,000.00
Capital reserve	282,204,487.50	299,981,515.02
Surplus reserve	5,669,742.65	5,577,125.33
Unallocated profits	–303,063.30	–3,288,731.08
Total shareholders' equity	395,571,166.85	410,269,909.27
Total liabilities and shareholders' equity	1,418,738,524.58	1,381,427,552.13

INCOME STATEMENT OF THE COMPANY

For the six months ended 30 June 2017

	Note XIII	Six months ended 30 June 2017 RMB (Unaudited)	2016 RMB (Unaudited)
Operating revenue	4	**809,352,887.32**	800,706,987.08
Less: operating cost	4	**759,122,028.15**	749,042,194.33
Taxes and surcharges		**1,574,220.34**	–
Selling expenses		**14,294,644.89**	10,876,253.04
Management expenses		**14,085,113.30**	15,258,340.25
Finance costs		**8,186,785.46**	4,227,844.71
Impairment loss of assets		**–663,416.54**	–
Operating profit		**12,753,511.72**	21,302,354.75
Add: non-operating revenue		**2,044,637.18**	–
Less: non-operating expenses		**150,087.41**	12,287.85
Total profit		**14,648,061.49**	21,290,066.90
Less: income tax expense		**3,894,822.80**	5,376,189.17
Net profit		**10,753,238.69**	15,913,877.73
Total comprehensive income		**10,753,238.69**	15,913,877.73

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY OF THE COMPANY

For the six months ended 30 June 2017

RMB

	For the six months ended 30 June 2017				
Items	**Share capital**	**Capital reserve**	**Surplus reserve**	**Unallocated profits**	**Total shareholders' equity**
Balance as at 1 January 2017 (Audited)	**108,000,000.00**	**299,981,515.02**	**5,577,125.33**	**-3,288,731.08**	**410,269,909.27**
Movement for the period					
(I) Charge for the period	**-**	**-**	**-**	**-**	**-**
(II) Transfer of profit for the period	**-**	**-**	**-**	**10,753,238.69**	**10,753,238.69**
(III) Adjustments under PRC Accounting Standards	**-**	**-18,765,955.52**	**92,617.32**	**13,832,429.09**	**-4,840,909.11**
(IV) Share-based payment	**-**	**988,928.00**	**-**	**-**	**988,928.00**
(V) Distribution of dividends	**-**	**-**	**-**	**-21,600,000.00**	**-21,600,000.00**
Balance as at 30 June 2017 (Unaudited)	**108,000,000.00**	**282,204,487.50**	**5,669,742.65**	**-303,063.30**	**395,571,166.85**

	For the six months ended 30 June 2016				
Items	Share capital	Capital reserve	Surplus reserve	Unallocated profits	Total shareholders' equity
Balance as at 1 January 2016 (Audited)	108,000,000.00	299,981,515.02	2,258,829.40	–7,032,356.21	403,207,988.21
Movement for the period					
(I) Charge for the period	–	–	1,591,387.74	–	1,591,387.74
(II) Transfer of profit for the period	–	–	–	14,322,489.66	14,322,489.66
Balance as at 30 June 2016 (Unaudited)	108,000,000.00	299,981,515.02	3,850,217.14	7,290,133.45	419,121,865.61

STATEMENT OF CASH FLOW OF THE COMPANY

For the six months ended 30 June 2017

	For the six months ended 30 June	
	2017	2016
	RMB	RMB
	(Unaudited)	(Unaudited)
I. Cash flow from operating activities		
Cash received from sales of goods and rendering of services	**966,692,232.72**	671,737,272.90
Cash received relating to other operating activities	**186,766,587.74**	146,865,710.32
Sub-total of cash inflow from operating activities	**1,153,458,820.46**	818,602,983.22
Cash paid for purchases of goods and receiving services	**1,011,982,546.43**	721,541,688.19
Cash paid to employees and on behalf of employees	**16,603,571.95**	12,658,626.90
Cash paid for various taxes	**11,478,374.81**	12,423,409.40
Cash paid relating to other operating activities	**134,089,574.40**	71,194,158.44
Sub-total of cash outflow from operating activities	**1,174,154,067.59**	817,817,882.93
Net cash flow from operating activities	**–20,695,247.13**	785,100.29
II. Cash flow from investing activities		
Cash received from returns on investments	**–**	1,261,117.11
Net cash received from disposal of fixed assets, intangible assets and other long-term assets	**88,500.00**	109,910.80
Sub-total of cash inflow from investing activities	**88,500.00**	1,371,027.91
Cash paid for acquisition and construction of fixed assets, intangible assets and other long-term assets	**10,563,266.77**	11,485,760.60
Net cash paid for acquisition of subsidiaries and other business units	**36,000,000.00**	–
Sub-total of cash outflow from investing activities	**46,563,266.77**	11,485,760.60
Net cash flow from investing activities	**–46,474,766.77**	–10,114,732.69

	For the six months ended 30 June	
	2017	2016
	RMB	RMB
	(Unaudited)	(Unaudited)
III. Cash flow from financing activities		
Cash received from borrowings	**194,500,000.00**	71,800,000.00
Cash received relating to other financing activities	**491,784,498.50**	462,096,066.68
Sub-total of cash inflow from financing activities	**686,284,498.50**	533,896,066.68
Cash paid for repayment of debts	**174,130,000.00**	93,300,000.00
Cash paid for distribution of dividends and profits and interest payment	**21,576,239.24**	7,229,242.70
Cash paid relating to other financing activities	**469,880,107.38**	445,245,093.54
Sub-total of cash outflow from financing activities	**665,586,346.62**	545,774,336.24
Net cash flow from financing activities	**20,698,151.88**	–11,878,269.56
IV. Effect of change in exchange rates on cash	**–1,687,637.11**	–
V. Net increase in cash and cash equivalents	**–48,159,499.13**	–21,207,901.96
Add: Opening balance of cash and cash equivalents	**106,915,117.77**	138,332,184.76
VI. Closing balance of cash and cash equivalents	**58,755,618.64**	117,124,282.80

NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2017

I. GENERAL

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

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

The interim financial statements are presented in RMB, which is also the functional currency of the Company.

II. BASIS OF PREPARATION

The Company has previously adopted the International Financial Report Standards in preparing the financial statements for information disclosure at the Stock Exchange. According to the Consultation Conclusions on Acceptance of Mainland Accounting Standards and Mainland Audit Firms for Mainland Incorporated Companies Listed in Hong Kong published by the Stock Exchange in December 2010, the Company has resolved, starting from the current financial period, to prepare its financial statements for information disclosure at the Stock Exchange pursuant to the "Accounting Standard for Business Enterprises" issued by the Ministry of Finance of the PRC and the specific accounting standards, practice notes, interpretations and other relevant requirements issued and revised thereafter (collectively referred to as the "**Accounting Standard for Enterprises**").

These financial statements are presented on the basis of continuous operations.

The interim financial statements have been prepared on the historical cost basis, except for certain financial instruments which are measured at fair values.

III. CRITICAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

1. Declaration on compliance with Accounting Standards for Enterprises

The financial statements of the Company have been prepared in accordance with the requirements of Accounting Standards for Enterprises to give a true and full view of the combined corporate financial position of the Group and the Company as at 30 June 2017 and their combined corporate operating results and combined corporate cash flows for the six months ended 30 June 2017.

2. Accounting period

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

3. Functional currency

Renminbi is the currency of the primary economic environment in which the Group operates and has been adopted by the Group as its recording currency. The Group adopts RMB in the preparation of its financial statements. The amounts were denominated in RMB, unless otherwise stated.

4. Book-keeping basis and price-calculating principle

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

5. Business combinations

Business combinations are classified into business combinations under common control and business combinations not under common control.

(1) Business combinations under common control

A business combination under common control is a business combination in which all of the combining enterprises are ultimately controlled by the same party or parties both before and after the business combination, and that control is not transitory.

The assets and liabilities that the merging party obtains in a business combination shall be measured on the basis of their carrying amount in the merged party on the combination date. The difference between the carrying amount of the net assets which the merging party obtains and the carrying amount of the combination consideration which it pays shall adjust the capital premium of additional paid-in capital. If the capital premium is not sufficient for offsetting, the retained earnings shall be adjusted.

Costs that are directly attributable to the business combination are charged to profit or loss in the period in which they are incurred.

(2) *Business combinations not under common control*

A business combination not under common control is a business combination in which all of the combining enterprises are not ultimately controlled by the same party or parties both before and after the business combination.

The costs of combination are the fair value of the assets paid, liabilities incurred or assumed and equity instruments issued by the acquirer for obtaining control of the acquiree. The intermediary expenses incurred by the acquirer in respect of auditing, legal services, valuation and consultancy services, etc. and other associated administrative expenses attributable to the business combination are include in profit or loss for the period in which it incurred. The transaction costs of equity securities or debt securities issued by the acquirer as the consideration for combination are included in the initially recognized amount of equity securities or debt securities. If the business combination not under common control is achieved in stages through multiple transactions, the cost of combination is the sum of the consideration paid at the acquisition date and the fair value of previously held equity interest in the acquiree at the acquisition date. The previously held equity interest in the acquiree is remeasured at the fair value at the acquisition date and any difference between the fair value and the carrying amount are included in investment income for the period; where the previously held equity interest in the acquiree involves other comprehensive income, the relevant comprehensive income is transferred to investment income for the period at the acquisition date.

The acquiree's identifiable assets, liabilities and contingent liabilities, acquired by the acquirer in a business combination, that meet the recognition criteria shall be measured at fair value at the acquisition date. Where the cost of combination exceeds the acquirer's share of the fair value of the acquiree's identifiable net assets, the difference is treated as an asset and recognized as goodwill, which is measured at cost on initial recognition. 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 the acquiree's identifiable assets, liabilities and contingent liabilities and measurement of the cost of 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 acquirer recognizes the remaining difference immediately in profit or loss for the period.

6. Goodwill

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

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

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

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

7. Preparation methods of consolidated financial statements

The scope of combination of the consolidated financial statements is determined based on control. Control means that the Company or the Group has power over the investee, enjoys variable returns from its involvement with the investee's relevant activities; and has the ability to use its power to affect its returns.

The above relevant activities are activities that have a significant influence on returns of some arrangements, which shall be judged according to specific circumstances and generally include sales and purchases of goods or labor, management of financial assets, purchases and disposals of assets, research and development activities and financial activities.

The Company includes all the subsidiaries in the scope of combination of the consolidated financial statements. If an entity is an investment entity, the subsidiaries which provide related services to the entity (if any) shall be included in scope of combination to prepare the consolidated financial statements; the other subsidiaries of the entity shall not be combined, the entity's investment in other subsidiaries shall be measured at fair value and its changes shall be recognized in profit or loss for the period. If the parent company of such investment entity is not an investment entity, all entities under its control, including those controlled indirectly through the investment entity, shall be included in the scope of the consolidated financial statements.

For a subsidiary disposed of by the Group, the operating results and cash flows before the date of disposal (the date when control is lost) are properly included in consolidated income statement and consolidated statement of cash flow .

For a subsidiary acquired through business combination not under common control, the operating results and cash flows from the acquisition date (the date when control is obtained) are included in consolidated income statement and consolidated statement of cash flow, and no adjustment is made to the opening balances and comparative figures in the consolidated financial statements.

No matter when the business combination occurs in the reporting period, a subsidiary acquired through a business combination under common control are properly included in the scope of combination from the date which the subsidiary was ultimately under common control by the same party or parties. Their operating results and cash flows from the beginning of the earliest reporting period are properly included in the consolidated income statement and consolidated statement of cash flow .

