



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



2020

Annual Report

ABOUT US

Charmacy Pharmaceutical Co., Ltd. (stock code: 2289.HK) is principally engaged in the pharmaceutical distribution business. It mainly distributes western medicine, Chinese patent medicine and healthcare products to downstream distributors and retail terminals, as well as provides consultation service on pharmaceutical products. Founded in 2000, over the past 21 years of rapid development, it has become one of the leading pharmaceutical distributors in the Southern China region. The Company adheres to the development strategy of "Intensive Engagement in Guangdong Province and Extensive Coverage across Surrounding Areas", and has built logistics centers in Shantou, Foshan, Zhuhai, Guangzhou and Huizhou, all equipped with professional transportation teams, and has a highly efficient delivery mechanism of delivering pharmaceutical products three times per day for customers within a radius of 10 kilometers, twice per day for customers within a radius of 50 kilometers and once per day for those within a 250-kilometers' radius. In addition, the Company has a modern information system that covers the entire supply chain for pharmaceutical distribution, including procurement, sales, warehousing, transportation and delivery. Apart from that, the Company operates its own B2B e-commerce platform "Charmacy e-Medicine" (創美e藥), a platform for customers to place orders online, make inquiries and payment and many more. In 2019, the Company ranked top 50 among top 100 PRC wholesalers, in respect of revenue generated from the principal business. According to the Market Research Report of the Chinese Pharmaceutical Industry (2017) (《中國醫藥行業市場研究報告》(2017)), in respect of sales scale, the Company ranked 7th among the pharmaceutical distribution businesses in Guangdong Province and second among private enterprises.

With the good reputation and high-quality service, in June 2020, the Company was awarded the title "Model Enterprise of Integrity in Guangdong Province" (for nine consecutive years from 2011 to 2019) jointly by Guangdong Enterprise Federation and Guangdong Entrepreneurs Association. It was awarded the title "Contract Abiding and Credit Respecting Enterprise in Guangdong Province" by Guangdong Provincial Market Supervision Administration (for 19 consecutive years from 2001 to 2019). In August 2020, it won the honorary title "Enterprise Having Great Love and Undertaking Responsibility in War against Epidemic" issued by China Health Industry (International) Ecological Conference and the "Golden Ant" Service Award of Chinese logistics industry from 2019 to 2020 issued by China (Guangzhou) International Logistics Equipment and Technology Exhibition Organising Committee. In September 2020, it was appraised as the best pharmaceutical supply chain logistics centre (base) in 2019-2020 and the best pharmaceutical supply chain logistics service enterprise in 2019-2020 by the Pharmaceutical Supply Chain Alliance. It was appraised as one of the top-100 outstanding private pharmaceutical commercial circulation enterprises in China in 2019 by the Pharmaceutical Business Branch of Pharmaceutical Chamber of Commerce of All-China Federation of Industry and Commerce.

Contents

001		Corporate Information
002		Chairman's Statement
004		Financial Summary
005		Management Discussion and Analysis
014		Biographies of Directors, Supervisors and Senior Management
018		Corporate Governance Report
029		Directors' Report
039		Board of Supervisors' Report
041		Auditor's Report
045		Consolidated Balance Sheet
047		Balance Sheet of the Parent Company
049		Consolidated Income Statement
050		Income Statement of the Parent Company
051		Consolidated Statement of Cash Flow
052		Statement of Cash Flow of the Parent Company
053		Consolidated Statement of Changes in Shareholder's Equity
055		Statement of Changes in Shareholder's Equity of the Parent Company
057		Notes to the Financial Statements

Corporate Information

DIRECTORS

Executive Directors

Yao Chuanglong (姚創龍)

Zheng Yuyan (鄭玉燕)

Lin Zhixiong (林志雄)

Non-executive Director

Li Weisheng (李偉生)

Independent Non-executive Directors

Wan Chi Wai Anthony (尹智偉)

Zhou Tao (周濤)

Guan Jian (關鍵)

(also known as Guan Suzhe (關蘇哲))

SUPERVISORS

Zhang Ling (張玲)

Zheng Xiyue (鄭禧玥)

Lin Zhijie (林志傑)

COMPANY SECRETARY

Lin Zhixiong (林志雄)

AUDIT COMMITTEE

Wan Chi Wai Anthony (尹智偉) (Chairman)

Zhou Tao (周濤)

Guan Jian (關鍵) (also known as Guan Suzhe (關蘇哲))

NOMINATION COMMITTEE

Zhou Tao (周濤) (Chairman)

Yao Chuanglong (姚創龍)

Guan Jian (關鍵) (also known as Guan Suzhe (關蘇哲))

REMUNERATION COMMITTEE

Zhou Tao (周濤) (Chairman)

Wan Chi Wai Anthony (尹智偉)

Lin Zhixiong (林志雄)

RISK MANAGEMENT COMMITTEE

Yao Chuanglong (姚創龍) (Chairman)

Lin Zhixiong (林志雄)

Wan Chi Wai Anthony (尹智偉)

STRATEGIC DEVELOPMENT COMMITTEE

Yao Chuanglong (姚創龍) (Chairman)

Zheng Yuyan (鄭玉燕)

Zhou Tao (周濤)

AUTHORISED REPRESENTATIVES

Zheng Yuyan (鄭玉燕)

Lin Zhixiong (林志雄)

AUDITOR

ShineWing Certified Public Accountants (Special General Partnership)

LEGAL ADVISERS

Chungs Lawyers in association with DeHeng Law Offices
(as to Hong Kong law)

Shu Jin Law Firm (as to PRC law)

REGISTERED OFFICE AND HEADQUARTERS

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

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

40th Floor, Dah Sing Financial Centre, No. 248 Queen's Road East,
Wanchai, Hong Kong

PRINCIPAL BANKS

China Guangfa Bank Co., Ltd. (Shantou Branch)

Industrial and Commercial Bank of China Limited (Shantou Branch)

H SHARE REGISTRAR

Computershare Hong Kong Investor Services Limited

Shops 1712-1716, 17th Floor

Hopewell Centre,

183 Queen's Road East, Wanchai, Hong Kong

COMPANY WEBSITE

www.chmyy.com

STOCK CODE

2289.HK

Chairman's Statement

Dear Shareholders,

On behalf of the board (the "**Board**") of directors (the "**Directors**") of Charmacy Pharmaceutical Co., Ltd. (stock code: 2289.HK) (the "**Company**"), I would like to present the audited consolidated results for the year ended 31 December 2020 (the "**Reporting Period**") of the Company and its subsidiaries (the "**Group**" or "**us**" or "**we**" or "**Charmacy**").

BUSINESS OVERVIEW

The Company is principally engaged in the pharmaceutical distribution business. As part of the pharmaceutical circulation industry, the Company, with its focus on non-tendering markets, mainly distributes western medicine, Chinese patent medicine and healthcare products to downstream distributors and retail terminals such as pharmacies, clinics and private hospitals. It also provides consultation services on pharmaceutical products. As of 31 December 2020, the Company had operated as many as 11,828 products. Founded in 2000, over the past 21 years of rapid development, it has become one of the leading pharmaceutical distributors in the Southern China region. The Company adheres to the development strategy of "Intensive Engagement in Guangdong Province and Extensive Coverage across Surrounding Areas", and has built logistics centers in Shantou, Foshan, Zhuhai, Guangzhou, Guangzhou and Huizhou, all equipped with professional transportation teams, and has a highly efficient delivery mechanism of delivering pharmaceutical products three times per day for customers within a radius of 10 kilometers, twice per day for customers within a radius of 50 kilometers and once per day for those within a 250-kilometers' radius. The Company has a modern information system that covers the entire supply chain for pharmaceutical distribution, including procurement, sales, warehousing, transportation and delivery. Apart from that, the Company operates its own B2B e-commerce platform "Charmacy e-Medicine"(創美 e 藥) (www.cmyynet.com) and has developed an APP for customers to place orders online, make inquiries and payment and many more. In 2019, the Company ranked top 50 among top 100 PRC wholesalers, in respect of revenue generated from the principal business. According to the Market Research Report of the Chinese Pharmaceutical Industry (2017) 《(中國醫藥行業市場研究報告)》(2017)), in respect of sales scale, the Company ranked 7th among the pharmaceutical distribution businesses in Guangdong Province and second among private enterprises. With the good reputation and high-quality service, in June 2020, the Company was awarded the title "Model Enterprise of Integrity in Guangdong Province" (for nine consecutive years from 2011 to 2019) jointly by Guangdong Enterprise Federation and Guangdong Entrepreneurs Association. It was awarded the title "Contract Abiding and Credit Respecting Enterprise in Guangdong Province" by Guangdong Provincial Market Supervision Administration (for 19 consecutive years from 2001 to 2019). In August 2020, it won the honorary title "Enterprise Having Great Love and Undertaking Responsibility in War against Epidemic" issued by China Health Industry (International) Ecological Conference and the "Golden Ant" Service Award of Chinese logistics industry from 2019 to 2020 issued by China (Guangzhou) International Logistics Equipment and Technology Exhibition Organising Committee. In September 2020, it was appraised as the best pharmaceutical supply chain logistics centre (base) in 2019-2020 and the best pharmaceutical supply chain logistics service enterprise in 2019-2020 by the Pharmaceutical Supply Chain Alliance. It was appraised as one of the top-100 outstanding private pharmaceutical commercial circulation enterprises in China in 2019 by the Pharmaceutical Business Branch of Pharmaceutical Chamber of Commerce of All-China Federation of Industry and Commerce.

PERFORMANCE FOR THE YEAR 2020

The Group's operating revenue increased by 14.28% from RMB3,492.78 million in 2019 to RMB3,991.71 million in 2020, while its gross profit increased by 7.48% from RMB223.67 million in 2019 to RMB240.40 million in 2020. The Group's gross profit margin decreased from 6.40% in 2019 to 6.02% in 2020. The Group's net profit attributable to the shareholders of parent company increased by 1.00%, from RMB40.15 million in 2019 to RMB40.56 million in 2020.

PROSPECT

The pharmaceutical distribution market is greatly impacted by economic environment and policy factors. For example, the intensified implementation of a series of medical reform measures such as dynamic adjustment of national medical insurance catalogue, expansion of 4 + 7 large-volume drug procurement and extensive implementation of two-invoice system has led to the profound change in the pharmaceutical distribution industry. The promotion of policy has brought opportunities to the pharmaceutical distribution industry, and promoted the industry to develop in the direction of high quality, high standard and strict standard. The deepening of medical insurance reform and the continuous investment in national health care can effectively promote the consumption of medical and health care of residents, enhance the market demand for medical goods and services, and drive the large-scale growth of medical market. In addition, the reform of large-volume drug procurement will promote the industrial enterprises that relied on the bidding market to expand the pharmaceutical retail market, and thus the non-bidding market will usher in greater opportunities for development.

Furthermore, with the increasing incidence rate of chronic diseases, the accelerated population aging and the outbreak of COVID-19 pandemic, the awareness of the public on preventive health care is increasing, and the demand for medical and health care will continue to grow. The PRC government the concept of life-cycle health management and implements it in all aspects of urban management, and the room for development of pharmaceutical industry will be further expanded.

We have always been focusing on the non-bidding market. Owing to the information construction, logistics centre construction and market terminal network expansion carried out by us in recent years, we believe that there will be greater growth, better return and high-quality development in the following years. In the future, we will strengthen the risk management, improve the operation quality, adhere to the market strategy of "Intensive Engagement in Guangdong Province and Extensive Coverage across Surrounding Areas", build a pharmaceutical retail outlet network covering Guangdong Province and the surrounding areas, and strive to improve the sales income and profits, so as to provide better returns to all shareholders.

APPRECIATION

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

Charmacy Pharmaceutical Co., Ltd.

Yao Chuanglong

Chairman

Shantou, PRC, 26 March 2021

Financial Summary

Items	For the year ended 31 December				
	2020 RMB'000	2019 RMB'000	2018 RMB'000	2017 RMB'000	2016 RMB'000
Operating revenue	3,991,711	3,492,783	3,935,246	4,095,835	3,669,781
Total profit	54,742	55,045	63,655	59,857	76,081
Net profit attributable to the Shareholders of parent company	40,556	40,153	45,433	44,760	56,458
Basic and diluted earnings per Share (expressed in RMB per share)	0.38	0.37	0.42	0.41	0.52

Items	As at 31 December				
	2020 RMB'000	2019 RMB'000	2018 RMB'000	2017 RMB'000	2016 RMB'000
Total assets	2,799,403	2,503,808	2,353,980	2,471,830	2,111,570
Total liabilities	2,296,854	2,020,215	1,877,242	2,008,423	1,668,801
Equity of Shareholders	502,549	483,593	476,737	463,407	442,769
Net assets per Share (as stated in RMB per Share)	4.65	4.48	4.41	4.29	4.10

Management Discussion and Analysis

INDUSTRY OVERVIEW

The "13th Five-Year Plan" period is an important stage for building a well-off prosperous society in an all-round way and accomplishing the strategic goal of "Healthy China", in which pharmaceutical supervision is upgraded and the effect of the "Three Medical Linkage (三醫聯動)" linkage is shown. With the full implementation of policies such as the "Two-Invoice System (兩票制)" and "Zero Mark-up for Medicines (藥品零加成)", the structure of pharmaceutical distribution market, channel layout and supply chain relationship have undergone profound changes. Focusing on the "Control on Medical Insurance Fee (醫保控費)", the implementation of policies such as "Purchase in Quantity (帶量採購)" and "Diagnosis Related Group ("DRG") Payment (疾病診斷相關分組 (DRGs) 付費)" improves the utilisation efficiency of medical insurance funds, reduces the burden of patients and accelerates the changes in structure of clinical drugs. Driven by new technologies and new momentum, the "Internet +" policy will reshape the ecological landscape of the pharmaceutical distribution industry and achieve high-quality development.

With the introduction of the updated "Good Supply Practice for Pharmaceutical Products (新版藥品經營質量管理規範)" and the "Pharmaceutical Administration Law (藥品管理法)" of the People's Republic of China, pharmaceutical distributors face the twin challenge of tighter supervision and higher supply chain standards. However, the sweeping promotion of the Chinese medical reform policy is gradually standardising the pharmaceutical distribution industry, with some small- and medium-sized distributors acquired or phased out, while large ones adjusting their business structures and enhancing the quality and benefits of overall operations through transformation and merger and acquisitions. The pharmaceutical distribution industry is continuously increasing concentration in the midst of tightened supervision plus policy effect.

Impact of COVID-19 pandemic ("pandemic" or "COVID-19 pandemic") on the pharmaceutical industry

During the COVID-19 pandemic period, the National Health Commission of the PRC issued and continued to update the "Treatment Plans of Pneumonia caused by the Novel Coronavirus Infection" (《新型冠狀病毒感染的肺炎診療方案》), which provided clear guidance on both Chinese and Western medical treatments and medicines during each stage of the illness. As such, the use of relevant anti-virus drugs and Chinese medicines has driven the growth of the sales revenue from the manufacture of chemical drugs and the production of Chinese medicines. It is crucial to secure the transportation of pandemic prevention drugs and materials. Pharmaceutical distribution enterprises utilise the nationwide sales channels to maximise the integration and allocation of market resources, providing medical materials for pandemic prevention and control. By bridging pharmaceutical companies or warehouses storing anti-virus supplies and the virus-hit areas, pharmaceutical distributors have played an important part in supporting the fight against the pandemic and ensuring stability amid the COVID-19 pandemic and strengthened their role in the public health system, fully displaying the industry's value and social responsibility.

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

The pandemic gave a boost to the "Internet + Healthcare" initiative, continuously pushing up the growth of the Direct to Patient (DTP) market. According to the Guideline on Promoting "Internet +" Health Services in the Time of Novel Coronavirus (關於推進新冠肺炎疫情期間開展 "互聯網 +" 醫保服務的指導意見) jointly issued by the National Healthcare Security Administration and the National Health Commission of China on 2 March 2020, online consultation services provided by qualified Internet-based medical organizations to treat common and chronic diseases of patients with medical insurance may be covered by the medical insurance fund. The National Medical Products Administration released the "Regulation on Online Sales of Pharmaceutical Products (Opinion Soliciting Draft) (藥品網絡銷售監督管理辦法 (徵求意見稿))" by on 12 November 2020 for public comment, which proposes to give a green light to online sales of prescription drugs provided the source of electronic prescriptions is genuine and reliable. During the fight against COVID-19 pandemic in 2020, Internet healthcare provided a more convenient and safer access to medical resources than the traditional route of visiting hospital, while reducing the number of people gathering in one place. Besides, Internet healthcare and "prescription drug outflow" will greatly drive the expansion of the non-tender market and the transformation and upgrade of the pharmaceutical distribution industry.

Total national health expenditures are on a rise. Grassroots public hospitals and retail pharmacies are expanding their shares in the end market.

Total national health expenditures are rising year after year, accounting for 6.6% of GDP in 2019. There is still big growth potential.

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

Business transformation of pharmaceutical companies and distributors driven by the changes in the pharmaceutical market to promote the development of non-bidding market and third-party logistics business

With the implementation of "Control on Medical Insurance Fee (醫保控費)", centralised medicine procurement directly reduces drug prices and also narrows the profit margin across the whole value chain of pharmaceutical products. The operating pressure on pharmaceutical distribution has brought about a change in the business model of the pharmaceutical industry. The change in the medication of public medical organisations has further reduced the profit of industrial enterprises in the pharmaceutical sector. Meanwhile, the advancement of the tiered diagnosis and treatment system has come with the accelerated expansion of the end market to county areas, expanding the share in the retail end market. The transformation of business model has become an inevitable result of the shift in role of distributors which focus on public hospital businesses from "distribution" to "delivery" and the need to face the competitions of new third-party logistics service providers. The products that did not award tenders in centralised procurement will turn to the pharmaceutical retail market and increase the investment and promotion in the retail market, pharmaceutical distributors with a solid retailer base will be increasingly favored by pharmaceutical companies to strengthen their advantage in market expansion.

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

Whole life cycle health management model to comprehensively promote the "Healthy China"

The "Healthy China 2030 Planning Outline" (《「健康中國 2030」規劃綱要》) published in 2016 marked the elevation of the full life cycle health concept to the national strategic level for the first time. In 2020, China further emphasises that the concept of health management throughout the full life cycle should be implemented throughout the city planning, construction and management of every parts in the whole process. This health management model will create a high quality, highly efficient and high-growth healthcare industry which meets the development needs of the society. China's 14th Five-Year Plan (2021-25) proposes to exhaustively advance the "Healthy China" initiative, put the protection of people's health in a strategic position for prioritised development, and provide people with a full range of whole cycle health services.

Proceeding from the whole set of wide-ranging and social influential factors on health, the whole life cycle health management performs continuous health management and provides relevant services at different stages of the mankind with a focus on their life cycle for the purpose of integrated governance over those factors. The increasing demand of the public for health and the gradually improved health spending awareness of the residents have come with the exploration into the whole life cycle management model of drugs. Fully leveraging on new technologies such as Internet-based medical care and big data, this endeavor causes the medical service system to provide all the people with a full package of medical solutions integrating prevention, treatment, rehabilitation and health management in a bid to advance the pharmaceutical industry's healthy development and the volume expansion of the end market.

Sources of the above information: MENET (Note: The three terminal markets do not include private medical institutions), Annual Report on China's Pharmaceutical Distribution Industry (2020) (《中國藥品流通行業發展報告》(2020))

Note: Total health expenditures include the government's health expenditure, social health expenditure, and personal health expenditure in cash; retail terminals consist of chain pharmacies, privately-owned pharmacies, health stations, clinics and community hospitals.

BUSINESS REVIEW

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

In 2020, we followed the operation target set, and continued to explore Guangdong market in depth and expand our coverage on surrounding areas, with a focus on developing the business with retail end-customers. We maintain close and good communication with customers, and provide customers with the most thoughtful services. As of 31 December 2020, our distribution network covered 10,915 customers, among which 647 were distributors, 7,003 were retail pharmacy stores and 3,265 were hospitals, clinics, health centres and others, representing an increase of 2,614 in the number of customers, including the increase of 2 distributors, the increase of 1,421 retail pharmacy stores, and the increase of 1,191 hospitals, clinics, health centres and others compared to last year.

In order to meet the different needs of customers and enhance customer adhesion, we strengthened cooperation with well-known domestic and overseas manufacturers, and expanded the variety and scale of first-level distribution products; continued to optimise product structure by introducing marketable, high-quality products with high profit margin to enrich product categories. As of 31 December 2020, we had a total of 1,142 suppliers, of which 677 were pharmaceutical manufacturers and 465 were distributor suppliers, representing an increase of 52 suppliers compared to last year. As of 31 December 2020, we distributed 11,828 types of products, representing an increase of 188 types of products compared to last year.

Number of products

Products Category	For the year ended 31 December	
	2020	2019
Western medicines	4,300	3,850
Chinese patent medicines	4,497	4,328
Healthcare products	172	214
Others	2,859	3,248
Total	11,828	11,640

We actively promoted the diversion of terminal retail customers from offline to online, where they can place orders and make inquiries and payments through our own B2B e-commerce platform "Charmacy e-Medicine" ("**e-commerce platform**") (<http://www.cmyynet.com/>). We increased online promotion activities and continued to optimise and improve the user experience on PC terminal, WAP mobile terminal, and WeChat mini program. For the year ended 31 December 2020, our e-commerce platform had 7,787 active trading clients in total, who are principally end customers such as retail pharmacy stores, clinics and health centres, representing an increase of 1,538 compared to last year. In 2020, the operating revenue from our B2B e-commerce platform was approximately RMB254.45 million in total, representing an increase of RMB14.97 million compared to last year.

The operating revenue of the Group in 2020 was RMB3,991.71 million, representing an increase of 14.28% as compared to last year. The gross profit margin was 6.02%, representing a decrease of approximately 0.38 percentage point as compared to last year. The total expense ratio was 4.11%, representing a decrease of 0.32 percentage point as compared to last year. Net profit amounted to RMB40.56 million, which represented an increase of RMB0.40 million as compared to last year. Our net profit margin was 1.02%, representing a decrease of 0.13 percentage point as compared to last year.

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

During the reporting period, there was an outbreak of the novel coronavirus disease (COVID-19) across the country. During the Spring Festival holiday, the Group arranged our employees to return to work in the front line of drug distribution before the end of the holiday, and expedited the distribution of pandemic prevention drugs and materials. As we have achieved comprehensive self-distribution in Guangdong Province, during the pandemic, we effectively ensured the normal supply of pandemic prevention drugs and materials in the pharmaceutical retail terminal market in Guangdong, and ensured the supply of pandemic prevention drugs and materials in the pandemic prevention and control front line. We strictly control the prices of pharmaceutical products supplied to ensure that the prices of epidemic prevention devices are stable as far as possible. We took practical actions to fulfill our social responsibility as a pharmaceutical company, and putting into practice the Group's corporate mission and responsibility of "Creating Healthy and Beautiful Life". During the reporting period, the Group supplied a total of approximately 19.86 million boxes of anti-viral products and related anti-influenza epidemic medicines, approximately 2.67 million bottles of disinfectant products and approximately 470,000 pieces of thermometers of various types to the pharmaceutical retail market in Guangdong.

During the reporting period, COVID-19 pandemic did not have a material impact on the Group's financial position and business results. The Group will continuously monitor the pandemic trend, assess its impact on the business and carry out active responses. If there's any material impact of COVID-19 pandemic on the Group's financial position and business results, the Group will publish an announcement in due course.

Guangzhou Pharmaceutical Sorting and Distribution Center officially commenced operation, further enhancing service capabilities in the Guangdong-Hong Kong-Macao Greater Bay Area (the "Greater Bay Area")

In the second half of 2020, Charmacy (Guangzhou) Pharmaceutical Sorting and Distribution Center (創美藥業(廣州)醫藥分揀配送中心) was officially launched. This sorting and distribution center has a gross floor area of 38,489m² and a storage area of 32,155m², which greatly enhanced the Group's warehousing capacity and market competitiveness in the Greater Bay Area. The existing logistics base in Guangdong can store approximately 300,000 pieces of goods, and can fully meet the storage demand for the rapid growth of drug categories and quantity. By adopting advanced logistics solutions such as Automatic Storage and Retrieval System ("AS/RS"), Warehouse Control System ("WCS") and Pick-to-Light ("PTL") system, which, when combined with the Group's existing SAP system, we are able to realise visual management of warehouse distribution, establish an integrated logistics network operation mode, build an all-round, intelligent and digital pharmaceutical intelligent warehouse, and realise the synergic operation of each logistics center of the Group. Meanwhile, the expansion of the third-party logistics business of the Company can be promoted, and the Company's profitability be boosted.

Completion of Huizhou subsidiary's equity acquisition to tap the end market in Huizhou and Heyuan

The Group established a wholly-owned subsidiary, namely, Huizhou Charmacy Pharmaceutical Co., Ltd. (惠州創美藥業有限公司), through equity acquisition in July 2020, and established a new logistics and delivery center spreading over 5,812.92 m² and boasting a storage area of 3,937.6 m² in Huizhou in November 2020. The acquisition is in line with the Group's development strategy of focusing on Guangdong and extending its reach into the surrounding areas. It is expected to help the Group tap deeply into the end market in Huizhou and Heyuan, enlarge the coverage of the drug retail network, and enhance the Company's market competitiveness and sales revenue.

Shenzhen subsidiary is under business preparation and intends to further expand coverage of terminals in Shenzhen

The preparation for establishing Shenzhen Charmacy Pharmaceutical Co., Ltd. (深圳創美藥業有限公司) ("Shenzhen Charmacy"), a subsidiary wholly owned by the Company, was underway since December 2020. The establishment of the subsidiary is expected to be completed in the second quarter of 2021, and it will officially operate in the same quarter. Shenzhen Charmacy will further refine the distribution network in Shenzhen and surrounding areas and extend the business reach there to better serve terminal customers in Shenzhen and increase coverage in the city's retail end market. Thereby contributing to the advancement of the strategy "Intensive Engagement in Guangdong Province and Extensive Coverage across Surrounding Areas", and raising the Company's revenue and elevate the Company's status in the whole market of South China.

PROSPECTS

With the mission of creating a healthy, beautiful life firmly in mind, we will uphold the business philosophy of operating honestly, creating benefits for the others and the general public and achieving win-win outcomes through cooperation, follow the development strategy of focusing on "Intensive Engagement in Guangdong Province and Extensive Coverage across Surrounding Areas", and commit ourselves to becoming the most competitive health and medical service provider in China. The Company's development strategy and long-term business objectives did not change from last year.

2021 is the starting year of the 14th Five-Year Plan in China. It will also mark a turn in the changing pharmaceutical market landscape in the PRC. In 2020, COVID-19 pandemic not only delivered a short-term impact on drug protection, but also accelerated the medical reform and had a far-reaching influence on the pharmaceutical industry. The implementation of the new national medical insurance catalog, the expansion of the volume-based procurement scheme, as well as the pilot of diagnosis-related group ("DRG") payments in some cities, among other policy initiatives, will promote the change of the industry's sales models and the restructuring of the distribution channels. In the long run, China's economy has both tenacity and growth potential, and the trend of steady progress will not change. Moreover, the non-tender market will progressively raise its share alongside the advancement of the medical reform, the government's increasing inputs into healthcare, the acceleration of aging and the enhancement of people's health awareness. This will contribute to the long-term growth of business. In such a context, we need to secure an edge in competition through timely aligning our business model with policy changes, seizing policy opportunities and searching for opportunities in the market, and facilitating refined management and high-quality development.

The advantages of internet healthcare have been highlighted under the background of COVID-19 pandemic, and the development of "Internet +" has been accelerated. We will capture the opportunity from the "Internet + Healthcare" initiative and the gradual implementation of hierarchical medical system during the expansion of the grassroots healthcare market. and continue to promote the innovation and reform of "Internet + Pharmaceutical Distribution". We will continuously upgrade and develop the functional application of the e-commerce platform, improve user transaction experience, empower the platform with technology and marketing innovation for more economic benefits, promote the better development of e-commerce business, and actively promote the standardisation, streamlining and intelligentisation of pharmaceutical distribution and delivery services to achieve low-cost and high-efficiency operation results. At the same time, the Group will explore new and more customer-oriented marketing models through the combination of online and offline traffic, cooperation with other sectors and multi-dimensional online promotions and build a new platform for communication with customers, so that customers can directly and thoroughly understand the enterprise and products in a more convenient way, allowing customers to benefit from high-quality services.

We will strengthen risk management, improve business quality, seize the opportunities arising from the expansion of the primary medical market, adhere to the market strategy of "Intensive Engagement in Guangdong Province and Extensive Coverage across Surrounding Areas", and build a pharmaceutical retail terminal network with full coverage on Guangdong Province and surrounding areas.

We will search for long-term strategic cooperation with pharmaceutical producers and focus on strengthening our cooperation with major prescription drug manufacturers to capture more growth opportunities in non-tendering market products, diversify our product portfolios and cement the strength of our products. What's more, using the pharmaceutical retail terminal network resources and data of the Group, we will provide upstream suppliers with across-the-board brand promotions and product launch programs.

