上海復旦張江生物醫藥股份有限公司
Shanghai Fudan-Zhangjiang Bio-Pharmaceutical Co., Ltd.*

(a joint stock company incorporated in the People's Republic of China with limited liability)
(Stock code: 1349)

Annual Report
2019

* *For identification purpose only*

Contents

Corporate Information

EXECUTIVE DIRECTORS

Wang Hai Bo *(Chairman)*
Su Yong
Zhao Da Jun

NON-EXECUTIVE DIRECTORS

Shen Bo
Yu Xiao Yang

INDEPENDENT NON-EXECUTIVE DIRECTORS

Zhou Zhong Hui
Lam Yiu Kin
Xu Qing
Yang Chun Bao

SUPERVISORS

Zhou Xi *(Chairman)*
Wang Luo Chun
Liu Xiao Long
Huang Jian
Yu Dai Qing

LEGAL REPRESENTATIVE

Wang Hai Bo

COMPANY SECRETARY

Xue Yan, HKICPA/FCCA/CICPA/CIA

AUTHORISED REPRESENTATIVES

Zhao Da Jun
Xue Yan, HKICPA/FCCA/CICPA/CIA

AUDIT COMMITTEE

Lam Yiu Kin *(Chairman)*
Shen Bo
Xu Qing

REMUNERATION COMMITTEE

Zhou Zhong Hui *(Chairman)*
Lam Yiu Kin
Yang Chun Bao

NOMINATION COMMITTEE

Wang Hai Bo *(Chairman)*
Zhou Zhong Hui
Xu Qing

OVERSEAS AND STATUTORY AUDITORS

PricewaterhouseCoopers Zhong Tian LLP
Certified Public Accountants and Recognised PIE Auditor

LEGAL ADVISERS TO THE COMPANY

Baker & McKenzie (As to Hong Kong Law)
Fangda Partners (As to PRC Law)

PRINCIPAL BANKERS

Industrial and Commercial Bank of China,
 Zhangjiang Sub-branch
Bank of China, Zhangjiang Sub-branch
Bank of Nanjing, Taizhou Branch
China Merchants Bank, Tianshan Sub-branch
Ping An Bank, Shanghai Branch

HONG KONG SHARE REGISTRAR AND TRANSFER OFFICE

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REGISTERED OFFICE AND PRINCIPAL PLACE OF BUSINESS IN THE PRC

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Zhangjiang Hi-Tech Park
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PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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8 Connaught Place, Central, Hong Kong

AUTHORISED REPRESENTATIVE TO ACCEPT SERVICE OF PROCESS AND NOTICES

ONC Lawyers
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LISTING INFORMATION

H Share
The Main Board of The Stock Exchange of Hong Kong Limited
Stock Code: 1349

WEBSITE

www.fd-zj.com

Five Years Financial Data Highlights

RESULTS

	Year ended 31 December				
	2019	**2018**	2017	2016	2015
	RMB'000	**RMB'000**	RMB'000	RMB'000	RMB'000
		(Restated)			
Revenue	**1,029,295**	**741,841**	497,694	621,870	579,463
Profit before income tax	**246,312**	**93,890**	70,496	150,838	145,950
Income tax expense	**(25,657)**	**(2,977)**	(10,337)	(20,830)	(18,903)
Profit for the year	**220,654**	**90,913**	60,159	130,008	127,047
Profit attributable to:					
Shareholders of the Company	**227,358**	**112,129**	75,287	138,708	127,723
Non-controlling interests	**(6,704)**	**(21,216)**	(15,128)	(8,700)	(676)
Total comprehensive income for the year	**220,710**	**77,303**	59,858	129,914	127,047
Total comprehensive income attributable to:					
Shareholders of the Company	**227,414**	**98,519**	74,986	138,614	127,723
Non-controlling interests	**(6,704)**	**(21,216)**	(15,128)	(8,700)	(676)
EBITDA	**312,279**	**157,173**	122,256	185,970	182,070
Basic and diluted earnings per share for profit attributable to the shareholders of the Company	**RMB 0.2463**	**RMB 0.1215**	RMB 0.0816	RMB 0.1503	RMB 0.1384

ASSETS AND LIABILITIES

	As at 31 December				
	2019	**2018**	2017	2016	2015
	RMB'000	**RMB'000**	RMB'000	RMB'000	RMB'000
		(Restated)			
Total assets	**1,564,824**	**1,469,691**	1,145,134	1,120,753	1,020,265
Total liabilities	**(631,676)**	**(515,259)**	(252,652)	(247,699)	(254,425)
	933,148	**954,432**	892,482	873,054	765,840
Capital and reserves attributable to:					
Shareholders of the Company	**931,525**	**943,218**	872,390	843,554	732,630
Non-controlling interests	**1,623**	**11,214**	20,092	29,500	33,210
	933,148	**954,432**	892,482	873,054	765,840

As the Company is facilitating its issue of A shares (the "Issue of A Shares"), to improve efficiency and to reduce costs in auditing and disclosure, the Company adopted the China Accounting Standards for Business Enterprises to prepare its overseas financial statements since the year ended 2019, approved by the extraordinary general meeting on 24 February 2020 and made relevant restatement on its consolidated financial statements for the year 2018 according to China Accounting Standards for Business Enterprises. The consolidated financial statements of the Company for the years 2017, 2016 and 2015 were prepared in accordance with the International Financial Reporting Standards and no adjustments were made thereto.

Chairman's Statement

On behalf of the board (the "Board") of directors (the "Directors") of Shanghai Fudan-Zhangjiang Bio-Pharmaceutical Co., Ltd. (the "Company"), I present the annual report of the Company together with its subsidiaries (collectively as the "Group") for the year ended 31 December 2019 for consideration by the shareholders.

DEVELOPMENT CONCEPTS AND OBJECTIVE

With the ultimate goal to stay as an innovator and a leader in the bio-pharmaceutical industry, the Group has committed to exploring unmet needs and deficiencies of clinical and patients treatment as well as developing novel and more effective treatments/medicines, so as to realize our mission that "The More We Explore, the Healthier Human Beings Will Be".

In 2019, as we expected, the Chinese pharmaceutical industry was facing severe challenges. Under the influence of various factors, many enterprises are suffering from cliff-like drop on income, profit decline, and serious shortage of development and R&D funds. The shadow of death has never been so clear. How to make decision has become an urgent issue for every enterprise to discuss.

Since its establishment, the Group, as a pharmaceutical enterprise focusing on new drug research and development, has adhered to choosing the projects that can meet the unmet needs and deficiencies of clinical and patients treatment. The evaluation system of project progress depends on whether specific accomplishment of treatment will be achieved. It is clear that exploration without persistence and efforts is hard to lead to a satisfactory breakthrough in therapeutics. However, sometimes it is difficult to get the corresponding return from long-term waiting and investment. Even so, we would never like to be a mediocre, non-innovative and profit oriented pharmaceutical manufacturer or sales enterprise. We are seeking a balanced development in the conflict between "me-too" and "first in class". It was glad that our products launched or under development of the Group have shown positive prospect and characteristics of less affected by changes of policies. Our effort and strategies adopted over the years have laid a solid foundation and generated a driving force for the Group's development under the new policy environment.

As long as we endeavor and constantly optimize our specific R&D strategies such as strengthening our research capacities in the fields where we have leading positions, continually expanding the new clinical indications of existing projects, adhering to the projects worth spending time on, gradually applying for international drug registration and terminating decisively the projects that are not in line with the Group's value or make no progress for long term, we believe our projects and products will bring great benefits to the Company while demonstrating the Company's value in the future.

RESEARCH STRATEGY, REVIEW AND PROSPECTS

During the year under review, our R&D platforms, namely, genetic engineering, photodynamic-tech, nanotech and oral solid preparation technology, have laid solid foundation for our drug development direction. The Group has committed to developing new clinical indications to tackle selected drugs and developing new medicines and innovative treatments to tackle selected diseases. During the year under review, with an overall consideration of research resources, risks and cycle time, the Group has continually focused on drug development on tumors, dermatological and self-immunological diseases, reducing the number of R&D in innovative drugs and strengthening progress of commercialized drugs.

GENETIC TECHNICAL PLATFORM

The Group continues to pay constant attention to the ability on building genetic technical platform. We realized that gene technology in terms of signaling pathways control, suppress or strengthen the protein activity, will become the core technology in the area of new drugs development, especially when the research is based on the most fundamental and specific causes and molecular mechanism of diseases. We keep a close eye on hotspots of existing antibody drugs research, and have set the antibody-drug conjugates ("ADC") area as the main research and development direction of genetic technical platform. ADC have shown obvious advantages on tumor treatment in clinical trials, which has much better effects than the conventional antibody plus chemotherapy drugs. In addition, ADC has its own advantages even when compared with immunotherapy in the treatment of some tumors. ADC can be divided into three parts: antibody, linker and drugs. After about 8 years of exploration, we have built a platform of tubulin inhibitors and topoisomerase inhibitors (sn38, DXd), which lays a foundation for further development of ADC. In particular, our preliminary study on the project of DXd ADC shows that it can achieve the full exposure of ADC and the very low exposure of drugs in plasma, as well as the full exposure and accumulation of drugs in tumor cells. Meanwhile, it also has bystander effect. This is an encouraging breakthrough, which means that we will have the opportunity to select different antibodies for different tumors to develop new ADC drugs. It enables the Group to participate in the global innovation research and development of ADC drugs. "To stand on solid ground and look up at the starry sky", we believe that the stars are in front of us. We will establish ADC production system as quickly as possible, and strive to realize ADC industrialization as early as we can.