The major accounting policies and accounting periods adopted by the subsidiaries are determined based on the accounting policies and accounting periods stipulated by the Company. All significant intra-group accounts and transactions between the Company and its subsidiaries or between subsidiaries are eliminated on combination. The portion of subsidiaries' equity that is not attributable to the parent company is treated as minority interests and presented as "minority interests" in the consolidated balance sheet within owners' equity. The portion of net profit or loss of subsidiaries for the period attributable to minority interests is presented as "minority interests" in the consolidated income statement under the "net profit" item. The portion of comprehensive income of subsidiaries equity for the period that is attributable to minority interest is presented as "total comprehensive income that is attributable to minority interest" in the consolidated income statement under the "total comprehensive income" item.

When the amount of loss of a subsidiary attributable to the minority shareholders exceeds the minority shareholders' portion of owners' equity of the subsidiary at the beginning of the period, the excess shall be offset against minority interests.

The long-term equity investment of the parent company held by a subsidiary of the Group shall be regarded as the treasury stock of the Group and as deduction item of owner's equity, and shall be stated as "less: treasury stock" under owner's equity item in the consolidated balance sheet. Long-term equity investments held by subsidiaries shall be offset with the share enjoyed in the owner's equity of the corresponding subsidiaries according to the parent company's offset method for subsidiaries' equity investment.

The unrealized profit or loss in internal transactions arising from disposal of assets by the parent company to subsidiaries are fully offset against "the net profits attributable to owners of the parent company". The unrealized profit or loss in internal transactions arising from disposal of assets by a subsidiary to the parent company are allocated to offset between "the net profits attributable to owners of the parent company" and "the profit or loss of the minority shareholders" according to the proportion allocated to the subsidiary by the parent company. The unrealized profit or loss in internal transactions arising from disposal of assets between subsidiaries are allocated to and offset between "the net profits attributable to owners of the parent company" and "the profit or loss of minority shareholders" according to the proportion allocated to the subsidiaries (the seller) by the parent company.

The transaction regarding to the acquisition of minority interests or disposal of part of equity investment in a subsidiary that does not result in the loss of control over the subsidiary is accounted as equity transactions. The carrying amounts attributable to owners of the parent company and minority interests are adjusted to reflect the changes in their relative interests in the subsidiary. The difference between the amount by which the minority interests are adjusted and the fair value of the consideration paid/received is used to adjust additional paid-in capital. If the additional paid-in capital is not sufficient for offsetting, the retained earnings shall be adjusted.

In connection with imposing control over the investees not under common control as a result of additional investment and other reasons, the equity of acquiree held before acquisition date shall be remeasured by the Group at the fair value of such equity on the acquisition date and the difference between fair value and carrying amount shall be included in investment income in the period; if the equity of the acquiree held before the date of acquisition involves other comprehensive income using equity method, other comprehensive income relating thereto should be transferred to the gains for the period on the acquisition date.

Where control over the investee is lost due to the disposal of partial equity investment or other reasons, the residual equity will be remeasured by the Group based on the fair value thereof on the date when 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 income for the period in which control is lost, with goodwill offset simultaneously. Other comprehensive incomes relating to the equity investment of the original subsidiaries shall be transferred to the investment income for the period when control is lost.

When the Group disposes of equity investment of 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 transferred to the profit or loss for the period when control is lost.

8. *Cash and cash equivalents*

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

9. *Foreign currency business*

A foreign currency transaction is, on initial recognition, translated at the spot exchange rate on the date of the transaction.

As at the balance sheet date, foreign currency monetary items are translated into RMB using the spot exchange rate at the balance sheet date. Exchange differences arising from the difference between the spot exchange rates prevailing at the balance sheet date and those on initial recognition or at the previous balance sheet date are included in the profit or loss for the period, except that ① exchange differences on foreign currency borrowings eligible for capitalisation are capitalised into the cost of such assets during the period of capitalisation; ② exchange differences relating to hedging instruments used for hedging against foreign currency risks are accounted for using hedge accounting; ③ exchange differences arising from changes in other carrying amounts (other than the amortised cost) of available-for-sale monetary items are recognized as other comprehensive income.

When the consolidated financial statements include foreign operation(s), if there is foreign currency monetary item constituting a net investment in a foreign operation, exchange differences arising from changes in exchange rates are recognized as "translation difference of foreign currency financial statements" in owners' equity, and are included in profit or loss for the period upon disposal of the foreign operation.

Foreign currency non-monetary items measured at historical cost are still measured by the functional currency amounts translated at the spot exchange rates prevailing at the dates of the transactions. Foreign currency non-monetary items measured at fair value are translated at the spot exchange rate prevailing at the date on which the fair value is determined. Difference between the re-translated functional currency amount and the original functional currency amount is treated as changes in fair value (including changes of exchange rate) and is recognized in profit or loss for the period or as other comprehensive income.

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. Financial assets and financial liabilities are measured at fair value on initial recognition. For financial assets and financial liabilities measured at fair value and the changes of which is included in profit or loss for the period, the relevant transaction costs are directly included in profit or loss; for other types of financial assets and financial liabilities, the relevant transaction costs are recognized in their initial recognition amount.

(1) Determination of fair value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Group categorises inputs for the fair value measurements into three levels. The Group would use the inputs by the order of Level 1, Level 2 and Level 3.

Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date. Active market is a market in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

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.

Observable inputs are inputs developed using market data, such inputs reflect the assumptions that market participants would use when pricing the related asset or liability.

Unobservable inputs for which market data are not available and that are developed using the best information available about the assumptions that market participants would use when pricing the related asset or liability.

(2) Effective interest method

Effective interest method is a method of calculating the amortised cost and the interest income or interest expense for each period of a financial asset or a financial liability (including a group of financial assets or financial liabilities) based on the effective interest rate of such financial asset or financial liability. Effective interest rate is the rate that is used for discounting future cash flows of a financial asset or financial liability over the expected life or, where appropriate, within a shorter period to the present carrying amount of such financial asset or financial liability.

When calculating the effective interest rate, the Group will estimate future cash flows considering all contractual terms of the financial asset or financial liability (without taking into account of future credit losses), and will also consider all fees paid or received between the parties to the contract of the financial asset and financial liability that are integral parts of the effective interest rate, transaction costs, and discounts or premiums, etc.

(3) *Classification, recognition and measurement of financial assets*

Financial assets are classified as financial assets at fair value through profit or loss on initial recognition, held-to-maturity investments, loans and receivables and available-for-sales financial assets. Regular way purchase or sale of financial assets are recognized and derecognized using trade date accounting.

1) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and those designated as at fair value through profit or loss.

A financial asset is classified as held for trading if it meets one of the following conditions: ① it is acquired for the purpose of selling in the short term; ② on initial recognition it is part of a portfolio of identifiable financial instruments that the Group manages together and for which there is objective evidence that the Group recently adopts a pattern of short-term profit-taking; ③ it is a derivative, except for a derivative that is a designated and effective hedging instrument, or 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.

A financial asset may be designated as at fair value through profit or loss upon initial recognition when one of the following conditions is satisfied: ① such designation may eliminate or significantly reduce a measurement or recognition inconsistency that would otherwise result from measuring such asset or recognizing the gains or losses on it on different bases; ② according to the Group's documented risk management or investment strategy, the financial asset forms part of a group of financial assets or a group of financial assets and financial liabilities which shall be managed, evaluated and reported to the key management personnel on a fair value basis.

Financial assets at fair value through profit or loss are subsequently measured at fair value. Gains or losses from changes in fair value and dividends and interest income related to such financial assets are recorded in profit or loss for the period.

2) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets that have fixed maturity date, fixed or determinable payments, and the Group has positive intention and ability to hold to maturity.

Held-to-maturity investments are subsequently measured at amortized cost using the effective interest method. Gains or losses arising from derecognition, impairment or amortisation are recorded in profit or loss for the period.

3) Loans and receivables

Loans and receivables are non-derivative financial assets that do not have a quoted price in an active market and have fixed or determinable payments. The Group's financial assets are classified as loans and receivables includes deposit reservation for balance, lendings to banks and other financial institutions, receivables, etc.

Loans and receivables are subsequently measured at amortized cost using the effective interest method. Gains or losses arising from derecognition, impairment or amortisation are recorded in profit or loss for the period.

4) Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets that are designated as available for sale on initial recognition, and the financial assets other than financial assets at fair value through profit or loss, loans and receivables and held-to-maturity investments.

Available-for-sale financial assets are subsequently measured at fair value. Gains or losses from changes in fair value are recognized as other comprehensive income, except for impairment losses and foreign exchange differences related to amortised cost arising from monetary financial assets which are recorded in profit or loss for the period, and transferred out when such financial assets are derecognized and recorded in profit or loss for the period.

Interests and cash dividends declared by the investee during the period of holding available-for-sale financial assets are included in investment income.

Investments in equity instruments that do not have quoted price in an active market and whose fair values cannot be reliably measured and derivative financial assets that are linked to such equity instruments and must be settled by delivery of such equity instruments are measured at cost.

(4) Impairment of financial assets

Other than the financial assets at fair value through profit and loss, the Group assesses the carrying amount of other financial assets at each balance sheet date. Impairment of a financial asset is provided when there is objective evidence that such financial asset is impaired. The objective evidence which indicates the impairment of a financial asset refers to events that actually occurred after the initial recognition of the financial asset and have an impact on the estimated future cash flows of such financial asset, and such impact can be reliably measured by enterprises.

The objective evidence of impairment of a financial asset includes the following observable matters:

① significant financial difficulties of the issuer or debtor;

② a breach of terms of contracts by the debtor, such as a default or delinquency in interest or principal payments;

③ concessions made to the debtor who is in financial difficulties by the Group owing to economic or legal considerations;

④ probable bankruptcy or other financial reorganisation of the debtor;

⑤ the financial asset can no longer continue to be traded in the active market due to serious financial difficulties of the issuer;

⑥ although it is unable to identify whether the cash flow of a certain asset in a group of financial assets is impaired, upon an overall assessment of a group of financial assets based on publicly available data, it is found that there is a measurable decrease in the estimated future cash flows from the group of financial assets since the initial recognition of those assets. Such observable data includes adverse changes in the payment status of debtor of the group of financial assets; economic conditions in the country or region of the debtor which may lead to a failure to pay the group of financial assets;

⑦ significant adverse changes in the technological, market, economic or legal environment in which the issuer of equity instruments operates, which result in the failure for the investor of equity instruments to recover its investment;

⑧ a significant or non-temporary decline in the fair value of the investments in equity instruments;

⑨ other objective evidence indicating there is an impairment of a financial asset.

1) Impairment of financial assets measured at amortised cost

When financial assets measured at amortised cost are impaired, the carrying amounts of the financial assets are reduced to the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial assets' original effective interest rate. The reduced amount is recognized as an impairment loss in profit or loss for the period. If, subsequent to the recognition of an impairment loss on financial assets, 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. However, the carrying amount of the financial assets after the reversal of impairment loss shall not exceed what the amortised cost of such financial assets would have been at the date of reversal had the impairment not been provided.

For a financial asset that is individually significant, the Group assesses the asset individually for impairment. For a financial asset that is not individually significant, the Group assesses the asset individually for impairment or includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. For a financial asset that has not suffered impairment loss after individual assessment (including financial assets individually significant and insignificant), the Group reassess the asset collectively within a group of financial assets with similar credit risk characteristics for impairment. The finance asset for which an impairment loss is individually recognized is not included in a group of financial assets with similar credit risk characteristics for collective assessment of impairment.

2) Impairment of available-for-sale financial assets

When an available-for-sale financial asset is impaired, the cumulative loss arising from the decline in fair value previously recorded directly in other comprehensive income is transferred out and recorded in profit or loss for the period. Cumulative loss having been transferred out is the balance of initial costs for acquiring the assets, after deducting recovered principal and amortised amount, current fair value and impairment loss previously recorded in profit or loss.