In alignment with the trends of simplified supply chains and fragmented order needs of end users, we will utilise the Company's automated, intelligent and IoT technologies to actively raise the efficiency of dismounting and sorting. We will continue to strengthen the building of modern and professional pharmaceutical logistics capabilities, actively explore the application of intelligent logistics technologies, integrate transportation resources to ramp up delivery service capabilities, optimise the multi-warehouse network layout adopting integrated operation in Guangdong Province, and implement refined management of logistics costs. As Charmacy (Guangzhou) Pharmaceutical Sorting and Distribution Centre has commenced operation, leveraging on its strong logistic and warehousing capabilities, the Group's warehousing and sorting scale will be expanded, and multi-warehouse collaboration by integrating pharmaceutical warehousing and transportation resources will be attained, to further unleash our advantages in customers, products, management and services and better expand the terminal distribution network. At the same time, we will actively expand the third-party pharmaceutical logistics business to enhance storage utilisation rate, increase transportation efficiency, leverage on our own logistics network advantages to provide upstream suppliers and downstream customers with warehousing and third-party logistics services, so as to enhance the Group's market competitiveness and profitability.

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

FINANCIAL REVIEW

Operating revenue

Items	For the year ended 31 December	
	2020 RMB'000	2019 RMB'000
Principal business	3,962,210	3,472,158
Other business	29,500	20,625
Operating revenue	3,991,711	3,492,783

The operating revenue of the Group in 2020 was RMB3,991.71 million, representing an increase of 14.28% as compared to last year.

Customer Type	For the year ended 31 December	
	2020 RMB'000	2019 RMB'000
Distributors	1,906,411	1,775,333
Retail pharmacy stores	1,935,731	1,582,398
Hospitals, clinics, health centers and others	120,069	114,426
Revenue from principal business	3,962,210	3,472,158

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

Our revenue from principal business increased by 14.28% in 2020, the reasons are as follows: from the perspective of companies' contribution to income: (i) the wholly-owned subsidiary Guangzhou Charmacy Pharmaceutical Co., Ltd. (廣州創美藥業有限公司) passed the initial cultivation period, and its income grew significantly as compared with the that in the same period in previous year, with its contribution to the operating income increased by RMB215.50 million; (ii) the wholly-owned subsidiary Guangdong Charmacy Pharmaceutical Co., Ltd. (廣東創美藥業有限公司) got its contribution to the operating income increased by RMB191.70 million; from the perspective of products' contribution to income, (i) the outbreak of COVID-19 pandemic led to an increase in sales of relevant products; (ii) the number of first-class medicine varieties was increased, the sales amount of first-level medicine varieties increased by RMB438.71 million as compared with that in the same period in previous year, among which RMB169.37 million were attributable to the newly-added first-level medicine varieties and the varieties which were upgraded to first-level medicine in this year.

Operating cost, gross profit and gross profit margin

The operating cost of the Group increased by 14.75% to RMB3,751.31 million for the year ended 31 December 2020 from RMB3,269.11 million for the year ended 31 December 2019. Such change was in line with the change in operating revenue from sales of products.

The gross profit of the Group increased by 7.48% to RMB240.40 million for the year ended 31 December 2020 from RMB223.67 million for the year ended 31 December 2019. The gross profit margin of the Group decreased to 6.02% for the year ended 31 December 2020 from 6.40% for the year ended 31 December 2019. The decrease was mainly due to the surge in manufacturer's price of pandemic prevention products, while the Group responded to the national call to maintain the price stability of the epidemic drugs and materials, and the gross profit margin of the epidemic-related drugs and materials decreased.

Selling expenses

The selling expenses of the Group increased by 11.00% to RMB85.92 million for the year ended 31 December 2020 from RMB77.40 million for the year ended 31 December 2019, the reasons are as follows: (i) with the increase of marketing and logistics personnel, the salary of employees increased by RMB2.34 million; (ii) with the development of terminal business, the corresponding market maintenance cost increased by RMB2.55 million; (iii) with the growth of overall income in 2020 and the normal operation of Guangzhou Pharmaceutical Sorting and Distribution Center in the second half of 2020, the transportation cost increased by RMB1.65 million; (iv) with the use of Guangzhou Pharmaceutical Sorting and Distribution Center and the supporting logistics equipment, the depreciation increased by RMB0.65 million.

Management expenses

The management expenses of the Group decreased by 1.61% to RMB45.76 million for the year ended 31 December 2020 from RMB46.51 million for the year ended 31 December 2019, the main reason is that, owing to the support policy provided by the PRC government in response to COVID-19 pandemic in 2020, the social security contribution payable by large enterprises during January-June and that payable by SMEs during January-December were halved, so that the social security contribution was decreased by RMB630 thousand as compared with that in the same period in previous year.

Finance costs

The finance costs of the Group increased by 5.48% to RMB32.43 million for the year ended 31 December 2020 from RMB30.75 million for the year ended 31 December 2019, the main reason is that the borrowings from bank in 2020 were increased as compared with those in 2019, the interest expenses were increased by RMB1.41 million.

Income tax expense

The income tax expenses of the Group decreased by 4.73% to RMB14.19 million for the year ended 31 December 2020 from RMB14.89 million for the year ended 31 December 2019, and the current income tax expenses were recognized and the deferred income tax assets and liabilities were adjusted according to the accounting standards.

Net profit

The net profit of the Group increased by 1.00% to RMB40.56 million for the year ended 31 December 2020 from RMB40.15 million for the year ended 31 December 2019. In particular, the net profit attributable to the shareholders of parent company increased by 1.00% to RMB40.56 million for the year ended 31 December 2020 from RMB40.15 million for the year ended 31 December 2019.

Liquidity and financial resources

As at 31 December 2020, the cash and bank deposits of the Group is denominated in RMB and amounted to RMB113.77 million, while the cash and bank deposits amounted to RMB40.15 million as at 31 December 2019.

As at 31 December 2020 and 31 December 2019, the Group recorded net current assets of RMB89.32 million and RMB140.44 million, respectively. As at 31 December 2020, the current ratio (based on the calculation of current assets divided by current liabilities) of the Group was 1.04 (2019: 1.07).

The bank borrowings of the Group as at 31 December 2020 were RMB686.21 million (short-term borrowings: RMB535.92 million, long-term borrowings: RMB150.29 million (including the long-term borrowings due within one year: RMB31.84 million)). All the bank borrowings were provided by the banks within the PRC, which bear fixed interest rates. The carrying amount of the bank borrowings is presented in RMB, and is approximate to the fair value. The Group did not use any financial instruments for hedging purposes or did not have any existing borrowings and/or other hedging instruments for hedging net foreign currency investments.

Notes receivable, accounts receivable and receivables financing

As at 31 December 2020, the amount of notes receivable, accounts receivable and receivables financing of the Group was increased by RMB29.48 million as compared with that as at 31 December 2019 and reached RMB763.99 million, a year-on-year growth of 4.01%, lower than the growth of operating income which is 14.28%.

Bills payables and trade payables

As at 31 December 2020, the Group's bill payables and trade payables amounted to RMB1,508.44 million, representing an increase of RMB229.92 million compared to those as at 31 December 2019. The reason is due to the increase in drug purchases in 2020, the accounts payable and notes payable were increased accordingly.

Treasury policy

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

Foreign currency exchange risk

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

Interest rate risk

For the year ended 31 December 2020, the Group had no bank borrowings which bear interest at floating rate. (2019: Nil).

Capital management

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

	31 December 2020	31 December 2019
Gearing ratio	53.25%	55.99%

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

Capital commitment

As at 31 December 2020, the Group had no capital commitment (2019: RMB32.52 million).

Employees' information

As at 31 December 2020, the Group had a total of 903 employees (including executive Directors), representing an increase of 107 employees compared with the number of employees as at 31 December 2019. The total staff cost (including emoluments of directors and supervisors) was RMB68.49 million, as compared to RMB66.96 million for the year ended 31 December 2019, representing an increase of 2.29%. The emoluments were determined with reference to market practice and the performance, qualification and experience of individual employees.

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

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

Significant investments, acquisitions and disposals held

Apart from investments in subsidiaries, the Group held no significant investment, acquisition or disposal in the equity interests of any other company for the year ended 31 December 2020.

Future plans related to the material investments and capital assets

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

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

During the year ended 31 December 2020, the Group had no material acquisitions and disposals related to subsidiaries, associates and joint ventures.

Pledge of assets

As at 31 December 2020, the Group was granted a credit limit of RMB1,462.51 million by various banks, while the Group's utilised banking facilities totaled RMB1,139.45 million, which were secured by (i) property, plant and equipment held by the Group with a carrying amount of RMB284.98 million as at 31 December 2020; (ii) land use rights held by the Group with a carrying amount of RMB135.47 million as at 31 December 2020; and (iii) the Group's inventories with a carrying amount of RMB350.00 million as at 31 December 2020.

Contingent liabilities

As at 31 December 2020, the Group had no material contingent liabilities (2019: Nil).

Biographies of Directors, Supervisors and Senior Management

DIRECTORS AND SUPERVISORS

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

Name	Date of appointment	Age
Executive Directors		
Yao Chuanglong (姚創龍)	6-Mar-2000	51
Zheng Yuyan (鄭玉燕)	25-May-2015	46
Lin Zhixiong (林志雄)	25-May-2015	51
Non-executive Director		
Li Weisheng (李偉生)	10-Jun-2017	56
Independent Non-executive Directors		
Wan Chi Wai Anthony (尹智偉)	1-Dec-2015	45
Zhou Tao (周濤)	1-Dec-2015	37
Guan Jian (關鍵) (also known as Guan Suzhe (關蘇哲))	1-Dec-2015	51
Supervisors		
Zhang Ling (張玲)	25-May-2015	48
Zheng Xiyue (鄭禧玥)	25-May-2015	41
Lin Zhijie (林志傑)	5-Sep-2017	37

Chairman and Executive Director

Mr. Yao Chuanglong (姚創龍), aged 51, is our Chairman, executive Director and Chief Executive Officer. He is responsible for the overall management of the Group, strategic planning and decision, formulation of annual business operation plan of the Group.

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

Mr. Yao joined the Group in March 2000 as a general manager of the Company, overseeing the daily operation and formulation of the strategic development of the Company. Mr. Yao has been acting as the chairman of the Company since May 2015. He currently serves as the executive Director and general manager of Guangdong Charmary, Zhuhai Charmacy, Shenzhen Charmacy and Huizhou Charmacy.

Executive Directors

Ms. Zheng Yuyan (鄭玉燕), aged 46, is our vice president, executive Director and Chief Marketing Officer.

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

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

Mr. Lin Zhixiong (林志雄), aged 51, is our executive Director, company secretary and Chief Financial Officer. He is responsible for the financial management of the Group, He joined the Group in March 2010 as the financial director of the Group.

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

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

Non-executive Director

Mr. Li Weisheng (李偉生), aged 56, has been our non-executive Director since June 2017.

Mr. Li is a pharmacist-in-charge. In 1989, Mr. Li graduated from Guangdong Pharmaceutical University (formerly known as Guangdong Pharmaceutical Institute) with a bachelor's degree in medicine, majoring in preventive healthcare.

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

Independent non-executive Directors

Mr. Wan Chi Wai Anthony (尹智偉), aged 45, was appointed as our independent non-executive Director on 1 December 2015.

Mr. Wan graduated from the Hong Kong University of Science and Technology in November 1997 with a bachelor degree in business administration (accounting). Mr. Wan graduated from the University of London with a bachelor degree in laws in August 2003 through distance learning. He further obtained the Postgraduate Certificate in Laws in June 2004 from the University of Hong Kong. Mr. Wan was admitted as a member of the Hong Kong Institute of Certified Public Accountants in January 2002 and a Fellow of the Association of Chartered Certified Accountants in May 2006. Mr. Wan was also admitted as a solicitor of the High Court of Hong Kong in September 2006.

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

Mr. Zhou Tao (周濤), aged 37, was appointed as our independent non-executive Director on 1 December 2015.

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

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

Mr. Guan Jian (關鍵) (also known as Guan Suzhe (關蘇哲)), aged 51, was appointed as our independent non-executive Director on 1 December 2015.

Mr. Guan graduated from Chinese People's Liberation Army University of International Relationships (中國人民解放軍國際關係學院) with a bachelor degree in English in July 1991 and from China Europe International Business School (中歐國際工商學院) in the PRC with a master degree in business administration in November 1997.

In August 2014, Mr. Guan was appointed as a guest professor by Shanghai Jiao Tong University Continuing Education School (上海交通大學繼續教育學院) in the PRC. Mr. Guan worked as a sales director in Yihaodian (一號店), a company engaging in business administration, responsible for marketing, sales and operational management in May 2008. During the period from July 2009 to August 2010, he was the vice president of Shanghai Haolijia Electronics Commerce Limited (上海好麗家電子商務有限公司), a company engaging in the business of marketing, sales and training, responsible for the business management. Since July 2011, he has been working as the chief executive officer of Mankedao (Shanghai) Information Technology Limited (慢客島(上海)網絡科技有限公司), overseeing the general management. Since 2 June 2015, he has been the executive director and president of Shanghai New Focus Investment Development Limited (上海新關點投資發展有限公司), responsible for integrated corporate management. Mr. Guan has been the consultant of China Telecom Corporation Limited Jiangsu electronics channel operations centre (中國電信股份有限公司江蘇電子渠道營運中心) and currently acts as the supervisor of Sichuan Womijia Network Technology Limited* (四川我迷家網絡科技有限公司). He has been an independent director of Hubei Forbon Technology Co., Ltd. (湖北富邦科技股份有限公司) since May 2019.

Supervisors

Ms. Zhang Ling (張玲), aged 48, was appointed as the chairlady of the Board of Supervisors on 25 May 2015.

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

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

Mr. Lin Zhijie (林志傑), aged 37, was appointed as our shareholder's representative Supervisor on 5 September 2017.

Mr. Lin graduated from the Science and Technology College of Jiangxi University of Traditional Chinese Medicine* (江西中醫學院科技學院) in the PRC in July 2007, majoring in pharmaceuticals formulation, and obtained a postgraduate diploma in "Organization and Human Resources Management" from the School of Professional and Continuing Education of the University of Hong Kong in May 2019.

Mr. Lin joined our Group in January 2007. He is currently our chief logistics officer and is responsible for the logistics planning and operation of the Group, including the matters such as logistics budget and cost control.

Ms. Zheng Xiyue (鄭禧玥), aged 41, was appointed as our employee representative Supervisor on 25 May 2015.

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

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

SENIOR MANAGEMENT

Ms. Liu Yingyu (劉映玉), aged 41, was appointed as our Quality Director on 7 March 2019, and is responsible for the medicine quality management of the Company.

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

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

COMPANY SECRETARY

Mr. Lin Zhixiong (林志雄), aged 51, is our company secretary. Biographical details of Mr. Lin are set out in the paragraph headed "Executive Directors" in this section.

Corporate Governance Report

CORPORATE GOVERNANCE PRACTICES

The Company has adopted and had been complying with the code provisions (the "**Code Provisions**") set out in the Corporate Governance Code contained in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**") for the year ended 31 December 2020, save for the deviation as stated below:

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

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS AND SUPERVISORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") set out in Appendix 10 to the Listing Rules as the code of conduct in dealings with securities transaction for the Directors and Supervisors of the Company. Having made specific enquiries with all Directors and Supervisors of the Company, the Company confirmed that all Directors and Supervisors have complied with the required standards as set out in the Model Code for the year ended 31 December 2020.

MEMBERS OF THE BOARD

Composition

Currently, the Board consists of seven Directors, of which three are executive Directors, one is non-executive Director and three are independent non-executive Directors. The composition of the Board is as follows:

Directors	Age	Position	Duration of service contract/ letter of appointment
Mr. Yao Chuanglong	51	Chairman, executive Director and Chief Executive Officer	28 May 2018 to 27 May 2021
Ms. Zheng Yuyan	46	Executive Director, vice president and Chief Marketing Officer	28 May 2018 to 27 May 2021
Mr. Lin Zhixiong	51	Executive Director, company secretary and Chief Financial Officer	28 May 2018 to 27 May 2021
Mr. Li Weisheng	56	Non-executive Director	28 May 2018 to 27 May 2021
Mr. Wan Chi Wai Anthony	45	Independent non-executive Director	28 May 2018 to 27 May 2021
Mr. Zhou Tao	37	Independent non-executive Director	28 May 2018 to 27 May 2021
Mr. Guan Jian (also known as Guan Suzhe)	51	Independent non-executive Director	28 May 2018 to 27 May 2021

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

Details for each of the Directors' profile are set out in the section "Biographies of Directors, Supervisors and Senior Management".

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

The Board meeting

The regular Board meeting shall be convened at least four times a year, representing once a quarter. Other Board meetings shall be convened when necessary for the discussion of the overall strategy and financial performance of the Company's operation. During the year ended 31 December 2020, the Company convened 4 Board meetings. Their details are as follows:

Name	Position	Number of Meetings Attended/ Available for Attendance
Mr. Yao Chuanglong	Chairman, executive Director and Chief Executive Officer	4/4
Ms. Zheng Yuyan	Executive Director, vice president and Chief Marketing Officer	4/4
Mr. Lin Zhixiong	Executive Director, company secretary and Chief Financial Officer	4/4
Mr. Li Weisheng	Non-executive Director	4/4
Mr. Wan Chi Wai Anthony	Independent non-executive Director	4/4
Mr. Zhou Tao	Independent non-executive Director	4/4
Mr. Guan Jian (also known as Guan Suzhe)	Independent non-executive Director	4/4

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

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

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

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

General meeting

During the year ended 31 December 2020, the Company held two general meetings. The detail is as follows:

Date	Location	Meeting
20 January 2020	3rd Floor, No. 235 Song Shan North Road, Longhu District, Shantou City, Guangdong Province, the People's Republic of China	2020 first Extraordinary General Meeting and class meetings
25 May 2020	3rd Floor, No. 235 Song Shan North Road, Longhu District, Shantou City, Guangdong Province, the People's Republic of China	2019 Annual General Meeting

The attendance of the Directors at the general meetings as below:

Name	Position	Meetings Attended/ Number of meetings held
Mr. Yao Chuanglong	Chairman, executive Director and Chief Executive Officer	2/2
Ms. Zheng Yuyan	Executive Director, vice president and Chief Marketing Officer	2/2
Mr. Lin Zhixiong	Executive Director, company secretary and Chief Financial Officer	2/2
Mr. Li Weisheng	Non-executive Director	2/2
Mr. Wan Chi Wai Anthony	Independent non-executive Director	2/2
Mr. Zhou Tao	Independent non-executive Director	2/2
Mr. Guan Jian (also known as Guan Suzhe)	Independent non-executive Director	2/2

RESPONSIBILITIES OF THE BOARD AND MANAGEMENT

The Board is primarily responsible for monitoring and managing the Company's affairs, including the adoption of long-term strategies, appointment of and supervision on senior management, to ensure that the operations of the Group are conducted in accordance with its own objectives. The Board is also responsible for determining the Company's corporate governance policies which include: (i) the preparation of and review on the Company's corporate governance policies and practices; (ii) the review and regulation on the training and continuous professional development of Directors and senior management; (iii) the review and regulation on the code of conduct and compliance manual (if any) applicable to employees and Directors; (iv) the review and monitoring of the Company's policies and practices regarding the compliance with legal and regulatory requirements and (v) the review on the Company's disclosure in the Corporate Governance Report. The Board has discharged its duties in respect of the corporate governance function mentioned above during 2020.

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

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

The Board acknowledges its responsibility for the preparation of the financial statements which give a true and fair view of the state of affairs of the Group. The Financial Statements set out on pages 45 to 56 were prepared on the basis set out in note IV to the Financial Statements. Financial results of the Group are announced in a timely manner in accordance with statutory and/or regulatory requirements. The declaration of reporting responsibility issued by the external auditor of the Company on the Company's Financial Statements is set out in the Auditor's Report on page 41.

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

CONFIRMATION OF INDEPENDENCE OF THE INDEPENDENT NON-EXECUTIVE DIRECTORS

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

CONTINUOUS PROFESSIONAL DEVELOPMENT OF THE DIRECTORS

During the year ended 31 December 2020, all Directors have been given relevant guidance materials and participated related training regarding the duties and responsibilities of being a Director, the relevant laws and regulations applicable to the Directors, duty of disclosure of interests and business of the Group. Such guidance materials and relevant overview will be provided immediately to the Directors who are newly appointed. Continuing briefings and professional development for the Directors will be arranged whenever necessary.

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

In the year 2020, continuing professional development participated by the Directors is summarized as follows:

Directors	Training in relation to corporate governance, regulatory developments and other relevant professional topics
Executive Directors	
Yao Chuanglong (姚創龍)(Chairman)	√
Zheng Yuyan (鄭玉燕)	√
Lin Zhixiong (林志雄)	√
Non-executive Director	
Li Weisheng (李偉生)	√
Independent Non-executive Directors	
Wan Chi Wai Anthony (尹智偉)	√
Zhou Tao (周濤)	√
Guan Jian (關鍵) (also known as Guan Suzhe (關蘇哲))	√

APPOINTMENT, RE-ELECTION AND DISMISSAL

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

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

NON-EXECUTIVE DIRECTOR

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

INDEPENDENT NON-EXECUTIVE DIRECTORS

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

NOMINATION COMMITTEE

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

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

For the year ended 31 December 2020, the Nomination Committee convened a meeting on 30 March 2020 to review the structure, size and composition of the Board and review the independence of independent non-executive Directors and recommend the board diversity policy and director nomination policy to the Board. All the members of the Nomination Committee, including Mr. Yao Chuanglong, Mr. Zhou Tao and Mr. Guan Jian, attended the above meeting.

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

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

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

REMUNERATION COMMITTEE

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

The primary duties of the Remuneration Committee are to make recommendation to the Board on the overall remuneration policy and structure relating to all Directors, Supervisors and senior management of the Group and ensure none of the Directors determine their own remuneration. The remuneration of executive Directors are determined based on the skills, knowledge, individual performance and contributions, the scope of responsibility and duties of such Directors, taking into consideration of the Company's results performance and prevailing market conditions. The remuneration policy of non-executive Director and independent non-executive Directors is to ensure that the non-executive Director and independent non-executive Directors are adequately compensated for their efforts and time dedicated to the Company's affairs including their participation in respective Board committees. The remuneration of non-executive Director and independent non-executive Directors are determined with reference to their skills, experience, knowledge, duties and market trends. As at 31 December 2020, the Remuneration Committee consists of three members, two of them are independent non-executive Directors, namely Mr. Zhou Tao (chairman of the Remuneration Committee) and Mr. Wan Chi Wai Anthony and one of them is executive Director, namely Mr. Lin Zhixiong.

According to the Code Provision B.1.5, the remuneration paid to the Directors, Supervisors and senior management by the Group based on the remuneration benchmark for the year ended 31 December 2020 is as follows:

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

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

For the year ended 31 December 2020, the Remuneration Committee held one meeting on 30 March 2020 to review the overall remuneration policy for the Directors, Supervisors and senior management, determine such policies and propose them to the Board. The meeting was attended by all the members of the Remuneration Committee, including Mr. Zhou Tao, Mr. Wan Chi Wai Anthony and Mr. Lin Zhixiong.

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

AUDIT COMMITTEE

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

The Audit Committee reports to the Board and has held regular meetings since its establishment to review and make recommendations to improve the Group's financial reporting process and internal controls. Other than that, the primary duties of the Audit Committee are to make recommendations to the Board on the appointment, reappointment and removal of external auditor, review the financial statements and material advice in respect of financial reporting and overseas internal control of the Company. As at 31 December 2020, the Audit Committee consists of three members and three of them are independent non-executive Directors, namely Mr. Wan Chi Wai Anthony (chairman of the Audit Committee), Mr. Zhou Tao and Mr. Guan Jian.

As at the date of this annual report, the Audit Committee reviewed with the management of the Company the accounting principles and practices adopted by the Group, and discussed internal controls and financial reporting matters. The Audit Committee also discussed and reviewed the annual results for the year ended 31 December 2020 of the Company with the external auditor of the Company.

For the year ended 31 December 2020, the Audit Committee held two meetings on 30 March 2020 and 21 August 2020. On both occasions, the Audit Committee reviewed, amongst others, the Group's annual results for the year ended 31 December 2019 and the interim results for the six months ended 30 June 2020, and believed that the preparation of such results was in compliance with applicable accounting standards and the Listing Rules, in addition to reviewing the changing of the accounting policies adopted for preparing the Company's financial statements and the re-appointment of auditors. The above two meetings were attended by all the members of the Audit Committee, including Mr. Wan Chi Wai Anthony, Mr. Zhou Tao and Mr. Guan Jian.

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

For the year ended 31 December 2020, the Board has not taken a different view from the Audit Committee on the selection, appointment, designation or dismissal of external auditor.

RISK MANAGEMENT COMMITTEE

The Company established a risk management committee (the "**Risk Management Committee**") on 26 November 2015 with written terms of reference. Its terms of reference are available on the websites of the Company and Stock Exchange.

The primary duties of the Risk Management Committee are to review the general goals and fundamental policies of our risk and compliance management, internal control and risk management and internal audit functions and made recommendations to our Board on the same. As at 31 December 2020, the Risk Management Committee comprises three members, namely Mr. Yao Chuanglong, our Chairman and executive Director, Mr. Lin Zhixiong, our executive Director and Mr. Wan Chi Wai Anthony, our independent non-executive Director. Mr. Yao Chuanglong is the chairman of our Risk Management Committee.

For the year ended 31 December 2020, the Risk Management Committee held one meeting on 30 March 2020 where the Risk Management Committee reviewed the strategy, policy and guideline of the Company's risk management, the effectiveness of the Group's risk management and internal control systems, and the adequacy of resources. The meeting was attended by all the members of the Risk Management Committee, including Mr. Yao Chuanglong, Mr. Lin Zhixiong and Mr. Wan Chi Wai Anthony.

STRATEGIC DEVELOPMENT COMMITTEE

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

The Strategic Development Committee is mainly responsible for studying the overall development strategies for the Company, major investment and financing plans, and other material issues that influence the development of the Company, and making recommendations to the Board. As at 31 December 2020, the Strategic Development Committee consisted of three members, namely Mr. Yao Chuanglong as the Chairman and executive Director, Ms. Zheng Yuyan as an executive Director, and Mr. Zhou Tao as an independent non-executive Director. Mr. Yao Chuanglong serves as the Chairman of the Strategic Development Committee.

For the year ended 31 December 2020, the Strategic Development Committee held one meeting on 30 March 2020, on which the study was carried out on the development strategies and future development plans of the Company. All the members of the Strategic Development Committee, including Mr. Yao Chuanglong, Ms. Zheng Yuyan and Mr. Zhou Tao, attended the meeting.

BOARD DIVERSITY POLICY

The Board adopted the following board diversity policy:

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

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

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

AUDITOR'S REMUNERATION

During the year, the Company engaged ShineWing Certified Public Accountants (Special General Partnership) as the external auditor of the Company. The fees in respect of audit services provided by ShineWing Certified Public Accountants (Special General Partnership) for the year ended 31 December 2020 amounted to RMB0.8 million (tax exclusive). No other non-audit service was provided in addition to the above.

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

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

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

The statement of the auditor of the Company in respect of their reporting responsibilities on the Company's financial statements for the year ended 31 December 2020 is set out in the "Auditors' Report" contained in this annual report.

COMPANY SECRETARY

For the year ended 31 December 2020, Mr. Lin Zhixiong, being our company secretary, is primarily responsible for the company secretarial work of the Group.

Pursuant to Rule 3.29 of the Listing Rules, for the year ended 31 December 2020, Mr. Lin had attended no less than 15 hours of relevant professional training.

SYSTEM OF INTERNAL CONTROL AND RISK MANAGEMENT

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

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

The Board

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

The Risk Management Committee and the Audit Committee

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

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

The Board of Supervisors

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

The Management

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

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

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

The Board has conducted its annual review of the effectiveness of the system of internal control and risk management for the year ended 31 December 2020, discovered no material defect in internal control, and considered the existing system to be effective and adequate. The Company also had adequate resources, staff qualifications, training courses and budgets in its accounting, internal audit and financial reporting functions.

DISCLOSURE OF INSIDE INFORMATION

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

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

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

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

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

SHAREHOLDERS' RIGHTS

Convening an extraordinary general meeting by the Shareholders

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

Putting forward proposals at the general meeting

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

Making enquiry to the Board

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

Contact Details

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

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

Fax: 86-0754-82752026

Email: linzhixiong@charmacy.cn

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

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

CONSTITUTIONAL DOCUMENT

The Company approved the amendment to the articles of association at the first extraordinary general meeting and class meetings in 2020 held on 20 January, 2020, amending the notification period of general meeting so as to meet the requirements of the latest laws and regulations; the Company approved the amendment to the articles of association at the annual general meeting for 2019 held on 25 May, 2020, amending the rules relating to "full circulation" of H shares so as to meet the requirements of the latest laws and regulations, and amending the business scope so as to meet the needs of business development. Apart from the above, there was no other significant change in the articles of association of the Company in 2020.

INVESTOR RELATIONS AND COMMUNICATION

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

The Company updates its Shareholders on its latest business developments and financial performance through its corporate publications including annual reports and public announcements. Information about the Company's business for the year ended 31 December 2020 has been provided in this annual report. While the annual general meeting provides a valuable forum for direct communication between the Board and its Shareholders, the Company also maintains its website (<http://www.chmyy.com>) to provide an alternative communication channel for the public and its Shareholders. All corporate communication and Company's latest updates are available on the Company's website.