The progresses of the projects on genetic technical platform are summarized as follows:

The Recombinant Anti-CD30 Human-mouse Chimeric Monoclonal Antibody-MCC-DM1 Injection ("CD30-MMAE") for the treatment of tumors is undergoing clinical trial phase I research, and the progress matches expectation;.

A preclinical study of an antibody-conjugated drug (Trop2-directed antibody drug conjugate) for triple negative breast cancer, bladder cancer, gastric cancer and other tumors is under way.

An ADC drug platform based on topoisomerase DXd has been established, and ADC drugs targeting Her2 ("HER2-directed antibody drug conjugate") and other targets are being developed.

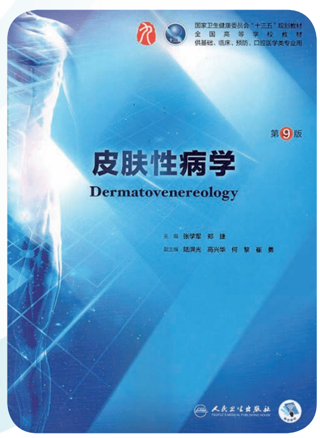
Avastin, bio-similar drug for the treatment of tumor has obtained clinical trial approval. According to the competitive situation of the target market and the Company's existing research strategy, the Company has made a prudent decision to transfer the project to a suitable third party. The technology transfer agreement is in the implementation phase and the Company has received and recognized part of the stage payment of the agreement during the review period.

PHOTODYNAMIC TECHNICAL PLATFORM

The Group has been expanding the drugs development based on photodynamic technical platform. Photodynamic drugs have become the most important product line of the Group. We will continue to exert its feature of "one drug, several indications" and becoming a new scalpel for clinical treatment so that according to the treatment principle of photodynamic drugs, we will design special therapy for some precancerous lesions which cannot be treated or intervened for the moment. The Group is commencing further research on molecular mechanism and their mode of action in order to discover new photodynamic compound to improve the efficacy and overcome the defects. At the same time, exploration of the fundamental research on the relationship between the penetrating power of different light wavelengths and the treatment of tumour is under progress. Meanwhile, we have planned to apply for the international registrations for the launched drugs, which will lay a foundation for the commercialization development of the Group.

The progresses of the projects on photodynamic technical platform are summarized as follows:

As the first commercialization project of the Group, the therapy of Aminolevulinic Acid Hydrochloride combined with photodynamic technology (艾拉®, brand name of the first product) obtained positive market response after it was launched for sale. To expand the application to new indications of this drug is one of the key R&D projects of the Group.



Several years after it was launched to the market, ALA (艾拉®) , first in class drug, the first photodynamic drug for the treatment of condyloma acuminate in the world, has become the preferred choice in this area. The therapy of ALA combined with photodynamic technology initiated by the Company was recorded in the text book of Dermatovenercology and relevant clinical treatment guidance from 2013. The latest ninth edition of Dermatovenercology adds the new application of the aforementioned therapy on the acne treatment, and also includes Hemoporfin developed by the Group as new photosensitizer for the treatment of PWS.

The clinical research progress of Aminolevulinic Acid Hydrochloride used for the treatment of CIN infected by HPV ("CIN") has made significant progress during the review period. According to the feedback from the clinicians, the Company has optimized the clinical research program and will officially implement it next year. Cervical precancerous lesion is a barrier in treatment. Adhering to the clinical research and development of this project will benefit the majority of women patients, and we will strive to obtain the registration of new indications as early as we can.

The clinical trial phase I of Aminolevulinic Acid Hydrochloride used for the treatment of moderate and severe acne is under way.

Aminolevulinic Acid Hydrochloride used for the auxiliary treatment of brain gliomas has completed its pre-clinical research. Taking into the account the market prospects and its capital investment, the Company decided to suspend this project.

FuMeiDa (the brand name of Hemoporfin), first in class drug, the first photodynamic drug for the treatment of PWS in the world, is a new drug with new drug target, new compound and new indication. PWS is a common congenital vascular malformation characterized by ectatic capillaries in the papillary layer of the dermis. The lesions tend to become darker and thicker with time and rarely fade away for life. PWS occurs in anywhere on the body and particularly in face and neck and is reported about 0.3~0.4% incidence of infants worldwide. Before age 40, over 65% of patients without treatment will face the situation of thicken and modular lesions cause great emotional depression. After injection into the blood, Hemoporfin spreads quickly to the surrounding tissues and tends to distribute specifically in vascular endothelial cells. It would selectively damage the photosensitizer-rich vascular endothelium by the use of laser or LEDs with certain wavelength. The dilated and abnormal capillaries in the lesions of patients will be cleared by photodynamic reaction and further effects of coagulation system. PWS had no good treatment before. As one of the second generation photosensitizer, compared with traditional therapies, Hemoporfin is featured by stable chemical structure, lower photosensitization, rapider metabolism, shorter light-avoidance period requirement, more uniform to treat, higher cure rate, lower incidence of scar formation and lower recurrence rate. The excellent efficacy of the drug in the market and the high cure rate compared to the traditional laser treatment rejoice the clinicians and researchers. FuMeiDa launched to market in 2017 and clinical trial phase IV is under way. The Group has already made preliminary communication with the Food and Drug Administration of the United States ("FDA"), and the FDA has recognized that FuMeiDa will be the first drug to apply for the treatment of PWS. Therefore, the Group was requested to assist in establishing standards for disease classification and then to make agreement with the FDA. During the year under review, the Group is working hard to complete the preparations before the official clinical application. After the corresponding registration program is improved, the official application will be made as soon as possible.

NANO TECHNICAL PLATFORM

The Group will further develop drugs based on the platform of preparation technology of nano drugs to speed up the ability and the progress of commercialization for the Group.

The progresses of the projects on nano technical platform are summarized as follows:

LIBOd® (里葆多®) for the treatment of tumors, was launched to market in August 2009. The drug is a new doxorubicin formula which adopts the advanced stealth liposomal encapsulation technology and has passive targeting characteristics. It is a new generation of replacement for anthracycline drugs. In oncology, it has the advantages of enhancing efficacy and remarkably lowering the effects of cardiac toxicity, myelosuppression and hair-loss. LIBOd® is used for the treatment of AIDS-relating Kaposi's sarcoma, breast cancer and ovarian cancer. Registration for the drug is being carried out in the U.S.. After the clinical trial being recognized by FDA, the Company will be required to further obtain the verification of quality management system of its production plant by FDA before the drug can be launched in the U.S. market. Meanwhile, according to the requirements of relevant PRC laws and regulations, the Group also started the domestic bioequivalence evaluation research during the year under review.

Nanoparticle Albumin-bound Paclitaxel (紫杉醇白蛋白納米粒) for the treatment of tumors, its improvements have been made in large-scale production processes. We will launch the bioequivalence study and then apply for the drug registration base on the market conditions.

ORAL SOLID PREPARATION TECHNICAL PLATFORM

Oral solid preparation is the most basic form of preparation. Both small molecular targeting drugs and special oral preparation are the research fields that new drugs developers pay high attention to. The Company cooperated with other third party research institutions to gradually establish technological systems for such platform in previous years. Various new drugs and generic drugs with specific clinical value are being developed. Oral solid preparation technology is one of the long-term development platforms of the Group.

The progresses of the projects on oral solid preparation technical platform are summarized as follows:

The bioequivalence study of obeticholic acid for hepatobiliary disease has commenced and we will apply for drug registration as soon as possible. It is a generic drug of a medicine developed in the US and listed worldwide for the treatment of primary biliary cirrhosis (PBC). Such drug has a large market in China which is a country with high incidence of hepatobiliary disease. The Company has engaged a third-party research institution, to break through the patent restrictions on the original drug, and was granted the patent in China. During the year under review, the project was under the bioequivalence study.

The Group has completed the pre-clinical study and proposed to apply for clinical research on the selective inhibitor project for JAK1, a small molecular targeting drug. It has been confirmed to have great therapeutic value on the autoimmune disease. We are looking forward to finding a new me-better drug containing therapeutic advantages.

By the end of the year 2019, the major drugs under R&D of the Group are summarized as follows:

Technical platform	Project name	Indications	Progress
Genetic engineering	CD30-MMAE	Tumors	Clinical trial phase I
	Trop2-directed antibody drug conjugate	Tumors	Pre-clinical study
	HER2-directed antibody drug conjugate	Tumors	Pre-clinical study
	Avastin	Tumors	The clinical trial approval has been obtained. Technology transfer to third-party pharmaceutical enterprises completed.
Photodynamic technology	Hemoporfin (海姆泊芬)	PWS	Clinical trial phase IV Prepare for U.S. Registration
	Aminolevulinic acid	Cervical diseases infected by HPV	Clinical trial phase II
	Aminolevulinic acid	Acne	Clinical trial phase I
	Aminolevulinic acid	Brain gliomas	Pre-clinical study completed. Postpone the project.
Nano technology	Doxorubicin liposome (鹽酸多柔比星脂質體)	Tumors	Under process of registration in USA. Prepare for domestic bioequivalence evaluation research and registration.
	Nanoparticle Albumin-bound Paclitaxel (紫杉醇白蛋白納米粒)	Tumors	Pre-clinical study
Oral solid preparation technology	Obeticholic acid	Hepatobiliary disease	Bioequivalence study and drug registration
	JAK1 inhibitor	Autoimmune diseases	Pre-clinical study completed and proposed to apply for clinical research

In a word, we are still exploring and hope our efforts can provide useful help for the treatment of the patients and bring value to the investors. Although facing significant risks and challenges, we still believe our R&D strategy and result will be beneficial to the Company's sustainable development in medium and long term.