If, subsequent to the recognition of an impairment loss, 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. The amount of reversal of impairment loss on investments in available-for-sale equity instrument is recognized as other comprehensive income, while the amount of reversal of impairment loss on available-for-sale debt instruments is recorded in profit or loss for the period.

3) Impairment of financial assets measured at cost

If an impairment loss has been incurred on investments in equity instruments that do not have a quoted price in an active market and whose fair value cannot be reliably measured, or on a derivative financial asset that is linked to and must be settled by delivery of such equity instruments, the carrying amount of the financial asset is reduced to the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. The reduced amount is recognized as an impairment loss in profit or loss for the period. The impairment loss on such financial asset is not reversed once it is recognized.

(5) *Transfer of financial assets*

A financial asset is derecognized if one of the following conditions is satisfied: ① the contractual rights to the cash flows from the financial asset expire; ② the financial asset has been transferred and substantially all the risks and rewards of ownership of the financial asset is transferred to the transferee; ③ although the financial asset has been transferred, the Group neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset but has not retained control of 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 of 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. The extent of continuing involvement in the financial asset transferred refers to the extent to which a corporate is exposed to changes in the value of such financial asset.

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.

(6) *Classification, recognition and measurement of financial liabilities*

Financial instruments to be issued by the Group are recognized as financial liabilities or equity instruments on the basis of the substance of the contractual arrangements and definitions of the financial liability and the equity instrument. The financial liability refers to the liability that a corporate meets one of following criteria:

① contractual obligation to deliver cash or other financial assets to other parties;

② under potential adverse conditions, contractual obligation to exchange financial assets or financial liabilities with other parties;

③ a non-derivative contract that will or may be settled in the corporate's own equity instruments and such equity instruments will entitle the corporate to deliver a variable number of the entity's own equity instruments;

④ a derivative contract that will or may be settled in the corporate's own equity instruments, except for those through exchanging a fixed amount of cash or other financial assets with a fixed number of the own equity instruments.

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

1) Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss consist of financial liabilities held for trading and those designated as at fair value through profit or loss on initial recognition.

A financial liability is classified as held for trading if one of the following conditions is meet: (1) it is acquired principally for the purpose of repurchasing in the near term; (2) on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and for which there is objective evidence that the Group recently adopted a pattern of short-term profit-taking; (3) it is a derivative, except for a derivative that is a designated and effective hedging instrument, or a financial guarantee contract, or a derivative that is linked to the investments in equity instruments 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 instruments.

A financial liability may be designated as at fair value through profit or loss upon initial recognition when one of the following conditions is satisfied: (1) such designation may eliminate or significantly reduce a measurement or recognition inconsistency that would otherwise result from measuring such liability or recognising the gains or losses on it on different bases; (2) according to the Group's documented risk management or investment strategy, the financial liability forms part of a group of financial liabilities or a group of financial assets and financial liabilities which shall be managed, evaluated and reported to key management personnel on a fair value basis.

Financial liabilities at fair value through profit or loss are subsequently measured at fair value. Any gains or losses arising from changes in the fair value or any dividend or interest expenses related to the financial liabilities are recorded in profit or loss.

2) Other financial liabilities

For a derivative financial liability that is linked to the equity instruments 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 instruments, it is subsequently measured at cost. Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with gains or losses arising from derecognition or amortization recorded in profit or loss.

3) Financial guarantee contracts

Financial guarantee contracts represent those contracts in which the guarantor and the creditor agree that the guarantor will settle debts or assume liabilities in accordance with terms therein if the debtor fails to make payment. Financial guarantee contracts other than those designated as financial liabilities at fair value through profit or loss are initially recognized at fair value less directly attributable transaction fees, and are subsequently measured at the higher of the following: the amount determined in accordance with CAS No.13 — Contingencies; and the amount initially recognized less cumulative amortisation recognized in accordance with the principles set out in CAS No.14 — Revenue.

(7) *Derecognition of financial liabilities*

A financial liability (or part of it) is derecognized when the present obligation of such financial liability (or part of it) is discharged. An agreement is entered into between the Group (the debtor) 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.

When a financial liability is derecognized in full or in part, the difference between the carrying amount of the part of financial liability derecognized and the consideration paid (including any non-cash assets transferred or new financial liabilities assumed) is included in profit or loss for the period.

(8) *Derivatives and embedded derivatives*

Derivative financial instruments include, among others, forward foreign exchange contracts and interest rate swap contracts. Derivatives are initially measured at fair value at the date on which relevant contracts are entered into and are subsequently measured at fair value. Any gains or losses arising from changes in fair value of other derivatives are included in profit or loss for the period, except where the derivatives are designated as and highly effective hedging instruments, in which case the gains or losses of which is included in profit of loss for the required period, depends on the nature of the hedging relationship and the requirements for hedge accounting.

Embedded derivatives which belongs to hybrid instruments not designated as financial assets or financial liabilities at fair value through profit or loss for the period, shall be separated from hybrid instruments and accounted for as separate derivatives if the economic characteristics and risks of the embedded derivatives are not closely related to that of the host contract, and separate instruments with the same terms as embedded derivatives meet the definition of derivatives. If embedded derivatives cannot be measured separately either at acquisition or at a subsequent balance sheet date, the entire hybrid instrument shall be designated as financial assets or financial liabilities at fair value through profit or loss for the period.

(9) *Offsetting financial assets and financial liabilities*

Where the Group has a legal right that is currently enforceable to set off the recognized financial assets and financial liabilities, and intends either to settle on a net basis, or to realise the financial assets and settle the financial liabilities simultaneously, financial assets and financial liabilities shall be offset and the net amount is presented in the balance sheet. Otherwise, financial assets and financial liabilities are presented separately in the balance sheet and shall not be offset.

(10) Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. A financial instrument to be issued by the Group as an issuer shall be classified as an equity instrument when both of the following conditions are met:

① The financial instrument does not include contractual obligation to deliver cash or other financial assets to other parties or to exchange financial assets or financial liabilities with other parties under potential adverse conditions;

② If the financial instrument will or may be settled by the Group's own equity instruments, it is a non-derivative instrument that does not include contractual obligation for the Group to settle by delivering a variable number of its own equity instruments; or a derivative that will be settled by the Group only by exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

All types of distributions made by the Group to holders of equity instruments are deducted from owners' equity. The Group does not recognize any changes in the fair value of equity instruments.

11. Receivables

(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: Receivables that are not impaired after individual testing will be included in a portfolio of receivables with similar credit risk characteristics for impairment testing. Receivables for which an impairment loss is recognized after individual testing are no longer included in a portfolio of receivables with similar credit risk characteristics for impairment testing.

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

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

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

1) Basis for determining the portfolio:

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

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

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

Portfolio I: the portfolio of relatively low recovery risk: it represents the receivables for which no bad debt provision is necessary as determined by the management based on objective evidences and its historical experience and data, including reserves, deposits and margin 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 packaging materials, low-value consumables, goods in stock, goods sold, etc. The inventories are recognized at the actual cost when acquired.

Low-value consumables and packaging materials 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.

For merchandise inventory directly available for sale such as finished goods, goods in stock and materials available for sale, the net realisable value is determined as its estimated selling price less the estimated selling expenses and relevant taxes in the normal production and operation process. For material inventory needed to be processed, the net realisable value is determined as the estimated selling price for finished goods produced less estimated cost to completion, estimated selling expenses and relevant taxes in the normal production and operation process.

For inventories held for execution of sales contract or labour contract, the net realisable value is measured based on the contract value; if the quantities of the inventories held exceeds the quantities ordered under the sales contract, the net realisable value of the excess inventories is measured based on the general selling price. In case the factors causing the previous write-down of inventories have disappeared, the previous provision for inventory impairment shall be reversed, and the amount of reversal shall be included in the profit or loss for the period.

The Group maintains a perpetual inventory system.

13. Long-term equity investments

Long-term equity investment refers to the equity investment through which the Company or the Group can exercise control and significant influence over the investee, and the equity investment in joint ventures.

(1) Investment in subsidiaries

In the Company's financial statement, the long-term equity investment in subsidiaries is accounted for using the cost method.

Under the cost method, a long-term equity investment is measured at initial investment cost. Except for cash dividends or profits already declared but not yet paid that are included in the price or consideration actually paid upon the acquisition of such investment, investment income for the period is recognized in accordance with the entitlement to cash dividends or profits declared and paid by the investee.

For a long-term equity investment acquired through business combination under common control, the initial investment cost is the acquired share of the book value of the owners' equity of the party to be combined on the date of combination.

For a long-term equity investment acquired through business combination not under common control, the initial investment cost of the long-term equity investment is the cost of combination. For the business combination not under common control achieved by multiple transactions, the investment cost of the long-term equity investment is the aggregate of the carrying amount of the acquiree's equity investment held prior to the acquisition date and the cost of the additional investment at the acquisition date.

(2) Investment in joint ventures and associates

An associate is an investee over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of an entity but is not control or joint control with other parties over the establishment of such policies. The investment of the Group in associates and joint ventures is accounted for using the equity method.

Under the equity method, where the initial investment cost of a long-term equity investment exceeds the share of the fair value of the investee's identifiable net assets upon investment, no adjustment shall be made to the initial investment cost of the long-term equity investment. Where the initial investment cost is less than the share of the fair value of the investee's identifiable net assets upon investment, the difference is included in the profit or loss for the period, and the cost of the long-term equity investment is adjusted simultaneously.

Under the equity method, the Group recognizes its share of the net profit or loss of the investee for the year as investment gain or loss for the period. The Group recognizes its share of the investee's net profit or loss based on the fair value of each of identifiable assets of the investee upon the acquisition of such investment after making adjustments to investee's net profit in accordance with the Group's accounting policies and accounting period. The unrealized profit or loss from internal transactions entered into between the Group and its associates and joint ventures shall be eliminated for those attributable to the Group according to the shareholding, and investment gain or loss is recognized based on such basis. However, the unrealized loss from internal transactions entered into between the Group and its investee shall not be eliminated for those attributable to impairment loss of assets transferred. For other changes in owners' equity of investee other than net profit or loss, the carrying amount of the long-term equity investment is adjusted accordingly, and recognized as other comprehensive income.

The share of net losses of the investee shall be recognized to the extent that the carrying amount of the long-term equity investment and other long-term interests that in substance form part of the net investment in the investee is written-down to zero. Furthermore, if the Group bears obligations for additional losses of the investee, the expected liability is recognized in accordance with estimated obligation and credited to investment loss for the period. Where the investee is making profits in subsequent period, the Group shall resume recognizing its share of profits after setting off against the share of unrecognized losses.

(3) *Disposal of long-term equity investments*

On disposal of a long-term investment, the difference between the carrying amount of the investment and the proceeds actually received is included in profit or loss for the period. For a long-term equity investment accounted for using the equity method, the amount originally included in other comprehensive income shall be transferred to profit or loss for the period on a pro-rata basis upon disposal.

14. *Fixed assets*

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

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

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

No.	Category	Depreciable life (year)	Estimated residual value rate (%)	Annual depreciation rate (%)
1	Buildings and structures	30	5	3.17%
2	Storage equipment	10, 13, 15	5	9.5%, 7.31%, 6.33%
3	Electronic equipment	3	5	31.67%
4	Transportation vehicles	8	5	11.875%
5	Office equipment	3,5	5	31.67%, 19%

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

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

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

15. *Construction in progress*

Construction in progress shall be measured at its actual costs. The actual costs include various construction expenditures during the construction period, borrowing costs capitalised before it is ready for intended use and other relevant costs. Depreciation is not provided for construction in progress. Construction in progress is transferred to a fixed asset when it is ready for intended use.