Directors' Report

The Board of the Company are pleased to present 2020 annual report together with the Financial Statements of the Group for the year ended 31 December 2020.

PRINCIPAL BUSINESS AND BUSINESS REVIEW

The principal business of the Company is pharmaceutical products distribution in the PRC. The principal activities of the subsidiaries of the Company are set out in Note VIII of the Financial Statements. Business review during the Reporting Period and discussion on the future business development of the Group are set out in the Management Discussion and Analysis on pages of 7 to 9 of this annual report; Performance analysis of the Group within the year based on key financial performance indicators are set out in the Management Discussion and Analysis on pages 10 to 13 of this annual report.

RESULTS AND DIVIDENDS

The Group's annual results for the year ended 31 December 2020 and its financial positions as at 31 December 2020 are set out in the Financial Statements on pages 45 to 56.

The Board recommends the distribution of a final dividend of RMB0.20 per share for the year ended 31 December 2020 (tax inclusive), which is subject to the approval by the shareholders of the Company at the annual general meeting (the "AGM") to be convened on 31 May 2021 and, if approved, will be paid on or before 15 July 2021. The dividend of domestic shares will be paid in RMB, whereas that of H Shares will be paid in HKD. The Company will publish a circular in respect of, among others, the record date of H share dividend payment and the relevant dates when the registration of the H shares of the Company will be closed, when appropriate.

DIVIDEND POLICY

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

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

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

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

RESERVES

The details of changes in reserves of the Group during the year ended 31 December 2020 are set out in the consolidated statement of change in equity in this Annual Report. As of 31 December, 2020, the distributable reserve of the Company amounted to about RMB 115.56 million.

LAST FIVE-YEAR FINANCIAL SUMMARY

A financial summary of the results, assets and liabilities of the Group for the last five years ended 31 December 2016 to 31 December 2020 is set out on page 4. This summary does not form part of the Financial Statements.

SHARE CAPITAL

Details of changes in share capital of the Company for the year ended 31 December 2020 are set out in Note VI. 27 to the Financial Statements.

UNALLOCATED PROFITS AT THE END OF THE YEAR

As at 31 December 2020, the Group's unallocated profits amounted to RMB97.12 million. Details of the movements in the unallocated profits of the Group in 2020 are set out in Note VI. 30 to the Financial Statements.

PRINCIPAL RISKS AND UNCERTAINTIES

(1) Suppliers and the quality of products provided

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

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

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

(2) Low gross profit margin and net profit margin

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

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

(3) Risk of adjustments to policies and regulations

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

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

MAJOR RELATIONSHIP WITH EMPLOYEES, CUSTOMERS AND SUPPLIERS

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

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

MAJOR CUSTOMERS AND SUPPLIERS

The aggregate sales attributable to the Group's five largest customers were 16.34% of the Group's operating revenue for the year ended 31 December 2020, and sales to the largest customer accounted for 5.08% of the Group's total turnover during the year thereof. The aggregate purchases attributable to the Group's five largest suppliers were 28.06% of the Group's total procurement cost for the year ended 31 December 2020, and purchases from the largest supplier accounted for 15.35% of the Group's total procurement cost during the year thereof. The Group does not rely on any individual customers or suppliers to have a significant impact on the Group.

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

SUBSIDIARIES

Details of the subsidiaries of the Company for the year ended 31 December 2020 are set out in Note VIII to the Financial Statements.

FIXED ASSETS

Details of changes in fixed assets of the Group during the year of 2020 are set out in Note VI.9 to the financial statements.

BORROWINGS

Particulars of borrowings of the Group as at 31 December 2020 are set out in Note VI.16 and 24 to the Financial Statements. As at 31 December 2020, the Group's property, plant and equipment, construction in progress, land use right and inventories with total carrying amount of approximately RMB770.45 million have been pledged to secure banking facilities granted to the Group (2019: approximately RMB749.45 million).

ENVIRONMENTAL PROTECTION

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

COMPLIANCE WITH LAWS AND REGULATIONS

As the Company incorporated and operates its business in mainland China, the operation and management are strictly regulated by relevant laws and regulations in the mainland. Meanwhile, as the Company is listed on the Main Board of the Hong Kong Stock Exchange, it is subject to the relevant regulations. Due to the certain differences in relevant laws and regulations between two places, the Company could be bound in various areas such as corporate governance, information disclosure, dividend policy, merger and acquisition, and related transactions. The Board is concerned about the policies and practices to comply with the requirements of laws and regulations in relation to the Group. The Group has engaged, legal advisors to PRC and Hong Kong laws to ensure the transactions and business of the Group are conducted subject to the applicable laws. The Group has included the related laws and regulations into the internal management system in order to supervise the staff to comply on an ongoing basis. The Group has strictly complied with relevant laws and regulations for the year ended 31 December 2020.

SERVICE CONTRACTS WITH DIRECTORS AND SUPERVISORS

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

Executive Directors

Yao Chuanglong (Chairman)

Zheng Yuyan

Lin Zhixiong

Non-executive Director

Li Weisheng

Independent non-executive Directors

Wan Chi Wai Anthony

Zhou Tao

Guan Jian (also known as Guan Suzhe)

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

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

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

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

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

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

Supervisors

Zhang Ling (Chairlady)

Zheng Xiyue

Lin Zhijie

The Board of Supervisors of the Company held two meetings during 2020. Details of the meetings and events conducted by the Board of Supervisors during 2020 are set out in the Board of Supervisors' report of this annual report. The employee representative supervisor of second session of the Board of Supervisors was re-elected at the representative congress held on 28 May 2018.

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

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

EMOLUMENTS OF THE DIRECTORS, SUPERVISORS AND EMPLOYEES

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

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

REMUNERATION POLICY

The Group's remuneration policies are formulated on the performance of individual employee and on the basis of the salary trends in PRC, and will be reviewed regularly. Subject to its profitability, the Group may also distribute discretionary bonus to its employees as an incentive for their contribution to the Group. The Group has no long-term incentive plan.

DIRECTORS AND SUPERVISORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

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

MANAGEMENT CONTRACTS

Other than the service contracts of the Directors, the Company has not entered into any contract with any individual, firm or body corporate to manage the whole or any substantial part of any business of the Company during 2020.

BIOGRAPHIES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Biographical details of the Directors, Supervisors and senior management of the Group are disclosed in the section headed "Biographies of Directors, Supervisors and Senior Management" on pages 14 to 17 of this annual report.

DEED OF NON-COMPETITION BY CONTROLLING SHAREHOLDER

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

(a) not directly or indirectly engage, participate or hold any right or interest in or render any services to or otherwise be involved in any business in competition with or likely to be in competition with the existing business activities of the Group or any business activities which the Group may undertake in the future;

(b) not take any direct or indirect action which constitutes an interference with or a disruption to the business activities of the Group including, but not limited to, solicitation of customers, suppliers and staff of the Group;

(c) keep our Board informed of any matter of potential conflicts of interests between Mr. Yao Chuanglong (including his associates) and the Group, in particular, a transaction between Mr. Yao Chuanglong (including his associates) and the Group; and

(d) provide as soon as practicable upon the Company's request a written confirmation in respect of compliance by it with the terms of the deed of non-competition and their respective consent to the inclusion of such confirmation in the Company's annual report and all such information as may be reasonably requested by the Company for its review.

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

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

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

(a) the Company becomes wholly-owned by Mr. Yao Chuanglong and/or his associates;

(b) the aggregate beneficial shareholding (whether direct or indirect) of Mr. Yao Chuanglong and/or his associates in the Shares in issue falls below 30% of the number of Shares in issue and Mr. Yao Chuanglong shall cease to be our executive Director; or

(c) the H Shares cease to be listed on the Stock Exchange.

Mr. Yao Chuanglong, the controlling shareholder, has confirmed to the Company of his compliance with the deed of non-competition provided to the Company for the year ended 31 December 2020.

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

CONNECTED TRANSACTIONS

We had not conducted any transactions which constitute non-exempt continuing connected transactions within the meaning of the Listing Rules for the year ended 31 December 2020.

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

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

As at 31 December 2020, the interests of the Directors, Supervisors and chief executives of the Company in the Shares, underlying Shares and debentures of the Company, its members of the Group and/or any of its associated corporations (as defined in Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register required to be kept under Section 352 of the SFO or as notified to the Company and the Stock Exchange pursuant to the Model Code were as follows:

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

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

Notes:

(1) The calculation is based on the total number of 80,000,000 domestic shares in issue of the Company as at 31 December 2020.

(2) The calculation is based on the total number of 108,000,000 Shares in issue of the Company as at 31 December 2020.

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

Save as disclosed above, as at 31 December 2020, none of the Directors, Supervisors and chief executives of the Company has any other interests or short positions in the Shares, underlying Shares or debentures of the Company, its members of the Group or any of its associated corporations (as defined in Part XV of the SFO) which have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which he/she is taken or deemed to have under such provisions of the SFO) or which are required to be entered in the register referred to therein pursuant to section 352 of the SFO or which are required pursuant to the Model Code.

DIRECTORS' AND SUPERVISORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in the section headed "Interests or Short Positions of the Directors, Supervisors and Chief Executives in the Shares, Underlying Shares, and Debentures", at no time during the year 2020, the Company, any of its subsidiaries or fellow subsidiaries was a party to any arrangement to enable the Directors and Supervisors to acquire benefits by means of acquisition of shares in, or debentures of, the Company or any other body corporate, or any Directors, Supervisors or their spouses or children under 18 years of age was granted any right to subscribe for Shares or debentures of the Company or any other body corporate or exercised any such right.

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

As at 31 December 2020, so far as the Directors are aware, the following persons/entities (other than any Directors, Supervisors or chief executives of the Company) had or deemed to have an interest or short position in the Shares or underlying Shares of the Company which fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or which had entered in the register required to be kept by the Company pursuant to section 336 of the SFO:

Name of shareholder	Nature and capacity of interest	Number and class of securities	Approximate shareholding percentage in the relevant class of Shares ⁽¹⁾	Approximate shareholding percentage of the total issued share capital ⁽²⁾
Ms. You Zeyan	Interest of spouse	59,000,000 Domestic Shares (L) ⁽³⁾	73.75%	54.63%
Ms. Wu Binhua	Beneficial owner	5,400,000 Domestic Shares (L)	6.75%	5.00%
Ms. Liu Jigui	Beneficial owner	5,400,000 Domestic Shares (L)	6.75%	5.00%
Guangzhou Pharmaceutical Baiyunshan Hong Kong Company Limited	Beneficial owner	7,906,500 H Shares (L) ⁽⁴⁾	28.24%	7.32%
Guangzhou Baiyunshan Pharmaceutical Holdings Company Limited	Interest in controlled corporation	7,906,500 H Shares (L) ⁽⁴⁾	28.24%	7.32%
Guangzhou Pharmaceutical Holdings Limited (廣州醫藥集團有限公司)	Interest in controlled corporation	7,906,500 H Shares (L) ⁽⁴⁾	28.24%	7.32%
RAYS Capital Partners Limited	Investment manager	5,534,000 H Shares (L) ⁽⁵⁾	19.76%	5.12%
RUAN David Ching Chi	Interests in controlled corporation	5,534,000 H Shares (L) ⁽⁵⁾	19.76%	5.12%
Asian Equity Special Opportunities Portfolio Master Fund Limited	Beneficial owner	5,130,000 H Shares (L) ⁽⁵⁾	18.32%	4.75%
Mr. Wang Yonghui	Beneficial owner	3,488,000 H Shares (L)	12.46%	3.23%
Kingworld Medicines Health Management Limited	Beneficial owner	2,302,000 H Shares (L) ⁽⁶⁾	8.22%	2.13%
Kingworld Medicines Group Limited	Interest in controlled corporation	2,302,000 H Shares (L) ⁽⁶⁾	8.22%	2.13%

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

Notes:

(1) The calculation is based on the total number of 80,000,000 domestic shares in issue and the total number of 28,000,000 H shares in issue of the Company as at 31 December 2020.

(2) The calculation is based on the total number of 108,000,000 Shares in issue of the Company as at 31 December 2020.

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

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

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

(6) 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.

Save as disclosed herein, our Directors were not aware of any person who will, as at 31 December 2020, an interest or short position in Shares or underlying Shares which would fall to be disclosed to our Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or be directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of our Group.

Save as disclosed above, as at 31 December 2020, none of the Directors was aware that any other persons/entities (other than any Directors, Supervisors or chief executives of the Company) had an interest or short position in the Shares or underlying Shares of the Company, its members of the Group or associated corporations which fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or which had entered in the register required to be kept by the Company pursuant to section 336 of the SFO.

COMPETITIONS AND CONFLICTS OF INTERESTS

For the year ended 31 December 2020, save as disclosed in the Prospectus, none of the Directors or substantial Shareholders of the Company or any of their respective associates conducted any business which competes, or is likely to compete, with the business of the Group or had any other conflicts of interests with the Group.

INDEMNITY OF DIRECTORS

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

MATERIAL CONTRACTS

For the year ended 31 December 2020, the Company and its subsidiaries did not enter into any contracts of significance with any controlling shareholders or any of its subsidiaries.

CONTROLLING SHAREHOLDERS' INTERESTS IN CONTRACTS

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

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

For the year ended 31 December 2020, the Company and its subsidiaries did not purchase, sell or redeem any of the listed securities of the Company.

TAX RELIEF

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

PRE-EMPTIVE RIGHTS

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

SUFFICIENT PUBLIC FLOAT

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

CHARITY DONATION

For the year ended 31 December 2020, the Company and its subsidiaries actively participated in charity and public welfare undertakings, and contributed the money and materials amounting to RMB 0.12 million to the society.

SIGNIFICANT EVENT AFTER THE REPORTING PERIOD

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

CORPORATE GOVERNANCE REPORT

The details of the corporate governance practices of the Group are set out in the Corporate Governance Report on pages 18 to 28 of this annual report.

CLOSURE OF REGISTER OF MEMBERS

For the purpose of determining the entitlement of the members of the Company to attend the AGM to be held on 31 May 2021, the register of members of the Company will be closed from 26 May 2021 to 31 May 2021 (both days inclusive), during which period no transfer of shares will be registered. In order to qualify for attending and voting at the AGM, all transfer documents accompanied by the relevant share certificates should be lodged for registration with the H share registrar of the Company, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong, no later than 4:30 pm on 25 May 2021.

AGM

The AGM will be held on 31 May 2021. The Shareholders should refer to the circular to be issued by the Company on 27 April 2021 regarding the details of the AGM and the enclosed AGM notice and proxy form.

AUDIT COMMITTEE

The Audit Committee, together with the management of the Company and the external auditor, had conducted review on the accounting principles and policies adopted by the Group and the financial statements for the year ended 31 December 2020.

AUDITORS

The Company will propose a resolution to re-appoint ShineWing Certified Public Accountants (Special General Partnership) as the auditor of the Group for the year of 2021 at the forthcoming annual general meeting. The Company has not changed its auditor in the past three years.

By order of the Board

Charmacy Pharmaceutical Co., Ltd.

Yao Chuanglong

Chairman and Executive Director

Shantou, PRC, 26 March 2021

Board of Supervisors' Report

In 2020, the Board of Supervisors fully performed its supervisory duties on members of the Board, managers and other senior management of the Company as authorised at the general meeting in accordance with the Company laws of the PRC (the "Company Law") and the Articles.

DAILY WORK OF THE BOARD OF SUPERVISORS

On 30 March 2020, it considered and approved the resolutions on the matters including the work report of the Board of Supervisors of the Company for 2019, the Financial Statements for 2019, the Results Announcement for 2019 and the Annual Report for 2019.

On 21 August 2020, it considered and approved the resolutions on the matters including the 2020 Interim Financial Statements, the 2020 Interim Results Announcement and the 2020 Interim Report.

LAWFUL OPERATION OF THE COMPANY

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

In the opinion of the Board of Supervisors:

1. In 2020, with care and strong support from all the Shareholders of the Company, as well as the diligent work of all its staff, the operation of the Company was in compliance with the Company Law and the Articles, and the procedures for making decisions on production and operation of the Company are lawful and normative, thus making satisfactory achievements in the business.
2. During the Reporting Period, each member of the Board, manager and other senior management of the Company diligently performed his/her jobs and duties in the Company and, for the benefit of the Company, strictly observed relevant laws, regulations and the Articles, and regulated the work procedures for operation and management of the Company, thereby protecting the interest of the Company and its shareholders.

INSPECTION ON FINANCIAL STATUS OF THE COMPANY

The Board of Supervisors has reviewed the 2020 Auditor's Report for submission. In the opinion of the Board of Supervisors, the financial report of the Company completely, objectively and fairly reflects its financial position and operating results. The annual operating results of the Company have been audited by ShineWing Certified Public Accountants (Special General Partnership) who has also issued an audit report which is true, objective and fair.

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

The Board of Supervisors is of the view that the Group had no connected transaction in 2020 which were subject to the reporting, annual review, announcement and independent shareholders' approval requirements as set out in Chapter 14A of the Listing Rules.

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

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

IMPLEMENTATION OF RESOLUTIONS PASSED AT THE GENERAL MEETINGS

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

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

Zhang Ling

Chairlady of the Board of Supervisors

Shantou, PRC, 26 March 2021



信永中和会计师事务所

ShineWing
certified public accountants

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Auditor's Report

XYZH/2021SZAB10324

TO THE MEMBERS OF CHARMACY PHARMACEUTICAL CO., LD. :

I. AUDIT OPINION

We have audited the financial statements of Charmacy Pharmaceutical Co., Ltd. (hereinafter referred to as Charmacy Pharmaceutical Company), which comprise the consolidated balance sheet and balance sheet of the parent company as at 31 December 2020, and the consolidated income statement and income statement of the parent company, consolidated statement of cash flow and statement of cash flow of the parent company and consolidated statement of changes in shareholders' equity and statement of changes in shareholders' equity of the parent company for the year 2020, and relevant notes to the financial statements.

In our opinion, the accompanying financial statements are prepared, in all material respects, in accordance with the requirements under the Accounting Standards for Enterprises, which give a fair view of the consolidated financial position and financial position of the parent company of Charmacy Pharmaceutical Company as at 31 December 2020 and the consolidated results of operation and cash flows and results of operation and cash flows of the parent company for the year 2020.

II. BASIS FOR FORMING AUDIT OPINION

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

III. KEY AUDIT MATTERS

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

1. Impairment of trade receivables	
Key audit matter	How the matter was addressed in our audit
<p>As set out in the Note VI.3 to the consolidated financial statements of Charmacy Pharmaceutical Company, as of 31 December 2020, trade receivables balance amounted to RMB746,721,400, provision for bad debts amounted to RMB29,167,000 and the carrying amount of trade receivables amounted to RMB717,554,500. As the carrying amount of trade receivables accounts for a relatively high proportion of assets, there would be a material impact on the financial statements if the trade receivables cannot be recovered on schedule or fail to be recovered. Therefore, we regard the recoverability of trade receivables as a key audit matter.</p>	<p>The main procedures we performed are as follows:</p> <ol style="list-style-type: none"> 1) tested the management's internal control relating to the daily management of trade receivables and assessment on their recoverability as at the end of the period; 2) reviewed the relevant consideration and objective evidence of impairment test on trade receivables by the management, and attached importance to the management's adequate identification of impaired items; 3) selected samples of trade receivables for which bad debts was separately provided, and reviewed the basis and reasonableness of the management's estimation on the expected lifetime loss; 4) as for trade receivables with provision made for bad debts based on credit risk characteristic groups by management, reviewed the expected credit loss rate appraised by the management after taking account of, amongst others, the historical default profile of trade receivables, current credit risk exposure and the forecast analysis on future economic condition, and reviewed the reasonableness of the provision for credit impairment of trade receivables accordingly; 5) taking into account the checks on the subsequent recovery of amounts, evaluated the appropriateness of the provision for bad debts determined by the management.
2. Impairment of inventories	
Key audit matter	How the matter was addressed in our audit
<p>As set out in the Note VI.7 Inventories to the consolidated financial statements of Charmacy Pharmaceutical Company, as of 31 December 2020, the balance of inventories amounted to RMB588,010,700, the provision for impairment of inventories amounted to RMB3,001,800 and the carrying amount of inventories amounted to RMB585,008,900. Inventories are measured at the lower of cost and net realizable value. The Management determined the provision for impairment of inventories based on the stock age and the level of approaching expiry date, taking into consideration the actual sales of inventories.</p> <p>We regard the impairment of inventories as a key audit matter due to the significance of the amount of inventories and the involvement of significant judgment by the management.</p>	<p>The main audit procedures we performed are as follows:</p> <ol style="list-style-type: none"> 1) tested the management's internal control relating to the validity period and stock-in time of inventories in the SAP system; 2) performed the inventory-taking supervision procedure to check the quantity and condition of inventories; 3) obtained the list of inventories of year-end stock age and approaching expiry date, to conduct analytical review on the inventories in storage for a longer period of time; checked if the Company made full provision for impairment of inventories which will expire within 180 days; 4) obtained the table of subsequent sales performance of inventories as at the end of period, to test the accuracy of calculation of such provision for impairment of inventories.

IV. OTHER INFORMATION

The Management of Charmacy Pharmaceutical Company (hereinafter referred to as the "**Management**") is responsible for the other information. The other information comprises the information covered in the 2020 annual report of Charmacy Pharmaceutical Company, other than the financial statements and our auditor's report thereon.

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

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

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

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

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

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

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

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

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

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

- (1) Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our audit opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the overriding of internal control.
- (2) Obtain an understanding of internal control in relation to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control.
- (3) Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management.
- (4) Conclude on the appropriateness of the Management's use of the going concern basis of assumption and, based on the audit evidence obtained, whether a material uncertainty exists in relation to events or conditions that may cast significant doubt on the ability of Charmacy Pharmaceutical Company to continue as a going concern. If we conclude that a material uncertainty exists, the Accounting Standards require us to draw attention in our auditor's report to the relevant disclosures in the financial statements or, if such disclosures are inadequate, to express our qualified opinion. Our conclusions are based on the available information up to the date of our auditor's report. However, future events or conditions may cause Charmacy Pharmaceutical Company to cease to continue as a going concern.
- (5) Evaluate the overall presentation, structure and content of the financial statements, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- (6) Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within Charmacy Pharmaceutical Company, to express an audit opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit, and remain solely responsible for our audit opinion.

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

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

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

ShineWing Certified Public Accountants (Special General Partnership)

Chinese Certified Public Accountant: Wang Yaming (Project partner)

Chinese Certified Public Accountant: Zhuang linbin

Beijing, China

26 March 2021

Consolidated Balance Sheet

As at 31 December 2020

Prepared by: CHARMACY PHARMACEUTICAL CO., LTD.

Unit: RMB

Items	Note	Balance as at the end of the year	Balance as at the beginning of the year
Current assets:			
Monetary funds	VI.1	590,322,268.07	506,308,452.64
Bills receivables	VI.2	20,639,970.00	22,252,167.66
Trade receivables	VI.3	717,554,454.07	712,261,600.46
Account receivable financing	VI.4	25,799,692.96	
Prepayments	VI.5	253,766,373.02	212,710,994.97
Other receivables	VI.6	12,839,764.71	12,117,039.54
Inventories	VI.7	585,008,876.72	515,162,428.39
Other current assets	VI.8	45,377,379.28	37,890,955.07
Total current assets		2,251,308,778.83	2,018,703,638.73
Non-current assets:			
Fixed assets	VI.9	354,551,660.22	191,387,488.54
Construction in progress	VI.10	1,496,742.97	110,584,639.14
Right-of-use assets	VI.11	16,451,641.00	15,392,876.84
Intangible assets	VI.12	152,191,599.87	153,080,960.03
Goodwill	VI.13	6,024,104.16	3,127,688.00
Long-term expenses to be amortized	VI.14	8,085,530.37	5,503,512.35
Deferred income tax assets	VI.15	9,292,634.77	6,027,070.73
Total non-current assets		548,093,913.36	485,104,235.63
Total assets		2,799,402,692.19	2,503,807,874.36

Consolidated Balance Sheet

31 December 2020

Prepared by: CHARMACY PHARMACEUTICAL CO., LTD.

Unit: RMB

Items	Note	Balance as at the end of the year	Balance as at the beginning of the year
Current liabilities:			
Short-term borrowings	VI.16	535,919,072.17	502,189,369.18
Bills payables	VI.17	938,611,254.96	833,561,059.77
Trade payables	VI.18	569,826,535.10	444,956,856.84
Receipts in advance		-	-
Contract liabilities	VI.19	5,013,052.93	2,864,226.16
Salaries payable to employees	VI.20	5,788,619.82	4,735,446.57
Tax payables	VI.21	58,549,342.70	48,989,151.02
Other payables	VI.22	13,765,328.93	11,798,422.22
Including: Interests payable		-	-
Non-current liabilities due within one year	VI.23	34,520,568.55	29,164,198.86
other current liabilities		-	-
Total current liabilities		2,161,993,775.16	1,878,258,730.62
Non-current liabilities:			
Long-term borrowings	VI.24	118,455,570.44	126,353,138.99
Lease liabilities	VI.25	15,331,202.41	14,384,222.63
Deferred income	VI.26	761,767.49	1,218,827.99
Deferred income tax liabilities	VI.15	311,457.13	-
Total non-current liabilities		134,859,997.47	141,956,189.61
Total liabilities		2,296,853,772.63	2,020,214,920.23
Shareholders' equity:			
Share capital	VI.27	108,000,000.00	108,000,000.00
Capital reserve	VI.28	278,990,829.04	278,990,829.04
Surplus reserve	VI.29	18,439,830.70	15,732,626.03
Unallocated profits	VI.30	97,118,259.82	80,869,499.06
Total equity attributable to the shareholders of parent company		502,548,919.56	483,592,954.13
Minority interests		-	-
Total shareholders' interests		502,548,919.56	483,592,954.13
Total liabilities and shareholders' interests		2,799,402,692.19	2,503,807,874.36

Balance Sheet of the Parent Company

31 December 2020

Prepared by: CHARMACY PHARMACEUTICAL CO., LTD.

Unit: RMB

Items	Note	Balance as at the end of the year	Balance as at the beginning of the year
Current assets:			
Monetary funds		239,709,765.10	244,235,929.10
Bills receivables		20,639,970.00	27,637,027.00
Trade receivables	XIV.1	321,717,989.20	330,133,012.64
Account receivable financing		9,677,815.64	-
Prepayments		91,888,737.10	103,005,466.66
Other receivables	XIV.2	34,922,983.93	22,218,991.16
Inventories		179,239,640.35	156,387,735.46
Other current assets		18,023,139.49	15,810,189.09
Total current assets		915,820,040.81	899,428,351.11
Non-current assets:			
Long-term investments in equity interest	XIV.3	219,978,852.24	216,510,000.00
Investment properties		34,810,133.27	36,016,197.27
Fixed assets		311,448,122.87	143,335,586.88
Construction in progress		1,496,742.97	110,584,639.14
Right-of-use assets		15,383,143.11	14,832,494.49
Intangible assets		132,004,780.13	131,966,081.20
Long-term deferred expenses		7,948,414.37	5,337,386.32
Deferred income tax assets		2,147,739.64	1,730,259.87
Total non-current assets		725,217,928.60	660,312,645.17
Total assets		1,641,037,969.41	1,559,740,996.28

Balance Sheet of the Parent Company

31 December 2020

Prepared by: CHARMACY PHARMACEUTICAL CO., LTD.

Unit: RMB

Items	Note	Balance as at the end of the year	Balance as at the beginning of the year
Current liabilities:			
Short-term borrowings		362,876,682.42	254,376,475.19
Bills payables		329,206,550.39	386,005,169.55
Trade payables		179,510,492.78	146,596,979.40
Receipts in advance		-	-
Contract liabilities		1,808,148.58	9,799,799.56
Salaries payable to employees		3,309,534.29	2,765,290.33
Tax payables		8,411,842.59	7,182,969.68
Other payables		163,935,700.97	164,490,307.51
Non-current liabilities due within one year		34,396,442.29	28,579,046.21
Total current liabilities		1,083,455,394.31	999,796,037.43
Non-current liabilities:			
Long-term borrowings		118,455,570.44	126,353,138.99
Lease liabilities		14,447,360.71	14,384,222.63
Total non-current liabilities		132,902,931.15	140,737,361.62
Total liabilities		1,216,358,325.46	1,140,533,399.05
Shareholders' equity:			
Share capital		108,000,000.00	108,000,000.00
Capital reserve		282,204,487.50	282,204,487.50
Surplus reserve		18,439,830.70	15,732,626.03
Unallocated profits		16,035,325.75	13,270,483.70
Total shareholders' equity		424,679,643.95	419,207,597.23
Total liabilities and shareholders' equity		1,641,037,969.41	1,559,740,996.28

Consolidated Income Statement

For the year 2020

Prepared by: CHARMACY PHARMACEUTICAL CO., LTD.