OPERATION STRATEGY, REVIEW AND PROSPECTS

The Group's operating strategy is to do a good job of domestic academic promotion of listed products, so that products can be applied among more patients. When conditions are ripe, international (mainly European and the United States) registration of listed products should be carried out as soon as possible to benefit more patients and obtain greater therapeutic value and commercial benefits. Secondly, China has joined the ICH Organization, which lays the foundation for the internationalization of research. Therefore, the medium and long-term research projects being developed by the Group must be able to register at home and abroad (such as the United States) in order to achieve the goal of the internationalization of the long-term development of the Group. Finally, we need to pay close attention to the selection and development of foreign investment projects, in order to balance the short-term and long-term development plans of the Group, and ultimately achieve the goal of the development of the Group and the realization of shareholders' benefit.

During the year under review, product sales revenue of the Group increased by 37% compared with that of last year. ALA (艾拉®) which is indicated for the treatment of dermal HPV infectious disease and proliferative disease, LIBOd® which is indicated for the treatment of tumor and FuMeiDa which is indicated for PWS are three major products of the Group, and together contributed 99% of the sales revenue of medical products by the Group.

- ALA (艾拉®) was launched in the market in 2007. As the first photodynamic drug in China, ALA can selectively spread and accumulate in condyloma acuminatum cells, and kill them together with specific wavelength light and energy, which does not result in adverse effects on surrounding normal tissues at the same time. Due to the feature of this therapy, ALA also has effects on the treatment of subclinical infection and latent infection. Compared with traditional therapy, the therapy of ALA combined with photodynamic technology, filled in the blanks in the treatment of urethral orifice condyloma acuminate. In addition, our therapy has the advantages such as better tolerance of patient, higher safety, non-scar, and much lower adverse reaction rate and recurrence rate comparing with previous average level. ALA has become one of the largest consumed skin-sure drugs now. During the year under review, the contribution of ALA to sales revenue of the Group increased by 17% compared with that of last year due to sales strategy adjustments based on market trends. The sales volume of ALA grew steadily and average unit price increased slightly.

- LIBOd® (里葆多®) for the treatment of tumors, as the first generic drug of nanomedicine at home and abroad, was launched for sale in August 2009 and it obtained favorable market response and reputation. On 29 October 2018, the Company and Huizheng (Shanghai) Pharmaceuticals Technology Co., Ltd.* (輝正(上海)醫藥科技有限公司,"Shanghai Huizheng") entered into the market promotion service agreement for Doxorubicin liposome (LIBOd®), to provide the market promotion services for LIBOd® of the Company in the PRC from 1 November 2018. Shanghai Huizheng is a subsidiary of Zhejiang Hisun Pharmaceutical Co., Ltd., a company listed on the Shanghai Stock Exchange (Stock Code: 600267) The cooperation between the parties will help the Company effectively utilize the existing team and resources of Shanghai Huizheng, thus rapidly increasing the end-sales volume and market shares of LIBOd® of the Company and effectively addressing competition from other companies. During the year under review, the terminal sales of LIBOd® gradually increased so that its contribution to sales revenue by the Group increased by 68% for the year 2019 compared with that of last year.

The Group is currently registering for generic drugs of LIBOd® in the United States.

- FuMeiDa (复美达®), the first photodynamic drug for the treatment of PWS in the world, is a new drug with new drug target, new compound and new indication. FuMeiDa has been launched in the market officially in 2017. We have designed a new sales mode for FuMeiDa, with the integration of treatment and sales, which includes the Company's Wechat subscription, chain clinics of the Group, designated hospitals and direct distribution systems provided by pharmaceutical companies. During the year under review, FuMeiDa has been sold in many hospitals throughout the country with well postoperative feedback and its contribution to sales revenue of the Group increased by 37% compared with that of last year. The Group is combining case feedback as soon as possible to optimize the key steps in the process of treatment in order to form a standardized treatment plan. The Company is preparing for its new drug registration in the US.

  – 复美达光动力 –

- For the past years, as the first product group, diagnostic reagents in clinical treatment contribute stable sales revenue to the Group. With intensive competitions in diagnostic technology industry, the advantages of this product group became weaker and weaker and there are few good reserve projects. In order to further strengthen diagnostics business unit and integrate in existing vitro diagnostic reagents platform, the Group invested to set up the subsidiary, Tracing Bio- technology Co.,Ltd* (上海溯源生物技術有限公司, "Tracing Bio-technology") jointly with a third party investor in 2012 and the new company covers all sectors including R&D, production and sales of the diagnostic reagents. In addition, during the year of 2015, the Group completed a series of structure restructuring and resource integration of this platform so that we can improve the competitiveness of diagnostic products and develop more and more new products.

  After the integration of vitro diagnostic reagents platform, the Group clarified the establishment of food-origined contaminants screening system as our direction of development in the area of clinical detecting besides keeping exploring the existing dairy tests market. The Group will provide solutions for rapid screening, timely intervention and source control after focusing on food-origined contaminants such as antibiotics and mycotoxins in the early stage of human being. During the year under review, several kinds of screening reagents for food-origined antibiotics and their matching testing instruments have completed for registration and launched for sale.

- During the year under review, the Group continues to regard academic promotion as our primary marketing method. The Wechat communication platform for photodynamic technology that the Company established serves as a network service system integrated with academic exchanging among dermatology clinician, sharing of clinical case and standard practice video, Q&A platform between doctors and patients, etc. The platform has become a relatively well-known professional Wechat subscription in China. In addition, we plan to take advantage of doctor resources on the platform to develop a new sales mode to solve some frequent problems in current marketing environment and some frequent difficulties for patients in hospital. We believe this kind of investment will have positive significance for products promotion, brand awareness and the Company's recognition as well.

– During the year under review, all the product lines for existing products in sale of the Group passed GMP Certification of China Food and Drug Administration. Our objective is to set up the product lines which can meet international standard so that our products could be sold worldwide. The management has considered to apply the GMP certification of FDA to two product lines in Shanghai and Taizhou. In the future, the timetable will be made according to specific commercialization projects.

The subsidiary of the Company, Taizhou Fudan-Zhangjiang Pharmaceutical Co., Ltd* (泰州復旦張江藥業有限公, "Taizhou Fudan-Zhangjiang") has constructed two production lines for the material and injection of Hemoporfin. To fully exploit the capacity of the two production lines before further new self-developed innovative drugs obtaining production approval, the Group will choose several generic drugs which can be produced with FuMeiDa on the same production line and planned to submit the application of registration. During the year under review, the registration application of Parecoxib Sodium (帕瑞昔布鈉) for analgesia has been submitted and waiting for approval. In addition, the new solid preparation production line of Taizhou Fudan-Zhangjiang is ready for the commercialization of obeicholic acid. More investments on production lines will be made in Taizhou in the next few years so as to gradually make Taizhou Fudan-Zhangjiang become the centralized production base of the Group.

The Group has successfully accomplished the transformation from purely R&D to equally stress on both R&D and commercialization with a complete system featuring organic combination of R&D, product manufacturing and marketing. The Group is moving toward a virtuous stage of development.

By the end of the year 2019, the commercialized projects of the Group are summarized as follows:

Technical platform	Project name	Indications	Launching time
Photodynamic technique	ALA	Condyloma acuminate	2007
	FuMeiDa	Port wine stain	2017
Nano technique	LIBOd®	Tumors	2009
Diagnosis and Inspection	Antenatal screening diagnostic reagent, analysis software and equipment including Beixi®, Beiyou	Down's syndrome	Launched already
	Several food safety inspection projects	Food safety inspection	Launched already
	Several kinds of screening reagents for food-origined antibiotics and their matching testing instruments	Antibiotic test	2019

INTELLECTUAL PROPERTY RIGHTS

The Group has been actively protecting its intellectual property rights on its innovative medicines and research achievements. During the year under review, the Group applied for 12 invention patents, and has been granted 2 domestic invention patents. By the end of the year 2019, the Group has cumulatively applied for 87 invention patents, and has been granted 48 invention patents.

GRANTS AND AWARDS

The Group has always been improving its ability of new drugs development in light of the industrial policies of China. During the year under review, the Group obtained the grants and awards from governments at all levels for a number of R&D and commercialization projects approximately amounting to RMB11,470,000.

ACKNOWLEDGEMENT

Lastly, I would like to take this opportunity to express my gratitude to the shareholders and business partners of the Group for all their unreserved support and encouragement. I would also like to express my most sincere thanks to all the Directors, Supervisors and all the staff of the Group for their dedication and contribution.

Wang Hai Bo
Chairman

Shanghai, the PRC
28 February 2020

Management Discussion and Analysis

FINANCIAL REVIEW

The following discussion and analysis of the Group's financial and operational position should be read in conjunction with and take reference to the consolidated financial statements of the Group and the related notes to the consolidated financial statements.