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.

16. *Borrowing costs*

For borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset for capitalization, 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. 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.

Other borrowing costs shall be recognized as expenses in the period in which they are incurred.

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 amounts of accumulated asset expense over the amounts 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. During the capitalization period, exchange differences related to a specific-purpose borrowing denominated in foreign currency shall be capitalized in full. Exchange differences related to general-purpose borrowings denominated in foreign currency shall be included in profit or loss for the period.

17. Intangible assets

Intangible assets of the Group include land use right, patented technology, non-patented technology, software and right to use the software.

An intangible asset shall be initially measured at cost. An intangible asset with a finite useful life shall be amortized at its original value less estimated net residual value and any accumulated impairment loss provision evenly using the straight-line method over its expected useful life when it is ready for use. No amortization shall be made for intangible assets with infinite useful lives.

The Group reviews the useful lives of intangible assets with finite useful lives and the amortization method applied at the end of the period, and make adjustments when necessary.

18. Impairment of non-financial assets other than goodwill

The Group reviews long-term equity investments, fixed assets, constructions in progress and intangible assets with finite useful lives at each balance sheet date to determine whether there exists any indication of impairment. If an impairment indication exists, recoverable amount shall be estimated. For intangible assets with infinite useful lives and those that are not ready for their intended use, impairment test shall be conducted on a yearly basis regardless of any indication of impairment.

The recoverable amount of assets should be estimated on individual basis. If it is not practical to estimate the recoverable amount of an individual asset, the recoverable amount of the asset group shall be determined based on the asset group to which the asset belongs. The recoverable amount shall be the higher of the net amount of the asset or asset group's fair value after deducting the costs of disposal and the present value of its estimated future cash flow.

If the recoverable amount of an asset is less than its carrying amount, impairment shall be provided for the asset based on the difference, and such difference shall be included in the profit or loss for the period.

Once an impairment loss of above assets is recognized, it shall not be reversed in any subsequent accounting period.

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.

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

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

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

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

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

21. Share-based payment

A share-based payment is a transaction in which the Group grants equity instruments for exchange of services rendered by employees or other parties. The Group's share-based payments is equity-settled share-based payments.

Equity-settled share-based payments made in exchange for services rendered by employees are measured by the Group at the fair value of equity instruments granted to employees on the grant date. 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. If the instruments are vested immediately upon the grant, the amount of such fair value is included in relevant costs or expenses on the grant date with increase in the capital reserve accordingly.

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 and income from transference of right to use assets.

(1) Income from the sales of goods

The income from selling goods shall be recognized when main risks and rewards related to the ownership of goods have been transferred to the buyers, and the Group retains neither continuing management rights to the degree usually related to ownership nor effective control over the goods sold, 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.

(3) *Income from transference of right to use assets*

The income from transference of right to use assets of the Group includes interest income, royalty income, etc. If the relevant economic benefits will probably flow into the enterprise, and the amount of the income can be measured reliably, the income from transference of the right to use asset shall be recognized. The amount of interest income shall be measured and determined in accordance with the length of time for which the Group's monetary capital is used by others and the effective interest rates; royalty income shall be measured and determined in accordance with the charging time and method agreed in relevant contracts or agreements.

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 or receivable. If a government grant is in the form of a non-monetary asset, it is measured at fair value. If the fair value could not be reliably obtained, it is measured at notional amount. A government grant which is measured at notional amount is included in the profit or loss for the period directly.

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 and 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.

24. Income tax

Income tax expense includes current income tax and deferred income tax.

(1) *Current income tax*

At the balance sheet date, current income tax liabilities or assets arising in current and prior periods are measured at the amount expected to be paid or recovered under the relevant tax laws.

(2) *Deferred income tax assets and deferred income tax liabilities*

Temporary differences arising from the difference between the carrying amount of an asset or liability and its tax base, and the difference between the tax base and the carrying amount of those items that are not recognized as assets or liabilities but have a tax base that can be determined according to the tax laws, shall be recognized as deferred income tax assets and deferred income tax liabilities by using the balance sheet liability method.

Such deferred tax is generally recognized for all temporary differences. Deferred tax assets are recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. However, for temporary differences associated with the initial recognition of goodwill and an asset or liability arising from a transaction other than a business combination that affects neither the accounting profit nor taxable profits (or deductible losses) at the time of transaction, no deferred income tax asset or liability is recognized.

The Group recognizes a deferred income tax asset for the deductible losses and tax credits that can be carried forward to subsequent years, to the extent that it is probable that future taxable profits will be available against which the deductible losses and tax credits can be utilised.

Deferred income tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, except where the Group is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred income tax assets are recognized for deductible temporary differences associated with such investments only to the extent that the temporary differences are expected to reverse in the foreseeable future and it is probable that there will be taxable profits against which the deductible temporary differences can be utilised.

At the balance sheet date, deferred income tax assets and deferred income tax liabilities are measured at the appropriate tax rates that are expected to apply in the period when the asset is realised or the liability is settled under the requirements of tax laws.

Current and deferred income tax expenses or income are recognized in profit or loss for the period, except when they are associated with transactions or events that are directly recognized in other comprehensive income or in owners' equity, in which case they are recognized in other comprehensive income or in owners' equity; and when the deferred income tax arises from business combinations, the carrying amount of goodwill is adjusted accordingly.

At the balance sheet date, the carrying amount of deferred income tax assets is reviewed and reduced if it is no longer probable that sufficient taxable profits will be available in future to allow the benefit of the deferred income tax assets to be utilised. Such reduction in amount shall be reversed when it becomes probable that sufficient taxable profits will be available.

(3) Offsetting income tax

When the Group has a legal right to settle on a net basis and intends either to settle on a net basis or to realise the assets and settle the liabilities simultaneously, current income tax assets and current income tax liabilities are offset and presented on a net basis.

When the Group has a legal right to settle current income tax assets and current income tax liabilities on a net basis, and deferred income tax assets and deferred income tax liabilities are related to the income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current income tax assets and liabilities on a net basis or to realise the assets and settle the liabilities simultaneously in each future period in which significant deferred income tax assets and liabilities are expected to be reversed, deferred income tax assets and deferred income tax liabilities are offset and presented on a net basis.

25. Lease

A lease transfers substantially all the risks and rewards associated to the ownership of the assets is a finance lease. All other leases are classified as operating leases.

(1) The Group as lessee under operating leases

Operating lease payment is recognized as related asset cost or profit or loss for the period using the straight-line method in each period over the lease term. The initial direct cost is included in profit or loss for the period. Contingent rental is included in profit or loss for the period in which it actually incurred.

(2) The Group as lessor under operating leases

Rental income from operating lease is recognized in profit or loss for the period using the straight-line method in each period over the lease term. The initial direct cost with significant amount is capitalised when incurred, and included in profit or loss for the period on the same basis as for the recognition of rental income over the entire lease term; other initial direct cost with insignificant amount is included in profit or loss for the period when incurs. Contingent rent is included in profit or loss for the period when incurs.

(3) The Group as lessee under finance leases

At the inception of the lease, the carrying value of leased assets shall be the lower of the fair value of the leased assets on the commencements date of the lease and the present value of minimum lease payments. Minimum lease payments shall be the carrying value of long-term payables. The difference shall be accounted for as unrecognized finance charges. In addition, initial direct costs attributable to leased items incurred during the process of lease negotiation and signing lease agreement shall be included in the value of leased assets.

Unrecognized finance charges shall be recognized as finance costs for the period using effective interest method over the lease term. Contingent rent shall be included in profit or loss for the period in which it actually incurred. The balance of minimum lease payment after deducting unrecognized finance charges shall be accounted for as long-term liabilities and long-term liabilities due within one year.

26. Changes in significant accounting policies and accounting estimates

(1) Changes in significant accounting policies

The content and reason for the changes in accounting policies	Approval procedures	Note
The "Regulations for the Accounting Treatment of VAT (《增值稅會計處理規定》)" (Caikuai [2016] No. 22) was issued by the Ministry of Finance on 3 December 2016. The abovementioned Accounting Standards for Enterprises implemented by the Group are applicable to relevant transactions that occurred after 1 May 2016.	The Board of the Group has approved the changes in relevant accounting policies	The Group has stated the financial statements in accordance with the newly revised accounting standards during the reporting period. According to the "Regulations for the Accounting Treatment of VAT", the transactions occurred from 1 January to 30 April 2016 shall not be adjusted retrospectively, neither the financial statements for the comparable periods in the financial statements of 2016 shall be adjusted retrospectively
The amendment of "Accounting Standards for Business Enterprises No. 16 – Government Grants" (Caikuai [2017] No. 15) was issued by the Ministry of Finance on 10 May 2017. The Group implemented the abovementioned Accounting Standards for Enterprises since 12 June 2017.	The Board of the Group has approved the changes in relevant accounting policies	The Group has stated the financial statements in accordance with the newly revised accounting standards during the reporting period, which has no impact on the financial statements for prior period

(2) Changes in significant accounting estimates

The Group has adopted SAP system since 2016. We have adjusted residual rate of the transport equipment, mechanical equipment and electronic office equipment to 0 in the process of reviewing the fixed assets. The change in accounting estimates has been approved by the Board of the Group and became effective since 1 January 2016.

IV. TAXATION

Type of Tax	Tax basis	Tax rate
VAT	Taxable income	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 where the Group is located, the contraceptive products of the Group are exempt from VAT.

V. NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS

For data in the financial statements as disclosed below, "beginning of the period" represents 31 December 2016, "end of the period" represents 30 June 2017, "the period" represents the six months ended 30 June 2017, and the monetary unit shall be denominated in RMB, unless specified otherwise.

1. Monetary funds

	30 June 2017 (Unaudited)	31 December 2016 (Audited)
Cash on hand	**2,079,660.49**	2,982,028.85
Cash in bank	**94,812,231.02**	116,588,159.72
Other monetary funds	**394,928,234.30**	357,746,692.80
Total	**491,820,125.81**	477,316,881.37

The balance of restricted funds available for issuance of bills at the end of the period was RMB394,928,234.30.

2. Trade receivables and bills receivables

	30 June 2017 (Unaudited)	31 December 2016 (Audited)
Trade receivables	822,340,105.55	867,229,869.28
Less: allowance for bad debts	8,887,030.92	2,285,878.90
	813,453,074.63	864,943,990.38
Bills receivables (Note)	149,962,378.98	199,205,471.36
Total	963,415,453.61	1,064,149,461.74

The Group generally allows an average credit period of 0 to 180 days to its trade customers. The Group does not hold any collateral over these balances.

3. Prepayments

	30 June 2017 (Unaudited)		31 December 2016 (Audited)	
Items	Amount	Proportion (%)	Amount	Proportion (%)
Within 1 year	132,011,404.63	99.92	100,570,879.12	100.00
Over 1 year	102,211.90	0.08	–	–
Total	132,113,616.53	100.00	100,570,879.12	100.00

4. *Other receivables*

(1) Classification of other receivables

1) Other receivables for which bad debt has been provided based on the aging analysis in the portfolio

	30 June 2017 (Unaudited)		
Age	**Other receivables**	**Provision for bad debt**	**Percentage of provision (%)**
Within 1 year	7,564,468.99	37,822.34	0.5
Total	7,564,468.99	37,822.34	–

2) Other receivables for which bad debt has been provided based on other methods in the portfolio

	30 June 2017 (Unaudited)		
Portfolio name	**Other receivables**	**Provision for bad debt**	**Percentage of provision (%)**
Portfolio of margin and reserve	4,322,569.62	–	–
Total	4,322,569.62	–	–

(2) The Group has no other receivables which have been fully provided for bad debt or that with larger proportion of provision in the prior years yet recovered in full or in part during the period.