Unit: RMB

Items	Note	Amount for the year	Amount for last year
I.Total operating revenue		3,991,710,524.36	3,492,782,912.20
Including: Operating revenue	VI.31	3,991,710,524.36	3,492,782,912.20
II. Total operating cost		3,922,377,617.39	3,431,518,842.44
Including: Operating cost	VI.31	3,751,305,696.45	3,269,110,594.14
Taxes and surcharges	VI.32	6,965,203.94	7,757,682.47
Selling expenses	VI.33	85,915,907.96	77,398,582.55
Management expenses	VI.34	45,758,488.87	46,505,776.94
Finance costs	VI.35	32,432,320.17	30,746,206.34
Including: Interest expenses		30,856,814.90	29,450,085.83
Interest income		4,021,645.59	3,624,533.27
Add: Other gains	VI.36	681,362.66	457,060.50
Investment income ("—" for loss)		-	99.25
Impairment loss of credit ("—" for loss)	VI.37	-15,244,009.95	-4,245,401.56
Impairment loss of assets ("—" for loss)	VI.38	-3,001,808.91	-3,024,633.91
Gains on disposal of assets ("—" for loss)	VI.39	18,110.52	-45,128.34
III.Operating profit ("—" for loss)		51,786,561.29	54,406,065.70
Add: Non-operating revenue	VI.40	3,093,405.99	706,361.40
Less: Non-operating expenses	VI.41	137,587.54	67,606.81
IV.Total profit ("—" for total loss)		54,742,379.74	55,044,820.29
Less: Income tax expense	VI.42	14,186,414.31	14,891,464.77
V.Net profit ("—" for net loss)		40,555,965.43	40,153,355.52
(1) By continuity of operations		40,555,965.43	40,153,355.52
1.Net profit from continuing operation ("—" for net loss)		40,555,965.43	40,153,355.52
2.Net profit from discontinued operation ("—" for net loss)		-	-
(2) By ownership		40,555,965.43	40,153,355.52
1.Net profit attributable to the owners of parent company ("—" for net loss)		40,555,965.43	40,153,355.52
2.Profit of loss of minority shareholders ("—" for net loss)		-	-
VI.Total comprehensive income		40,555,965.43	40,153,355.52
Total comprehensive income attributable to the shareholders of parent company		40,555,965.43	40,153,355.52
Total comprehensive income attributable to minority shareholders		-	-
VII.Earnings per share		-	-
Basic and diluted earnings per share	+VI.2	0.3755	0.3718

Income Statement of the Parent Company

For the year 2020

Prepared by: CHARMACY PHARMACEUTICAL CO., LTD.

Unit: RMB

Items	Note	Amount for the year	Amount for last year
I.Operating revenue	XIV.4	1,564,204,417.58	1,371,152,956.22
Less: operating cost	XIV.4	1,445,909,350.55	1,260,308,953.01
Taxes and surcharges		4,932,225.69	4,996,548.53
Selling expenses		60,257,772.37	49,085,941.72
Management expenses		20,080,536.03	25,870,406.72
Finance costs		19,153,594.47	14,823,264.91
Including: Interest expenses		17,423,082.89	13,417,925.17
Interest income		1,743,623.63	1,960,634.48
Add: Other gains		190,723.04	-
Investment income ("-" for loss)	XIV.5	18,000,000.00	10,000,000.00
Impairment loss of credit ("-" for loss)		-1,664,576.60	-344,694.97
Impairment loss of assets ("-" for loss)		-1,101,839.21	-1,096,496.73
Gains on disposal of assets ("-" for loss)		15,907.80	-50,700.14
II.Operating profit ("-" for loss)		29,311,153.50	24,575,949.49
Add: Non-operating revenue		1,046,299.66	131,349.71
Less: Non-operating expenses		85,076.69	57,541.10
III.Total profit ("-" for total loss)		30,272,376.47	24,649,758.10
Less: Income tax expense		3,200,329.75	3,978,646.27
IV.Net profit ("-" for net loss)		27,072,046.72	20,671,111.83
1.Net profit from continuing operation("-" for net loss)		27,072,046.72	20,671,111.83
2.Net profit from discontinued operation("-" for net loss)		-	-
V.Total comprehensive income		27,072,046.72	20,671,111.83

Consolidated Statement of Cash Flow

For the year 2020

Prepared by: CHARMACY PHARMACEUTICAL CO., LTD.

Unit: RMB

Items	Note	Amount for the year	Amount for last year
I. Cash flow from operating activities:			
Cash received from sales of goods and rendering of services		3,176,902,732.21	3,014,760,994.90
Tax refund received		806,819.59	1,675,821.86
Other cash received relating to operating activities	VI.43	18,279,370.64	12,627,914.23
Sub-total of cash inflow from operating activities		3,195,988,922.44	3,029,064,730.99
Cash paid for purchases of goods and receiving services		2,915,191,621.52	2,873,077,978.65
Cash paid to employees and on behalf of employees		67,439,247.36	67,413,835.37
Cash paid for various taxes		27,737,323.51	40,869,187.97
Other cash paid relating to operating activities	VI.43	54,543,876.30	43,684,797.18
Sub-total of cash outflow from operating activities		3,064,912,068.69	3,025,045,799.17
Net cash flow from operating activities		131,076,853.75	4,018,931.82
II. Cash flow from investing activities:			
Cash received from investment gains			99.25
Net cash received from disposal of fixed assets, intangible assets and other long-term assets		58,285.00	159,700.00
Other cash received relating to investing activities	VI.43	-	10,000.00
Sub-total of cash inflow from investing activities		58,285.00	169,799.25
Cash paid for acquisition and construction of fixed assets, intangible assets and other long-term assets		51,981,764.22	73,903,316.53
Net cash paid for acquiring subsidiaries and other business units	VI.43	2,856,096.40	
Other cash paid relating to investing activities	VI.43		10,000.00
Sub-total of cash outflow from investing activities		54,837,860.62	73,913,316.53
Net cash flow from investing activities		-54,779,575.62	-73,743,517.28
III. Cash flow from financing activities:			
Cash received from borrowings		950,409,374.37	784,883,883.00
Other cash received relating to financing activities	VI.43	1,571,672,200.18	1,609,601,019.47
Sub-total of cash inflow from financing activities		2,522,081,574.55	2,394,484,902.47
Cash paid for repayment of debts		884,996,917.61	574,926,048.00
Cash payment for distribution of dividends and profits or interest payment		56,512,093.20	61,574,696.49
Other cash paid relating to financing activities	VI.43	1,583,248,766.98	1,703,857,530.46
Sub-total of cash outflow from financing activities		2,524,757,777.79	2,340,358,274.95
Net cash flow from financing activities		-2,676,203.24	54,126,627.52
IV. Effect of change in exchange rates on cash and cash equivalents		790.46	8,606.82
V. Net increase in cash and cash equivalents		73,621,865.35	-15,589,351.12
Add: Opening balance of cash and cash equivalents for the period	VI.43	40,149,434.90	55,738,786.02
VI. Closing balance of cash and cash equivalents for the period	VI.43	113,771,300.25	40,149,434.90

Statement of Cash Flow of the Parent Company

For the year 2020

Prepared by: CHARMACY PHARMACEUTICAL CO., LTD.

Unit: RMB

Items	Note	Amount for the year	Amount for last year
I.Cash flow from operating activities:			
Cash received from sales of goods and rendering of services		1,651,225,232.24	1,293,956,602.42
Other cash received relating to operating activities		469,297,254.59	464,057,861.36
Sub-total of cash inflow from operating activities		2,120,522,486.83	1,758,014,463.78
Cash paid for purchases of goods and receiving services		1,687,975,227.09	1,302,018,604.87
Cash paid to employees and on behalf of employees		40,908,487.74	37,743,810.86
Cash paid for various taxes		13,779,551.84	13,928,340.56
Other cash paid relating to operating activities		451,027,952.16	409,151,602.25
Sub-total of cash outflow from operating activities		2,193,691,218.83	1,762,842,358.54
Net cash flow from operating activities		-73,168,732.00	-4,827,894.76
II.Cash flow from investing activities:			
Cash received from investment gains		18,000,000.00	10,000,000.00
Net cash received from disposal of fixed assets, intangible assets and other long-term assets		48,500.00	134,700.00
Sub-total of cash inflow from investing activities		18,048,500.00	10,134,700.00
Cash paid for acquisition and construction of fixed assets, intangible assets and other long-term assets		50,455,494.76	72,378,815.33
Cash paid for investment		-	-
Net cash paid for acquisition of subsidiaries and other business units		3,000,000.00	-
Sub-total of cash outflow from investing activities		53,455,494.76	72,378,815.33
Net cash flow from investing activities		-35,406,994.76	-62,244,115.33
III.Cash flow from financing activities:			
Cash received from borrowings		531,528,128.00	383,213,800.00
Other cash received relating to financing activities		504,981,316.80	573,346,907.60
Sub-total of cash inflow from financing activities		1,036,509,444.80	956,560,707.60
Cash paid for repayment of debts		379,156,276.24	226,100,000.00
Cash payment for distribution of dividends and profits or interest payment		45,583,849.73	49,782,896.51
Other cash paid relating to financing activities		430,998,336.16	610,225,534.64
Sub-total of cash outflow from financing activities		855,738,462.13	886,108,431.15
Net cash flow from financing activities		180,770,982.67	70,452,276.45
IV.Effect of change in exchange rates on cash and cash equivalents		790.46	8,606.82
V.Net increase in cash and cash equivalents		72,196,046.37	3,388,873.18
Add: Opening balance of cash and cash equivalents for the period		37,064,259.83	33,675,386.65
VI.Closing balance of cash and cash equivalents for the period		109,260,306.20	37,064,259.83

Consolidated Statement of Changes in Shareholder's Equity

For the year 2020

Prepared by: CHARMACY PHARMACEUTICAL CO., LTD.

Unit: RMB

Items	For the current year						
	Equity attributable to shareholders of parent company					Minority interests	Total shareholders' equity
	Share capital	Capital reserve	Surplus reserve	Unallocated profits	Subtotal		
I. Closing balance for last year	108,000,000.00	278,990,829.04	15,732,626.03	80,869,499.06	483,592,954.13	-	483,592,954.13
Add: changes in accounting policies	-	-	-	-	-	-	-
Correction of previous errors	-	-	-	-	-	-	-
Business combinations under common control	-	-	-	-	-	-	-
Others	-	-	-	-	-	-	-
II. Opening balance for the year	108,000,000.00	278,990,829.04	15,732,626.03	80,869,499.06	483,592,954.13	-	483,592,954.13
III. Movement for the year ("-" for decrease)	-	-	2,707,204.67	16,248,760.76	18,955,965.43	-	18,955,965.43
(I) Total comprehensive income	-	-	-	40,555,965.43	40,555,965.43	-	40,555,965.43
(II) Contribution of shareholders and capital reduction	-	-	-	-	-	-	-
1. Shareholders' contribution to ordinary shares	-	-	-	-	-	-	-
2. Capital contribution by holders of other equity instruments	-	-	-	-	-	-	-
3. Share-based payment credited to shareholders' equity	-	-	-	-	-	-	-
4. Others	-	-	-	-	-	-	-
(III) Profit allocation	-	-	2,707,204.67	-24,307,204.67	-21,600,000.00	-	-21,600,000.00
1. Appropriation of surplus reserve	-	-	2,707,204.67	-2,707,204.67	-	-	-
2. Appropriation of general risk provision	-	-	-	-	-	-	-
3. Allocation to shareholders	-	-	-	-21,600,000.00	-21,600,000.00	-	-21,600,000.00
4. Others	-	-	-	-	-	-	-
(IV) Transfers within the shareholders' equity	-	-	-	-	-	-	-
1. Transfer of capital reserve to share capital	-	-	-	-	-	-	-
2. Transfer of surplus reserve to share capital	-	-	-	-	-	-	-
3. Surplus reserve for making up losses	-	-	-	-	-	-	-
4. Change in defined benefit plan carried forward to retained earnings	-	-	-	-	-	-	-
5. Other comprehensive income carried forward to retained earnings	-	-	-	-	-	-	-
6. Others	-	-	-	-	-	-	-
(V) Specific reserve	-	-	-	-	-	-	-
1. Appropriation for the year	-	-	-	-	-	-	-
2. Use in the year	-	-	-	-	-	-	-
(VI) Others	-	-	-	-	-	-	-
IV. Closing balance for the year	108,000,000.00	278,990,829.04	18,439,830.70	97,118,259.82	502,548,919.56	-	502,548,919.56

Consolidated Statement of Changes in Shareholder's Equity

For the year 2020

Prepared by: CHARMACY PHARMACEUTICAL CO., LTD.

Unit: RMB

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

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

For the year 2020

Prepared by: CHARMACY PHARMACEUTICAL CO., LTD.

Unit: RMB

Items	For the current year				
	Share capital	Capital reserve	Surplus reserve	Unallocated profits	Total shareholders' equity
I.Closing balance for last year	108,000,000.00	282,204,487.50	15,732,626.03	13,270,483.70	419,207,597.23
Add: Changes in accounting policies	-	-	-	-	-
Correction of previous errors	-	-	-	-	-
Others	-	-	-	-	-
II.Opening balance for the year	108,000,000.00	282,204,487.50	15,732,626.03	13,270,483.70	419,207,597.23
III.Movement for the year ("-" for decrease)	-	-	2,707,204.67	2,764,842.05	5,472,046.72
(I) Total comprehensive income	-	-	-	27,072,046.72	27,072,046.72
(II) Contribution of shareholders and capital reduction	-	-	-	-	-
1. Shareholders' contribution to ordinary shares	-	-	-	-	-
2. Capital contribution by holders of other equity instruments	-	-	-	-	-
3. Share-based payment credited to shareholders' equity	-	-	-	-	-
4. Others	-	-	-	-	-
(III) Profit allocation	-	-	2,707,204.67	-24,307,204.67	-21,600,000.00
1. Appropriation of surplus reserve	-	-	2,707,204.67	-2,707,204.67	-
2. Allocation to shareholders	-	-	-	-21,600,000.00	-21,600,000.00
3. Others	-	-	-	-	-
(IV) Transfers within the shareholders' equity	-	-	-	-	-
1. Transfer of capital reserve to share capital	-	-	-	-	-
2. Transfer of surplus reserve to share capital	-	-	-	-	-
3. Surplus reserve for making up losses	-	-	-	-	-
4. Change in defined benefit plan carried forward to retained earnings	-	-	-	-	-
5. Other comprehensive income carried forward to retained earnings	-	-	-	-	-
6. Others	-	-	-	-	-
(V) Specific reserve	-	-	-	-	-
1. Appropriation for the year	-	-	-	-	-
2. Use in the year	-	-	-	-	-
(VI) Others	-	-	-	-	-
IV.Closing balance for the year	108,000,000.00	282,204,487.50	18,439,830.70	16,035,325.75	424,679,643.95

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

For the year 2020

Prepared by: CHARMACY PHARMACEUTICAL CO., LTD.

Unit: RMB

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

Notes to the Financial Statements

I. GENERAL INFORMATION ABOUT THE COMPANY

1. General Information

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

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

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

II. SCOPE OF CONSOLIDATED FINANCIAL STATEMENTS

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

ThereDuring the reporting period, the scope of consolidated financial statements of the Group further included Huizhou Charmacy Company. For details was no change in the scope of consolidated financial statements of the Group during the reporting period. Fossr details, please refer to the relevant content as set out in "VII. CHANGES IN SCOPE OF CONSOLIDATION" and "VIII. INTERESTS IN SUBSIDIARIES" of these notes.

III. BASIS FOR THE PREPARATION OF FINANCIAL STATEMENTS

1. Preparation basis

The Group prepared its financial statements on the going concern basis, according to actual transactions and events as well as such disclosure requirements under the Accounting Standards for Enterprises 《(企業會計準則)》 issued by the Ministry of Finance and relevant provisions, the Companies Ordinance of Hong Kong and the Rules Governing the Listing of Securities on the Stock Exchange, and based on the accounting policies and accounting estimates set out in "IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES" of these notes.

2. Going concern

The Group, having evaluated its ability to continue as a going concern for the 12 months since 31 December 2020, did not find any event or condition which may cast significant doubt on the going concern ability. Hence, the preparation of these financial statements was based on the assumption of going concern.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

Tips for specific accounting policies and accounting estimates: The specific accounting policies and accounting estimates formulated by the Group according to the actual production and operation characteristics include business cycle, recognition and measurement of bad debt reserves for receivables, measurement of issued inventory, classification and depreciation methods of fixed assets, amortization of intangible assets, and recognition and measurement of income.

1. Declaration on compliance with Accounting Standards for Enterprises

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

2. Accounting period

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

3. Business cycle

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

4. Functional currency

The Group adopts Renminbi as its functional currency.

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

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

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

6. Goodwill

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

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

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

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

7. Preparation methods of consolidated financial statements

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

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

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

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

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

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

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

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

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

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

8. Cash and cash equivalents

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

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

(1) Foreign currency transactions

For the Group's foreign currency-denominated transactions, the foreign currency amount is converted into RMB amount at the spot exchange rate on the day when such transactions occur. Foreign currency monetary items are converted into RMB at the spot exchange rate on the balance sheet date, and the conversion differences resulted therefrom, except that those arising from special foreign currency loans related to the acquisition and construction or production of assets eligible for capitalisation should be treated on the capitalisation principle, are all included in the current profit or loss.

10. Financial assets and financial liabilities

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

(1) Financial assets

1) Classification, recognition and measurement of financial assets

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

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

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

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

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

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

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

2) Recognition and measurement of transfer of financial assets

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

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

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

(2) Financial liabilities

1) Classification, recognition and measurement of financial liabilities

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

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

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

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

2) Derecognition conditions of financial liabilities

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

11. Bills receivables

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

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

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

12.Receivables

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

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

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

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

13.Accounts receivable financing

For bills and accounts receivable measured at fair value through other comprehensive income, the portion with a term of not more than one year since the day of acquisition is presented as receivables financing, and the rest is presented as other debt investments. See "Note IV. 10 to the Financial Statements: Financial Assets and Financial Liabilities" for relevant accounting policy.

14.Inventories

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

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

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

The Group maintains a perpetual inventory system.

15.Long-term equity investment

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

16. Investment property

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

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

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

17. Fixed assets

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

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

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

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

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

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

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

18. Construction in progress

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

19. Borrowing costs

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

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

20. Right-of-use assets

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

(1) Initial recognition

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

(2) Subsequent measurement

After the commencement of the lease term, the Group adopts a cost model for the subsequent measurement of the right-of-use assets, where the right-of-use assets are measured at cost less accumulated depreciation and accumulated impairment losses. Where the Group re-measures the lease liability in accordance with the relevant provisions of the lease standards, the book value of the right-of-use assets shall be adjusted accordingly.

(3) Depreciation of right-of-use assets

The Group provides for the depreciation of the right-of-use assets from the commencement of the lease term. Right-of-use assets are usually depreciated from the month in which the lease term commences. The amount of the provision for depreciation is included in the cost of the relevant assets or the current profit or loss according to the use of the right-of-use assets.

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

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

(4) Impairment of right-of-use assets

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

21. Intangible assets

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

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

22. Impairment of long term assets

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

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

23. Long-term deferred expenses

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

24. Contract liabilities

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

25. Staff remuneration

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

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

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

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

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

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

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

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

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

26. Lease liabilities

(1) Initial recognition

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

1) Lease payments

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

2) Discount rate

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

(2) Subsequent measurement

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

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

(3) Re-measurement

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

27. Recognition principle and measurement of income

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

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

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

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

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

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

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

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

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

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

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

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

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

28. Government grants

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

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

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

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

The Group accounts for interest subsidies of policy-based preferential loans it obtains on the following principles and under two circumstances:

(1) Where the finance allocates the interest subsidy to the lending bank and the lending bank loans to the Group at the policy-based preferential interest rate, the Group records the amount of loan it actually receives as the entry value of the loan, and calculates the related borrowing costs based on the principal amount of the loan and the policy-based preferential interest rate (or records the fair value of the loan as the entry value of the loan and calculates the borrowing costs based on the effective interest rate method; and recognises the difference between the actual amount received and the fair value of the loan in deferred income. The deferred income is amortised over the duration of the loan using the effective interest rate method and is used to offset the related borrowing costs.)

(2) Where the finance allocates the interest subsidy to the Group directly, the Group offsets the related borrowing costs with the subsidy.

When the Group has to return government grants it has already recognised, such grants are accounted for in the period in which they are required to be returned under different circumstances:

- 1) If the carrying value of the related assets is offset upon initial recognition, the carrying value of the assets is adjusted.
- 2) If there is related deferred income, the book balance of deferred income is offset, and the excess is included in the current profit or loss.
- 3) In other cases, the returned grants are directly included in the current profit or loss.

29. Leasing

(1) Identification of lease

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

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

(2) The Group as a lessee

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

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

1) Lease variations

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

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

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

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

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

(3) The Group as a lessor

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

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

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

1) Accounting of financial leases

① Initial recognition

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

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

② Subsequent measurement

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

③ Accounting of lease variations

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

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

2) Accounting of operating leases

① Accounting of rentals

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

② Incentives provided

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

③ Initial direct costs

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

④ Depreciation

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

⑤ Variable lease payments

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

⑥ Variation of operating lease

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

30. Deferred income tax assets and deferred income tax liabilities

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

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

31. Discontinued operation

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

32. Changes of significant accounting policies and accounting estimates

(1) Changes of significant accounting policies

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

(2) Changes of significant accounting estimates

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

V. TAXATION

1. Main types of tax and tax rates

Type of tax	Tax basis	Tax rate
VAT	Taxable income	0%, 3%, 6%, 9%, 13%
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%

VI. NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS

For data in the financial statements as disclosed below, "beginning of the year" represents 1 January 2020, "end of the year" represents 31 December 2020, "the year" represents the period from 1 January 2020 to 31 December 2020, "last year" represents the period from 1 January 2019 to 31 December 2019, and the monetary unit shall be RMB, unless specified otherwise.

1. Monetary funds

Items	Balance as at the end of the year	Balance as at the beginning of the year
Cash on hand	773,462.50	915,427.73
Cash in bank	112,997,837.75	39,234,007.17
Other monetary funds	476,550,967.82	466,159,017.74
Total	590,322,268.07	506,308,452.64

Note: The balance of utilized restricted funds for the issuance of bills business and loan business at the end of the period was RMB476,550,967.82. At the end of the period, total monetary funds deposited overseas was RMB377,019.54.

2. Bills receivables

(1) Classification of bills receivables

Items	Balance as at the end of the year	Balance as at the beginning of the year
Bank acceptance bills		6,926,740.66
Commercial drafts	20,700,000.00	15,370,000.00
Subtotal	20,700,000.00	22,296,740.66
Less: Provision for bad debt	60,030.00	44,573.00
Total	20,639,970.00	22,252,167.66

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

Items	Pledged amount as at the end of the year
Commercial drafts	5,700,000.00
Total	5,700,000.00

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

Items	Amount derecognised as at the end of the year	Amount not derecognised as at the end of the year
Commercial drafts		15,000,000.00
Total		15,000,000.00

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

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

Classification	Balance as at the end of the year				
	Book balance		Provision for bad debt		Book value
	Amount	Percentage (%)	Amount	Lifetime expected credit loss rate (%)	
Bad debt provision made on individual basis					
Bad debt provision made on a collective basis	20,700,000.00	100.00	60,030.00	0.29	20,639,970.00
Aging portfolio	20,700,000.00	100.00	60,030.00	0.29	20,639,970.00
Low risk portfolio					
Total	20,700,000.00	100.00	60,030.00	-	20,639,970.00

(continued)

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

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

Age	Balance as at the end of the year		
	Book balance	Provision for bad debt	Provision ratio (%)
Within 1 year	20,700,000.00	60,030.00	0.29
Total	20,700,000.00	60,030.00	0.29

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

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

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

Category	Balance as at the beginning of the year	Changes in the year			Balance as at the end of the year
		Accrued	Recovered or reversed	Written back or written off	
Commercial drafts	44,573.00	15,457.00			60,030.00
Total	44,573.00	15,457.00			60,030.00

3. Trade receivables

Name of Items	Balance as at the end of the year	Balance as at the beginning of the year
Trade receivables	746,721,441.41	730,049,894.39
Less: Provision for bad debt	29,166,987.34	17,788,293.93
Net amount	717,554,454.07	712,261,600.46

(1) Accounts receivable by the method of provisioning for bad debt

Classification	Balance as at the end of the year				Book value
	Book balance		Provision for bad debt		
	Amount	Percentage (%)	Amount	Lifetime expected credit loss rate (%)	
Bad debt provision made on individual basis	23,094,569.76	3.09	23,010,577.26	99.64	83,992.50
Bad debt provision made on a collective basis	723,626,871.65	96.91	6,156,410.08	0.85	717,470,461.57
Aging portfolio	723,626,871.65	96.91	6,156,410.08	0.85	717,470,461.57
Total	746,721,441.41	100.00	29,166,987.34	-	717,554,454.07

(Continued)

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

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

Company name	Balance as at the end of the year			
	Trade receivables	Provision for bad debt	Lifetime expected credit loss rate (%)	Reasons for provision
Huizhou Dachuan Pharmacy Co., Ltd. (惠州市大川藥業有限公司)	6,436,891.56	6,436,891.56	100.00	Default in overdue goods payment, and involvement in a number of litigations
Guangdong Wei'erkang Pharmaceutical Co., Ltd. (廣東為爾康醫藥有限公司)	5,592,584.15	5,592,584.15	100.00	Default in overdue goods payment, low expected recoverability
Shenzhen Yuanxin Pharmacy Co., Ltd. (深圳市源鑫藥業有限公司)	3,007,101.83	3,007,101.83	100.00	Default in overdue goods payment, and involvement in a number of litigations
Huizhou Haichen Pharmacy Co., Ltd. (惠州市海辰藥業有限公司)	2,995,387.16	2,995,387.16	100.00	Default in overdue goods payment, and involvement in a number of litigations
Fujian Minzhe Pharmaceutical Co., Ltd. (福建省閩浙醫藥有限責任公司)	2,010,786.55	2,010,786.55	100.00	No cooperation relationship subsisting, low expected recoverability
Shenzhen Kangshun Pharmaceutical Development Co., Ltd. (深圳市康順藥業發展有限公司)	1,276,999.48	1,276,999.48	100.00	Default in overdue goods payment, and involvement in a number of litigations
Guangdong Guofeng Pharmacy Co., Ltd. (廣東國鳳藥業有限公司)	720,358.21	720,358.21	100.00	Default in overdue goods payment, and involvement in a number of litigations
Shenzhen Jinshoukang Pharmaceutical Co., Ltd. (深圳市金壽康藥業有限公司)	349,400.92	349,400.92	100.00	Default in overdue goods payment, weak repaying capability of the counterpart
Ningde Xianghe Pharmaceutical Chain Co., Ltd. (甯德市祥和醫藥連鎖有限責任公司)	271,939.56	271,939.56	100.00	Default in overdue goods payment, low expected recoverability
Huizhou Xinyi Pharmaceutical Co., Ltd. (惠州市新壹藥業有限公司)	136,077.54	136,077.54	100.00	Default in overdue goods payment, and involvement in a number of litigations
Jiangxi Jinsheng Medicine Limited (江西金盛醫藥有限公司)	104,626.38	104,626.38	100.00	Default in overdue goods payment, low expected recoverability

Company name	Balance as at the end of the year			
	Trade receivables	Provision for bad debt	Lifetime expected credit loss rate (%)	Reasons for provision
Guangdong Guangji Medicine Co., Ltd. (廣東廣集醫藥有限公司)	74,527.49	28,747.49	38.57	Default in overdue goods payment, low expected recoverability
Guangdong Fanghe Pharmaceutical Co., Ltd. (廣東方和藥業有限公司)	69,027.22	30,814.72	44.64	Default in overdue goods payment, and involvement in a number of litigations
People's Hospital of Longhu District in Shantou (汕頭市龍湖區人民醫院)	15,772.68	15,772.68	100.00	No cooperation relationship subsisting, low expected recoverability
The First Affiliated Hospital of Shantou University Medical College (汕頭大學醫學院第一附屬醫院)	15,340.34	15,340.34	100.00	No cooperation relationship subsisting, low expected recoverability
Shantou Chaoyang District Chinese Medicine Hospital (汕頭市潮陽區中醫醫院)	4,931.74	4,931.74	100.00	No cooperation relationship subsisting, low expected recoverability
Shantou Chaonan District People's Hospital (汕頭市潮南區人民醫院)	4,697.76	4,697.76	100.00	No cooperation relationship subsisting, low expected recoverability
Shantou Haojiang District Zhupu Hospital (汕頭市濠江區珠浦醫院)	1,846.52	1,846.52	100.00	No cooperation relationship subsisting, low expected recoverability
Zhejiang Tongtaitang Pharmaceutical Co., Ltd. (浙江同泰堂藥品有限公司)	1,759.50	1,759.50	100.00	No cooperation relationship subsisting, low expected recoverability
Joint Shantou International Eye Center of Shantou University and The Chinese University of Hong Kong (汕頭大學 – 香港中文大學聯合汕頭國際眼科中心)	1,395.33	1,395.33	100.00	No cooperation relationship subsisting, low expected recoverability
Jiangxi Xinde Pharmaceutical Co., Ltd. (江西信德醫藥有限公司)	1,034.90	1,034.90	100.00	No cooperation relationship subsisting, low expected recoverability
Others	2,082.94	2,082.94	100.00	No cooperation relationship subsisting, low expected recoverability
Total	23,094,569.76	23,010,577.26	-	-

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

Age	Balance as at the end of the year		
	Trade receivables	Provision for bad debt	Lifetime expected credit loss rate (%)
Within 1 year	695,453,181.49	2,016,814.23	0.29
1 to 2 years	25,362,713.05	3,071,424.55	12.11
2 to 3 years	2,810,977.11	1,068,171.30	38.00
Total	723,626,871.65	6,156,410.08	-

(2) Accounts receivable by aging

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

Age	Balance as at the end of the year			Balance as at the beginning of the year		
	Book balance	Percentage (%)	Provision for bad debt	Book balance	Percentage (%)	Provision for bad debt
Within 1 year	695,596,183.09	93.15	2,159,815.83	688,345,188.22	94.29	2,117,508.29
1 to 2 years	29,112,315.62	3.90	6,821,027.12	27,446,105.74	3.76	4,448,569.09
2 to 3 years	7,754,342.27	1.04	5,927,543.96	6,229,802.08	0.85	3,193,418.20
More than 3 years	14,258,600.43	1.91	14,258,600.43	8,028,798.35	1.10	8,028,798.35
Total	746,721,441.41	100.00	29,166,987.34	730,049,894.39	100.00	17,788,293.93

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

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

Balance as at the beginning of the year	Changes in the year				Balance as at the end of the year
	Accrued	The impact of the change in the scope of the merge	Recovered or reversed	Written back or written off	
17,788,293.93	11,368,591.58	10,101.83			29,166,987.34

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

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

In 2020, the sum of accounts receivable of five borrowers with the largest closing balance of accounts receivable was RMB145,603,855.39, 19.49% of the total closing balance of accounts receivable. Accordingly, the bad debt provisions set aside had a total closing balance of RMB422,251.18.