ALIGNMENT IN THE PREPARATION OF FINANCIAL STATEMENTS IN ACCORDANCE WITH CAS AND THE DIFFERENCES BETWEEN THE FINANCIAL STATEMENTS FOR THE YEAR 2018 PREPARED IN ACCORDANCE WITH IFRS AND THE FINANCIAL STATEMENTS PREPARED IN ACCORDANCE WITH CAS

Since the date on which the H Shares of the Company were listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Company has been preparing its overseas financial statements in accordance with International Financial Reporting Standards ("IFRS"). According to the "Consultation Conclusions on Acceptance of Mainland Accounting and Auditing Standards and Mainland Audit Firms for Mainland Incorporated Companies Listed in Hong Kong" (《有關接受在香港上市的內地註冊成立公司採用內地的會計及審計準則以及聘用內地會計師事務所的諮詢總結》) published by the Stock Exchange in December 2010, and in order to facilitate the application process of the proposed issue of the A Shares of the Company and to align the financial information disclosure of the Company in both markets, the Company changed its basis for preparation of the overseas financial statements from IFRS to China Accounting Standards for Business Enterprises ("CAS") upon the approval of the Board on 10 January 2020 and the passing of a resolution in relation to amendment to relevant articles of association of the Company by shareholders at the extraordinary general meeting, the class meeting of holders of H Shares and the class meeting of holders of Domestic Shares on 24 February 2020. Please refer to the announcement, circular and announcement of poll results of the Company dated 10 January 2020, 20 January 2020 and 24 February 2020, respectively, for details.

Summary of Change of Accounting Method and Its Impact on the Group

After changing its basis for preparation of the overseas financial statements from IFRS to CAS, the Company reviewed the applicable standards and corresponding accounting methods it referred to and applied for the year 2018 and made adjustments thereto (the "Change of Accounting Method"), which affected certain financial items of the Company, details of which are set out as follows:

	For the year 2018		
	Profit for the year	Profit for the year attributable to shareholders	Basic and diluted earnings per share
	RMB'000	RMB'000	RMB'000
Previous overseas financial statements	129,766	150,982	0.1636
Item adjusted:			
Shanghai Huizheng Compensation	(38,852)	(38,852)	(0.0421)
Adjusted overseas financial statements	90,913	112,129	0.1215

	As at 31 December 2018		
	Total assets	Total liabilities	Share capital and reserve attributable to shareholders
	RMB'000	RMB'000	RMB'000
Previous overseas financial statements	1,459,363	(466,079)	982,071
Item adjusted:			
Shanghai Huizheng Compensation	10,328	(49,180)	(38,852)
Adjusted overseas financial statements	1,469,691	(515,259)	943,218

The Change of Accounting Method would also lead to adjustments on certain financial items in the 2019 interim financial statements of the Company, and such adjustments would not result in any material impact on the 2019 interim financial statements.

Reasons for Change of Accounting Method

In October 2018, the Company and Shanghai Huizheng entered into a market promotion service agreement for Doxorubicin liposome (LIBOd®) (the "Market Promotion Service Agreement"). Pursuant to the Market Promotion Service Agreement, Shanghai Huizheng made a payment of RMB50 million, which is non-deductable and non-refundable with no subsequent performance obligation after the year 2018 (the "Shanghai Huizheng Compensation") to the Company. This was treated as a commercial compensation for the Company's contribution to the market promotion of LIBOd® and a series of costs caused by a shift in product market due to the change of market promotion services provider. At the same time, the Company granted a 10-year exclusive right of market promotion of LIBOd® to Shanghai Huizheng.

For a commercial compensation from market promotion services provider, which is one-off, non-deductable and non-refundable with no subsequent performance obligation, neither IFRS nor CAS set out an explicit requirement on accounting method and there is no common practice on this among listed companies in the same industry. For the treatment of Shanghai Huizheng Compensation, given the Company has never received payment in similar nature in the past, the Company has referred to "IFRS 15 – Contract with Clients" and "CAS 14 – Revenue (amended in 2017)", respectively, that came into effect in the same year and provides the guidelines on the breakdown of the performance obligations and the ways of recognition in the profit and loss account through either amortization over a period of time or one-time charge, in determining the corresponding accounting method at the time of preparing its domestic and overseas financial statements for the year ended 31 December 2018. The Company adopted the relevant accounting method and recorded the Shanghai Huizheng Compensation as a one-time charge into the profit and loss for the year 2018, taking into account that (i) the nature of the Shanghai Huizheng Compensation is to compensate for the contribution to market promotion and the costs incurred by a shift in product market due to the change of market promotion services provider; (ii) the costs covered by the Shanghai Huizheng Compensation was fully incurred in 2018, and the shift in market and transition was completed in the year of 2018; and (iii) the Company did not have subsequent obligations in relation to the shift in market and would not engaged in activities significantly affecting the right of market promotion thereafter.

After changing its basis for preparation of the overseas financial statements from IFRS to CAS, pursuant to the principles and regulations of the China Accounting Standards for Business Enterprises, the Company reviewed the applicable standards and corresponding accounting methods it referred to and applied for the Shanghai Huizheng Compensation. Based on and in consideration of (i) ample communication with domestic and market practitioners (on matters including the accounting treatments of the Shanghai Huizheng Compensation) during the application of the listing of A shares on the Sci-Tech Innovation Board in 2019, (ii) the accounting method generally recognized by listed companies adopting CAS for transactions in similar nature by viewing the agreement as a whole, and (iii) "CAS 14 – Revenue (amended in 2017)" having not yet been fully implemented by the listed companies in domestic capital market, and accordingly there being no case currently available in the domestic capital market which adopted accounting treatment for similar transactions based on the principles of "CAS 14 – Revenue (amended in 2017)", the Board, by adopting simpler accounting methods generally recognized by the domestic listed companies, and for the purpose of avoiding complicated accounting judgements, has resolved to change its accounting method for the Shanghai Huizheng Compensation by viewing the agreement as a whole and following the general accounting principle of deferred income under CAS. As a result, the Shanghai Huizheng Compensation would be recognized by way of amortization over the period of the Market Promotion Service Agreement.

The Board has carefully considered the accounting treatments of Shanghai Huizheng Compensation before and after the Change of Accounting Method, and is of the view that in the absence of explicit requirement governed by specific accounting standards, both accounting methods do not violate the principles of basic accounting standards and have justifiable basis. Nevertheless, after considering factors include allowing the users of financial statements (including domestic and overseas investors) to have easier understanding and to be provided with simpler and more understandable accounting information, the Board resolved to adopt the Change of Accounting Method. As the Shanghai Huizheng Compensation is a one-off event, and the Board does not expect to receive similar payments in the future, it is of the view that the Change of Accounting Method will not result in any material impact on the Group going forward. The Audit Committee has had proactive communication with the management and the external auditors of the Company regarding the Change of Accounting Method and reviewed the accounting methods of the Shanghai Huizheng Compensation, and it agreed with the Change of Accounting Method.

REVENUE

The consolidated revenue of the Group for the year 2019 amounted to approximately RMB1,028,955,000, comparing to approximately RMB740,422,000 for the year 2018, representing an increase of 39%. The major products of the Group, ALA (艾拉®, 鹽酸氨酮戊酸散, ALA) and LIBOd® (里葆多®, 鹽酸多柔比星脂質體, Doxorubicin liposome), have contributed significant revenue to the Group, representing 45% and 44% to the total revenue of the Group, respectively.

In addition, the Group's other income for the year 2019 was approximately RMB339,000, compared with approximately RMB1,420,000 for the year 2018, representing a decrease of 76%. Other business income for the current year includes the income from Shanghai Pharmaceuticals Holding Co., Ltd. (上海醫藥集團股份有限公司, "Shanghai Pharmaceuticals"), a shareholder of the Company, for strategic cooperation on innovative pharmaceutical research and development amounting to approximately RMB 336,000 compared with approximately RMB 1,420,000 for the year 2018.

The total revenue for the year 2019 mainly came from the sale of medical products. The main source of total revenue for the year 2019 was nearly the same as that for the year of 2018.

Revenue from sale of medical products

The major products of the Group are ALA and FuMeiDa (Hemoporfin) from photodynamic platform and LIBOd® from Nano-drug platform. During the year under review, except for the marketing services for LIBOd® provided by Shanghai Huizheng, the work of sales and distribution of the other products is taken by the sales team of the Group.

Since December 2018, the National Healthcare Security Administration officially implemented the "4+7" concentrated procurement of drugs and local government authorities issued various local purchasing policies. The average price of the successfully bidder generic drugs dropped significantly. During the year under review, the medical products of the Company were not included in the national essential drug list nor covered by the policies mentioned above. It is impossible to make a substantial price reduction under the policies. On the other hand, the Company would also try to avoid price drop due to other reasons.

Revenue of the Group from the sale of medical products for the year 2019 was RMB997,065,000 (representing 96.90% of the main operations revenue), increased by 36.75% from that of year 2018 which was RMB 729,102,000. The contribution to the Group revenue of ALA, LIBOd® and FuMeiDa, which are the major products of the Group, was 45%, 44% and 8% respectively.