(3) The Group has no other receivables written off during the period.

(4) The Group has no other receivables that satisfy the derecognition criteria.

5. Inventories

Items	30 June 2017 (Unaudited) Carrying amount	Provision for impairment	Net book value	31 December 2016 (Audited) Carrying amount	Provision for impairment	Net book value
Goods in stock	387,831,758.79	1,648,847.46	386,182,911.33	304,863,598.10	–	304,863,598.10
Goods sold	68,075,295.07	–	68,075,295.07	52,075,691.72	–	52,075,691.72
Total	455,907,053.86	1,648,847.46	454,258,206.40	356,939,289.82	–	356,939,289.82

6. Other current assets

Items	30 June 2017 (Unaudited)	31 December 2016 (Audited)
Expenses to be amortised	1,130,787.98	–
Credit tax pending verification	26,138,756.48	–
Other	738,300.00	2,777,436.24
Total	28,007,844.46	2,777,436.24

7. *Fixed assets*

For the six months ended 30 June 2017 (Unaudited)

Items	Houses and buildings	Machineries and equipment	Transportation facilities	Office equipment	Total
I. Cost					
1. Balance as at 31 December 2016	104,221,316.39	33,850,630.81	10,279,489.83	20,165,755.90	168,517,192.93
2. Addition for the period	3,117,884.12	4,559,049.68	1,156,791.01	-8,434,663.77	399,061.04
(1) Purchase	–	338,715.24	991,145.47	315,980.15	1,645,840.86
(2) Transfer from construction-in-progress	441,623.10	4,220,334.44	–	–	4,661,957.54
(3) Addition as a result of business combination	–	–	173,850.67	290,428.29	464,278.96
(4) Reclassification adjustments	2,676,261.02	–	-8,205.13	-9,041,072.21	-6,373,016.32
3. Reduction for the period	–	61,863.25	834,255.61	140,854.46	1,036,973.32
(1) Disposal or write-off	–	61,863.25	834,255.61	140,854.46	1,036,973.32
(2) Other reduction	–	–	–	–	–
4. Balance as at 30 June 2017	107,339,200.51	38,347,817.24	10,602,025.23	11,590,237.67	167,879,280.65
II. Accumulated depreciation					
1. Balance as at 31 December 2016	22,515,068.88	13,120,593.82	3,195,839.25	11,798,075.85	50,629,577.80
2. Addition for the period	1,561,069.85	1,779,252.35	763,660.81	-1,668,836.73	2,435,146.28
(1) Provision	1,884,669.44	1,772,099.22	632,930.72	395,390.51	4,685,089.89
(2) Addition as a result of business combination	–	–	133,978.09	250,573.21	384,551.30
(3) Reclassification adjustments	-323,599.59	7,153.13	-3,248.00	-2,314,800.45	-2,634,494.91
3. Reduction for the period	–	1,546.59	657,632.94	140,854.46	800,033.99
(1) Disposal or write-off	–	1,546.59	657,632.94	140,854.46	800,033.99
(2) Other reduction	–	–	–	–	–
4. Balance as at 30 June 2017	24,076,138.73	14,898,299.58	3,301,867.12	9,988,384.66	52,264,690.09
III. Impairment provision					
1. Balance as at 31 December 2016	–	–	–	–	–
2. Addition for the period	–	–	–	–	–
3. Reduction for the period	–	–	–	–	–
4. Balance as at 30 June 2017	–	–	–	–	–
IV. Net book value					
1. Net book value as at 31 December 2016	81,706,247.51	20,730,036.99	7,083,650.58	8,367,680.05	117,887,615.13
2. Net book value as at 30 June 2017	83,263,061.78	23,449,517.66	7,300,158.11	1,601,853.01	115,614,590.56

Addition of fixed assets for the period included transfer from construction-in-progress with carrying value of RMB4,661,957.54. Among the addition of accumulated depreciation for the period, RMB4,685,089.89 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 costs of fixed assets that have been fully depreciated but were still in use amounted to RMB8,973,771.93.

8. *Construction in progress*

(1) Details of construction-in-progress

Items	30 June 2017 (Unaudited) Carrying amount	Provision for impairment	Net book value	31 December 2016 (Audited) Carrying amount	Provision for impairment	Net book value
Construction of information-based program	3,461,659.32	-	3,461,659.32	–	–	–
Total	3,461,659.32	-	3,461,659.32	–	–	–

(2) Changes in major construction-in-progress

Name of project	31 December 2016 (Audited)	Addition for the period	Reduction for the period: Transfer to the fixed assets	Reduction for the period: Other reductions	30 June 2017 (Unaudited)
Construction of information-based program	–	3,461,659.32	–	–	3,461,659.32
Total	–	3,461,659.32	–	–	3,461,659.32

Name of project	Budget	Percentage of accumulated investment in project to the budget (%)	Construction progress (%)	Accumulated amount of interest capitalized	Of which: The amount of interest capitalized for the period	Interest capitalization rate for the period (%)	Source of funds
Construction of information-based program	12,000,000	56.78	56.78	-	-	-	Proceeds from H Shares
Total	12,000,000	-	-	-	-	-	-

9. Intangible assets

For the six months ended 30 June 2017 (Unaudited)

Items	Land use rights	Computer software	Total
I. Cost			
1. Balance as at 31 December 2016	106,148,258.86	12,223,466.80	118,371,725.66
2. Addition for the period	–	697,160.90	697,160.90
3. Reduction for the period	–	–	–
4. Reclassification adjustments	2,820,292.17	771,201.93	3,591,494.10
5. Balance as at 30 June 2017	108,968,551.03	13,691,829.63	122,660,380.66
II. Accumulated amortization			
1. Balance as at 31 December 2016	12,576,347.19	101,862.22	12,678,209.41
2. Addition for the period	1,469,574.02	805,962.30	2,275,536.32
(1) Provision	1,469,574.02	616,221.28	2,085,795.30
(2) Reclassification adjustments	–	189,741.02	189,741.02
3. Reduction for the period			
4. Balance as at 30 June 2017	14,045,921.21	907,824.52	14,953,745.73
III. Provision for impairment			
1. Balance as at 31 December 2016	–	–	–
2. Addition for the period	–	–	–
3. Reduction for the period	–	–	–
4. Balance as at 30 June 2017	–	–	–
IV. Net book value			
1. Net book value as at 31 December 2016	93,571,911.67	12,121,604.58	105,693,516.25
2. Net book value as at 30 June 2017	94,922,629.82	12,784,005.11	107,706,634.93

As at 30 June 2017, no intangible asset arose through the internal research and development of the Company.

10. Goodwill

(1) Original value of goodwill

Name of the investees	31 December 2016 (Audited)	Addition for the period as a result of business combination	Reduction for the period Disposal	Other	30 June 2017 (Unaudited)
ZCH	–	4,567,297.19	–	–	**4,567,297.19**
Guangzhou Charmacy	–	26,328.12	–	–	**26,328.12**
Total	–	4,593,625.31	–	–	**4,593,625.31**

11. Long-term expenses to be amortized

Item	31 December 2016 (Audited)	Addition for the period	Amortization for the period	Other reduction for the period	30 June 2017 (Unaudited)
Installation expenses for the guard house and delivery platform	–	159,599.82	4,109.87	–	**155,489.95**
Total	–	159,599.82	4,109.87	–	**155,489.95**

12. Deferred income tax assets

(1) Deferred income tax assets not offset

Items	30 June 2017 (Unaudited) Deferred income tax assets	30 June 2017 (Unaudited) Deductible temporary differences	31 December 2016 (Audited) Deferred income tax assets	31 December 2016 (Audited) Deductible temporary differences
Provision for asset impairment	**2,643,425.24**	**10,573,700.72**	573,283.57	2,293,134.28
Government grants	**390,000.00**	**1,560,000.00**	–	–
Total	**3,033,425.24**	**12,133,700.72**	573,283.57	2,293,134.28

(2) The Group has not recognized the deductible temporary differences and the deductible losses arose from the deferred income tax assets.

13. Short-term borrowings

Types of borrowings	30 June 2017 (Unaudited)	31 December 2016 (Audited)
Borrowings from discounted bills receivables	**51,900,000.00**	154,432,263.10
Unsecured borrowings	**56,000,000.00**	48,630,000.00
Secured borrowings	**164,800,000.00**	173,800,000.00
Guaranteed borrowings	**119,500,000.00**	44,500,000.00
Total	**392,200,000.00**	421,362,263.10

The Group had no past due and outstanding short-term borrowings, and the amount repaid subsequent to the balance sheet date was RMB66,000,000.00.

14. Trade payables and bill payables

	30 June 2017 (Unaudited)	31 December 2016 (Audited)
Trade payables	**495,733,155.81**	489,550,917.08
Bills payables	**872,904,742.07**	823,856,770.32
Total	**1,368,637,897.88**	1,313,407,687.40

An aged analysis of trade payables presented based on the invoice date at the end of the reporting period is as follows:

	30 June 2017 (Unaudited)	31 December 2016 (Audited)
Within 1 year	**494,839,825.23**	488,538,082.78
Over 1 year	**893,330.58**	1,012,834.30
	495,733,155.81	489,550,917.08

15. *Receipts in advance*

Items	30 June 2017 (Unaudited)	31 December 2016 (Audited)
Total	**7,223,382.75**	4,408,115.75
Among which: over 1 year	**35,432.76**	–

As of 30 June 2017, the Group has no significant receipt in advance ageing over 1 year.

16. *Salaries payable to employees*

(1) Classification of salaries payable to employees

Items	31 December 2016 (Audited)	Addition for the period	Reduction for the period	30 June 2017 (Unaudited)
Short-term remuneration	3,303,566.02	31,534,508.88	30,484,752.74	**4,353,322.16**
Post-employment benefits				
– Defined contribution plan	–	2,208,639.47	2,208,639.47	**-**
Total	3,303,566.02	33,743,148.35	32,693,392.21	**4,353,322.16**

(2) Short-term remuneration

Items	31 December 2016 (Audited)	Addition for the period	Reduction for the period	**30 June 2017 (Unaudited)**
Salaries, bonuses, allowances and subsidies	3,303,566.02	26,139,907.27	25,090,151.13	**4,353,322.16**
Staff welfare payments	–	1,985,788.79	1,985,788.79	**–**
Social insurance premiums	–	1,013,689.16	1,013,689.16	**–**
Among which: medical insurance premium	–	839,286.64	839,286.64	**–**
Industrial injury insurance premium	–	55,943.34	55,943.34	**–**
Maternity insurance premium	–	118,459.18	118,459.18	**–**
Housing provident fund	–	1,108,300.96	1,108,300.96	**–**
Labor union expenses and staff education expenses	–	273,133.54	273,133.54	**–**
Total	3,303,566.02	31,534,508.88	30,484,752.74	**4,353,322.16**

(3) Defined contribution plan

Items	31 December 2016 (Audited)	Addition for the period	Reduction for the period	**30 June 2017 (Unaudited)**
Basic pension insurance	–	2,111,519.94	2,111,519.94	**–**
Unemployment insurance premium	–	97,119.53	97,119.53	**–**
Total	–	2,208,639.47	2,208,639.47	**–**

17. Tax payables

Items	30 June 2017 (Unaudited)	31 December 2016 (Audited)
VAT	**1,023,336.53**	19,528,677.84
Stamp duty	**130,178.02**	–
Enterprise income tax	**9,510,321.82**	4,163,610.60
Urban maintenance and construction tax	**73,784.50**	–
Property taxes	**468,309.36**	–
Land taxes	**191,093.00**	135,344.00
Individual income tax	**3,044,158.67**	3,094,999.19
Education surcharge	**32,388.43**	–
Other taxes	**20,314.80**	–
Total	**14,493,885.13**	26,922,631.63