4. Accounts receivable financing

Items	Balance as at the end of the year	Balance as at the beginning of the year
Bank acceptance bills	25,799,692.96	
Total	25,799,692.96	

5. Prepayments

(1) Aging of prepayments

Items	Balance as at the end of the year		Balance as at the beginning of the year	
	Amount	Proportion(%)	Amount	Proportion(%)
Within 1 year	252,225,722.68	99.39	208,871,658.90	98.20
1 to 2 years	1,395,388.38	0.55	3,783,117.86	1.77
2 to 3 years	89,754.86	0.04		
More than 3 years	55,507.10	0.02	56,218.21	0.03
Total	253,766,373.02	100.00	212,710,994.97	100.00

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

In 2020, the sum of prepayments from five companies with the largest closing balance of prepayments by payee was RMB115,185,248.55, 45.39% of the total closing balance of prepayments.

6. Other receivables

Items	Balance as at the end of the year	Balance as at the beginning of the year
Interests receivable		
Dividend receivable		
Other receivables	12,839,764.71	12,117,039.54
Total	12,839,764.71	12,117,039.54

6.1 Other receivables

Items name	Balance as at the end of the year	Balance as at the beginning of the year
Other receivables	16,705,624.28	12,122,937.74
Less: Provision for bad debt	3,865,859.57	5,898.20
Net amount	12,839,764.71	12,117,039.54

(1) Classification of other receivables by nature

Nature of amounts	Balance as at the end of the year	Balance as at the beginning of the year
Deposit	11,698,878.77	11,218,465.57
Current accounts	3,859,961.37	
Reserve	1,140,885.94	898,573.97
Others	5,898.20	5,898.20
Total	16,705,624.28	12,122,937.74

(2) Provisions for bad debt of other receivables

Provision for bad debt	First stage	Second stage	Third stage	Total
	12-month expected credit loss	Lifetime expected credit loss (not credit-impaired)	Lifetime expected credit loss (credit-impaired)	
Balance on 1 January 2020			5,898.20	5,898.20
Book balance of other receivables on 1 January 2020 in the year	-	-	-	-
Accrued for the year			3,859,961.37	3,859,961.37
Reversed in the year				
Written off in the year				
Cancelled in the year				
Other changes				
Balance on 31 December 2020			3,865,859.57	3,865,859.57

(3) Aging analysis of other receivables

Age	Balance as at the end of the year			Balance as at the beginning of the year		
	Book balance	Percentage (%)	Provision for bad debt	Book balance	Percentage (%)	Provision for bad debt
Within 1 year	6,306,222.66	37.75	3,859,961.37	134,866.06	1.11	
1 to 2 years	145,709.62	0.87		3,325,433.48	27.43	
2 to 3 years	1,603,200.00	9.60		6,129,500.00	50.56	
More than 3 years	8,650,492.00	51.78	5,898.20	2,533,138.20	20.90	5,898.20
Total	16,705,624.28	100.00	3,865,859.57	12,122,937.74	100.00	5,898.20

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

Balance as at the beginning of the year	Changes in the year			Balance as at the end of the year
	Accrued	Recovered or reversed	Written back or written off	
5,898.20	3,859,961.37			3,865,859.57

(5) Non-existence of other receivables cancelled in the year.

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

Company name	Nature of amounts	Balance as at the end of the year	Age	Percentage of total other receivables (%)	Balance of provision for bad debts at the end of the year
Zhuhai Jinming Pharmacy Co., Ltd. (珠海市金明醫藥有限公司)	Deposit	5,600,000.00	More than 3 years	33.52	
Jilin Xinxian Lingzhi Biotechnology Co., Ltd. (吉林市新先靈芝生物科技股份有限公司)	Current accounts	3,393,805.61	Within 1 year	20.32	3,393,805.61
Shenzhen Kingworld Medicine Company Limited (深圳市金活醫藥有限公司)	Deposit	1,471,200.00	2 to 3 years	8.81	
Taiji Group Chongqing Fuling Pharmacy Co., Ltd. (太極集團重慶涪陵製藥廠有限公司)	Deposit	1,050,000.00	More than 3 years	6.29	
Fujian Nan'an Lianhuafeng Pharmaceutical Factory (福建省南安市蓮花峰藥廠)	Deposit	1,000,000.00	More than 3 years	5.99	
Total	-	12,515,005.61	-	74.93	3,393,805.61

Note: Jilin Xinxian Lingzhi Biotechnology Co., Ltd. is a supplier of the Group. Because the company has been listed as a dishonest company and a high-consumption-restricted enterprise by the court this year, and the age of prepayment is 2-3 years, the Group determines that the prepayment is not likely to be recovered according to the characteristics of credit risk, so that it has been reclassified into other receivables and a single bad debt has been withdrawn in this period.

7. Inventories

(1) Classification of inventories

Items	Balance as at the end of the year			Balance as at the beginning of the year		
	Book balance	Provision for inventory impairment	Book value	Book balance	Provision for inventory impairment	Book value
Goods in stock	502,352,990.13	3,001,808.91	499,351,181.22	471,138,606.35	3,024,633.91	468,113,972.44
Goods sold	85,657,695.50		85,657,695.50	47,048,455.95		47,048,455.95
Total	588,010,685.63	3,001,808.91	585,008,876.72	518,187,062.30	3,024,633.91	515,162,428.39

(2) Provision for inventory impairment

Items	Balance as at the beginning of the year	Addition for the year		Reduction for the year		Balance as at the end of the year
		Accrued	Others	Reversed or written back	Other transfer	
Goods in stock	3,024,633.91	3,001,808.91		3,024,633.91		3,001,808.91
Total	3,024,633.91	3,001,808.91		3,024,633.91		3,001,808.91

(3) Making provisions for inventory impairment

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

8. Other current assets

Items	Balance as at the end of the year	Balance as at the beginning of the year
Input tax to be credited	44,543,885.83	37,241,498.68
Deferred expenses	833,493.45	649,456.39
Total	45,377,379.28	37,890,955.07

9. Fixed assets

Items	Balance as at the end of the year	Balance as at the beginning of the year
Fixed assets	354,551,660.22	191,387,488.54
Liquidation of fixed assets		
Total	354,551,660.22	191,387,488.54

9.1 Fixed assets

(1) Breakdown of fixed assets

Items	Buildings and structures	Machinery and equipment	Transportation facilities	Office equipment	Total
I. Original book value					
1. Balance as at the beginning of the year	189,814,974.25	53,261,875.65	17,657,565.64	9,064,643.07	269,799,058.61
2. Addition for the year	140,033,629.20	37,483,455.59	653,509.33	946,923.26	179,117,517.38
(1) Purchase		2,528,066.35	364,136.21	730,458.10	3,622,660.66
(2) Transfer from construction in-progress	140,033,629.20	34,922,389.24			174,956,018.44
(3) Addition as a result of business combination		33,000.00	289,373.12	216,465.16	538,838.28
3. Reduction for the year			501,289.20	497,530.40	998,819.60
(1) Disposal or retirement			501,289.20	497,530.40	998,819.60
4. Balance as at the end of the year	329,848,603.45	90,745,331.24	17,809,785.77	9,514,035.93	447,917,756.39
II. Accumulated depreciation					
1. Balance as at the beginning of the year	37,480,441.49	25,973,640.72	6,860,432.32	8,097,055.54	78,411,570.07
2. Addition for the year	6,776,451.26	5,805,293.35	2,401,194.38	931,678.15	15,914,617.14
(1) Provision	6,776,451.26	5,786,803.20	2,188,664.77	747,017.77	15,498,937.00
(2) Addition as a result of business combination		18,490.15	212,529.61	184,660.38	415,680.14

Items	Buildings and structures	Machinery and equipment	Transportation facilities	Office equipment	Total
3. Reduction for the year			462,807.46	497,283.58	960,091.04
(1) Disposal or retirement			462,807.46	497,283.58	960,091.04
4. Balance as at the end of the year	44,256,892.75	31,778,934.07	8,798,819.24	8,531,450.11	93,366,096.17
III. Impairment provision					
1. Balance as at the beginning of the year					
2. Addition for the year					
3. Reduction for the year					
4. Balance as at the end of the year					
IV. Book value					
1. Book value at the end of the year	285,591,710.70				
2. Book value at the beginning of the year	152,334,532.76				

Note 1: RMB174,956,018.44 was transferred from construction in progress into the fixed assets increased in the period. RMB15,498,937.00 was accrued in the period in the accumulative depreciation increased in the period. Decrease in the period was due to disposal of fixed assets. The original value of fixed assets with depreciation fully accrued at the end of the period and still in use came in at RMB7,823,344.27.

Note 2: For the fixed assets mortgage, see Note VI. 44.

(2) Fixed assets without getting ownership certificate ready

Items	Book value	Reason for not getting ownership certificate ready
Guangzhou Pharmaceutical Sorting and Distribution Center(廣州醫藥分揀配送中心)	139,849,826.55	The application for ownership certificate is still underway
Total	139,849,826.55	-

10. Construction in progress

Item	Balance as at the end of the year	Balance as at the beginning of the year
Construction in progress	1,496,742.97	110,584,639.14
Total	1,496,742.97	110,584,639.14

10.1 Construction in progress

(1) Breakdown of construction-in-progress

Items	Balance as at the end of the year			Balance as at the beginning of the year		
	Book balance	Provision for impairment	Book value	Book balance	Provision for impairment	Book value
Guangzhou Nansha Logistic Center Project (廣州南沙物流中心項目)				2,222,397.33		2,222,397.33
Construction project of Guangzhou Pharmaceutical Sorting and Distribution Center (廣州醫葯分揀配送中心建設項目)				108,362,241.81		108,362,241.81
Others	1,496,742.97		1,496,742.97			
Total	1,496,742.97		1,496,742.97	110,584,639.14		110,584,639.14

(2) Changes in major construction-in-progress

Name of project	Balance as at the beginning of the year	Addition for the year	Reduction for the year		Balance as at the end of the year
			Transfer to fixed assets	Other reductions	
Guangzhou Nansha Logistic Center Project	2,222,397.33	1,606,079.73	3,828,477.06		
Construction project of Guangzhou Pharmaceutical Sorting and Distribution Center	108,362,241.81	63,995,573.86	171,127,541.38	1,230,274.29	
Total	110,584,639.14	65,601,653.59	174,956,018.44	1,230,274.29	

(continued)

Name of project	Budget (0'000)	Percentage of Accumulate investment in project to the budget (%)	Construction progress (%)	Accumulated amount of interest capitalized	Of which: The amount of interest capitalized for the period	Interest capitalization rate for the period (%)	Source of funds
Guangzhou Nansha Logistic Center Project	9,120.75	100.00	100.00				Raised funds and Own funds
Construction project of Guangzhou Pharmaceutical Sorting and Distribution Center	17,098.06	100.81	100.00	16,631,422.59	7,917,761.56	5.39%	Loans from financial institutions
Total	26,218.81	-	-	16,631,422.59	7,917,761.56	-	-

11.Right-of-use assets

Items	Buildings and structures	Machinery and equipment	Transportation vehicles	Total
I. Original book value				
1.Balance as at 31 December 2019	21,819,034.87			21,819,034.87
2. Addition for the year	3,817,475.66			3,817,475.66
(1) New lease	3,817,475.66			3,817,475.66
3.Reduction for the year	2,042,375.55			2,042,375.55
(1) Disposal	2,042,375.55			2,042,375.55
4.Balance as at the end of the year	23,594,134.98			23,594,134.98
II. Accumulated depreciation				
1.Balance as at 31 December 2019	6,426,158.03			6,426,158.03
2. Addition for the year	2,758,711.50			2,758,711.50
(1) Accrued	2,758,711.50			2,758,711.50
3.Reduction for the year	2,042,375.55			2,042,375.55
(1) Disposal	2,042,375.55			2,042,375.55
4.Balance as at the end of the year	7,142,493.98			7,142,493.98
III、 Book value				
1.Book value at the end of the year	16,451,641.00			16,451,641.00
2.Book value at the beginning of the year	15,392,876.84			15,392,876.84

12. Intangible assets

(1) Details of intangible assets

Items	Land use rights	Computer software	Customer resources	Total
I. Original book value				
1. Balance as at the beginning of the year	164,253,763.65	18,792,804.99		183,046,568.64
2. Addition for the year		6,637.17	5,398,773.56	5,405,410.73
(1) Purchase		6,637.17	5,398,773.56	5,405,410.73
3. Reduction for the year				
4. Balance as at the end of the year	164,253,763.65	18,799,442.16	5,398,773.56	188,451,979.37
II. Accumulated amortization				
1. Balance as at the beginning of the year	24,460,908.76	5,504,699.85		29,965,608.61
2. Addition for the year	4,320,279.33	1,918,138.57	56,352.99	6,294,770.89
(1) Accrued	4,320,279.33	1,918,138.57	56,352.99	6,294,770.89
3. Reduction for the year				
4. Balance as at the end of the year	28,781,188.09	7,422,838.42	56,352.99	36,260,379.50
III. Impairment provision				
1. Balance as at the beginning of the year				
2. Addition for the period				
3. Reduction for the year				
4. Balance as at the end of the year				
IV. Book value				
1. Book value at the end of the year	135,472,575.56	11,376,603.74	5,342,420.57	152,191,599.87
2. Book value at the beginning of the year	139,792,854.89	13,288,105.14		153,080,960.03

Note 1: As at 31 December 2020, no intangible asset arose through the internal research and development of the Group.

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

13. Goodwill

(1) Original value of goodwill

Name of the investee	Balance as at the beginning of the year	Addition for the period		Reduction for the period		Balance as at the end of the year
		As a result of business combination	Others	Disposal	Others	
Zhuhai Charmacy Company Note2	4,567,297.19					4,567,297.19
Guangzhou Charmacy Company Note2	26,328.12					26,328.12
Huizhou Charmacy Company Note1		2,896,416.16				2,896,416.16
Total	4,593,625.31	2,896,416.16				7,490,041.47

(2) Provision for impairment of goodwill

Name of the investee	Balance as at the beginning of the year	Addition for the period		Reduction for the period		Balance as at the end of the year
		Accrued	Others	Disposal	Others	
Zhuhai Charmacy Company	1,465,937.31					1,465,937.31
Guangzhou Charmacy Company						
Huizhou Charmacy Company						
Total	1,465,937.31					1,465,937.31

Note 1: The Company acquired 100% equity stake in Huizhou Charmacy Company in July 2020, resulting in a goodwill of RMB2.8964 million.

Note 2: The Company acquired Zhuhai Charmacy Company and Guangzhou Charmacy Company in February 2017 and June 2017, respectively, resulting in a goodwill of RMB4.5673 million and RMB0.0263 million. The asset group a goodwill belongs to is the same with that at initial recognition of the goodwill. The Group carried out an impairment test of goodwill at the end of 2020, finding no impairment in the year.

14. Long-term expenses to be amortized

Item	Balance as at the beginning of the year	Addition for the period	Amortization for the period	Other reduction for the period	Balance as at the end of the year
Zhuhai Charmacy warehouse installation project (珠海創美倉庫安裝工程)	5,337,386.32		711,638.60		4,625,747.72
Huizhou Charmacy warehouse installation project (惠州創美倉庫安裝工程)		2,164,431.00	51,534.07		2,112,896.93
Project of Delivery Centre Affiliated to Guangzhou Logistics and Delivery Centre (廣州物流配送中心附屬配送中心工程)		1,230,274.29	20,504.57		1,209,769.72
Installation expenses for the guard house and delivery platform(岗亭与收货平台安装费用)	134,940.60		8,219.74		126,720.86
Zhuhai canteen renovation project (珠海食堂裝修工程)	31,185.43		20,790.29		10,395.14
Total	5,503,512.35	3,394,705.29	812,687.27		8,085,530.37

15. Deferred income tax assets and deferred income tax liabilities

(1) Deferred income tax assets not offset

Items	Balance as at the end of the year		Balance as at the beginning of the year	
	Deferred income tax assets	Deductible temporary differences	Deferred income tax assets	Deductible temporary differences
Provision for asset impairment	9,023,671.47	36,094,685.82	5,215,849.77	20,863,399.04
Government grants	190,441.87	761,767.49	304,707.00	1,218,827.99
Deductible losses	78,521.43	314,085.71	62,476.56	249,906.25
Unrealized internal sales gains and losses			444,037.40	1,776,149.60
Total	9,292,634.77	37,170,539.02	6,027,070.73	24,108,282.88

(2) Deferred income tax liabilities not offset

Items	Balance as at the end of the year		Balance as at the beginning of the year	
	Deferred income tax liabilities	Taxable temporary differences	Deferred income tax liabilities	Taxable temporary differences
Unrealized internal sales gains and losses	298,566.95	1,194,267.80		
Asset assessment gains arising from business combinations not under common control	12,890.18	51,560.69		
Total	311,457.13	1,245,828.49		

(3) Breakdown of unrecognised deferred income tax assets

Items	Balance as at the end of the year	Balance as at the beginning of the year
Deductible temporary differences		
Deductible losses	4,682,981.44	
Total	4,682,981.44	

(4) Deductible losses of unrecognised deferred income tax assets will become due in the following years

Year	Year-end amount	Year-beginning amount	Additional information
2021			
2022			
2023			
2024	3,130,920.09		
2025	1,552,061.35		
Total	4,682,981.44		-

16. Short-term borrowings

(1) Types of borrowings

Types of borrowings	Balance as at the end of the year	Balance as at the beginning of the year
Credit borrowings note2-note4	89,266,365.10	40,103,675.01
Guaranteed borrowings note5-note10	202,852,488.75	106,704,707.97
Secured borrowings note11-note13	148,594,522.04	204,742,184.36
Pledged borrowings note14-note15	76,721,056.28	87,124,766.84
Borrowings from discounted bills receivables note16	18,484,640.00	63,514,035.00
Total	535,919,072.17	502,189,369.18

Note 1: The Group has no short-term borrowings that have not yet been repaid after maturity. The repaid amount after the balance sheet date was RMB251,521,900.

Note 2: On 10 September 2020, Charmacy Pharmaceutical Company signed the Renminbi Loan Contract (人民幣貸款合同) (contract number: 2020 Guangzhou (Rendai) Zi No. 14) with the Bank of East Asia (China) Limited, stopping using the Renminbi Loan Contract (人民幣貸款合同) (contract number: 2017 Dongya (Rendai) Zi No. 59) the two parties signed on 2 August 2017 and the change agreement. As of 31 December 2020, Charmacy Pharmaceutical Company had borrowed RMB29.122 million from the Bank of East Asia (China) Limited with an outstanding interest of RMB70,600.

Note 3: On 13 March 2020, Charmacy Pharmaceutical Company signed the Working Capital Loan Contract (流動資金借款合同) (contract number: 2020 Banking Department Jie Zi No. 078) with Bank of Guangzhou Co., Ltd., with a contracted loan interest rate of 3.05%. As of 31 December 2020, Charmacy Pharmaceutical Company had borrowed RMB30 million from Bank of Guangzhou Co., Ltd. with an outstanding interest of RMB28,000.

Note 4: Charmacy Pharmaceutical Company signed four Working Capital Loan Contracts (流動資金借款合同) (contract numbers: CIB Yue Jie Zi (Shantou) No. 2020051401KW, CIB Yue Jie Zi (Shantou) No. 2020052601JE, CIB Yue Jie Zi (Shantou) No. 20200610003C and CIB Yue Jie Zi (Shantou) No. 202006180077) with Industrial and Commercial Bank of China Limited, with a contracted loan interest rate of 5.0025%. As of 31 December 2020, Charmacy Pharmaceutical Company had borrowed RMB30 million from Industrial and Commercial Bank of China Limited with an outstanding interest of RMB45,800.

Note 5: On 27 December 2019, Charmacy Pharmaceutical Company, with Guangdong Charmacy Company as its guarantor, signed the Integrated Loan Contract (綜合授信合同) (contract number: Corporate Credit Zi No.17302019CM001) with China Minsheng Banking Corporation Ltd. As of 31 December 2020, Charmacy Pharmaceutical Company had borrowed RMB19.8 million from China Minsheng Banking Corporation Ltd. within the credit line, and the outstanding interest was RMB27,500.

Note 6: On 21 February 2020, Charmacy Pharmaceutical Company, with Guangdong Charmacy Company and Guangzhou Charmacy Company as its guarantors, signed the Highest-Value Guarantee Contract (最高額保證合同) (contract number: Shantou Hang Wai Zui Gao Bao Zi No. 1 in 2020) and the Highest-Value Guarantee Contract (contract number: Shantou Hang Wai Zui Gao Bao Zi No. 2 in 2020) with China Construction Bank Corporation. As of 31 December 2020, Charmacy Pharmaceutical Company had borrowed RMB80 million from China Construction Bank Corporation with an outstanding interest of RMB83,100.

Note 7: On 25 March 2020, Charmacy Pharmaceutical Company, with Guangdong Charmacy Company, Guangzhou Charmacy Company and Zhuhai Charmacy Company as its guarantors, signed the Highest-Value Guarantee Contract (contract number: 44100520200002027) with Agricultural Bank of China Limited. As of 31 December 2020, Charmacy Pharmaceutical Company had borrowed RMB30 million from Agricultural Bank of China Limited with an outstanding interest of RMB36,900.

Note 8: On 25 November 2019, Guangdong Charmacy Company, with Charmacy Pharmaceutical Company as its guarantor, signed the Highest-value Guarantee Contract (最高額保證擔保合同) (contract number: Fo Nong Shang 0204 Gao Bao Zi No. 11009 in 2019) with Huanshi Sub-branch of Foshan Rural Commercial Bank Co., Ltd. (佛山農村商業銀行股份有限公司環市支行). As of 31 December 2020, Guangdong Charmacy Company had borrowed RMB32 million from Huanshi Sub-branch of Foshan Rural Commercial Bank Co., Ltd. with an outstanding interest of RMB52,700.

Note 9: On 23 June 2020, Guangdong Charmacy Company, with Charmacy Pharmaceutical Company as its guarantor, signed the Highest-value Guarantee Contract (最高額保證擔保合同) (contract number: CIB Yue Bao Zi (Nanhai) No. 202005060001) with Industrial and Commercial Bank of China Limited. As of 31 December 2020, Guangdong Charmacy Company had borrowed RMB11.3 million from Industrial and Commercial Bank of China Limited with an outstanding interest of RMB14,700.

Note 10: On 28 October 2020, Guangdong Charmacy Company, with Charmacy Pharmaceutical Company as its guarantor, borrowed money from Industrial and Commercial Bank of China Limited, the guarantee contract of which was the Highest-Value Guarantee Contract (最高額保證合同) (contract number: Foshan Branch High-tech Sub-branch Charmacy Gao Bao Zi No. 001). As of 31 December 2020, Guangdong Charmacy Company had borrowed RMB29.5 million from Industrial and Commercial Bank of China Limited with an outstanding interest of RMB37,500.

Note 11: On 21 February 2020, Charmacy Pharmaceutical Company, using its existing and later pharmaceutical product inventories of not less than RMB110 million, its existing and later machinery and equipment of not less than RMB5 million, its self-owned property (No. 65 North of Foshan Road, Chancheng District, Foshan City) valued at RMB303,326,900, the existing and later pharmaceutical product inventories of not less than RMB240 million and the existing and later machinery and equipment of not less than RMB20 million from Guangdong Charmacy Company as collateral, with Charmacy Pharmaceutical Company as its guarantor, signed the Credit Line Contract (授信額度合同) (contract number: (2020) Shan Yin Zong Shou E Zi No. 000015) with China Guangfa Bank Co., Ltd. As agreed in the contract, the maximum exposure limit of the credit line was up to RMB200 million (including a temporary credit line of RMB20 million, with a single term of no more than six months, non-reusable) and the credit term was 12 months. The loan rates were subject to the increase or decrease of certain basis points upon the Loan Prime Rates (LPR), and were 6.003%, 5.568% and 5.220% respectively for the period. As of 31 December 2020, Guangdong Charmacy Company had borrowed RMB19.9 million from China Guangfa Bank Co., Ltd. within the credit line with an outstanding interest of RMB31,700.

Note 12: On 21 February 2020, Charmacy Pharmaceutical Company, using its existing and later pharmaceutical product inventories of not less than RMB110 million, its existing and later machinery and equipment of not less than RMB5 million, its self-owned property (No. 65 North of Foshan Road, Chancheng District, Foshan City) valued at RMB303,326,900, the existing and later pharmaceutical product inventories of not less than RMB240 million and the existing and later machinery and equipment of not less than RMB20 million from Guangdong Charmacy Company as collateral, with Guangdong Charmacy Company as its guarantor, signed the Credit Line Contract (contract number: (2020) Shan Yin Zong Shou E Zi No. 000014) with China Guangfa Bank Co., Ltd. As agreed in the contract, the maximum exposure limit of the credit line was up to RMB210 million (including a temporary credit line of RMB10 million, with a single term of no more than six months, non-reusable) and the credit term was 12 months. The loan rates ranged from 5.220% to 6.003%. As of 31 December 2020, Charmacy Pharmaceutical Company had borrowed RMB63.4 million from China Guangfa Bank Co., Ltd. within the credit line with an outstanding interest of RMB145,300.

Note 13: Charmacy Pharmaceutical Company, using its self-owned properties and lands (the logistic distribution centre, warehouse and supporting buildings, dormitories and whole parcel of land at No. 235 Song Shan North Road) valued at RMB58,399,000 as collateral and with Guangdong Charmacy Company as its guarantor, signed the 2016 Charmacy Gao Di Zi No. 001 (2016 年創美高抵字第 001 號) and 2018 Guangdong Charmacy Bao Zi No. 001 (2018 年廣東創美保字第 001 號) with Industrial and Commercial Bank of China Limited for borrowings with a period of 12 months, and the loan interest rates ranged from 3.15%-5.22% per annum. As of 31 December 2020, Charmacy Pharmaceutical Company had borrowed RMB65 million from Industrial and Commercial Bank of China Limited within the credit line, and the outstanding interest was RMB117,500.

Note 14: On 4 August 2020, Guangdong Charmacy Company, with Charmacy Pharmaceutical Company as its guarantor, borrowed money from CTBC Bank Co., Ltd. (中國信託商業銀行股份有限公司), the guarantee contract of which was the Highest-Value Guarantee Contract. As of 31 December 2020, Guangdong Charmacy Company had borrowed RMB21.5 million from CTBC Bank Co., Ltd. with an outstanding interest of RMB32,500.

Note 15: On 6 August 2020, Guangdong Charmacy Company, with Charmacy Pharmaceutical Company as its guarantor, borrowed money from United Overseas Bank (China) Limited (大華銀行(中國)有限公司), the guarantee contract of which was the Continuing Corporate Guarantee (公司持續性保函). As of 31 December 2020, Guangdong Charmacy Company had borrowed RMB55 million from United Overseas Bank (China) Limited with an outstanding interest of RMB188,500.

Note 16: As of 31 December 2020, the Group had obtained a borrowing of RMB18.4846 million by discounting its bills receivable.

(2) Charmacy Pharmaceutical Company did not have any delinquent short-term borrowings as of the end of the year.

17. Bills payables

Classification of bills	Balance as at the end of the year	Balance as at the beginning of the year
Bank acceptance bills	938,611,254.96	829,061,059.77
Commercial drafts		4,500,000.00
Total	938,611,254.96	833,561,059.77

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

18. Trade payables

(1) Trade payables

Items	Balance as at the end of the year	Balance as at the beginning of the year
Loans	550,254,913.32	432,594,542.27
Equipment costs	13,371,029.16	12,132,400.27
Customer resources costs	6,200,592.62	
Project maintenance costs	-	229,914.30
Total	569,826,535.10	444,956,856.84

(2) Aging analysis of trade payables

Below is an aging analysis of trade payables based on transaction date as at 31 December 2020:

Age	Balance as at the end of the year	Balance as at the beginning of the year
Within 1 year	567,810,738.30	438,811,912.47
1 to 2 years	890,901.02	5,763,433.44
2 to 3 years	757,753.60	55,427.76
More than 3 years	367,142.18	326,083.17
Total	569,826,535.10	444,956,856.84

19. Contract liabilities**(1) Contract liabilities**

Items	Balance as at the end of the year	Balance as at the beginning of the year
Payment for goods	5,013,052.93	2,864,226.16
Total	5,013,052.93	2,864,226.16

As at 31 December 2020, the Group had no significant contract liabilities aged over 1 year.