COST OF SALES

For the year 2019, the Group's main operations costs were RMB73,339,000, of which the cost of product sales was RMB70,997,000. For the year 2018, the Group's main operations costs were RMB 70,793,000, of which the cost of product sales was RMB63,209,000. The ratio of cost of product sales to revenue from sale of medical products decreased to 7% from the level of 9% for last year, and the gross profit margin increased a bit correspondingly. It is mainly due to the decrease of production costs of LIBOd® which benefited from the optimization of production process, the improvement of efficiency of the production workshops, and the effective reduction of the purchase prices of raw materials. At the same time, the Group has been consistent in strict cost control. Maintaining the current product structure, we will try our best to increase the gross profit margin.

SELLING EXPENSES & GENERAL AND ADMINISTRATIVE EXPENSES

For the year 2019, the selling expenses of the Group was RMB530,571,000, representing an increase of 33% from RMB399,649,000 for the year 2018. Selling expenses includes market and academic promotion fees, employment expenses, travel expenses, and depreciation and amortization expenses. The ratio of selling expenses to revenue for sale of products decrease from 54% of last year to 52%, which mainly due to LIBOd® changed its sales model in 2018 which lead to the increase of selling expenses, market investments and costs for change the marketing service provider.

For the year 2019, the general and administrative expenses of the Group was RMB54,993,000, representing a decrease of 34% from RMB83,574,000 for the year 2018. The general and administrative expenses include employment expenses, depreciation and amortization expenses, and rent and property expenses. The decrease in the general and administrative expenses was mainly due to the deconsolidation of Derma Clinic during the year under review and the decrease in the general and administrative costs due to the termination of operation of Shanghai Baosu Pharmaceutical Technology Co., Ltd.

R&D EXPENSES

The Group adopts a conservative and prudent capitalization policy for R&D projects. Only the expenses incurred on those projects which were evaluated to be feasible in technology with clear objective, controllable risks and probable future economic benefits can be capitalized. Therefore, most of R&D costs of the Group were recognized as expenses as incurred. With the development of R&D projects and the establishment of new projects, R&D expenses of the Group for the year 2019 were RMB127,822,000, representing an increase of 12% compared with RMB114,284,000 for the year 2018. The ratio of R&D expenses to revenue for the year 2019 was 12% (2018: 15%).

FINANCIAL EXPENSES

For the year 2019, financial expenses of the Group were approximately RMB5,628,000 compared with approximately RMB4,546,000 for the year 2018, representing an increase of 24%. It is mainly due to the Group's adoption of new accounting standards during the year under review to include interest expense from lease costs of RMB711,000.

OTHER INCOME

Other income of the Group for the year 2019 was RMB14,035,000, compared with RMB27,295,000 for the year 2018, representing a decrease of 49%. The decrease in other income was mainly due to the decrease in governmental grants recognized for the year.

INCOME TAX EXPENSES

Effective from 1 January 2008, Fernovelty (Hong Kong) Holding Co., Ltd ("Fernovelty Holding") is required to determine and pay the corporate income tax in accordance with the Corporate Income Tax Law of the People's Republic of China (the "CIT Law") as approved by the National People's Congress on 16 March 2007. The Company and its subsidiaries Taizhou Fudan-Zhangjiang and Tracing Bio-technology were recognized as high-tech enterprises, and their applicable tax rates are both 15% in 2019. The applicable tax rates of the other subsidiaries in Mainland China are 25% in 2019.

Fernovelty Holding was incorporated in Hong Kong in October 2016 as a subsidiary of the Group and is subject to Hong Kong profits tax at the rate of 16.5% (2018: 16.5%). Effective from 1 January 2018, a two-tier profits tax rates system is implemented under which the first HK$2 million of assessable profits of corporations will be taxed at 8.25% whereas the remaining amount will be taxed at the standard rate of 16.5%. Since it did not have estimated assessable profit for the years ended 31 December 2019 and 2018, Hong Kong profits tax has not been provided.

As at 31 December 2019, the applicable tax rate and tax policy of the Group remained unchanged.

NET PROFIT AND NET PROFIT RATE

The net profit of the Group for the year 2019 was RMB220,654,000, representing an increase of 143% compared with RMB90,913,000 for the year 2018. The net profit rate for the year 2019 was 21.44% (2018:12.26%). The net profit rate for the year 2018 was lower because of the significant decrease in the profit contribution from LIBOd®, a major product of the Group. The Group changed its sales model in 2018 which lead to the increase of selling expenses, market investments and costs for change the marketing service provider.

PROFIT ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY

The profit attributable to shareholders of the Company of approximately RMB227,358,000 was recorded in the consolidated financial statement for the year 2019, compared with approximately RMB112,129,000 for the year 2018, representing an increase of 103%.

SIGNIFICANT INVESTMENTS

As at 31 December 2019, the Group had no significant investment.

MATERIAL ACQUISITIONS OR DISPOSALS OF SUBSIDIARIES AND ASSOCIATED COMPANIES

Disposal of 30.04% equity interest in Derma Clinic

As approved by the Board meeting on 28 February 2019, the Company entered into an equity acquisition agreement with Bringspring-Roadtop on 28 February 2019, pursuant to which the Company sold 30.04% equity interest in Derma Clinic, a subsidiary of the Company, to Bringspring-Roadtop with a consideration of RMB16,522,000 corresponding to the relevant registered capital of RMB16,522,000. Meanwhile, other shareholders of Derma Clinic also sold certain proportion of their equity interest to Bringspring-Roadtop under the agreement. Upon completion of the disposal, Bringspring-Roadtop owns 63% of equity interest in Derma Clinic while the Company owns 20% of equity interest in Derma Clinic. For more details, please refer to the announcement of the Company dated 28 February 2019. The Company completed the industrial and commercial registration for the change in respect of the disposal of 30.04% equity interest in Derma Clinic in April 2019; as such, Derma Clinic ceased to be a subsidiary of the Company and its accounts are no longer consolidated into the accounts of the Company. As at 31 December 2019, the Company has received part of the consideration amounting to RMB10,182,200.

Acquisition of 30.23% equity interest in Taizhou Fudan-Zhangjiang

As approved by the Board meeting on 8 March 2019, and the annual general meeting, the class meeting of holders of H shares and the class meeting of holders of domestic shares on 26 April 2019, the Company proposed to use the proceeds raised from the Issue of A Shares to acquire minor equity interests in Taizhou Fudan-Zhangjiang. Through public tender, on 28 June 2019, the Company entered into a state-owned equity transfer agreement with Taizhou Huaxin Pharmaceutical Investment Co., Ltd.*(泰州華信藥業投資有限公司, "Taizhou Huaxin"), Taizhou Huasheng Investment Development Co., Ltd.*(泰州華盛投資開發有限公司, "Taizhou Huasheng") and Taizhou Public Resources Trading Center, pursuant to which Taizhou Huaxin and Taizhou Huasheng respectively agreed to sell, and the Company agreed to acquire an aggregate of 30.23% equity interest in Taizhou Fudan-Zhangjiang. For more details, please refer to the announcements of the Company dated 8 March 2019, 26 April 2019, 28 June 2019 and 2 July 2019, and the supplemental circular of the Company dated 4 April 2019. As at 31 December 2019, the Company has paid all the consideration amounting to RMB178,000,000. The registration procedure in respect of the transfer was completed on 17 July 2019. Upon complete of the acquisition, Taizhou Fudan Zhangjiang has become a wholly-owned subsidiary of the Company.

Saved as disclosed above, the Group had no other material acquisitions or disposals of subsidiaries and associated companies as at 31 December 2019.

CONTINGENT LIABILITIES

As at 31 December 2019, the Directors were not aware of any material contingent liabilities.

CHARGE ON ASSETS

As at 31 December 2019, the Group had no charge on assets.

BANKING BORROWINGS

As at 31 December 2019, the outstanding amount of the loans of the Group was RMB148,943,000, which includes:

As at 31 December 2019, an unsecured short-term bank borrowing of RMB 25,294,000 was taken by the Company, bore a floating interest rate at 3.915% per annum (as at 31 December 2019) and was due for repayment on 23 April 2020;

As at 31 December 2019, an unsecured short-term bank borrowing of RMB14,706,000 was taken by the Company, bore a floating interest rate at 3.915% per annum (as at 31 December 2019) and was due for repayment on 23 April 2020;

As at 31 December 2019, an unsecured short-term bank borrowing of RMB 32,928,000 was taken by the Company, bore a floating interest rate at 3.915% per annum (as at 31 December 2019) and was due for repayment on 29 July 2020;

As at 31 December 2019, an unsecured short-term bank borrowing of RMB27,072,000 was taken by the Company and bore a floating interest rate at 3.915% per annum (as at 31 December 2019) and was due for repayment on 29 July 2020;

As at 31 December 2019, an unsecured short-term bank borrowing of RMB48,943,000 was taken by the Company and bore a floating interest rate at 3.870% per annum (as at 31 December 2019) and was due for repayment on 28 November 2020.

FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

Taizhou Fudan-Zhangjiang, a subsidiary of the Company, will build new production plants as and when appropriate according to the R&D progress of the Group to meet future production needs.

Saved as disclosed above, the Group had no other material capital expenditure plan for the moment.

LIQUIDITY AND FINANCIAL RESOURCES

The Group generally finances its operations and investing activities with internally generated financial resources, proceeds from the listing of the Company's shares on the Growth Enterprise Market of the Stock Exchange, proceeds from the share placing, grants from the municipal government authorities and commercial loans.

As at 31 December 2019, the Group had cash and cash equivalents of approximately RMB576,799,000.