18. Dividend payables

Item	30 June 2017 (Unaudited)	31 December 2016 (Audited)
Ordinary shares dividend	**5,600,000.00**	–
Total	**5,600,000.00**	–

19. Other payables

Significant other payables aged over 1 year as at 30 June 2017

Name	30 June 2017 (Unaudited)	Reasons of outstanding or carried over
Collection from shareholder (鄭水標)	**1,617,512.90**	Advanced by minority shareholders
Squire Patton Boggs	**3,393,009.00**	Not yet recalled by counterparty. Payment advice has not been despatched
Total	**5,010,521.90**	

Significant other payables aged over 1 year as at 31 December 2016

Name	31 December 2016 (Audited)	Reasons of outstanding or carried over
Squire Patton Boggs	3,393,009.00	Not yet recalled by counterparty. Payment advice has not been despatched
Total	3,393,009.00	

20. Other current liabilities

Item	30 June 2017 (Unaudited)	31 December 2016 (Audited)
Output VAT to be transferred	**36,417,280.23**	–
Total	**36,417,280.23**	–

21. Deferred income

(1) *Type of deferred income*

Item	31 December 2016 (Audited)	Addition for the period	Reduction for the period	30 June 2017 (Unaudited)	Reason
Government grant	–	1,560,000.00	–	**1,560,000.00**	–
Total	–	1,560,000.00	–	**1,560,000.00**	–

(2) *Government grant program*

Government grant program	31 December 2016 (Audited)	Addition of grant for the period	Included in non-operating income for the period	Other changes	30 June 2017 (Unaudited)	Asset-related/ Income-related
Government grant for logistics standardization program	–	1,560,000.00	–	–	**1,560,000.00**	Asset-related
Total	–	1,560,000.00	–	–	**1,560,000.00**	–

22. Share capital

Name of shareholders	31 December 2016 (Audited)	Addition for the period	Reduction for the period	30 June 2017 (Unaudited)
Yao Chuanglong	70,000,000.00	–	11,000,000.00	59,000,000.00
Yao Xizhen	6,500,000.00	–	6,500,000.00	–
Shantou Meizhi Investment Management Limited Partnership	1,500,000.00	1,700,000.00	–	3,200,000.00
Shantou Youran Investment Management Limited Partnership	1,000,000.00	700,000.00	–	1,700,000.00
Shantou Zhichuang Investment Management Limited Partnership	1,000,000.00	800,000.00	–	1,800,000.00
H-Share Shareholders	28,000,000.00	–	–	28,000,000.00
Wu Binhua	–	5,400,000.00	–	5,400,000.00
Liu Jigui	–	5,400,000.00	–	5,400,000.00
Wu Wanping	–	3,500,000.00	–	3,500,000.00
Total	108,000,000.00	17,500,000.00	17,500,000.00	108,000,000.00

23. Capital reserve

Items	31 December 2016 (Audited)	Addition for the period	Reduction for the period	30 June 2017 (Unaudited)
Share premium	299,981,515.02	–	18,765,955.52	281,215,559.50
Other capital reserve	–	988,928.00	–	988,928.00
Total	299,981,515.02	988,928.00	18,765,955.52	282,204,487.50

24. Surplus reserve

Items	31 December 2016 (Audited)	Addition for the period	Reduction for the period	30 June 2017 (Unaudited)
Statutory surplus reserve	10,872,532.49	–	5,202,789.84	**5,669,742.65**
Total	10,872,532.49	–	5,202,789.84	**5,669,742.65**

25. Undistributed profits

Items	Six months ended 30 June 2017 (Unaudited)	2016 (Audited)
Balance as at the end of last period	**33,612,789.23**	1,836,202.48
Add: adjustment to the opening balance of undistributed profit	**17,026,461.07**	–
Balance as at the beginning of the period	**50,639,250.30**	1,836,202.48
Add: Net profit attributable to the owners of the parent company for the period	**42,008,928.37**	59,348,988.36
Less: Appropriation to of statutory surplus reserve	**–**	6,433,069.35
Dividends on ordinary shares payable	**21,600,000.00**	21,139,332.26
Balance as at the end of the period	**71,048,178.67**	33,612,789.23

26. Operating revenue, operating cost and segment information

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

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

	Six months ended 30 June	
	2017	2016
	(Unaudited)	(Unaudited)
Sales of goods	**1,881,994,596.84**	1,765,242,761.53
Services income	**21,946,951.02**	12,705,844.73
Operating revenue	**1,903,941,547.86**	1,777,948,606.26
Operating cost	**1,778,787,008.02**	1,678,350,983.63

27. Taxes and surcharges

	Six months ended 30 June	
	2017	2016
Items	**(Unaudited)**	(Unaudited)
Urban maintenance and construction Tax	**365,253.58**	394,499.92
Education surcharge	**260,895.42**	281,485.66
Business tax	**–**	6,000.00
Vehicle and vessel tax	**14,506.04**	–
Stamp duty	**732,077.75**	–
Land taxes	**190,371.00**	–
Property taxes	**468,309.36**	–
Total	**2,031,413.15**	681,985.58

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

28. Selling expenses

Items	Six months ended 30 June 2017 (Unaudited)	2016 (Unaudited)
Staff remuneration	21,533,323.12	14,211,449.14
Transportation costs	5,728,313.79	5,891,460.42
Office expenses	2,264,044.32	591,195.87
Depreciation and amortization	1,596,946.49	–
Business entertainment expenses	341,599.09	143,216.14
Travelling expenses	309,656.21	157,418.70
Promotion and advertising expenses	308,379.90	301,571.28
Marketing expenses	67,759.10	517,592.51
Others	18,195.65	115,710.34
Total	32,168,217.67	21,929,614.40

29. Management expenses

Items	Six months ended 30 June 2017 (Unaudited)	2016 (Unaudited)
Staff remuneration	8,938,570.99	6,463,795.31
Office expenses	5,682,183.14	4,423,741.07
Tax expenses	–	1,682,521.67
Depreciation and amortization	5,145,904.44	5,788,805.20
Expenses on engaging agencies	1,990,330.88	2,080,169.49
Travelling expenses	360,005.08	184,135.97
Business entertainment expenses	247,583.24	1,307,205.88
Promotion and advertising expenses	51,843.53	205,365.86
Loss on inventory	26,758.47	–
Share-based payment	988,928.00	–
Others	95,388.76	260,157.49
Bank handling charges	–	1,153,407.87
Total	23,527,496.53	23,549,305.81

30. Finance costs

Item	Six months ended 30 June **2017** **(Unaudited)**	 2016 (Unaudited)
Interest expenses	**10,614,431.37**	8,752,585.15
Less: Interest income	**1,463,787.83**	1,972,057.74
Add: Gain or loss on foreign exchange	**1,686,738.19**	−1,740,280.88
Add: Handling fees	**1,353,797.19**	–
Total	**12,191,178.92**	5,040,246.53

31. Impairment loss of assets

Item	Six months ended 30 June **2017** **(Unaudited)**	 2016 (Unaudited)
Loss on bad debt	**−1,027,466.70**	–
Loss on impairment of inventories	**1,640,290.02**	–
Total	**612,823.32**	–

32. Non-operating income

Item	Six months ended 30 June 2017 (Unaudited)	2016 (Unaudited)
Gain on disposal of non-current assets	**7,910.29**	–
Including: Gain on disposal of fixed assets	**7,910.29**	–
Government grants	**2,003,000.00**	845,123.78
Others	**229,707.30**	–
Total	**2,240,617.59**	845,123.78

33. Non-operating expenses

Item	Six months ended 30 June 2017 (Unaudited)	2016 (Unaudited)
Loss on disposal of non-current assets	**88,935.74**	12,287.85
Including: loss on disposal of fixed assets	**88,935.74**	12,287.85
Donation	**18,760.00**	–
Others	**68,117.04**	0.32
Total	**175,812.78**	12,288.17

34. Income tax expense

	Six months ended 30 June	
	2017	2016
	(Unaudited)	(Unaudited)
Current income tax	**14,777,687.11**	12,358,637.78
Deferred income tax expenses	**-141,903.00**	107,967.87
Total income tax expenses for the period	**14,635,784.11**	12,466,605.65

Under the Law of the PRC on Enterprise Income Tax (the "**EIT Law**") and Implementation Regulation of the EIT Law, the tax rate of the Company and its subsidiaries is 25% for the both periods.

35. Earnings per share

The calculation of basic earnings per share is based on the following:

	Six months ended 30 June	
	2017	2016
	(Unaudited)	(Unaudited)
Earnings		
Net profit attributable to the owners of parent company	**42,008,928.37**	36,762,700.22
Number of shares		
Weighted average number of shares for the purpose of basic earnings per share (shares)	**108,000,000**	108,000,000

The Company has no outstanding potential diluted ordinary shares in issue for the six months ended 30 June 2017 and six months ended 30 June 2016.

36. Supplementary information to statement of cash flow

(1) Supplementary Information to Statement of Cash Flow

Items	Six months ended 30 June 2017 (Unaudited)	2016 (Unaudited)
1. Reconciliation of net profit to cash flows from operating activities:		
Net profit	**42,052,430.95**	36,762,700.22
Add: Provision for impairment on assets	**612,823.32**	847,991.93
Depreciation of fixed assets, depletion of petroleum and natural gas properties, depreciation of productive biological assets	**4,685,089.89**	4,092,396.77
Amortization of intangible assets	**2,085,795.30**	1,421,605.93
Amortization of long-term deferred expenses to be amortized	**4,109.87**	8,406.40
Loss on disposal of fixed assets, intangible assets and other long-term assets ("–" for gains)	**81,025.45**	12,287.85
Loss on scrapped fixed assets ("–" for gains)	**–**	–
Gain or loss arising from changes in fair value ("–" for gains)	**–**	–
Finance costs ("–" for gain)	**1,442,879.45**	5,219,157.98
Investment loss ("–" for gain)	**–**	–
Decrease in deferred income tax assets ("–" for increase)	**–147,826.95**	–107,967.87
Increase in deferred income tax liabilities ("–" for decrease)	**–**	–
Decrease in inventories ("–" for increase)	**–99,061,625.11**	–30,648,191.09
Decrease in receivables from operating activities ("–" for increase)	**512,300.00**	–28,502,104.05
Increase in payables from operating ("–" for decrease)	**26,538,963.86**	–1,476,481.74
Others	**–**	–
Net cash flow from operating activities	**–21,194,033.97**	–12,370,197.67
2. Non-cash significant investing and financing activities:		
Conversion of debt into capital	**–**	–
Convertible corporate bonds matured within 1 year	**–**	–
Finance leased fixed assets	**–**	–
3. Net change in cash and cash equivalents:		
Cash balance as at the end of the period	**96,891,891.51**	130,969,181.53
Less: cash balance as at the beginning of the period	**119,569,294.15**	155,629,124.44
Add: balance of cash equivalents as at the end of the period	**–**	–
Less: balance of cash equivalents as at the beginning of the period	**–**	–
Net increase in cash and cash equivalents	**–22,677,402.64**	–24,659,942.91

(2) Cash and Cash Equivalents:

Items	Six months ended 30 June 2017 (Unaudited)	2016 (Unaudited)
Cash	**2,079,660.49**	479,081.30
Among which: cash on hand	**2,079,660.49**	479,081.30
Bank deposits readily available for payment	**94,812,231.02**	130,490,100.23
Cash equivalents	**–**	–
Balance of cash and cash equivalents as at the end of the period	**96,891,891.51**	130,969,181.53

37. Monetary items in foreign currencies

Items	30 June 2017 (Unaudited) Balances of foreign currency	Exchange rate	Equivalent RMB balance	31 December 2016 (Audited) Balances of foreign currency	Exchange rate	Equivalent RMB balance
Monetary funds						
Among which: Hong Kong Dollars	**22,317,052.99**	**0.8679**	**19,368,970.29**	91,241,876.12	0.8945	81,616,757.11

VI. CHANGES IN SCOPE OF CONSOLIDATION

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

On 13 March 2017, the Company entered into a capital contribution agreement with the owner of Zhuhai Hengxiang Pharmaceutical Limited (珠海市恒祥醫藥有限公司, "Zhuhai Hengxiang Pharmaceutical"), to increase the Company's contribution to the registered capital of Zhuhai Hengxiang Pharmaceutical to 70% of its equity interest and become its controlling shareholder, at a consideration of RMB18.00 million. The investment has completed the registration of alteration with Zhuhai Bureau of Administration of Industry and Commerce (Xiangzhou Branch) (珠海市工商行政管理局香洲分局) on 30 March 2017, and has changed its name to "Zhuhai Charmacy Hengxiang Pharmaceutical Limited" (珠海創美恒祥醫藥有限公司). The Group has included it in its scope of consolidation since 28 February 2017.