20. Salaries payable to employees**(1) Classification of salaries payable to employees**

Items	Balance as at the beginning of the year	Addition for the year	Reduction for the year	Balance as at the end of the year
Short-term remuneration	4,735,446.57	65,740,521.94	64,687,348.69	5,788,619.82
Post-employment benefits – Defined contribution plan		2,751,898.67	2,751,898.67	
Termination benefits				
Other benefits due within one year				
Total	4,735,446.57	68,492,420.61	67,439,247.36	5,788,619.82

(2) Short-term remuneration

Items	Balance as at the beginning of the year	Addition for the year	Reduction for the year	Balance as at the end of the year
Salaries, bonuses, allowances and subsidies	4,680,231.59	56,772,004.68	55,721,868.45	5,730,367.82
Staff welfare payments		4,316,261.67	4,316,261.67	
Social insurance premiums		1,955,483.20	1,955,483.20	
Of which: medical insurance premium		1,550,833.67	1,550,833.67	
Industrial injury insurance premium		14,137.12	14,137.12	
Maternity insurance premium		390,512.41	390,512.41	
Housing provident fund		1,863,006.32	1,863,006.32	
Labor union expenses and staff education expenses	55,214.98	716,017.08	712,980.06	58,252.00
Others		117,748.99	117,748.99	
Total	4,735,446.57	65,740,521.94	64,687,348.69	5,788,619.82

(3) Defined contribution plan

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

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

Items	Balance as at the beginning of the year	Addition for the period	Reduction for the period	Balance as at the end of the year
Basic pension insurance		2,710,401.36	2,710,401.36	
Unemployment insurance premium		41,497.31	41,497.31	
Total		2,751,898.67	2,751,898.67	

The Group's contribution payable to the defined contribution plan that the Group participated in amounted to RMB2,751,898.67, which was fully paid as at 31 December 2020.

21. Tax payables

Items	Balance as at the end of the year	Balance as at the beginning of the year
VAT	43,642,419.74	42,442,808.20
Enterprise income tax	14,284,219.38	6,202,620.75
Individual income tax	76,116.86	76,055.58
Property taxes	90,529.94	
Stamp duty	313,317.87	153,055.98
Urban maintenance and construction tax	82,651.86	66,243.63
Education surcharge	59,037.05	47,316.88
Local education surcharge	1,050.00	1,050.00
Total	58,549,342.70	48,989,151.02

22. Other payables

Items	Balance as at the end of the year	Balance as at the beginning of the year
Interest payables		
Dividend payables		
Other payables	13,765,328.93	11,798,422.22
Total	13,765,328.93	11,798,422.22

22.1. Other payables

(1) Classification of other payables by nature of payment

Nature of payment	Balance as at the end of the year	Balance as at the beginning of the year
Margin	7,851,287.63	6,365,800.00
Intermediary expenses	4,193,008.98	4,193,009.00
Transportation costs	824,694.99	630,398.94
Equity transfers	468,852.24	
Others	427,485.09	609,214.28
Total	13,765,328.93	11,798,422.22

(2) Significant other payables aged over 1 year

Name of entity	Balance as at the end of the year	Reasons for not being repaid or carried forward
Squire Patton Boggs	3,393,009.00	Settlement period is not yet due
Shantou Qiaoyin Great Pharmacy Chain Co., Ltd. (汕頭市民安醫藥連鎖有限公司)	2,350,000.00	Deposit
Kangze Pharmaceutical Chains Co., Ltd. (康澤藥業連鎖有限公司)	2,250,000.00	Deposit
Shantou Kangxin Medicine Co., Ltd. (汕頭市康信藥業有限公司)	600,000.00	Deposit
Guangxi Wuzhou Pharmaceutical (Group) Co., Ltd. (廣西梧州製藥(集團)股份有限公司)	650,000.00	Deposit
Total	9,243,009.00	-

23. Non-current liabilities due within one year

Item	Balance as at the end of the year	Balance as at the beginning of the year
Long-term borrowings due within one year	31,835,266.89	26,852,567.42
Lease liabilities due within one year	2,685,301.66	2,311,631.44
Total	34,520,568.55	29,164,198.86

24. Long-term borrowings

(1) Classification of long-term borrowings

Types of borrowings	Balance as at the end of the year	Balance as at the beginning of the year
Secured borrowings	150,290,837.33	153,205,706.41
Subtotal	150,290,837.33	153,205,706.41
Less: long-term borrowings due within one year	31,835,266.89	26,852,567.42
Total	118,455,570.44	126,353,138.99

Note: On 15 August 2018, Charmacy Pharmaceutical Co., Ltd. signed the Fixed Assets Loan Contract 《(固定資產借款合同)》 (contract number: 2018 (Nansha) Zi No. 00539) with the Nansha Branch in Guangdong Pilot Free Trade Zone of Industrial and Commercial Bank of China Limited. The loan under the contract was for the construction of Guangzhou Nansha Sorting and Distribution Centre project and replacement of the liabilities resulting from the project construction. Guangdong Charmacy Pharmaceutical Co., Ltd. provided joint and several liability guarantee in respect of the loan contract, with the contract number of 2018 Nansha (Bao) Zi No.0028. Meanwhile, Charmacy Pharmaceutical Co., Ltd. provided guarantee with its self-owned plants valued at RMB68,363,000, and dormitories valued at RMB21,818,000 (contract number: 2018 Nansha (Di) Zi No. 00539). The amount of loan agreed in the Contract was RMB180 million (withdrawn by batch, calculated from the date of first withdrawal), with a term of not more than 7 years which commence from the date of actual withdrawal. Charmacy Pharmaceutical Co., Ltd. was required to repay the loan from the effective date of the Contract to 20 August 2020. The borrowing rate was the benchmark lending rate announced and implemented by the People's Bank of China applicable on the actual lending date for similar loan with an increase of 10%. As of 31 December 2020, Charmacy Pharmaceutical Company had borrowed RMB150.04 million from the Nansha Branch in Guangdong Pilot Free Trade Zone of Industrial and Commercial Bank of China Limited with an outstanding interest of RMB247,100.

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

Item	Balance as at the end of the year	Balance as at the beginning of the year
Within one year after the balance sheet date	31,835,266.89	26,852,567.42
Over one year but not more than two years after the balance sheet date	31,588,152.92	26,600,660.84
Over two years but not more than five years after the balance sheet date	86,867,417.52	79,801,982.52
Over five years after the balance sheet date		19,950,495.63
Less: Current liabilities due within one year	31,835,266.89	26,852,567.42
Total	118,455,570.44	126,353,138.99

Note: The long-term borrowings due within one year have been reclassified to "non-current liabilities due within one year" as shown in Note VI. 23.

25. Lease liabilities

Item	Balance as at the end of the year	Balance as at the beginning of the year
First year after the balance sheet date	3,592,344.76	3,155,859.66
Second year after the balance sheet date	3,722,741.39	2,630,057.40
Third year after the balance sheet date	3,736,689.52	2,630,057.40
Subsequent years	10,072,302.76	11,835,258.30
Total minimum lease payments	21,124,078.43	20,251,232.76
Less: finance costs not recognized	3,107,574.36	3,555,378.69
Present value of minimum lease payments	18,016,504.07	16,695,854.07
Including: lease liabilities due within one year	2,685,301.66	2,311,631.44
Lease liabilities due after one year	15,331,202.41	14,384,222.63

Note: The lease liabilities due within one year have been reclassified to "non-current liabilities due within one year" as shown in Note VI.23.

26. Deferred income**(1) Classification of deferred income**

Item	Balance as at the beginning of the year	Addition for the year	Reduction for the year	Balance as at the end of the year	Reason for formation
Government grants	1,218,827.99		457,060.50	761,767.49	Asset-related
Total	1,218,827.99		457,060.50	761,767.49	

(2) Government grant program

Government grant program	Balance as at the beginning of the year	Addition of grant for the year	Included in Non-operating income for the year	Included in other income for the year	Amount of costs offset in the year	Other changes	Balance at the end of the year	Asset-related/ Revenue-related
Government grants for logistics standardization program (物流標準化項目政府補助)	1,218,827.99			457,060.50			761,767.49	Asset-related
Total	1,218,827.99			457,060.50			761,767.49	

27. Share capital

Item	Balance as at the beginning of the year	Increase/decrease in the year (+, -)					Balance as at the end of the year
		Issuance of new shares	Bonus shares	Shares transferred from surplus reserve	Others	Subtotal	
Total number of shares	108,000,000.00						108,000,000.00
Total	108,000,000.00						108,000,000.00

28. Capital reserve

Items	Balance as at the beginning of the year	Addition for the year	Reduction for the year	Balance as at the end of the year
Share premium	278,001,901.04			278,001,901.04
Other capital reserve	988,928.00			988,928.00
Total	278,990,829.04			278,990,829.04

29. Surplus reserve

Item	Balance as at the beginning of the year	Addition for the year	Reduction for the year	Balance as at the end of the year
Statutory surplus reserve	15,732,626.03	2,707,204.67		18,439,830.70
Total	15,732,626.03	2,707,204.67		18,439,830.70

Note: Additional statutory surplus reserve for the year was accrued by 10% of net profit of parent company for the year.

30. Undistributed profits

Items	Amount for the year	Amount for last year
Balance at the end of last year	80,869,499.06	76,081,036.24
Add: Adjustment to the balance of undistributed profit at the beginning of the year		-897,781.52
Balance at the beginning of the year	80,869,499.06	75,183,254.72
Add: Net profit attributable to the owners of the parent company for the year	40,555,965.43	40,153,355.52
Less: Appropriation of statutory surplus reserve	2,707,204.67	2,067,111.18
Dividends payable on ordinary shares Note	21,600,000.00	32,400,000.00
Dividends on ordinary shares converted to share capital		
Balance at the end of the year	97,118,259.82	80,869,499.06

Note: See below for details of dividends announced to distribute and distributed and to be distributed in relevant periods:

(a) For the year ended 31 December 2019

As per the resolution adopted at the Annual General Meeting for 2018 which was held on 3 June 2019, your company announced to distribute dividends for the year 2018 to your shareholders at RMB0.3 (before tax) per share, totalling at RMB32.4 million.

(b) For the year ended 31 December 2020

As per the resolution adopted at the Annual General Meeting for 2019 which was held on 24 May 2020, your company announced to distribute dividends for the year 2019 to your shareholders at RMB0.2 (before tax) per share, totalling at RMB21.6 million.

31. Operating revenue and operating cost

Items	Amount for the year		Amount for last year	
	Revenue	Cost	Revenue	Cost
Principal businesses	3,962,210,247.45	3,751,305,696.45	3,472,157,546.80	3,269,110,594.14
Other businesses	29,500,276.91		20,625,365.40	
Total	3,991,710,524.36	3,751,305,696.45	3,492,782,912.20	3,269,110,594.14

32. Taxes and surcharges

Items	Amount for the year	Amount for last year
Property tax	3,056,170.96	3,317,141.91
Stamp duty	2,088,220.79	1,404,058.31
Urban maintenance and construction tax	854,025.29	1,567,897.54
Education surcharge	610,018.02	1,119,926.81
Tax on land use	328,159.54	327,439.54
Vehicle and vessel tax	24,409.34	17,018.36
Environment protection tax	4,200.00	4,200.00
Total	6,965,203.94	7,757,682.47

33. Selling expenses

Items	Amount for the year	Amount for last year
Staff remuneration	48,691,485.10	46,346,702.69
Transportation costs	12,732,772.78	11,078,732.93
Depreciation and amortization	11,450,650.89	10,803,934.70
Office expenses	8,077,144.57	6,631,822.32
Promotion and advertising expenses	3,767,940.85	1,221,486.62
Travelling expenses	302,650.71	444,374.34
Business entertainment expenses	340,853.15	365,272.73
Others	552,409.91	506,256.22
Total	85,915,907.96	77,398,582.55

34. Management expenses

Items	Amount for the year	Amount for last year
Staff remuneration	19,800,935.51	20,615,322.72
Depreciation and amortization	13,759,854.44	13,876,203.76
Office expenses	6,608,969.23	7,178,877.45
Expenses on engaging intermediary agencies	3,365,881.69	2,963,743.79
Of which: Auditor's remuneration	800,000.00	800,000.00
– Audit service expenses	800,000.00	800,000.00
Loss on inventory	1,872,364.75	1,314,158.11
Travelling expenses	131,373.04	257,239.12
Business entertainment expenses	86,917.18	198,719.51
Promotion and advertising expenses	58,946.32	1,549.30
Others	73,246.71	99,963.18
Total	45,758,488.87	46,505,776.94

35. Finance costs

Items	Amount for the year	Amount for last year
Interest expenses	30,856,814.90	29,450,085.83
Less: Interest income	4,021,645.59	3,624,533.27
Add: Loss on foreign exchange	-16,477.44	909.48
Add: Handling fees	4,731,031.39	3,945,182.92
Add: Interest on lease liabilities	882,596.91	974,561.38
Total	32,432,320.17	30,746,206.34

36. Other gains

Items	Amount for the year	Amount for last year
Government grants for logistics standardization program	457,060.50	457,060.50
Individual income tax fee refund	224,302.16	
Total	681,362.66	457,060.50

37. Impairment loss of credit

Item	Amount for the year	Amount for last year
Loss on bad debts	15,244,009.95	4,245,401.56
Total	15,244,009.95	4,245,401.56

38. Impairment loss of assets

Item	Amount for the year	Amount for last year
Loss on impairment of inventories	3,001,808.91	3,024,633.91
Total	3,001,808.91	3,024,633.91

39. Gains on disposal of assets

Items	Amount for the year	Amount for last year	Amount charged to non-recurring profit or loss for the year
Gains on disposal of noncurrent assets	18,110.52	-45,128.34	18,110.52
Of which: Gains on disposal of non-current assets that are not classified as held for sale	18,110.52	-45,128.34	18,110.52
Gains on disposal of fixed assets	18,110.52	-45,128.34	18,110.52
Total	18,110.52	-45,128.34	18,110.52

40. Non-operating revenue

(1) Breakdown of non-operating income

Items	Amount for the year	Amount for last year	Amounts included in non-recurring profit and loss for the year
Government grants	2,992,821.89	640,359.73	2,992,821.89
Others	100,584.10	66,001.67	100,584.10
Total	3,093,405.99	706,361.40	3,093,405.99

(2) Breakdown of government grants

Grant item	Given by	Reason for giving the grant	Nature	Did the grant influence current profit or loss (yes/no)	Was the grant a special subsidy (yes/no)	For the year	For the previous year	Related to assets or related to income	Source and basis
Work and production resumption subsidy from the Economic and Technological Promotion Bureau of Chancheng District	The Economic and Technological Promotion Bureau of Chancheng District	Subsidy	A grant received for compliance with the local government's supportive policies such as those for investment attraction	No	No	1,100,000.00		Related to income	The Notice of the Office of the People's Government of Chancheng District, Foshan City on Issuing the Measures of Chancheng District, Foshan City for Supporting the Work and Production Resumption and Stable Development of Industry and Wholesale (佛山市禪城區人民政府辦公室關於印發佛山市禪城區支持工業及批發業復工復產穩定發展的扶持辦法的通知) (FCFB [2020] No. 8) and the Notice of the Office of the People's Government of Chancheng District, Foshan City on Issuing the Supplementary Regulation Concerning the Measures of Chancheng District, Foshan City for Supporting the Work and Production Resumption and Stable Development of Industry and Wholesale (佛山市禪城區人民政府辦公室關於印發佛山市禪城區支持工業及批發業復工復產穩定發展的扶持辦法的補充規定的通知) (FCFB [2020] No. 24)
Work-for-training subsidy	Finance Bureau of Longghu District, Shantou City	Subsidy	A grant received for compliance with the local government's supportive policies such as those for investment attraction	No	No	964,500.00		Related to income	The Notice on Work-for-training (關於做好以工代訓工作的通知) (YRSG. [2020] No. 38)
The 2019 Rewarding Program for Supportive Policies Concerning Promotion of Commerce and Trade (Domestic Trade)	Finance Bureau of Guangzhou Nansha Economic and Technological Development Zone	Reward	A grant received for compliance with the local government's supportive policies such as those for investment attraction	No	No	250,000.00	250,000.00	Related to income	Notice on Publishing the Winners of Rewards to Commercial and Trade Enterprises (the First Batch) in 2018
2019 reward to "top 100 enterprises"	The Economic and Technological Promotion Bureau of Chancheng District	Reward	A grant received for compliance with the local government's supportive policies such as those for investment attraction	No	No	200,000.00	177,618.00	Related to income	The Notice of the Office of the People's Government of Chancheng District, Foshan City on Issuing the Measures of Chancheng District, Foshan City for Rewarding "Top 100 Enterprises" (佛山市禪城區人民政府辦公室關於印發佛山市禪城區促進「百企爭先」獎勵辦法 (2019 年修訂)) (FCFB [2020] No. 4)
Work-for-training subsidy	The Human Resources and Social Security Bureau of Chancheng District, Foshan City	Subsidy	A grant received for compliance with the local government's supportive policies such as those for investment attraction	No	No	190,500.00		Related to income	The Notice on Work-for-training (關於做好以工代訓工作的通知) (YRSG. [2020] No. 38)
Job stability subsidy from unemployment insurance of Foshan City	The Human Resources and Social Security Bureau of Chancheng District, Foshan City	Subsidy	A grant received for compliance with the local government's supportive policies such as those for investment attraction	No	No	54,767.56	118,786.89	Related to income	The Document of the Human Resources and Social Security Bureau of Chancheng District, Foshan City (FRS [2016] No. 165)
Enterprise support and job stability refund to enterprises directly under the city government (the second batch)	Finance Bureau of Shantou City	Subsidy	A grant received for compliance with the local government's supportive policies such as those for investment attraction	No	No	43,156.00	64,439.35	Related to income	Announcement of Enterprise Support and Job Stability Refund to Enterprises Directly under the City Government (the Second Batch) in 2019 (關於 2019 年度市直企業第二批援企穩崗返還的公示)
Subsidy for driving employment with entrepreneurship	Finance Bureau of Nansha District, Guangzhou City	Subsidy	A grant received for compliance with the local government's supportive policies such as those for investment attraction	No	No	30,000.00		Related to income	The Notice of the Human Resources and Social Security Bureau of Guangzhou City on Issuing the Procedures of Guangzhou City for Applying for the Subsidy for Further Promoting Employment (廣州市人力資源和社會保障局關於印發廣州市進一步促進就業補貼申請程序的通知)
Social security subsidy and job subsidy of Nansha District for stabilising employment	Finance Bureau of Nansha District, Guangzhou City	Subsidy	A grant received for compliance with the local government's supportive policies such as those for investment attraction	No	No	25,868.08	8,609.67	Related to income	The Notice on Launching the Application for Social Security Subsidy and Job Subsidy of Nansha District for Stabilising Employment in the Second Half of 2019 (April to September 2019) (關於開展 2019 年下半年 (2019 年 4 月至 9 月) 南沙區穩定用工社保補貼和崗位補貼申請工作的通知)
General post subsidy of the Human Resources and Social Security Bureau	The Human Resources and Social Security Bureau of Chancheng District, Foshan City	Subsidy	A grant received for compliance with the local government's supportive policies such as those for investment attraction	No	No	18,500.00		Related to income	The Announcement on Applying for General Post Subsidy (the Second Batch)

Grant item	Given by	Reason for giving the grant	Nature	Did the grant influence current profit or loss (yes/no)	Was the grant a special subsidy (yes/no)	For the year	For the previous year	Related to assets or related to income	Source and basis
Tax preference for military veterans	Taxation Administration of Foshan City	Subsidy	A grant received for compliance with the local government's supportive policies such as those for investment attraction	No	No	18,000.00	7,500.00	Related to income	The Notice of the Department of Military Veterans of the Ministry of Finance on the Tax Policies Concerning Further Support for Entrepreneurship and Employment of Military Veterans Finding Jobs by Themselves (財政部退後軍人部關於進一步扶持自主就業退役士兵創業就業有關稅收政策的通知) (CS [2019] No. 21)
Lump-sum life subsidy for new employees in Chancheng District, Foshan City	The Human Resources and Social Security Bureau of Chancheng District, Foshan City	Subsidy	A grant received for compliance with the local government's supportive policies such as those for investment attraction	No	No	17,600.00		Related to income	The Announcement of the Human Resources and Social Security Bureau of Chancheng District, Foshan City on the List of Enterprises Eligible for Lump-sum Life Subsidy for New Employees (佛山市禪城區人力資源和社會保障局關於符合企業新招員工一次性生活補貼條件企業名單的公示)
Subsidy for delayed work resumption (the first batch) in 2020	The Human Resources and Social Security Bureau of Chancheng District, Foshan City	Subsidy	A grant received for compliance with the local government's supportive policies such as those for investment attraction	No	No	12,733.00		Related to income	The Announcement of the Human Resources and Social Security Bureau of Chancheng District, Foshan City on the List of Enterprises Eligible for Delayed Work Resumption Subsidy (2020年佛山市禪城區人力資源和社會保障局關於符合延遲復工補助申請條件企業名單的公示)
Job stability subsidy from unemployment insurance of Zhuhai City	Social Insurance Fund Management Centre of Zhuhai City	Subsidy	A grant received for compliance with the local government's supportive policies such as those for investment attraction	No	No	12,713.38	6,726.42	Related to income	The Notice on Using Unemployment Insurance to Support Job Stabilisation of Enterprises (關於做好失業保險支持企業穩定崗位工作的通知) (ZRS [2015] No. 312)
Job stability subsidy from unemployment insurance of Guangzhou City	Social Insurance Fund Management Centre of Guangzhou City	Subsidy	A grant received for compliance with the local government's supportive policies such as those for investment attraction	No	No	10,337.98	4,219.40	Related to income	The Notice on Issuing the Measures for Using Unemployment Insurance of Guangzhou City to Support Job Stabilisation of Enterprises (關於印發廣州市失業保險支持企業穩定崗位實施辦法的通知) (SRSF [2016] No. 6)
Subsidy for providing jobs to registered poor labourers	The Human Resources and Social Security Bureau of Chancheng District, Foshan City	Subsidy	A grant received for compliance with the local government's supportive policies such as those for investment attraction	No	No	10,000.00		Related to income	The Opinion of the People's Government of Foshan City on Carrying out Several Policy Measures of Guangdong Provinces for Further Stabilising and Promoting Employment (佛山市人民政府關於貫徹落實廣東省進一步穩定和促進就業若干政策措施的實施意見) (FF [2020] No. 5)
Lump-sum recruitment subsidy in Nansha District, Guangzhou City	Finance Bureau of Nansha District, Guangzhou City	Subsidy	A grant received for compliance with the local government's supportive policies such as those for investment attraction	No	No	8,500.00		Related to income	The Notice on Issuing the Guidelines for Applying for Lump-sum Recruitment Subsidy in Nansha District (關於印發南沙區一次性招聘補貼申報指引的通知)
Lump-sum subsidy for Shantou-based manufacturers and deliverers of materials urgently needed in the COVID-19 battle in respect of their provision of jobs	Finance Bureau of Shantou City	Subsidy	A grant received for compliance with the local government's supportive policies such as those for investment attraction	No	No	7,000.00		Related to income	The Announcement on the Ninth Batch of Shantou-based Manufacturers and Deliverers of Materials Urgently Needed in the COVID-19 Battle in Respect of Their Provision of Jobs (關於汕頭市生產、配送疫情防控急需物資企業申請一次性吸納就業補貼的公示 (第九批))
Subsidy for buying autos meeting China VI Vehicle Emission Standards	Commerce Bureau of Foshan City	Subsidy	A grant received for compliance with the local government's supportive policies such as those for investment attraction	No	No	6,000.00		Related to assets	The Notice of the Office of the People's Government of Foshan City on Issuing Several Measures of Foshan City for Promoting Consumption Upgrade of the Auto Market (佛山市人民政府辦公室關於印發佛山市促進汽車市場消費升級若干措施(試行)的通知) (FFB [2020] No. 3)
Supportive subsidy of job stabilisation fund	Finance Bureau of Nansha District, Guangzhou City	Subsidy	A grant received for compliance with the local government's supportive policies such as those for investment attraction	No	No	5,169.00		Related to income	The Guidelines of Nansha District for Applying for Supportive Subsidy of Job Stabilisation Fund (南沙區穩崗資金配套補貼申報指引)
Labour use subsidy of Zhuhai City	Finance Bureau of Xiangzhou District, Zhuhai District	Subsidy	A grant received for compliance with the local government's supportive policies such as those for investment attraction	No	No	3,716.89		Related to income	The Notice on Carrying out [2020] No. 11 Document of the People's Government of Zhuhai City and Doing Well in Giving Labour Use Subsidy (關於貫徹珠海府[2020] 11號文做好勞動用工補貼實施工作的通知) (ZRSF [2020] No. 5)
Reporting-for-duty reward and job provision subsidy	Finance Bureau of Xiangzhou District, Zhuhai District	Subsidy	A grant received for compliance with the local government's supportive policies such as those for investment attraction	No	No	2,000.00		Related to income	The Notice on Rewarding Reporting-for-duty Employees of Enterprises (ZRSF [2020] No. 5) and the Notice on Carrying out [2020] No. 11 Document of the People's Government of Zhuhai City and Doing Well in Giving Labour Use Subsidy (ZRSF [2020] No. 5)

Grant item	Given by	Reason for giving the grant	Nature	Did the grant influence current profit or loss (yes/no)	Was the grant a special subsidy (yes/no)	For the year	For the previous year	Related to assets or related to income	Source and basis
Subsidy for job provision and labour use of enterprises in Dongyong Town	The Social Affairs Service Centre of Dongyong Town, Nansha District of Guangzhou City	Subsidy	A grant received for compliance with the local government's supportive policies such as those for investment attraction	No	No	1,760.00	2,460.00	Related to income	The Notice on Applying for Subsidy for Job Provision and Labour Use of Enterprises in Dongyong Town in 2020 (關於申領2020年東涌鎮企業招工補貼的通知)
Total	-	-	-	-	-	2,992,821.89	640,359.73		-

41. Non-operating expenses

Items	Amount for the year	Amount for last year	Amounts included in non-recurring profit and loss for the year
External donation	116,443.95	67,520.00	116,443.95
Others	21,143.59	86.81	21,143.59
Total	137,587.54	67,606.81	137,587.54

42. Income tax expenses

(1) Income tax expenses

Items	Amount for the year	Amount for last year
Current income tax calculated according to the tax law and related regulations	17,166,327.46	15,483,626.04
Corporate income tax in the Chinese mainland	17,166,327.46	15,483,626.04
Profit tax in Hong Kong, PRC		
Deferred income tax expenses	-2,979,913.15	-592,161.27
Total	14,186,414.31	14,891,464.77

The Group had no Hong Kong income tax, since it had no taxable income in Hong Kong during the year.