Being consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including bank borrowings and loans from government authorities) less cash and cash equivalents. Total capital is calculated as total equity, as shown in the consolidated balance sheet, plus net debt. As at 31 December 2019 and 2018, cash and cash equivalents is much more than total balance of bank loans of the Group, therefore, the gearing ratio is not applicable.

The Group adopts a conservative treasury policy in cash and financial management. To achieve better risk control and to minimize the finance costs, the Group's treasury activities are centralized. The Group's liquidity and financing arrangements are reviewed regularly.

FOREIGN EXCHANGE EXPOSURE

The Group mainly operates in the domestic market. Except for the Hong Kong dollar proceeds from the placing of shares, the operating results and the financial position of the Group will not be substantially affected by the movement in exchange rates.

EMPLOYEES AND SALARIES

As at 31 December 2019, the Group had a total of 605 employees, as compared to 627 employees as at 31 December 2018. Staff costs including Directors' remuneration for the year 2019 were RMB147,894,000, compared with RMB169,565,000 for the year 2018. The salaries and benefits of employees provided by the Group are kept at a competitive level and employees are rewarded on a performance related basis within the general framework of the Group's salary and bonus system which is reviewed annually. A wide range of benefits, including statutory social welfare plans, are also provided to employees by the Group.

Details of the remuneration policies are set out in the "Remuneration Committee" section of the "Corporate Governance Report".

OTHER MATTERS

Proposed Issue of A Shares

As approved by the Board meeting on 8 March 2019 and the annual general meeting, the class meeting of holders of H shares and the class meeting of holders of domestic shares on 26 April 2019, the Company proposed to apply to the relevant regulatory authorities in the PRC for the allotment and issue of not more than 120,000,000 A Shares with a nominal value of RMB0.1 each to the qualified price consultation participants subject to the laws and regulations of the PRC and the conditions required by the regulatory authorities, qualified investors of the Sci-Tech Innovation Board who maintain securities account with the Shanghai Stock Exchange and other investors as approved by the China Securities Regulatory Commission and the Shanghai Stock Exchange (excluding those in respect of which subscription has been prohibited by laws and regulations), and proposed to apply to the Shanghai Stock Exchange for the listing of, and permission to deal in, the A Shares. For more details, please refer to the announcements of the Company dated 8 March 2019 and 26 April 2019, and the circulars of the Company dated 12 March 2019 and 4 April 2019.

Meanwhile, in accordance with the Company Law of the PRC, the Implementation Measures for Issue and Underwriting of Shares on the Sci-Tech Innovation Board of Shanghai Stock Exchange* (《上海證券交易所科創板股票發行與承銷實施辦法》), the Guidelines for Issue and Underwriting of Shares on the Sci-Tech Innovation Board of Shanghai Stock Exchange* (《上海證券交易所科創板股票發行與承銷業務指引》) and the provisions of other relevant laws, regulations and regulatory documents, and the Articles of the Company, the Company formulated the strategic allotment plan (the "Strategic Allotment Plan"). The participants of the Strategic Allotment Plan shall be the senior management and core employees of the Company, who may participate in the Strategic Allotment Plan under the Issue of A Shares to subscribe for the approved number of A Shares upon the consideration and approval by the Board meeting and/or the general meeting of the Company (as the case may be) in accordance with the Strategic Allotment Plan. Pursuant to the Strategic Allotment Plan, the Company may allot not more than 12 million A Shares to its senior management and core employees under the Issue of A Shares. For more details, please refer to the announcements of the Company dated 26 April 2019 and 21 June 2019, and the circular of the Company dated 6 June 2019.

The Company has submitted the application materials in respect of the Proposed Issue of A Shares, including the A share prospectus, to the Shanghai Stock Exchange, and has received a letter of acceptance issued by the Shanghai Stock Exchange in respect of the Company's application for the Proposed Issue of A Shares on 13 May 2019. For more details, please refer to the announcement of the Company dated 13 May 2019. For matters related to the application for suspension of the review process of the Proposed Issue of A Shares based on the progress of review and inquiry, resumption of the review process of the Proposed Issue of A Shares, update on prospectus of the Issue of A Shares, responses to the review and inquiry letters and the unaudited consolidated financial statements of the Group for the nine months ended 30 September 2019, please refer to announcements of the Company dated 31 July 2019, 30 August 2019, 2 September 2019, 29 September 2019, 10 October 2019 and 31 October 2019. On 18 October 2019, the Listing Committee of the Sci-Tech Innovation Board held the thirty-fourth review meeting of 2019 (the "Review Meeting") and published the Results Announcement of the Thirty-fourth Review Meeting of the Listing Committee of Sci-Tech Board in 2019 (the "Results Announcement of the Listing Committee") on the website of the Shanghai Stock Exchange, pursuant to which the Listing Committee of the Sci-Tech Innovation Board decided to suspend its review on the Proposed Issue of A Shares. For more details, please refer to the announcements of the Company on 20 October 2019 and 27 October 2019. As at the end of the year under review, the relevant regulatory agencies of Sci-Tech Innovation Board are conducting internal discussion on the reply to the review opinions question in the Results Announcement of the Listing Committee from the Company; the Company is currently updating the relevant financial information for the year 2019, and will further update the prospectus of the Issue of A Shares and the reply to the Review Opinions Question based on such financial information. The Company will continue to promote the work related to the Proposed Issue of A Shares. When the further information is published on the website of the Shanghai Stock Exchange, the Company will publish relevant announcement(s) simultaneously on the website of the Hong Kong Stock Exchange.

SUBSEQUENT EVENTS

Adoption of China Accounting Standards for Business

Since the date on which the H Shares of the Company were listed on the Stock Exchange, the Company has been preparing its financial statements under both the China Accounting Standards for Business Enterprises and the International Financial Reporting Standards. According to the "Consultation Conclusions on Acceptance of Mainland Accounting and Auditing Standards and Mainland Audit Firms for Mainland Incorporated Companies Listed in Hong Kong" (《有關接受在香港上市的內地註冊成立公司採用內地的會計及審計準則以及聘用內地會計師事務所的諮詢總結》) published by the Stock Exchange in December 2010, and in order to facilitate the application process of the proposed Issue of A Shares, and to align the financial information disclosure of the Company in both markets, the Company changed its basis for preparation of the overseas financial statements from International Financial Reporting Standards to China Accounting Standards for Business Enterprises based on the approval by the Board meeting on 10 January 2020 and the approvals of relevant amendments to the Articles of Associations by extraordinary general meeting the class meeting of holders of H shares and the class meeting of holders of domestic shares on 24 February 2020. The results of the Company for the year ended 31 December 2019 were prepared in accordance with the China Accounting Standards for Business Enterprises.

Amendments to the Articles of Association

In view of (i) the adoption of China Accounting Standards for Business Enterprises; and (ii) the relevant provisions of the Company Law of the PRC and Reply of the State Council on the Adjustment of the Notice Period for the Holding of Shareholders' General Meeting and Other Matters Applicable to Overseas Listed Companies (Guo Han [2019] No. 97) (《關於調整適用在境外上市公司召開股東大會通知期限等事項規定的批覆》(國函[2019]97號), upon the approval by the extraordinary general meeting, the class meeting of holders of H shares and the class meeting of holders of domestic shares on 24 February 2020, the Company amended the Articles of Association. The amendments to the Articles of Association were effected upon approvals by the Shareholders at the extraordinary general meeting and the class meetings, respectively.

For more details, please refer to the announcement of the Company dated 10 January 2020, and the circular of the Company dated 20 January 2020.

Report of the Directors

The Board is pleased to present the directors' report for the year 2019 and the audited consolidated financial statements of the Group for the year ended 31 December 2019.

ACTIVITIES REVIEW

The Group is principally engaged in R&D and commercialization of innovative drugs.

On R&D, the Group is committed to developing four R&D platforms, including genetic technical platform, photodynamic platform, nano technical platform and oral solid preparation platform. As at the end of the year under review, the Group had about 15 major R&D projects and over 20 corresponding proposed indications or specifications. Given that R&D on innovative drugs faces significant risks and challenges, the Group adopts more prudent and conservative capitalized policy on R&D expenses and will try to make the medium and long-term plans of R&D in view of actual financial position.

On commercialization, the major products of the Company are ALA and FuMeiDa on photodynamic technical platform, LIBOd® on nano technical platform and all kinds of diagnostic reagents on diagnosis technology platform. FuMeiDa for the treatment of Port Wine Stain, launched to the market in 2017 officially. FuMeiDa and LIBOd® for the treatment of tumors are preparing to apply for U.S. drug registration. Meanwhile, according to the requirements of relevant PRC laws and regulations, the Group also started the domestic bioeqivalence evaluation research during the year under review.