On 19 June 2017, the Company entered into a capital contribution agreement with the owner of Guangzhou Wangkang Pharmaceutical Technology Limited* (廣州王康醫藥科技有限公司) to increase the Company's registered capital in Guangzhou Wangkang Pharmaceutical Technological Limited to 90% of its equity interest and became its controlling shareholder, at a consideration of RMB18 million. The investment has completed the registration of alteration with Guangzhou Bureau of Administration of Industry and Commerce (Tianhe District) (廣州市天河區工商行政管理局) on 21 June 2017, and has changed its name to "Guangzhou Charmacy Pharmaceutical Limited*" ("**Guangzhou Charmacy**"). The Group has included it in its scope of consolidation since 30 June 2017.

2. Business combination not under common control

Serial number	Company name	Scope of operation	Date of merging	Shareholding proportion	Carrying amount of net assets	Fair value of the identifiable net assets: Amount	Fair value of the identifiable net assets: Methods of determination	Consideration of the transaction	Goodwill Amount
1	Zhuhai Hengxiang Pharmaceutical	Pharmaceutical distribution	28 February 2017	70%	1,189,575.45	1,243,447.79	Note 1	18,000,000	4,567,297.19
2	Guangzhou Charmacy	Pharmaceutical distribution	30 June 2017	90%	19,970,746.53	19,970,746.53	Note 2	18,000,000	26,328.12

Note 1: The fair value of the net assets of Zhuhai Hengxiang Pharmaceutical as at 28 February 2017 was determined at RMB1,487,032.70 by reference to Zhong Ming Ping Bao Zi [2017] No. 1006 (中銘評報字[2017]第1006號) asset valuation report issued by Zhong Ming International Asset Appraisal (Beijing) Co., Ltd. (中銘國際資產評估(北京)有限責任公司), with asset appreciation of RMB297,457.25. In view of relatively small valuation gain of Zhuhai Hengxiang Pharmaceutical as assessed, the Group has applied its net book value as the fair value of the identifiable net assets.

Note 2: Guangzhou Charmacy was established on 23 May 2017. As of date of merge, the carrying amount of the net assets of Guangzhou Charmacy were mainly comprised of current assets, including prepayment made to Guangzhou Charmacy of RMB19 million and monetary funds of RMB990,000. In view of relatively small changes of Guangzhou Charmacy's current assent as assessed, the Group has applied its net book value as the fair value of the identifiable net assets.

Acquiree	Date of acquiring the equity interests	Cost of acquiring the equity interests	Equity percentage acquired	Acquiring method	Purchasing Date	Evidence of the acquisition date	Revenue of the acquiree from purchasing date to the end of the period	Net profit of the acquiree from purchasing date to the end of the period
Zhuhai Hengxiang Pharmaceutical	2017/2/28	18,000,000	70.00%	Capital contribution	2017/2/28	Obtain the control	11,961,369.81	144,962.51
Guangzhou Charmacy	2017/6/30	18,000,000	90.00%	Capital contribution	2017/6/30	Obtain the control	-	-

(1) Identifiable Assets and Liabilities of the Acquiree as at the Purchasing Date

Item	Zhuhai Hengxiang Pharmaceutical Fair value as at purchasing date	Zhuhai Hengxiang Pharmaceutical Net book value as at purchasing date	Guangzhou Charmacy Fair value as at purchasing date	Guangzhou Charmacy Net 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

VII. INTERESTS IN SUBSIDIARIES

Composition of the corporation

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

VIII. RELATED PARTIES AND RELATED PARTY TRANSACTIONS

(i) Relationship with related parties

1. CONTROLLING SHAREHOLDER AND ULTIMATE CONTROLLER

(1) Controlling shareholder and ultimate controller

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

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

Controlling shareholder	Shareholding amount 30 June 2017 (Unaudited)	31 December 2016 (Audited)
Yao Chuanglong	**59,000,000.00**	70,000,000.00

Controlling shareholder	Percentage of shareholding (%) 30 June 2017 (Unaudited)	31 December 2016 (Audited)
Yao Chuanglong	**54.63**	64.81

2. *SUBSIDIARIES*

For details of the subsidiaries, please see "VIII. Composition of the corporation" under these notes.

3. *OTHER RELATED PARTIES*

Name of other related parties	Relationship with the Company
Shantou Youran Investment Management Limited Partnership	Holding 1.57% equity interests in the Company
Shantou Zhichuang Investment Management Limited Partnership	Holding 1.67% equity interests in the Company
Shantou Meizhi Investment Management Limited Partnership	Holding 2.96% equity interests in the Company
Guangzhou Baiyunshan Pharmaceutical Co., Ltd. (Baiyunshan) and its holding subsidiaries	
The list of Baiyunshan and its holding subsidiaries : Foshan GPC Jianze Medicine Limited Guangdong Meixian Pharmaceutical Co., Ltd.* Guangzhou Baiyunshan Chen Li Ji Pharmaceutical Factory Co., Ltd.* Guangzhou Baiyunshan Guang Hua Pharmaceutical Co., Ltd.* Guangzhou Baiyunshan Hutchison Whampoa Chinese Medicine Co., Ltd.* Guangzhou Baiyunshan Jing Xiu Tang Pharmaceutical Co., Ltd.* Guangzhou Baiyunshan Mingxing Pharmaceutical Co., Ltd.* Guangzhou Baiyunshan Pan Gao Shou Pharmaceutical Co., Ltd.* Guangzhou Baiyunshan Qi Xing Pharmaceutical Co., Ltd.* Guangzhou Baiyunshan Tian Xin Pharmaceutical Co., Ltd.* Guangzhou Baiyunshan Xing Qun Pharmaceutical Co., Ltd.* Guangzhou Baiyunshan Pharmaceutical Co., Ltd. Baiyunshan He Ji Gong Pharmaceutical Factory*	Guangzhou Pharmaceutical Baiyunshan Hong Kong Company Limited (hereinafter referred to as "Baiyunshan Hong Kong"), a wholly-owned subsidiary of Baiyunshan and a strategic investor of Charmacy Pharmaceutical, holds 7,906,500 H shares of Charmacy Pharmaceutical, representing 7.32% of the total share capital. Due to the close business association between Charmacy Pharmaceutical and Baiyunshan and its holding subsidiaries, the percentage of shareholding of Baiyunshan Hong Kong in Charmacy Pharmaceutical has exceeded 5%, and has appointed a director, Lee Wei Shan, to Charmacy Pharmaceutical. According to the listing rules of the Shenzhen Stock Exchange and based on substance over form principle, Charmacy Pharmaceutical deemed Baiyunshan and its holding subsidiaries and joint ventures as related parties.

Name of other related parties	Relationship with the Company
Guangzhou Baiyunshan Pharmaceutical Technology Development Co., Ltd.*	
Guangzhou Baiyunshan Pharmaceutical Marketing Co., Ltd.*	
Guangzhou Baiyunshan Zhong Yi Pharmaceutical Company Limited*	
Guangzhou Cai Zhi Lin Corporation Bei Shang Chinese Raw Medicine Co., Ltd.*	
Guangzhou Cai Zhi Lin Pharmaceutical Co., Ltd	
Guangzhou Guo Ying Medicine Co., Ltd.*	
Guangzhou Jiang Ming Pharmaceutical Corporation Limited*	
Guangzhou Chinese Medicine Corporation Chinese Medical Drink and Pill Factory*	
Guangzhou Wang Lao Ji Pharmaceutical Co., Ltd.*	
Guangzhou Xing Te Pharmaceutical Co., Ltd.*	
Guangzhou Pharmaceutical Import and Export Company Limited*	
Zhuhai Guangzhou Guang Yao Kang Ming Medicine Co., Ltd.*	
Guangzhou Pharmaceutical Co., Ltd. (including Da Zhong Pharmaceutical Sales Branch)	Guangzhou Pharmaceuticals Corporation is a joint venture, the shares of which were held by Baiyunshan and ALLIANCE BMP LIMITED as to 50%, respectively, and is the largest supplier of the Company (in terms of single purchase), the Company will therefore include Guangzhou Pharmaceuticals Corporation to related parties as well.

(II) Related party transactions

1. Details of related party transactions

Name of related parties	Types of related party transactions	Pricing method and decision-making procedure for related party transactions	Six months ended 30 June 2017 (Unaudited)	2016 (Unaudited)
1. Sales and rendering of services				
Guangzhou Cai Zhi Lin Pharmaceutical Co., Ltd.*	Sales of goods	Determined after negotiation by reference to market rates	**9,339,703.20**	8,830,715.53
Guangzhou Pharmaceuticals Corporation*	Sales of goods	Determined after negotiation by reference to market rates	**673,593.82**	109,613.34
Foshan GPC Jianze Pharmaceutical Co., Ltd*	Sales of goods	Determined after negotiation by reference to market rates	**157,351.62**	700,242.41
Guangzhou Pharmaceutical Co., Ltd. Da Zhong Pharmaceutical Sales Branch* (廣州醫藥有限公司大眾藥品銷售分公司)	Sales of goods	Determined after negotiation by reference to market rates	**81,876.92**	27,651.28
Guangzhou Cai Zhi Lin Corporation Bei Shang Chinese Raw Medicine Co., Ltd.*	Sales of goods	Determined after negotiation by reference to market rates	**79,638.32**	496,792.70
Guangzhou Guo Ying Pharmaceutical Co., Ltd.*	Sales of goods	Determined after negotiation by reference to market rates	**10,712.50**	–

Name of related parties	Types of related party transactions	Pricing method and decision-making procedure for related party transactions	Six months ended 30 June 2017 (Unaudited)	2016 (Unaudited)
Guangdong Meixian Pharmaceutical Co., Ltd.*	Sales of goods	Determined after negotiation by reference to market rates	–	30,452.55
Zhuhai Guang Yao Kangming Pharmaceutical Co., Ltd.*	Sales of goods	Determined after negotiation by reference to market rates	–	108,212.67