(2) Reconciliation between accounting profit and income tax expenses

Items	Amount for the year
Combined total profit for the year	54,742,379.74
Income tax expenses calculated at statutory/applicable tax rate	13,685,594.94
Effect of non-deductible costs, expenses and losses	163,619.93
Effect of deductible temporary differences or deductible losses on deferred income tax assets not recognized in the current year	337,199.44
Income tax expenses	14,186,414.31

43. Items of the Statement of Cash Flows

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

1) Other cash received relating to operating activities

Items	Amount for the year	Amount for last year
Inter-company current accounts	11,607,974.42	11,397,576.98
Government grant	2,974,821.89	640,359.73
Staff reserves	453,622.30	233,308.77
Interest income	216,989.31	185,895.52
Others	3,025,962.72	170,773.23
Total	18,279,370.64	12,627,914.23

2) Other cash paid relating to investing activities

Items	Amount for the year	Amount for last year
Transportation costs	12,264,241.21	11,604,001.14
Office expenses	8,156,882.82	8,528,226.73
Utilities	6,138,723.47	6,192,035.52
Inter-company current accounts	10,386,178.09	5,340,124.93
Handling fees	4,506,769.81	3,474,323.37
Expenses on engaging agencies	3,087,587.24	2,551,494.58
Staff borrowings	1,992,747.85	1,655,343.52
Telecommunication fees	762,251.19	1,269,328.55
Marketing expenses	2,803,969.11	1,017,096.67
Travelling expenses	372,783.82	726,018.57
Repair and Maintenance expenses	1,529,968.45	554,375.65
Business entertainment expenses	294,004.05	548,365.88
Promotion and advertising expenses	520,620.00	136,248.55
Others	1,727,149.19	87,813.52
Total	54,543,876.30	43,684,797.18

3) Other cash received relating to investing activities

Item	Amount for the year	Amount for last year
Recovery of bank financial products		10,000.00
Total		10,000.00

4) Other cash paid relating to investing activities

Item	Amount for the year	Amount for last year
Investment in bank financial products		10,000.00
Total		10,000.00

5) Other cash received relating to financing activities

Items	Amount for the year	Amount for last year
Receipt of bank acceptance margin	1,560,651,851.86	1,606,162,381.72
Interest income on margin	3,804,656.28	3,438,637.75
Receipt of borrowing margin	7,215,692.04	
Total	1,571,672,200.18	1,609,601,019.47

6) Other cash paid relating to financing activities

Items	Amount for the year	Amount for last year
Payment of bank acceptance margin	1,575,994,493.98	1,699,458,894.24
Payment of lease Liabilities	3,632,762.00	3,433,923.86
Handling fees for financing	1,356,511.00	964,712.36
Borrowing margin	2,265,000.00	
Total	1,583,248,766.98	1,703,857,530.46

(2) Supplementary information to the Consolidated Statement of Cash Flows

Items	Amount for the year	Amount for last year
1. Reconciliation of net profit to cash flows from operating activities:		
Net profit	40,555,965.43	40,153,355.52
Add: Provision for impairment on assets	3,001,808.91	3,024,633.91
Impairment loss of credit assets	15,244,009.95	4,245,401.56
Depreciation of fixed assets, depletion of petroleum and natural gas properties, depreciation of productive biological assets	15,498,937.00	14,838,243.19
Depreciation of right-of-use assets	2,758,711.50	2,834,446.93
Amortization of intangible assets	6,294,770.89	6,266,799.70
Amortization of long-term expenses to be amortized	812,687.27	740,648.64
Loss on disposal of fixed assets, intangible assets and other long-term assets ("—" for gain)	-18,110.52	45,128.34
Loss on scrapped fixed assets ("—" for gain)		
loss arising from changes in fair value ("—" for gain)		

Items	Amount for the year	Amount for last year
Finance costs ("-" for gain)	29,291,266.53	27,950,721.82
Investment loss ("-" for gain)		-99.25
Decrease in deferred income tax assets ("-" for increase)	-3,265,564.04	-391,507.97
Increase in deferred income tax liabilities ("-" for decrease)	285,650.89	-200,653.30
Decrease in inventories ("-" for increase)	-69,823,623.33	-43,022,570.72
Decrease in receivables from operating activities ("-" for increase)	-158,029,003.56	-816,718.53
Increase in payables from operating activities ("-" for decrease)	248,469,346.83	-51,648,898.02
Others		
Net cash flow from operating activities	131,076,853.75	4,018,931.82
2. Non-cash significant investing and financing activities:		
Conversion of debt into capital		
Convertible corporate bonds due within one year		
Fixed assets under finance lease		
3. Net change in cash and cash equivalents:		
Cash balance as at the end of the year	113,771,300.25	40,149,434.90
Less: cash balance as at the beginning of the year	40,149,434.90	55,738,786.02
Add: balance of cash equivalents as at the end of the year		
Less: balance of cash equivalents as at the beginning of the year		
Net increase in cash and cash equivalents	73,621,865.35	-15,589,351.12

Note: During the Reporting Period, by discounting its commercial drafts, the Group raised RMB43.06 million and RMB59.96 million in 2019 and 2020, respectively.

(3) Net cash paid in the year for acquiring subsidiaries

Project	For the year
Cash or cash equivalents paid in the year for business combinations of the year	3,000,000.00
Incl.: Huizhou Charmacy Company	3,000,000.00
Less: Cash and cash equivalents held by subsidiaries on the date of purchase	143,903.60
Incl.: Huizhou Charmacy Company	143,903.60
Add: Cash or cash equivalents paid in the year for business combinations of the prior years	
Incl.: Huizhou Charmacy Company	
Net cash paid for acquiring subsidiaries	2,856,096.40

(4) Cash and cash equivalents

Items	Balance as at the end of the year	Balance as at the beginning of the year
Cash	773,462.50	915,427.73
Of which: cash on hand	773,462.50	915,427.73
Bank deposits readily available for payment	112,997,837.75	39,234,007.17
Other monetary funds readily available for payment		
Cash equivalents		
Of which: bonds investment due within three months		
Balance of cash and cash equivalents at the end of the year	113,771,300.25	40,149,434.90
Of which: Restricted cash and cash equivalents used by the parent company or the subsidiaries of the Group		

44.Assets with restricted ownership and rights of use

Items	Book value at the end of the year	Reasons of Restriction
Monetary funds	476,550,967.82	Bank acceptance bills deposits, borrowing deposits
Bills receivables	20,639,970.00	Pledge and bills discounting
Fixed assets	284,975,913.24	Security
Intangible assets	135,472,575.56	Security
Inventories	350,000,000.00	Security
Total	1,267,639,426.62	-

45.Monetary items in foreign currencies

Items	Balance in foreign currency at the end of the year	Exchange rate	Equivalent RMB balance at the end of the year
Monetary funds	442,815.52	0.8416	372,691.25
Of which: Hong Kong Dollars	442,815.52	0.8416	372,691.25

46.Government grants**(1) Basic information about government grants**

Type	Amount	Item reported	Amount included in profit and loss for the period
the government subsidies related to the assets	457,060.50	Other gains	457,060.50
the government subsidies related to the revenue	2,992,821.89	Non-operating revenue	2,992,821.89
the government subsidies related to the revenue	1,543,265.85	Finance costs	1,543,265.85
Total	4,993,148.24	-	4,993,148.24

VII. CHANGES IN SCOPE OF CONSOLIDATION

1. Business combinations not under common control

(1) Business combinations not under common control in the year

Acquiree name	Time point of obtaining equity stake	Cost of obtaining equity stake	Ratio of equity stake obtained (%)	Method of obtaining equity stake	Date of purchase	Basis of determining the purchase date	Acquiree's income from the purchase date to the year end	Acquiree's net profit from the purchase date to the year end
Huizhou Charmacy Company	31 July 2020	3,468,852.24	100	Purchase	31 July 2020	Obtaining control right	4,836,553.05	-1,411,075.26

(2) Cost and goodwill of combinations

Project	Huizhou Charmacy Company
Cash on hand	3,468,852.24
Fair value of non-cash assets	
Fair value of debts issued or assumed	
Fair value of equity securities issued	
Fair value of contingent consideration	
Fair value of equity held before the date of purchase on the date of purchase	
Total combination costs	3,468,852.24
Less: Share of fair value of identifiable net assets acquired	572,436.08
Amount of goodwill/combination costs less than share of fair value of identifiable net assets acquired	2,896,416.16

Note: In June 2020, Charmacy Pharmaceutical Company signed an equity transfer agreement with natural persons Wang Wei and Yin Lihua to accept 100.00% shares they held in Huizhou Charmacy Company for RMB3,468,852.24. The share transfer procedures were completed in July 2020. The Group consolidated the company.

(3) Identifiable assets and liabilities of the acquiree on the date of purchase

Project	Huizhou Charmacy Company	
	Fair value on the date of purchase	Carrying amount on the date of purchase
Assets:		
Monetary funds	143,903.60	143,903.60
Trade receivables	257,090.75	257,090.75
Other receivables	343,293.51	343,293.51
Other current assets	8,880.32	8,880.32
Fixed assets	123,158.14	19,933.20

Project	Huizhou Charmacy Company	
	Fair value on the date of purchase	Carrying amount on the date of purchase
Liabilities:		
Trade payables	257,084.00	257,084.00
Other payables	21,000.00	21,000.00
Deferred income tax liabilities	25,806.24	
Net assets	572,436.08	495,017.38
Less: Minority interests		
Net assets acquired	572,436.08	495,017.38

VIII. INTERESTS IN OTHER ENTITIES

1. Interests in subsidiaries

(1) Composition of the corporation

Name of subsidiary	Place of principal operation	Place of registration	Type of legal status	Nature of business	Registered Capital (RMB)	Proportion of shareholding (%)		Method of acquisition
						Direct	Indirect	
Guangdong Charmacy Company	Pearl River Delta	Foshan	Limited liability	Pharmaceutical distribution	150 million	100.00		Established by investment
Zhuhai Charmacy Company	Pearl River Delta	Zhuhai	Limited liability	Pharmaceutical distribution	3.6 million	100.00		Business combination not under common control
Guangzhou Charmacy Company	Pearl River Delta	Guangzhou	Limited liability	Pharmaceutical distribution	20 million	100.00		Business combination not under common control
Shenzhen Charmacy Company	Pearl River Delta	Shenzhen	Limited liability	Pharmaceutical distribution	20.8 million	100.00		Established by investment
Huizhou Charmacy Company	Pearl River Delta	Huizhou	Limited liability	Pharmaceutical distribution	1.5 million	100.00		Business combination not under common control

IX. RISKS RELATED TO FINANCIAL INSTRUMENTS

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

1. Objective and policies of various risks management

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

(1) Market risk

1) Foreign exchange risk

Foreign exchange risk is the risk arising from changes in fair value or future cash flows of financial instrument resulted from changes in exchange rate. The Group's foreign exchange risk relates mainly to Hong Kong Dollars. Except for the proceeds from the H Share offering, payment of H Share dividends and minor expenses incurred in the Hong Kong Special Administrative Region, other main business activities of the Group are settled in RMB. As at 31 December 2020, the changes in the fair value or future cash flows from the assets and liabilities of the balance of the account denominated in HK\$ due to changes in exchange rates may have impact on the Group's operating results as set out in the following table.

Item	Balance as at the end of the year (RMB equivalent)	Balance as at the beginning of the year (RMB equivalent)
Monetary fund – HK\$	372,691.25	395,670.97

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

2) Interest rate risk

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

3) Other price risks

The Group holds no other debt investments and trading financial assets, and it has no such price risk.

(2) Credit risk

As at 31 December 2020, the maximum credit risk exposure that might incur financial losses to the Group was mainly attributable to the losses of financial assets due to a contractual failure of counterparty to perform its obligations. Specifically, such losses include:

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

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

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

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

(3) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations at maturity. The Group manages liquidity risk by ensuring that it has ample liquidity to meet its obligations as they fall due without incurring unacceptable losses or causing damage to its reputation. The Group regularly analyses the structure and maturity of its liabilities to ensure that sufficient funds are available. The Group's management monitors the use of bank loans and ensures compliance with loan agreements. It also negotiates with financial institutions on financing to maintain a certain credit limit and reduce liquidity risk.

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

Item	Book value	Within 1 year	1 to 5 years	Over 5 years	Total
Monetary funds	590,322,268.07	590,322,268.07			590,322,268.07
Bills receivables	20,639,970.00	20,639,970.00			20,639,970.00
Trade receivables	717,554,454.07	717,554,454.07			717,554,454.07
Customer resources costs	25,799,692.96	25,799,692.96			25,799,692.96
Other receivables	12,839,764.71	12,839,764.71			12,839,764.71
Other current assets	45,377,379.28	45,377,379.28			45,377,379.28
Short-term borrowings	535,919,072.17	535,919,072.17			535,919,072.17
Bills payables	938,611,254.96	938,611,254.96			938,611,254.96
Trade payables	569,826,535.10	569,826,535.10			569,826,535.10
Contract liabilities	5,013,052.93	5,013,052.93			5,013,052.93
Salaries payable to employees	5,788,619.82	5,788,619.82			5,788,619.82
Other payables	13,765,328.93	13,765,328.93			13,765,328.93
Non-current liabilities due within one year	34,520,568.55	34,520,568.55			34,520,568.55
Long-term borrowings	118,455,570.44		118,455,570.44		118,455,570.44

2. Fair value

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

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

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

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

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

X. RELATED PARTIES AND RELATED PARTY TRANSACTIONS

(I). Relationship with related parties

1. Controlling shareholder and ultimate controller

(1) Controlling shareholder and ultimate controller

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

(2) Registered capital of controlling shareholder and its changes

Controlling shareholder	Balance at the beginning of the year	Increase in his year	Decrease in this year	Balance as at the end of the year
Yao Chuanglong	59,000,000.00			59,000,000.00

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

Controlling shareholder	Shareholding amount		Percentage of shareholding(%)	
	Balance as at the end of the year	Balance as at the beginning of the year	Percentage at the end of the year	Percentage at the beginning of the year
Yao Chuanglong	59,000,000.00	59,000,000.00	54.63	54.63

2. Subsidiaries

For details of subsidiaries, please see "VIII. 1. (1) Composition of the corporation" under these notes.

3. Other related parties

Name of other related parties	Relationship with the Company
Youran Investment	Holding 1.57% equity interest in the Company, a shareholding platform that is mainly consisted of employees of the Company
Zhichuang Investment	Holding 1.67% equity interest in the Company, a shareholding platform that is mainly consisted of employees of the Company
Meizhi Investment	Holding 2.96% equity interest in the Company, a shareholding platform that is mainly consisted of employees of the Company and an enterprise in which Lin Zhixiong, our executive Director, secretary of the Company and Chief Financial Officer, serves as a general partner
Guangzhou Baiyunshan Pharmaceutical Holdings Co., Ltd. (廣州白雲醫藥集團股份有限公司) (hereinafter referred to as "Baiyunshan" (白雲山股份)) and its holding subsidiaries and joint ventures Note	Guangzhou Pharmaceutical Baiyunshan Hong Kong Company Limited (hereinafter referred to as "Baiyunshan Hong Kong"), a subsidiary of Baiyunshan and a strategic investor of the Company, holds 7,906,500 H shares of the Company, representing 7.32% of the total share capital of the Company. Due to the close business association between the Company and Baiyunshan and its subsidiaries, the shareholding percentage of Baiyunshan Hong Kong controlled by it in the Company has exceeded 5%, and it has appointed a Director, Li Weisheng in 2017 to the Company. Based on the principle of substance over form, the Company deemed Baiyunshan and its holding subsidiaries and joint ventures as related parties of the Company

Name of other related parties	Relationship with the Company
Guangzhou Baiyunshan Guang Hua Pharmacy Co., Ltd. (廣州白雲山光華製藥股份有限公司)	An enterprise in which our non-executive Director Li Weisheng holds a directorship
Guangzhou Pharmaceutical Baiyunshan Macau Company Limited (廣藥白雲山澳門有限公司)	An enterprise in which Li Weisheng, the non-executive Director, serves as the chairman of the board
Guangzhou Pharmaceutical (Zhuhai Hengqin) TCM Industry Co., Ltd. (廣藥國際(珠海橫琴)中醫藥產業有限公司)	An enterprise in which our non-executive Director Li Weisheng serves as a supervisor
Zheng Yuyan, Lin Zhixiong, Li Weisheng, Wan Chi Wai Anthony, Zhou Tao, Guan Jian, Zhang Ling, Zheng Xiyue, Lin Zhijie, Liu Yingyu	Directors, Supervisors and Senior Management of the Company
Wu Binhua, Liu Jigui	Natural person shareholders directly holding more than 5% of the Company's shares
Shenzhen Lafang Investment Management Co., Ltd. (深圳市拉芳投資管理有限公司)	An enterprise in which Wu Binhua, a shareholder holding more than 5% of Shares, serves as general manager
Shenzhen Yijing Investment Co., Ltd. (深圳市億璟投資有限公司)	An enterprise in which Wu Binhua, a shareholder holding more than 5% of Shares, serves as general manager
King & Wood Mallesons (金杜律師事務所)	An enterprise in which Wan Chi Wai Anthony, the independent non-executive Director, serves as partner
Grandway Law Offices (國楓律師事務所)	An enterprise in which Zhou Tao, the independent non-executive Director, serves as partner
HM International Holdings Limited	An enterprise in which Wan Chi Wai Anthony, the independent non-executive Director, serves as the independent non-executive Director
Steering Holdings Limited (旭通控股有限公司)	An enterprise in which Wan Chi Wai Anthony, the independent non-executive Director, serves as the independent non-executive director
C.K.J Professional Dental Hospital Group Limited (深圳市愛康健齒集團股份有限公司)	An enterprise in which Zhang Ling, the Supervisor, serves as the independent non-executive director
Jiangsu Kunyee Environmental Engineering Co., Ltd. (江蘇坤奕環境工程有限公司)	An enterprise in which Zhang Ling, the Supervisor, serves as the chief financial officer
Shanghai New Focus Investment Development Limited (上海新關點投資發展有限公司)	An enterprise in which Guan Jian, the independent non-executive Director, holds 70% of shares and serves as the executive director
Mankedao (Shanghai) Information Technology Limited (慢客島(上海)網絡科技有限公司)	An enterprise in which Guan Jian, the independent non-executive Director, holds 100% of shares and serves as the executive director
Hubei Forbon Technology Co., Ltd. (湖北富邦科技股份有限公司)	An enterprise in which Guan Jian, the independent non-executive Director, serves as an independent non-executive director

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

Company name	Related party relationships with Baiyunshan
Guangzhou Cai Zhi Lin Pharmaceutical Co., Ltd. (廣州采芝林藥業有限公司)	A holding company of Baiyunshan
Guangzhou Jianmin Pharmaceutical Company Limited (廣州健民醫藥有限公司)	A holding company of Baiyunshan
Guangzhou Cai Zhi Lin Corporation Bei Shang Chinese Raw Medicine Co., Ltd. (廣州采芝林北商藥材有限公司)	A holding company of Baiyunshan
Guangzhou Pharmaceutical Co., Ltd. Da Zhong Pharmaceutical Sales Branch (廣州醫藥有限公司大眾藥品銷售分公司)	A holding company of Baiyunshan
Zhuhai Guang Yao Kangming Pharmaceutical Co., Ltd. (珠海廣藥康鳴醫藥有限公司)	A holding company of Baiyunshan
Guangzhou Pharmaceutical Pharmacy Co., Ltd. (廣州醫藥大藥房有限公司)	A holding company of Baiyunshan
Hainan GP Chenfei Pharmaceutical Company Limited (海南廣藥晨菲醫藥有限公司)	A holding company of Baiyunshan
Guangzhou Guo Ying Pharmaceutical Co., Ltd. (廣州國盈醫藥有限公司)	A holding company of Baiyunshan
Guangdong Province Mei County Pharmaceutical Co., Ltd. Yuedong Bianmin Pharmacy (廣東省梅縣醫藥有限公司粵東便民藥房)	A holding company of Baiyunshan
Fujian GuangYao Jieda Pharmaceutical Co., Ltd.(福建廣藥潔達醫藥有限公司)	A holding company of Baiyunshan
Foshan GPC Jianze Pharmaceutical Co., Ltd (佛山市廣藥健擇醫藥有限公司)	A holding company of Baiyunshan
Guangzhou Pharmaceutical Co., Ltd. (廣州醫藥股份有限公司)	A holding company of Baiyunshan
Shenzhen Guangyao Liankang Pharmaceutical Company Limited (深圳廣藥聯康醫藥有限公司)	A holding company of Baiyunshan
Guangzhou Xin Te Pharmaceutical Co., Ltd. (廣州欣特醫藥有限公司)	A holding company of Baiyunshan
Guangzhou Baiyunshan Zhong Yi Pharmaceutical Company Limited (廣州白雲山中一藥業有限公司)	A holding company of Baiyunshan
Guangzhou Wang Lao Ji Pharmaceutical Co., Ltd. (廣州王老吉藥業股份有限公司)	A holding company of Baiyunshan
Guangzhou Baiyunshan Xing Qun Pharmaceutical Co., Ltd.(廣州白雲山星群(藥業)股份有限公司)	A holding company of Baiyunshan
Guangzhou Baiyunshan Pharmaceutical Marketing Co., Ltd. (廣州白雲山醫藥銷售有限公司)	A holding company of Baiyunshan
Guangzhou Baiyunshan Pan Gao Shou Pharmaceutical Co., Ltd. (廣州白雲山潘高壽藥業股份有限公司)	A holding company of Baiyunshan
Guangzhou Baiyunshan Pharmaceutical Holdings Co., Ltd. Guangzhou Baiyunshan He Ji Gong Pharmaceutical Factory (廣州白雲山醫藥集團股份有限公司白雲山河濟公制藥廠)	A holding company of Baiyunshan
Guangzhou Baiyunshan Chen Li Ji Pharmaceutical Factory Co., Ltd. (廣州白雲山陳李濟藥廠有限公司)	A holding company of Baiyunshan
Guangzhou Baiyunshan Tian Xin Pharmaceutical Co., Ltd.(廣州白雲山天心製藥股份有限公司)	A holding company of Baiyunshan
Guangzhou Baiyunshan Qi Xing Pharmaceutical Co., Ltd. (廣州白雲山奇星藥業有限公司)	A holding company of Baiyunshan
Guangzhou Pharmaceutical Import and Export Company Limited (廣州醫藥進出口有限公司)	A holding company of Baiyunshan
Hutchison Whampoa Guangzhou Baiyunshan Pharmaceutical Co., Ltd. (廣州白雲山和黃醫藥有限公司)	A holding company of Baiyunshan
Guangzhou Baiyunshan Prepared TCM Pieces Company Limited (廣州白雲山中藥飲片有限公司)	A holding company of Baiyunshan
Guangzhou Baiyunshan Ming Xing Pharmaceutical Co., Ltd. (廣州白雲山明興製藥有限公司)	A holding company of Baiyunshan

Company name	Related party relationships with Baiyunshan
Guangzhou Baiyunshan Jing Xiu Tang Pharmaceutical Co., Ltd. (廣州白雲山敬修堂藥業股份有限公司)	A holding company of Baiyunshan
Guangzhou Chinese Medicine Corporation Chinese Medical Drink and Pill Factory (廣州市藥材公司中藥飲片廠)	A holding company of Baiyunshan
Guangzhou Baiyunshan Hutchison Whampoa Chinese Medicine Co., Ltd. (廣州白雲山和記黃埔中藥有限公司)	A joint venture of Baiyunshan
Hainan Hongxiang Yi Xin Tang Pharmaceutical Chain Co., Ltd.(海南鴻翔一心堂醫藥連鎖有限公司)	An associate of Baiyunshan
(State)GuangDong Baiyuantang Gurative Gatenation Co.,Ltd(廣東百源堂醫藥連鎖有限公司)	An associate of Baiyunshan
Guangxi Hongxiang Yi Xin Tang Pharmaceutical Co., Ltd.(廣西鴻翔一心堂藥業有限責任公司)	An associate of Baiyunshan
Sichuan Yi Xin Tang Gurative Gatenation Co.,Ltd(四川一心堂醫藥連鎖有限公司)	An associate of Baiyunshan
Yixintang Pharmaceutical Group Co., Ltd. (一心堂藥業集團股份有限公司)	An associate of Baiyunshan

(II). Related party transactions

1.Details of related party transactions

Name of related party	Types of related party transactions	Pricing method and decision making procedure for related party transactions	2020	2019
1.Sales and rendering of services				
Guangzhou Cai Zhi Lin Pharmaceutical Co., Ltd.	Sales of goods	Determined after negotiation by reference to market rates	22,638,136.10	20,693,212.55
Guangzhou Jianmin Pharmaceutical Company Limited	Sales of goods	Determined after negotiation by reference to market rates	7,764,131.82	4,212,520.03
Hainan Hongxiang Yi Xin Tang Pharmaceutical Chain Co., Ltd.	Sales of goods	Determined after negotiation by reference to market rates	3,742,539.22	
(State)GuangDong Baiyuantang Gurative Gatenation Co.,Ltd	Sales of goods	Determined after negotiation by reference to market rates	3,149,654.79	
Guangxi Hongxiang Yi Xin Tang Pharmaceutical Co., Ltd.	Sales of goods	Determined after negotiation by reference to market rates	2,851,531.02	
Guangzhou Cai Zhi Lin Corporation Bei Shang Chinese Raw Medicine Co., Ltd.	Sales of goods	Determined after negotiation by reference to market rates	858,824.27	34,242.02
Sichuan Yi Xin Tang Gurative Gatenation Co.,Ltd	Sales of goods	Determined after negotiation by reference to market rates	661,306.12	
Yixintang Pharmaceutical Group Co., Ltd.	Sales of goods	Determined after negotiation by reference to market rates	274,429.03	
Guangzhou Pharmaceutical Co., Ltd. Da Zhong Pharmaceutical Sales Branch	Sales of goods	Determined after negotiation by reference to market rates	267,966.28	1,376,861.30
Zhuhai Guang Yao Kangming Pharmaceutical Co., Ltd.	Sales of goods	Determined after negotiation by reference to market rates	198,657.44	17,375.49

Name of related party	Types of related party transactions	Pricing method and decision making procedure for related party transactions	2020	2019
Guangzhou Pharmaceutical Pharmacy Co., Ltd.	Sales of goods	Determined after negotiation by reference to market rates	122,042.12	7,186.95
Hainan GP Chenfei Pharmaceutical Company Limited	Sales of goods	Determined after negotiation by reference to market rates	54,601.77	48,318.58
Guangzhou Guo Ying Pharmaceutical Co., Ltd.	Sales of goods	Determined after negotiation by reference to market rates	32,339.83	
Guangdong Province Mei County Pharmaceutical Co., Ltd. Yuedong Bianmin Pharmacy (廣東省梅縣醫藥有限公司粵東便民藥房)	Sales of goods	Determined after negotiation by reference to market rates	1,875.30	
Fujian GuangYao Jieda Pharmaceutical Co., Ltd.	Sales of goods	Determined after negotiation by reference to market rates	196.46	
Foshan GPC Jianze Pharmaceutical Co., Ltd	Sales of goods	Determined after negotiation by reference to market rates		197,892.26
Guangzhou Pharmaceutical Co., Ltd.	Sales of goods	Determined after negotiation by reference to market rates		171,409.39
Shenzhen Guangyao Liankang Pharmaceutical Company Limited	Sales of goods	Determined after negotiation by reference to market rates		22,075.87
Guangzhou Xin Te Pharmaceutical Co., Ltd. (廣州欣特醫藥有限公司)	Sales of goods	Determined after negotiation by reference to market rates		9,151.33

2. Procurement and acceptance of services

Guangzhou Pharmaceutical Co., Ltd.	Procurement of goods	Determined after negotiation by reference to market rates	211,975,445.64	111,688,821.54
Guangzhou Baiyunshan Zhong Yi Pharmaceutical Company Limited	Procurement of goods	Determined after negotiation by reference to market rates	76,002,640.52	32,718,900.78
Guangzhou Wang Lao Ji Pharmaceutical Co., Ltd.	Procurement of goods	Determined after negotiation by reference to market rates	44,456,693.31	40,512,152.97
Guangzhou Baiyunshan Xing Qun Pharmaceutical Co., Ltd.	Procurement of goods	Determined after negotiation by reference to market rates	42,168,162.06	31,290,282.87
Guangzhou Cai Zhi Lin Pharmaceutical Co., Ltd.	Procurement of goods	Determined after negotiation by reference to market rates	41,709,724.20	54,927,915.29
Guangzhou Baiyunshan Pharmaceutical Marketing Co., Ltd.	Procurement of goods	Determined after negotiation by reference to market rates	40,395,068.93	37,376,742.03
Guangzhou Baiyunshan Pan Gao Shou Pharmaceutical Co., Ltd.	Procurement of goods	Determined after negotiation by reference to market rates	32,396,279.24	32,942,255.89
Guangzhou Guo Ying Pharmaceutical Co., Ltd.	Procurement of goods	Determined after negotiation by reference to market rates	15,146,970.40	15,438,940.49
Guangzhou Baiyunshan Pharmaceutical Holdings Co., Ltd. Guangzhou Baiyunshan He Ji Gong Pharmaceutical Factory	Procurement of goods	Determined after negotiation by reference to market rates	14,288,078.02	17,961,281.24
Guangzhou Baiyunshan Chen Li Ji Pharmaceutical Factory Co., Ltd.	Procurement of goods	Determined after negotiation by reference to market rates	13,885,470.38	16,165,887.64

Name of related party	Types of related party transactions	Pricing method and decision making procedure for related party transactions	2020	2019
Guangzhou Baiyunshan Tian Xin Pharmaceutical Co., Ltd.	Procurement of goods	Determined after negotiation by reference to market rates	13,027,075.90	19,668,387.91
Guangzhou Baiyunshan Hutchison Whampoa Chinese Medicine Co., Ltd.	Procurement of goods	Determined after negotiation by reference to market rates	9,642,781.95	6,998,605.21
Guangzhou Xin Te Pharmaceutical Co., Ltd.	Procurement of goods	Determined after negotiation by reference to market rates	5,310,005.51	57,509.73
Guangzhou Baiyunshan Qi Xing Pharmaceutical Co., Ltd.	Procurement of goods	Determined after negotiation by reference to market rates	5,265,974.38	3,464,392.20
Fujian GuangYao Jieda Pharmaceutical Co., Ltd.	Procurement of goods	Determined after negotiation by reference to market rates	1,285,164.15	
Guangzhou Baiyunshan Guang Hua Pharmacy Co., Ltd.	Procurement of goods	Determined after negotiation by reference to market rates	1,008,823.00	2,518,647.40
Foshan GPC Jianze Pharmaceutical Co., Ltd	Procurement of goods	Determined after negotiation by reference to market rates	696,893.12	35,721.24
Guangzhou Pharmaceutical Import and Export Company Limited	Procurement of goods	Determined after negotiation by reference to market rates	350,442.48	23,184,539.22
Hutchison Whampoa Guangzhou Baiyunshan Pharmaceutical Co., Ltd.	Procurement of goods	Determined after negotiation by reference to market rates	310,274.34	87,610.62
Guangzhou Baiyunshan Prepared TCM Pieces Company Limited	Procurement of goods	Determined after negotiation by reference to market rates		1,694.31
Guangzhou Baiyunshan Ming Xing Pharmaceutical Co., Ltd.	Procurement of goods	Determined after negotiation by reference to market rates		44,508.63

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

Note 2: Some related parties changed names in 2020. Where, "Guangzhou Pharmaceutical Co., Ltd." (廣州醫藥有限公司) changed name to Guangzhou Pharmaceuticals Co., Ltd. (廣州醫藥股份有限公司); "Guangzhou Pharmaceutical Co., Ltd. Da Zhong Drug Sales Branch" (廣州醫藥有限公司大眾藥品銷售分公司) changed name to "Guangzhou Pharmaceuticals Co., Ltd. Da Zhong Drug Sales Branch" (廣州醫藥股份有限公司大眾藥品銷售分公司); "Guangzhou Chinese Medicine Corporation Chinese Medical Drink and Pill Factory" (廣州市藥材公司中藥飲片廠) changed name to "Guangzhou Baiyunshan Prepared TCM Pieces Company Limited".