In additional, to make full use of the advantages accumulated in skin management field these years, the Group began to involve itself in the industry of skin beauty chain clinics during the year under review and made investment to establish Derma Clinic in August 2015. In recent years, with the vigorous development of the domestic medical and aesthetic industry, the influx of various funds has also led to the uneven quality of the entire industry. As an enterprise taking research and development of drugs as its principal business, the Company, after completing the initial framework design, corporate strategy formulation and development direction planning for Derma Clinic, considers that it is necessary to involve a shareholder who is familiar with specific industry business, capable of effective resources integration and equipped with relevant industry experience and management experience of chain enterprises to lead and guide the subsequent development direction of Derma Clinic so as to enhance the overall operation of Derma Clinic. In this situation, in order to focus on the core business of the Group, during the year under review, the Group began to seek strategic partners who are familiar with the industry business, capable of effectively resources integration, and able to guide the development of Derma Clinic. On 28 February 2019, the Company entered into an equity acquisition agreement with Bringspring-Roadtop to sell 30.04% of equity interest in Derma Clinic. Upon the completion of the transfer, Bringspring-Roadtop owns 63% of equity interest in Derma Clinic while the Company owns 20% of equity interest in Derma Clinic. Therefore, Derma Clinic ceased to be a subsidiary of the Company, and its financial results are consolidated into the consolidated financial statements of the Company. For more details, please refer to the announcement of the Company dated 28 February 2019.

The Group's revenue for the year 2019 was mainly generated from the sale of medical products.

The Group only operates a single business segment in 2018 and 2019 and hence no segment information is presented.

MAJOR CUSTOMERS AND SUPPLIERS

During the year under review, the percentages of the major customers and suppliers in the Group's total sales and purchases are as follows:

	Percentage in the Group's total	
	Sales	**Purchases**
Largest customer	11.00%	
Total of the five largest customers	37.05%	
Largest supplier		12.07%
Total of the five largest suppliers		38.40%

Shanghai Pharmaceuticals, a substantial shareholder of the Company, is a key customer of the Company. The connected transactions with Shanghai Pharmaceuticals have been approved at the Board meeting and Shareholders' meeting (if applicable) of the Company. Save for this, none of the Directors, their respective associates or any shareholder of the Company who or which to the knowledge of the Directors owns more than 5% of the issued share capital of the Company has any beneficial interest in any of the Group's five largest customers.

PRINCIPAL RISKS AND UNCERTAINTIES

The principal risks faced by the Group are R&D risks of innovative drugs, promotion risks of innovative drugs and price cut down risks of drugs, etc.

There are many uncertainties during the R&D of innovative drugs with large investment and long research period. Once a project after many years of research ultimately attributes to failure, there is a big negative impact on the company. The Company will continue to improve project management from the beginning of the project with comprehensive analysis to reduce the risk from the source. In addition, we will perform assessment during the research process in a timely manner to reduce the risk of each stage. And the Group adopts a conservative and prudent capitalization policy for R&D projects. Only the expenses incurred on those projects which were evaluated to be feasible in technology with clear objective, controllable risks and probable future economic benefits can be capitalized. Therefore, most of R&D costs were recognised as expenses as incurred. The success or failure of the final project, will not have a great impact on the current financial statements.

After the success of research and launch into the market, it needs time for innovative drugs to develop the market to achieve their sales expectations. It's of uncertainty to set the length of the process or to judge if achieve the desired state. The Company will promote new products in a positive and scientific manner, in order to let professionals and patients to have dependence with full understanding of the product as well as avoiding all other risks caused by informal means.

There are lots of factors which will likely affect the Company's sales revenue and sales profit such as the release of the drug sales regulations, the gradual implementation of the "two-invoice" system and the new "B2V" policy came into force, As our drugs are not included in the national essential drug list, it is impossible to make a substantial price reduction under the current policy. On the other hand, the Company will try to avoid the price drop due to other reasons.

The principal uncertainty is regulatory policy. In recent years, the domestic drug regulatory policy has undergone major changes. It is uncertain about further reform action. The Company will actively adapt to the new regulatory policy of the industry and improve the corresponding management of our R&D projects, which reduce the impacts of regulatory changes to the lowest extent possible.

RESULTS

The results of the Group for the year ended 31 December 2019 are set out in the consolidated statement of comprehensive income and related explanatory notes to the consolidated financial statements.

An analysis on the Company's annual results of 2019 using financial key performance indicators are set out in the section headed "Management Discussion and Analysis" of the annual report.

DIVIDENDS

Dividend Policy

In accordance with the Company Law and other relevant laws and regulations, the Company has been implementing a continuous, stable and positive dividend distribution policy since 2015, and paying attention to reasonable return on investment to Shareholders.

The dividend distribution plan of the Company shall be drawn up and reviewed by the Board, taking full account of the actual business situation and future development needs of the Company. If current year's profit and accumulated retain earning of the Company is positive, the Company shall give priority to the cash distribution of dividends, and the proportion of cash dividends taken every year shall not be less than 10% of the distributable profit realized in that year.

After the resolution on the dividend distribution plan is approved by the Board, it will be submitted to the general meeting of shareholders for deliberation, and implementation after approval.

Dividend Distribution

The resolution in relation to the distribution of a final dividend of RMB0.07 per share (tax inclusive) for the year ended 31 December 2019 has been considered and approved at the meeting of the Board held on 28 February 2020, totaling approximately RMB64,610,000. If the profit distribution plan is approved by the shareholders by way of an ordinary resolution at the 2019 annual general meeting to be held on Monday, 30 March 2020, the final dividend is expected to be distributed on or before Friday, 21 August 2020 to all shareholders whose names appear on the register of the Company on Thursday, 9 April 2020. To determine the identity of the shareholders entitled to receive the final dividend, the register of holders of H Shares of the Company will be closed from Saturday, 4 April 2020 to Thursday, 9 April 2020 (both days inclusive) during which no transfer of H Shares will be registered. In order to qualify for entitlement to the proposed final dividend, all transfers of H Shares accompanied by the relevant share certificates and transfer forms must be lodged with the Company's Hong Kong Share Registrar, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on Friday, 3 April 2020. Final dividend for holders of Domestic Shares will be declared and calculated in RMB, and paid in RMB whereas final dividend for holders of H Shares will be declared and calculated in RMB, and paid in Hong Kong dollars. The exchange rate shall be determined by the average selling rates promulgated by People's Bank of China within one week before the date of declaration of the dividend. In case of any change to the expected payment date or the period during which the register of holders of H Shares will be closed, further announcement(s) will be published by the Company in due course in respect of such changes.

Pursuant to CIT Law and its implementing regulations, the tax rate of the corporate income tax applicable to the income of non-resident enterprise deriving from the PRC is 10%. For this purpose, any H shares registered under the name of non-individual enterprise, including the H shares registered under the name of HKSCC Nominees Limited, other nominees or trustees, or other organizations or entities, shall be deemed as shares held by non-resident enterprise shareholders as defined under the CIT Law. The Company will distribute the final dividend to non-resident enterprise shareholders subject to a deduction of 10% corporate income tax withheld and paid by the Company on their behalf.

Pursuant to the Notice on the Issues on Levy of Individual Income Tax after the Abolishment of Guo Shui Fa [1993] No. 045 Document issued by the State Administration of Tax on 28 June 2011, the dividend to be distributed by the PRC non-foreign invested enterprises which has issued shares in Hong Kong to the overseas resident individual shareholders, is subject to the individual income tax with a tax rate of 10% in general. However, the tax rates for respective overseas resident individual shareholders may vary depending on the relevant tax agreements between the countries of their residence and Mainland China. Thus, 10% individual income tax will be withheld from the final dividend payable to any individual shareholders whose names appear on the register of members of H Shares of the Company Thursday, 9 April 2020, unless otherwise stated in the relevant taxation regulations, taxation agreements or the notice.

The Company will have no liability in respect of any claims arising from any delay in, or inaccurate determination of the status of the shareholders or any disputes over the mechanism of withholding.

SHARE CAPITAL

Details of movements in the share capital of the Company during the year are set out in note 5(27) to the consolidated financial statements.

RESERVES

Details of movements in the reserves of the Group and of the Company during the year are set out in the consolidated statement of changes in equity and note 5(28)(29)(30)(31) to the consolidated financial statements respectively.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in property, plant and equipment of the Group for the year are set out in note 5(10) to the consolidated financial statements.

MAIN EMPLOYEE

Details of the main employee of the Group ate set out in environmental, social and governance report.

STAFF RETIREMENT BENEFIT SCHEME

Details of the staff retirement benefit scheme of the Group are set out in note 5(22) to the consolidated financial statements.

STAFF QUARTERS

During the year, the Group has not provided staff quarters to its staff. Details of the housing subsidies provided to staff are set out in note 5(22) to the consolidated financial statements.

DIRECTORS AND SUPERVISORS

Directors and Supervisors of the Company during the year and as at the date of this report are as follows:

Executive Directors

Wang Hai Bo *(Chairman)*
Su Yong
Zhao Da Jun

Non-executive Directors

Shen Bo
Yu Xiao Yang

Independent Non-executive Directors

Zhou Zhong Hui
Lam Yiu Kin
Xu Qing
Yang Chun Bao

Supervisors

Zhou Xi *(Chairman)*
Wang Luo Chun
Liu Xiao Long
Huang Jian
Yu Dai Qing

CORPORATE GOVERNANCE

The Company has always been endeavoring in establishing a formal and appropriate corporate governance structure. The Company believes that through enhancing its transparency and establishing effective system of accountability, the Company can operate in a more systematic manner, make decisions in a more scientific way, safeguard the interests of all Shareholders, and boost the confidence of investors. Details of corporate governance of the Group are set out in the following sections of the annual report:

1) Corporate Governance Report;

2) Report of the Supervisory Committee;

3) Report of the Audit Committee;

4) Report of the Remuneration Committee;

5) Report of the Nomination Committee;

6) Environmental, Social and Governance Report

DIRECTORS' AND SUPERVISORS' SERVICE CONTRACTS

Refer to "Directors' and Supervisors' Service Contracts" section of the "Corporate Governance Report".