Name of related parties	Types of related party transactions	Pricing method and decision-making procedure for related party transactions	Six months ended 30 June 2017 (Unaudited)	2016 (Unaudited)
2. Procurement and receiving services				
Guangzhou Pharmaceutical Corporations*	Procurement of goods	Determined after negotiation by reference to market rates	**190,347,581.12**	228,321,979.94
Guangzhou Cai Zhi Lin Pharmaceutical Co., Ltd.*	Procurement of goods	Determined after negotiation by reference to market rates	**58,052,901.81**	44,377,794.93
Guangzhou Baiyunshan Pharmaceutical Marketing Co., Ltd.*	Procurement of goods	Determined after negotiation by reference to market rates	**25,272,956.56**	13,711,249.23
Guangzhou Wang Lao Ji Pharmaceutical Co., Ltd.*	Procurement of goods	Determined after negotiation by reference to market rates	**22,576,858.45**	11,555,579.60
Guangzhou Guo Ying Pharmaceutical Co., Ltd.*	Procurement of goods	Determined after negotiation by reference to market rates	**21,510,509.88**	36,804,827.84
Guangzhou Pharmaceutical Import and Export Company Limited*	Procurement of goods	Determined after negotiation by reference to market rates	**15,528,205.08**	5,668.04
Guangzhou Baiyunshan Xing Qun Pharmaceutical Co., Ltd.*	Procurement of goods	Determined after negotiation by reference to market rates	**14,664,991.47**	9,595,736.15
Guangzhou Baiyunshan Pan Gao Shou Pharmaceutical Co., Ltd.*	Procurement of goods	Determined after negotiation by reference to market rates	**13,197,530.37**	22,590,000.17

Name of related parties	Types of related party transactions	Pricing method and decision-making procedure for related party transactions	Six months ended 30 June 2017 (Unaudited)	2016 (Unaudited)
Guangzhou Baiyunshan Pharmaceutical Holdings Co., Ltd. Guangzhou Baiyunshan He Ji Gong Pharmaceutical Factory*	Procurement of goods	Determined after negotiation by reference to market rates	**12,851,925.40**	5,800,053.02
Guangzhou Baiyunshan Chen Li Ji Pharmaceutical Factory Co., Ltd*	Procurement of goods	Determined after negotiation by reference to market rates	**9,652,442.61**	6,572,633.40
Guangzhou Baiyunshan Zhong Yi Pharmaceutical Company Limited*	Procurement of goods	Determined after negotiation by reference to market rates	**6,255,614.75**	32,125,572.92
Guangzhou Baiyunshan Tian Xin Pharmaceutical Co., Ltd*	Procurement of goods	Determined after negotiation by reference to market rates	**5,950,979.38**	8,779,093.97
Guangzhou Baiyunshan Hutchison Whampoa Chinese Medicine Co., Ltd.*	Procurement of goods	Determined after negotiation by reference to market rates	**4,746,093.93**	5,966,737.08
Guangzhou Baiyunshan Qi Xing Pharmaceutical Co., Ltd.*	Procurement of goods	Determined after negotiation by reference to market rates	**2,125,345.29**	8,395,300.55
Guangzhou Baiyunshan Guang Hua Pharmacy Co., Ltd.,*	Procurement of goods	Determined after negotiation by reference to market rates	**1,435,897.46**	853,743.56
Guangzhou Xin Te Pharmaceutical Co., Ltd.*	Procurement of goods	Determined after negotiation by reference to market rates	**1,370,050.77**	315,021.36

Name of related parties	Types of related party transactions	Pricing method and decision-making procedure for related party transactions	Six months ended 30 June 2017 (Unaudited)	2016 (Unaudited)
Foshan GPC Jianze Pharmaceutical Co., Ltd.*	Procurement of goods	Determined after negotiation by reference to market rates	**690,568.72**	677,917.67
Guangzhou Chinese Medicine Corporation Chinese Medical Drink and Pill Factory*	Procurement of goods	Determined after negotiation by reference to market rates	**-**	214,088.49

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

* Names in English are for reference only.

2. Compensation of key management

Item	Six months ended 30 June 2017 (Unaudited)	2016 (Unaudited)
Total remuneration	**1,843,335.47**	1,094,123.99

IX. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Group's major financial instruments include financial assets at fair value through profit or loss, receivables, available-for-sale financial assets, borrowings, financial liabilities at fair value through profit or loss, payables, financial assets sold under agreements to repurchase. Details of these financial instruments are set out in notes to respective items above. The risks associated with these financial instruments and the risk management policies adopted by the Group on how to mitigate these risks are set out below. The management of the Group manages and monitors these exposures to ensure such risks are contained within a prescribed scope.

1. Objective and policies of risk management

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

(1) Market risk

1) Foreign exchange risk

Foreign exchange risk is the risk arising from changes in fair value or future cash flows of financial instrument resulted from changes in exchange rate. The Group's foreign exchange risk relates mainly to HK$. Except for the proceeds from the H Share offering, payment of H Share dividends and minor expenses incurred in Hong Kong Special Administrative Region, other main business of the Group is denominated in RMB. As at 30 June 2017, the changes in the fair value or future cash flow for the balances of assets and liabilities denominated in HK$ in the following table arising from changes in exchange rates may have an impact on the Group's operating results.

	Assets	
Item	**30 June 2017 (Unaudited)**	**31 December 2016 (Audited)**
HK$	**19,368,970.29**	81,616,757.11
Total	**19,368,970.29**	81,616,757.11

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

2) Interest rate risk

The Group has no bank borrowings carried interest at floating rate for the six months ended 30 June 2017.

3) Other price risk

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.

(2) Credit risk

As at 30 June 2017, the maximum credit risk exposure that might incur financial losses to the Group was mainly attributable to a contractual failure of counterparty to perform its obligations, in particular, the carrying amount of financial assets recognized in the consolidated balance sheet. For the financial assets at fair value, the carrying amount reflects the risk exposure, but not the maximum risk exposure, which will vary in accordance with the changes in future fair value.

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

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

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

(3) *Liquidity risk*

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

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

Items	Carrying amount	Within 1 year	Total
Monetary funds	491,820,125.81	491,820,125.81	491,820,125.81
Bills receivables	149,962,378.98	149,962,378.98	149,962,378.98
Trade receivables	822,340,105.55	822,340,105.55	822,340,105.55
Other receivables	11,887,038.61	11,887,038.61	11,887,038.61
Other current assets	28,007,844.46	28,007,844.46	28,007,844.46
Short-term borrowings	392,200,000.00	399,298,937.35	399,298,937.35
Bill payables	872,904,742.07	872,904,742.07	872,904,742.07
Trade payables	495,733,155.81	495,733,155.81	495,733,155.81
Interests payable	643,768.65	643,768.65	643,768.65
Dividend payables	5,600,000.00	5,600,000.00	5,600,000.00
Other payables	10,205,162.02	10,205,162.02	10,205,162.02
Other current liabilities	36,417,280.23	36,417,280.23	36,417,280.23

2. *Fair value*

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

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

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

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

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

X. CAPITAL COMMITMENTS

Item	30 June 2017 (Unaudited)
Capital expenditure contracted but not recognized in the financial statements	
– Zhuhai warehouse rebuilding project	**2,800,000.00**
– Construction of information-based program (Phase II)	**3,905,000.00**
Total	**6,705,000.00**

XI. OPERATING LEASE COMMITMENTS

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

Remaining lease term	Minimum lease payment
First year after the balance sheet date	833,651.44
Second year after the balance sheet date	486,055.44
Third year after the balance sheet date	382,903.44
Total	1,702,610.32

XII. EVENTS SUBSEQUENT TO BALANCE SHEET DATE

On 12 July 2017, Charmacy Pharmaceutical Co. Ltd, and KTL (Guangzhou) Jewellery Limited entered into "Real Estate Sale and Purchase Agreement". Charmacy Pharmaceutical Co. Ltd. purchased the house and land of KTL (Guangzhou) Jewellery Limited situated at No. 33, Liyu Street, Dongyong Zhen, Nansha District, Guangzhou City at an aggregate consideration of RMB131,000,000 (tax included), with a site area of 31,141.5745 square metres and gross floor area of 15,293.7994 square metres (factory Aa) and 4,881.0564 square metres (dormitory D).

As of the date of the report, Charmacy Pharmaceutical has paid RMB27 million and will build a new pharmaceutical logistics centre in Nansha which will be beneficial to accelerating and enhancing the business expansion in the Pearl River Delta.

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

1. *Accounts receivable*

(1) *Accounts receivable for which bad debt has been provided based on the aging analysis in the portfolio*

	30 June 2017 (Unaudited)			31 December 2016 (Audited)		
Age	**Accounts Receivable**	**Provision for bad debt**	**Percentage of provision (%)**	Accounts Receivable	Provision for bad debt	Percentage of provision (%)
Within 1 year	**406,718,250.18**	**2,033,591.25**	**0.50**	450,791,007.30	–	–
1 to 2 years	**11,680,371.86**	**584,018.59**	**5.00**	40,677,044.16	2,285,878.90	5.62
Total	**418,398,622.04**	**2,617,609.84**	**-**	491,468,051.46	2,285,878.90	–

(2) *Accounts receivable for which bad debt provision has been provided using other methods in the portfolio*

	30 June 2017 (Unaudited)			31 December 2016 (Audited)		
Age	**Accounts Receivable**	**Provision for bad debt**	**Percentage of provision (%)**	Accounts Receivable	Provision for bad debt	Percentage of provision (%)
Related party	**71,266,571.37**	**-**	**-**	13,918,095.70	–	–
Total	**71,266,571.37**	**-**	**-**	13,918,095.70	–	–

2. *Other receivables*

(1) *Other receivables for which bad debt has been provided based on the aging analysis in the portfolio*

Age	30 June 2017 (Unaudited) Other Receivables	Provision for bad debt	Percentage of provision (%)	31 December 2016 (Audited) Other Receivables	Provision for bad debt	Percentage of provision (%)
Within 1 year	**4,111,141.23**	**20,555.71**	**0.50**	903,432.04	–	–
Total	**4,111,141.23**	**20,555.71**	**-**	903,432.04	–	–

(2) *Other receivables for which bad debt provision has been provided using other methods the portfolios:*

Name of portfolios	30 June 2017 (Unaudited) Other Receivables	Provision for bad debt	Percentage of provision (%)	31 December 2016 (Audited) Other Receivables	Provision for bad debt	Percentage of provision (%)
Balance with related parties	**5,705.70**	**-**	**-**	–	–	–
Deposit and reserve	**2,183,880.42**	**-**	**-**	1,435,594.64	–	–
Total	**2,189,586.12**	**-**	**-**	1,435,594.64	–	–

(3) The Company had no other receivables which have been fully provided for bad debt or that with larger percentage of provision in the prior years yet recovered in full or in part during the period.

(4) The Company has no other receivables written off during the period.

3. *Long-term equity investments*

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

Items	30 June 2017 (Unaudited) Carrying amount	Provisions for impairment	Net book value	31 December 2016 (Audited) 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
Total	186,000,000.00	-	186,000,000.00	150,000,000.00	–	150,000,000.00

(2) *Investment in the subsidiaries*

Investees	31 December 2016 (Audited)	Addition for the period	Reduction for the period	30 June 2017 (Unaudited)	Provision for impairment for the period	Balance of provision for impairment as at the end of the period
Guangdong Charmacy	150,000,000.00	–	–	150,000,000.00	–	–
ZCH	–	18,000,000.00	–	18,000,000.00	–	–
Guangzhou Charmacy	–	18,000,000.00	–	18,000,000.00	–	–
Total	150,000,000.00	36,000,000.00	–	186,000,000.00	–	–

4. *Operating revenue, operating cost*

Items	Six months ended 30 June 2017 RMB (Unaudited)	2016 RMB (Unaudited)
Sales of goods	799,695,353.16	793,563,476.91
Services income	9,657,534.16	7,143,510.17
Operating revenue	809,352,887.32	800,706,987.08
Operating cost	759,122,028.15	749,042,194.33