(III). Related party balances

Item	Balance as at the end of the year	Balance as at the beginning of the year
Trade receivables		
Guangzhou Jianmin Pharmaceutical Company Limited	1,251,073.59	1,048,448.65
Hainan Hongxiang Yi Xin Tang Pharmaceutical Chain Co., Ltd.	1,194,146.09	
Guangxi Hongxiang Yi Xin Tang Pharmaceutical Co., Ltd.	470,746.27	
(State)GuangDong Baiyuantang Gurative Gatenation Co.,Ltd	338,891.81	
Sichuan Yi Xin Tang Gurative Gatenation Co.,Ltd	182,083.37	
Guangzhou Cai Zhi Lin Corporation Bei Shang Chinese Raw Medicine Co., Ltd.	39,043.00	13,815.52
Yixintang Pharmaceutical Group Co., Ltd.	36,789.91	
Guangzhou Pharmaceutical Pharmacy Co., Ltd.	26,748.52	6,287.05
Zhuhai Guang Yao Kangming Pharmaceutical Co., Ltd.	16,864.49	1,696.00
Guangzhou Pharmaceutical Co., Ltd. Da Zhong Pharmaceutical Sales Branch		723,770.00
Guangzhou Cai Zhi Lin Pharmaceutical Co., Ltd.		132,623.57
Prepayments		
Guangzhou Baiyunshan Pharmaceutical Marketing Co., Ltd.	23,402,805.15	13,660,187.15
Guangzhou Wang Lao Ji Pharmaceutical Co., Ltd.	21,332,793.75	5,327,522.08
Guangzhou Baiyunshan Zhong Yi Pharmaceutical Company Limited	18,799,888.07	32,248,568.52
Guangzhou Baiyunshan Pan Gao Shou Pharmaceutical Co., Ltd.	12,026,725.74	
Guangzhou Baiyunshan Xing Qun Pharmaceutical Co., Ltd.	8,607,258.01	1,541,245.10
Guangzhou Baiyunshan Pharmaceutical Holdings Co., Ltd. Guangzhou Baiyunshan He Ji Gong Pharmaceutical Factory	3,838,365.44	859,299.04
Guangzhou Baiyunshan Chen Li Ji Pharmaceutical Factory Co., Ltd.	1,893,962.10	216,622.39
Guangzhou Baiyunshan Hutchison Whampoa Chinese Medicine Co., Ltd.	754,344.42	99,171.64
Guangzhou Baiyunshan Qi Xing Pharmaceutical Co., Ltd.	700,167.06	3,103.19
Guangzhou Baiyunshan Guang Hua Pharmacy Co., Ltd.	665,339.73	
Guangzhou Pharmaceutical Co., Ltd.	135,094.02	66,602.12
Guangzhou Baiyunshan Ming Xing Pharmaceutical Co., Ltd.		14,143.01
Guangzhou Pharmaceutical Import and Export Company Limited		516.55
Other receivables		
Guangzhou Pharmaceuticals Corporation	150,000.00	300,000.00
Guangzhou Wang Lao Ji Pharmaceutical Co., Ltd.	20,000.00	150,000.00
Guangzhou Baiyunshan Jing Xiu Tang Pharmaceutical Co., Ltd.	20,000.00	20,000.00
Guangzhou Baiyunshan Hutchison Whampoa Chinese Medicine Co., Ltd.		20,000.00
Bill payables		

Item	Balance as at the end of the year	Balance as at the beginning of the year
Guangzhou Baiyunshan Zhong Yi Pharmaceutical Company Limited	46,705,561.50	45,304,680.08
Guangzhou Wang Lao Ji Pharmaceutical Co., Ltd.	37,419,703.93	20,113,674.70
Guangzhou Pharmaceutical Co., Ltd.	28,358,180.21	25,708,413.98
Guangzhou Baiyunshan Pharmaceutical Marketing Co., Ltd.	23,193,717.61	14,225,462.09
Guangzhou Baiyunshan Pan Gao Shou Pharmaceutical Co., Ltd.	13,300,000.00	8,993,060.00
Guangzhou Cai Zhi Lin Pharmaceutical Co., Ltd.	13,149,686.69	19,926,326.18
Guangzhou Baiyunshan Xing Qun Pharmaceutical Co., Ltd.	11,115,347.09	6,565,903.37
Guangzhou Baiyunshan Tian Xin Pharmaceutical Co., Ltd.	7,807,931.60	7,819,436.61
Guangzhou Baiyunshan Pharmaceutical Holdings Co., Ltd. Guangzhou Baiyunshan He Ji Gong Pharmaceutical Factory	7,747,810.02	4,293,535.25
Guangzhou Baiyunshan Qi Xing Pharmaceutical Co., Ltd.	5,081,291.74	2,381,238.76
Guangzhou Baiyunshan Chen Li Ji Pharmaceutical Factory Co., Ltd.	4,509,967.60	4,088,988.98
Guangzhou Baiyunshan Hutchison Whampoa Chinese Medicine Co., Ltd.	4,382,298.00	1,973,439.40
Guangzhou Xin Te Pharmaceutical Co., Ltd.	3,446,060.00	
Guangzhou Guo Ying Pharmaceutical Co., Ltd.	2,730,395.79	3,300,942.57
Guangzhou Baiyunshan Guang Hua Pharmacy Co., Ltd.	823,760.50	1,032,356.00
Hutchison Whampoa Guangzhou Baiyunshan Pharmaceutical Co., Ltd.	117,000.00	
Guangzhou Pharmaceutical Import and Export Company Limited	87,398.00	
Trade payables		
Guangzhou Pharmaceutical Co., Ltd.	72,229,454.24	37,552,747.29
Guangzhou Cai Zhi Lin Pharmaceutical Co., Ltd.	17,026,907.88	14,187,677.96
Guangzhou Guo Ying Pharmaceutical Co., Ltd.	5,107,761.10	5,396,626.09
Guangzhou Xin Te Pharmaceutical Co., Ltd.	1,270,082.69	
Foshan GPC Jianze Pharmaceutical Co., Ltd	542,850.00	40,365.00
Guangzhou Baiyunshan Tian Xin Pharmaceutical Co., Ltd.	294,189.91	2,256,767.98
Guangzhou Chinese Medicine Corporation Chinese Medical Drink and Pill Factory	1,846.80	1,846.80
Guangzhou Baiyunshan Chen Li Ji Pharmaceutical Factory Co., Ltd.		460,762.42
Guangzhou Baiyunshan Pan Gao Shou Pharmaceutical Co., Ltd.		267,453.59
Contract liabilities		
Guangzhou Cai Zhi Lin Pharmaceutical Co., Ltd.	282,786.40	
Guangzhou Pharmaceutical Co., Ltd. Da Zhong Pharmaceutical Sales Branch	62,227.98	

(IV).DIRECTORS', SUPERVISORS' AND EMPLOYEES' EMOLUMENTS

1. Details of the emoluments of directors and supervisors are as follows:

Items	Salaries and allowances	Social insurance, housing fund and pension	Bonuses	Share-based payment	Total
Amount for the year					
Executive Directors					
Yao Chuanglong	648,900.00	36,072.35			684,972.35
Lin Zhixiong	482,951.52	26,676.62			509,628.14
Zheng Yuyan	485,800.00	26,115.15			511,915.15
Subtotal	1,617,651.52	88,864.12			1,706,515.64
Non-executive directors					
Li Weisheng					
Subtotal					
Supervisors					
Zheng Xiyue	158,199.96	18,505.35			176,705.31
Lin Zhijie	399,380.00	20,112.39			419,492.39
Zhang Ling	40,000.00				40,000.00
Subtotal	597,579.96	38,617.74			636,197.70
Independent non-executive directors					
Wan Chi Wai, Anthony	121,196.16				121,196.16
Guan Jian	50,000.00				50,000.00
Zhou Tao	50,000.00				50,000.00
Subtotal	221,196.16				221,196.16
Total	2,436,427.64	127,481.86			2,563,909.50
Amount for last year					
Executive Directors					
Yao Chuanglong	650,000.00	64,156.16			714,156.16
Lin Zhixiong	483,135.36	51,186.88			534,322.24
Zheng Yuyan	485,000.00	39,782.20			524,782.20
Subtotal	1,618,135.36	155,125.24			1,773,260.60
Non-executive directors					

Items	Salaries and allowances	Social insurance, housing fund and pension	Bonuses	Share-based payment	Total
Li Weisheng					
Subtotal					
Supervisors					
Zheng Xiyue	168,598.00	27,627.85			196,225.85
Lin Zhijie	392,541.50	30,800.22			423,341.72
Zhang Ling	40,000.00				40,000.00
Subtotal	601,139.50	58,428.07			659,567.57
Independent non-executive directors	127,845.60				127,845.60
Wan Chi Wai, Anthony	50,000.00				50,000.00
Guan Jian	50,000.00				50,000.00
Zhou Tao	227,845.60				227,845.60
Subtotal	2,447,120.46	213,553.31			2,660,673.77

2. Five individuals with the highest emoluments

Of the five individuals with the highest emoluments, three were directors (last year: three) for the year, and the emoluments of the directors among them set out in Note "X. (IV). (1)" emoluments reflected in the emoluments of directors and supervisors. The emolument of other two individual (last year: two) was as follows:

Items	Amount for the year	Amount for last year
Salaries and allowances	570,260.00	561,139.50
Social insurance, housing fund and relevant pension cost	33,652.47	58,428.07
Total	603,912.47	619,567.57

Scope of emoluments:

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

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

4. Major management's emoluments

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

Items	Amount for the year	Amount for last year
Salaries and allowances	2,607,307.64	2,667,694.86
Social insurance, housing fund and relevant pension cost	141,021.94	237,800.49
Bonuses		
Total	2,748,329.58	2,905,495.35

XI. CONTINGENCIES

1. The Group's internal guarantees during the reporting period are as follows (Unit: RMB0'000):

Names of Guarantors	Names of Guarantees	Guarantee Amount	Commencement Date	Release Date	Whether the Guarantee has been fully performed	Explanation
Charmacy Pharmaceutical Company	Guangdong Charmacy Company	12,000.00	2015-7-29	2020-12-31	Yes	
Guangdong Charmacy Company	Charmacy Pharmaceutical Company	20,000.00	2017-11-20	2022-11-19	No	
Guangdong Charmacy Company	Charmacy Pharmaceutical Company, Guangdong Charmacy Company	26,000.00	2018-7-10	2023-7-10	No	Chattel mortgage
Guangdong Charmacy Company	Charmacy Pharmaceutical Company	18,000.00	2018-8-15	2025-8-15	No	
Charmacy Pharmaceutical Company	Guangdong Charmacy Company	6,000.00	2018-12-3	2021-12-27	Yes	
Guangdong Charmacy Company	Charmacy Pharmaceutical Company	13,000.00	2018-12-3	2021-12-27	No	
Charmacy Pharmaceutical Company	Guangdong Charmacy Company	11,000.00	2018-12-3	2021-12-27	No	
Charmacy Pharmaceutical Company	Guangdong Charmacy Company	15,000.00	2019-3-29	2022-3-29	Yes	
Charmacy Pharmaceutical Company	Guangdong Charmacy Company	3,000.00	2019-6-5	2020-4-2	Yes	
Charmacy Pharmaceutical Company	Guangdong Charmacy Company	5,500.00	2019-6-21	2021-6-30	Yes	
Guangdong Charmacy Company	Charmacy Pharmaceutical Company	5,500.00	2019-6-21	2021-6-30	Yes	
Charmacy Pharmaceutical Company	Guangdong Charmacy Company	5,000.00	2019-7-15	2023-7-14	Yes	
Charmacy Pharmaceutical Company	Guangdong Charmacy Company	18,000.00	2019-8-2	2020-8-1	Yes	
Charmacy Pharmaceutical Company	Charmacy Pharmaceutical Company, Guangdong Charmacy Company	38,000.00	2019-8-2	2023-7-10	No	Chattel mortgage

Names of Guarantors	Names of Guarantees	Guarantee Amount	Commencement Date	Release Date	Whether the Guarantee has been fully performed	Explanation
Charmacy Pharmaceutical Company	Charmacy Pharmaceutical Company, Guangdong Charmacy Company	38,000.00	2019-8-2	2024-8-2	No	Building property mortgage
Guangdong Charmacy Company	Charmacy Pharmaceutical Company	20,000.00	2019-8-2	2020-8-1	Yes	
Charmacy Pharmaceutical Company	Guangdong Charmacy Company	3,500.00	2019-9-18	Note 1	Yes	
Guangdong Charmacy Company	Charmacy Pharmaceutical Company	3,500.00	2019-9-18	Note 1	Yes	
Charmacy Pharmaceutical Company	Guangdong Charmacy Company	4,000.00	2019-11-25	2022-12-31	No	
Guangdong Charmacy Company	Charmacy Pharmaceutical Company	3,300.00	2019-11-29	2021-11-29	Yes	
Charmacy Pharmaceutical Company	Guangdong Charmacy Company	20,000.00	2020-2-21	2021-2-20	No	
Guangdong Charmacy Company	Charmacy Pharmaceutical Company	21,000.00	2020-2-21	2021-2-20	No	
Guangdong Charmacy Company	Charmacy Pharmaceutical Company	24,000.00	2020-2-21	2025-2-20	No	
广州创美公司	Charmacy Pharmaceutical Company	24,000.00	2020-2-21	2025-2-20	No	
Guangdong Charmacy Company	Charmacy Pharmaceutical Company	1,500.00	2020-3-25	2023-3-24	No	
广州创美公司	Charmacy Pharmaceutical Company	1,500.00	2020-3-25	2023-3-24	No	
珠海创美公司	Charmacy Pharmaceutical Company	1,500.00	2020-3-25	2023-3-24	No	
Charmacy Pharmaceutical Company	Guangdong Charmacy Company	5,500.00	2020-4-16	Note 1	No	
Guangdong Charmacy Company	Charmacy Pharmaceutical Company	5,500.00	2020-4-16	Note 1	No	
Charmacy Pharmaceutical Company	Guangdong Charmacy Company	3,000.00	2020-5-8	2021-4-9	No	
Charmacy Pharmaceutical Company	Guangdong Charmacy Company	3,000.00	2020-6-23	2023-6-23	No	
Charmacy Pharmaceutical Company	Guangdong Charmacy Company	5,500.00	2020-8-13	2022-7-31	No	
Guangdong Charmacy Company	Charmacy Pharmaceutical Company	5,500.00	2020-8-13	2022-7-31	No	
Charmacy Pharmaceutical Company	Guangdong Charmacy Company	12,000.00	2020-10-28	2025-12-31	No	

Note 1: The guarantee obligation became effective from 18 September 2019 for a term of 60 months from the expiration of the performance period of the guarantee obligation.

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

XII.COMMITMENTS

By December 31, 2020, the Group had no important commitment which must be disclosed.

XIII.EVENTS SUBSEQUENT TO BALANCE SHEET DATE

1.Profit distribution

Item	Content
Profits or dividends to be distributed	RMB0.2 per share

On 26 March 2021, the meeting of board of directors of Charmacy Pharmaceutical Company passed final dividend of RMB0.20 per share for the year ended 31 December 2020, and proposed it at general meeting for approving such distribution.

2.Save as disclosed above, the Group had no other significant events after the balance sheet date.

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

1.Trade receivables

Name of item	Balance as at the end of the year	Balance as at the beginning of the year
Trade receivables	329,142,078.53	335,907,982.37
Less:Provision for bad debt	7,424,089.33	5,774,969.73
Net amount	321,717,989.20	330,133,012.64

(1) Accounts receivable by the method of provisioning for bad debt

Classification	Balance as at the end of the year				Book value
	Book balance		Provision for bad debt		
	Amount	Percentage (%)	Amount	Lifetime expected credit loss rate (%)	
Bad debt provision made on individual basis	2,436,214.20	0.74	2,436,214.20	100.00	
Bad debt provision made on a collective basis	326,705,864.33	99.26	4,987,875.13	1.53	321,717,989.20
Aging portfolio	326,705,864.33	99.26	4,987,875.13	1.53	321,717,989.20
Low risk portfolio					
Total	329,142,078.53	100.00	7,424,089.33	-	321,717,989.20

(continued)

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

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

Company name	Balance as at the end of the year			
	Trade receivables	Provision for bad debt	Lifetime expected credit loss rate (%)	Reasons for provision
Fujian Minzhe Pharmaceutical Co., Ltd. (福建省閩浙醫藥有限責任公司)	2,010,786.55	2,010,786.55	100.00	Default in overdue goods payment, low expected recoverability
Ningde Xianghe Pharmaceutical Chain Co., Ltd. (寧德市祥和醫藥連鎖有限責任公司)	271,939.56	271,939.56	100.00	Default in overdue goods payment, low expected recoverability
Jiangxi Jinsheng Medicine Limited (江西金盛醫藥有限公司)	104,626.38	104,626.38	100.00	Default in overdue goods payment, low expected recoverability
Shantou Longhu District People's Hospital (汕頭市龍湖區人民醫院)	15,772.68	15,772.68	100.00	No cooperation relationship subsisting, lower expected recoverability
The First Affiliated Hospital of Shantou University Medical College	15,340.34	15,340.34	100.00	No cooperation relationship subsisting, lower expected recoverability
Shantou Chaoyang District Chinese Medicine Hospital (汕頭市潮陽區中醫醫院)	4,931.74	4,931.74	100.00	No cooperation relationship subsisting, lower expected recoverability
Shantou Chaonan District People's Hospital (汕頭市潮南區人民醫院)	4,697.76	4,697.76	100.00	No cooperation relationship subsisting, lower expected recoverability
Shantou Haojiang District Zhupu Hospital (汕頭市濠江區珠浦醫院)	1,846.52	1,846.52	100.00	No cooperation relationship subsisting, lower expected recoverability
Zhejiang Tongtaitang Pharmaceutical Co., Ltd. (浙江同泰堂藥品有限公司)	1,759.50	1,759.50	100.00	No cooperation relationship subsisting, lower expected recoverability
Joint Shantou International Eye Center of Shantou University and The Chinese University of Hong Kong	1,395.33	1,395.33	100.00	No cooperation relationship subsisting, lower expected recoverability
Jiangxi Xinde Pharmaceutical Co., Ltd. (江西信德醫藥有限公司)	1,034.90	1,034.90	100.00	No cooperation relationship subsisting, lower expected recoverability
Others	2,082.94	2,082.94	100.00	No cooperation relationship subsisting, lower expected recoverability
Total	2,436,214.20	2,436,214.20	100.00	-

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

Age	Balance as at the end of the year		
	trade receivables	Provision for bad debt	Lifetime expected credit loss rate (%)
Within 1 year	298,626,861.99	866,017.90	0.29
1 to 2 years	25,292,250.49	3,062,891.53	12.11
2 to 3 years	2,786,751.85	1,058,965.70	38.00
Total	326,705,864.33	4,987,875.13	-

(2) Accounts receivable by aging

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

Age	Balance as at the end of the year			Balance as at the beginning of the year		
	Book balance	Percentage (%)	Provision for bad debt	Book balance	Percentage (%)	Provision for bad debt
Within 1 year	298,626,861.99	90.73	866,017.90	313,406,731.40	93.30	908,879.52
1 to 2 years	25,292,250.49	7.68	3,062,891.53	20,065,036.77	5.97	2,429,876.01
2 to 3 years	2,786,751.85	0.85	1,058,965.70			
More than 3 years	2,436,214.20	0.74	2,436,214.20	2,436,214.20	0.73	2,436,214.20
Total	329,142,078.53	100.00	7,424,089.33	335,907,982.37	100.00	5,774,969.73

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

Balance as at the beginning of the year	Changes in the year			Balance as at the end of the year
	Accrued	Recovered or reversed	Written back or written off	
5,774,969.73	1,649,119.60			7,424,089.33

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

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

In 2020, the sum of accounts receivable of five borrowers with the largest closing balance of accounts receivable was RMB109,180,421.88, 33.17% of the total closing balance of accounts receivable. Accordingly, the bad debt provisions set aside had a total closing balance of RMB316,623.22.

2. Other receivables

Items	Balance as at the end of the year	Balance as at the beginning of the year
Interests receivable		
Dividend receivable		
Other receivables	34,922,983.93	22,218,991.16
Total	34,922,983.93	22,218,991.16

2.1 Other receivables

Name of item	Balance as at the end of the year	Balance as at the beginning of the year
Other receivables	34,927,983.93	22,223,991.16
Less: Provision for bad debt	5,000.00	5,000.00
Net amount	34,922,983.93	22,218,991.16

(1) Classification of other receivables by fund nature

Fund nature	Book balance at the end of the year	Book balance at the beginning of the year
Money transfers	26,539,650.05	14,445,267.62
Cash deposit	7,704,516.00	7,082,452.00
Imprest fund	678,817.88	691,271.54
Others	5,000.00	5,000.00
Total	34,927,983.93	22,223,991.16

(2) Provisions for bad debt of other receivables

Provision for bad debt	First stage	Second stage	Third stage	Total
	12-month expected credit loss	Lifetime expected credit loss (not credit-impaired)	Lifetime expected credit loss (credit-impaired)	
Balance on 1 January 2020			5,000.00	5,000.00
Book balance of other receivables on 1 January 2020 in the year	-	-	-	-
-Transferred to the second stage				
-Transferred to the third stage				
-Reversed to the second stage				
-Reversed to the first stage				
Accrued for the year				
Reversed in the year				

Provision for bad debt	First stage	Second stage	Third stage	Total
	12-month expected credit loss	Lifetime expected credit loss (not credit-impaired)	Lifetime expected credit loss (credit-impaired)	
Written off in the year				
Cancelled in the year				
Other changes				
Balance on 31 December 2020			5,000.00	5,000.00

(3) Aging analysis of other receivables

Age	Balance as at the end of the year			Balance as at the beginning of the year		
	Book balance	Percentage (%)	Provision for bad debt	Book balance	Percentage (%)	Provision for bad debt
Within 1 year	27,667,310.21	79.21		13,611,057.68	61.24	
1 to 2 years	28,221.72	0.08		1,449,233.48	6.52	
2 to 3 years	80,000.00	0.23		6,000,000.00	27.00	
More than 3 years	7,152,452.00	20.48	5,000.00	1,163,700.00	5.24	5,000.00
Total	34,927,983.93	100.00	5,000.00	22,223,991.16	100.00	5,000.00

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

Balance as at the beginning of the year	Changes in the year			Balance as at the end of the year
	Accrued	Recovered or reversed	Written back or written off	
5,000.00				5,000.00

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

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

Company name	Nature of amounts	Balance as at the end of the year	Age	Percentage in the total closing balance of other receivables (%)	Balance of provision for bad debts at the end of the year
Guangzhou Charmacy Pharmaceutical Limited (廣州創美藥業有限公司)	Current accounts	17,735,281.98	Within 1 year	50.78	
Zhuhai Charmacy Pharmaceutical Limited (珠海創美藥業有限公司)	Current accounts	5,717,024.14	Within 1 year	16.37	
Zhuhai Jinming Medicine Co., Ltd. (珠海市金明醫藥有限公司)	Deposit	5,600,000.00	More than 3 years	16.03	

Company name	Nature of amounts	Balance as at the end of the year	Age	Percentage in the total closing balance of other receivables (%)	Balance of provision for bad debts at the end of the year
Zhuhai Charmacy Pharmaceutical Limited (惠州創美藥業有限公司)	Current accounts	2,937,643.91	Within 1 year	8.41	
Fujian Nan'an Lianhuafeng Pharmaceutical Factory (福建省南安市蓮花峰藥廠)	Deposit	1,000,000.00	More than 3 years	2.86	
Total	-	32,989,950.03	-	94.45	

3. Long-term equity investments

(1) Classification of long-term equity investments

Item	Balance as at the end of the year			Balance as at the beginning of the year		
	Book balance	Provisions for impairment	Book value	Book balance	Provisions for impairment	Book value
Investment in the subsidiaries	219,978,852.24		219,978,852.24	216,510,000.00		216,510,000.00
Total	219,978,852.24		219,978,852.24	216,510,000.00		216,510,000.00

(2) Investment in the subsidiaries

Investees	Balance as at the beginning of the year	Addition in the year	Reduction in the year	Balance as at the end of the year	Provision for impairment for the year	Balance of provision for impairment at the end of the year
Guangdong Charmacy Company	150,000,000.00			150,000,000.00		
Zhuhai Charmacy Company	25,710,000.00			25,710,000.00		
Guangzhou Charmacy Company	20,000,000.00			20,000,000.00		
Shenzhen Charmacy Company	20,800,000.00			20,800,000.00		
Huizhou Charmacy Company		3,468,852.24		3,468,852.24		
Total	216,510,000.00	3,468,852.24		219,978,852.24		

4. Operating revenue and operating cost

Items	Amount for the year		Amount for last year	
	Revenue	Cost	Revenue	Cost
Principal businesses	1,510,750,853.59	1,438,565,398.02	1,332,099,283.82	1,258,559,603.63
Other businesses	53,453,563.99	7,343,952.53	39,053,672.40	1,749,349.38
Total	1,564,204,417.58	1,445,909,350.55	1,371,152,956.22	1,260,308,953.01

5. Investment income

Item	Amount for the year	Amount for last year
Long-term equity investment income accounted for using the cost method	18,000,000.00	10,000,000.00
Total	18,000,000.00	10,000,000.00

XV. APPROVAL FOR FINANCIAL REPORT

The financial report was approved and published by the Board of the Company on 26 March 2021.

SUPPLEMENTARY INFORMATION TO FINANCIAL STATEMENTS

1.Details of non-recurring profit or loss for the year

Item	Amount for the year	Explanation
Gains and losses from disposal of non-current assets	18,110.52	
Tax refunds and relief of ultra vires or without formal approval or incidental tax refunds or relief		
Government grants included in the profit or loss for the period (except for the government grants closely related to the corporate businesses and granted at a fixed amount or quantity in accordance with national uniform standards)	4,993,148.24	
Funds utilisation fees collected from non-financial enterprises included in the profit or loss for the period		
Gains from the excess of the fair value of identifiable net assets of the investee attributable to the enterprise at acquisition over the investment costs for the subsidiaries, associates and joint ventures		
Gains and losses from the exchange of non-monetary assets		
Gains and losses from investments on trust or asset management		
Provision for impairment of assets as a result of force majeure factors, such as natural disasters		
Gains and losses from debt restructuring		
Costs for enterprise reorganization, such as the expenses for the placement of workers, and integration cost		
Gains and losses from the excess of transaction without fair transaction price over the fair value		
Net gains or losses for the period of subsidiaries arising from business combination under common control from the beginning of the year to the date of combination		
Gains and losses arising from contingent matters not related to the normal operation of the Company		
Investment income derived from the holding of financial assets held for trading and derivative financial assets, gains and losses arising from changes in fair value of financial liabilities held for trading and derivative financial liabilities and disposal of financial assets held for trading, derivative financial assets, financial liabilities held for trading, derivative financial liabilities and other debt investment (excluding the effective hedging activities related to the normal operation of the Company)		
Reversal of impairment provision of receivables and contract assets tested on individual basis		
Gains and losses from external entrusted loan		
Gains and losses from the changes of fair value of investment properties measured by fair value model subsequently		
Effect of one-off adjustment in profit or loss for the period according to the laws and regulations regarding taxation and accounting		
Entrust fee income from entrusted operation		
Other non-operating income and expenditures apart from the above	187,298.72	
Other items of profit and loss meeting the definition of non-recurring profit and loss		
Sub-total	5,198,557.48	
Less: Effect of income tax	1,278,002.29	
Effect of minority shareholders' equity (after tax)		
Total	3,920,555.19	-

2. Return on net assets and earning per share

In accordance with the requirements of the "Preparation Rules for Information Disclosures by Companies Offering Shares to the Public No.9 – Calculations and Disclosures for Return on Net Assets and Earnings Per Share (Revised in 2010)" 《(公開發行證券的公司信息披露編報規則第 9 號 – 淨資產收益率和每股收益的計算及披露 (2010 年修訂))》 issued by the China Securities Regulatory Commission, the weighted average return on net assets, basic earnings per share and diluted earnings per share of the Group for 2019 are as follows:

Profit for the reporting period	Weighted average return on net assets (%)	Earnings per share	
		Basic earnings per share	Diluted earnings per share
Net profit attributable to the shareholders of parent company	8.26	0.3755	0.3755
Net profit attributable to the shareholders of parent company (excluding non-recurring profit and loss)	7.46	0.3392	0.3392

Charmacy Pharmaceutical Co., Ltd

26 March 2021