PROFILES OF THE DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Refer to "Profiles of the Directors, Supervisors and Senior Management" section of the annual report.

EMOLUMENTS OF DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND HIGHEST PAID INDIVIDUALS

The Remuneration Committee determines or makes recommendation to the Board (as case may be) on the remuneration and other benefits payable to the Directors and Supervisors by the Group. The committee regularly oversees the remuneration of all Directors and Supervisors to ensure that their remuneration and compensation are at an appropriate level. The Group maintains competitive remuneration packages with reference to the industry standard and according to the business development of the Group, and determines remuneration of the Directors and Supervisors based on their qualifications, experience and contributions, to attract and retain its Directors and Supervisors as well as to control costs.

Details of emoluments of Directors, Supervisors and the top 5 highest paid individuals are set out in note 9(7) and note 9(8) to the consolidated financial statements.

Details of senior management of the Group are set out as follows:

	Number Year 2019	Year 2018
Directors	**3**	3
Non-directors	**4**	4
	7	7

The emoluments fell within the following bands:

	Number Year 2019	Year 2018
The emoluments range (HKD)		
1,500,001 – 2,000,000	**-**	1
2,000,001 – 2,500,000	**1**	5
2,500,001 – 3,000,000	**4**	1
3,000,001 – 3,500,000	**1**	-
3,500,001 – 4,000,000	**1**	-
	7	7

Details of emoluments of senior management are set out in note 9(5)(e) to the consolidated financial statements.

RIGHTS OF DIRECTORS AND SUPERVISORS TO ACQUIRE SHARES OR DEBENTURES

Refer to "Rights of Directors, Chief Executive and Supervisors in Purchasing Shares or Debentures" section of the "Corporate Governance Report".

DETAILS OF OPTIONS GRANTED BY THE COMPANY

As at 31 December 2019, the Company did not have any share option scheme in force.

DIRECTORS' AND SUPERVISORS' INTERESTS IN CONTRACTS

Refer to "Directors' and Supervisors' Interests" section of the "Corporate Governance Report".

PERMITTED INDEMNITY PROVISIONS

During the year under review and as at 31 December 2019, the Company has purchased liability insurance for Directors and Supervisors which provides proper protection for the Directors and Supervisors.

MANAGEMENT CONTRACTS

No contract concerning the management and administration of the whole or any substantial part of the business of the Company was entered into or existed during the year under review.

DIRECTORS', SUPERVISORS' AND CHIEF EXECUTIVE'S INTERESTS IN SHARES OF THE COMPANY

As at 31 December 2019, the interests (if any) of the Directors, Supervisors and chief executive of the Company and their respective associates in the shares or debentures (including interests in shares and/or short positions) of the Company and its associated corporations, (a) as notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) ("SFO"); or (b) as recorded in the register maintained by the Company under Section 352 of the SFO; or (c) as notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers under Appendix 10 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") were as follows:

Name	Position	Class of shares	Number of shares held	Capacity	Type of interest	Percentage in Domestic Shares	Percentage in total number of issued shares
Wang Hai Bo	Director	Domestic Shares	57,886,430 (L)	Beneficial owner	Personal	9.93%	6.27%
Su Yong	Director	Domestic Shares	22,312,860 (L)	Beneficial owner	Personal	3.83%	2.42%
Zhao Da Jun	Director	Domestic Shares	19,260,710 (L)	Beneficial owner	Personal	3.30%	2.09%
Wang Luo Chun	Supervisor	Domestic Shares	1,170,000 (L)	Beneficial owner	Personal	0.20%	0.13%
Yu Dai Qing	Supervisor	Domestic Shares	800,000 (L)	Beneficial owner	Personal	0.14%	0.09%

Note: The letter "L" stands for long position.

SUBSTANTIAL SHAREHOLDERS

So far as the Directors are aware, as at 31 December 2019, the persons other than a Director, Supervisor or chief executive of the Company who have interests and/or short positions in the shares or underlying shares of the Company subject to disclosure under Divisions 2 and 3 of Part XV of the SFO, or as recorded in the register maintained under Section 336 of the SFO, or as notified to the Company and the Stock Exchange were as follows (the interests in shares and/or short positions, if any, disclosed herein are in addition to those disclosed in respect of the Directors, Supervisors and chief executive):

Name of substantial shareholders	Class of shares	Number of shares held	Capacity	Type of interest	Percentage in the respective class of share capital	Percentage in total share capital
Shanghai Industrial Investment (Holdings) Co., Ltd.	Domestic Shares H Shares	139,578,560 (L) 70,564,000 (L)	Interest of controlled corporation	Corporate	23.94% 20.75%	22.77%
Shanghai Pharmaceuticals	Domestic Shares H Shares	139,578,560 (L) 70,564,000 (L)	Beneficial owner	Corporate	23.94% 20.75%	22.77%
China New Enterprise Investment Fund II	Domestic Shares	156,892,912 (L)	Beneficial owner	Corporate	26.91%	17.00%
Yang Zong Meng	Domestic Shares	80,000,000 (L)	Beneficial owner	Personal	13.72%	8.67%
Fudan University	Domestic Shares	30,636,286 (L)	Interest of controlled corporation	Corporate	5.25%	3.32%
Shanghai Fudan Asset Operating Limited (上海復旦資產經營有限公司)	Domestic Shares	30,636,286 (L)	Beneficial owner	Corporate	5.25%	3.32%
Investco Hong Kong Limited	H Shares	27,313,000 (L)	Investment manager	Corporate	8.03%	2.96%

Note: The letter "L" stands for long position.

CONNECTED TRANSACTIONS

For the year ended 31 December 2019, the continuing connected transactions of the Group are set out as follows:

Continuing Connected Transactions under Sales and Distribution Agreement with Shanghai Pharmaceuticals:

In order to leverage the established and extensive sales and distribution network of Shanghai Pharmaceuticals, a substantial shareholder of the Company, the Company has been engaging Shanghai Pharmaceutical Co., Ltd.* (上藥控股有限公司), formerly known as Shanghai Pharmaceutical Distribution Co., Ltd.* (上海醫藥分銷控股有限公司), a wholly-owned subsidiary of Shanghai Pharmaceuticals as its distribution agent since 10 August 2010 when the Company entered into the sales and distribution agreement with Shanghai Pharmaceutical Co., Ltd.. The Board approved the Company to enter into the original sales and distribution agreement (the "Original Sales and Distribution Agreement") with Shanghai Pharmaceuticals on 17 August 2018 for the sales and distribution of the Group's pharmaceutical products by the Shanghai Pharmaceuticals for the period from 1 January 2018 to 31 December 2019. The Board approved the Company to enter into the renewal sales and distribution agreement (the "Sales and Distribution Agreement") with Shanghai Pharmaceuticals on 11 September 2019 for the sales and distribution of the Group's pharmaceutical products by Shanghai Pharmaceuticals for the period from 1 January 2019 to 31 December 2020. The Original Sales and Distribution Agreement was terminated immediately upon the Sales and Distribution Agreement becoming effective. For more details, please refer to the announcement dated 11 September 2019 and the circular of the Company dated 11 October 2019. The annual caps for the continuing connected transactions contemplated under the Sales and Distribution Agreement for the two years ending 31 December 2020 are approximately RMB81,000,000 and RMB109,000,000 respectively. Shanghai Pharmaceuticals is a promoter and substantial shareholder of the Company and therefore, is a connected person of the Company under the Listing Rules. The transactions under the Sales and Distribution Agreement are carried out on a continuing or recurring basis in the ordinary and usual course of business of the Company and therefore, constitute continuing connected transactions of the Company under the Listing Rules. The transactions under the Sales and Distribution Agreement are subject to the reporting, announcement, annual review and independent shareholders' approval requirements under Chapter 14A of the Listing Rules, and were approved by the independent shareholders at the extraordinary general meeting on 28 October 2019. During the year 2019, the product sales revenue to Shanghai Pharmaceuticals was RMB78,235,000, which did not exceed the annual cap approved at the extraordinary general meeting.

Continuing Connected Transactions under Renewal Agreement of the Research Cooperation Agreement for CD30-DM1 Antibody-Drug Conjugate with Shanghai Jiaolian:

In view that the Recombinant Anti-CD30 Human-mouse Chimeric Monoclonal Antibody-MCC-DM1 Injection Conjugate (the "Conjugate") has obtained the clinical trial approval on 18 July 2018, the Company and Shanghai Jiaolian Drug Development Co., Ltd*. (上海交聯藥物研發有限公司, "Shanghai Jiaolian") intended to maintain further cooperation for the research and development of the Conjugate. On 14 March 2019, the Company entered into the renewal agreement of the research cooperation agreement (the "Renewal Agreement of the Research Cooperation Agreement") with Shanghai Jiaolian and further extended the validity of the agreement from 14 March 2019 to 31 December 2021. For more details, please refer to the announcement of the Company dated 14 March 2019. The Company anticipated that the annual caps for the transactions contemplated under the Renewal Agreement of the Research Cooperation Agreement (representing the maximum amounts payable under the Renewal Agreement of the Research Cooperation Agreement by Shanghai Jiaolian to the Company) for the three years ending 31 December 2021 are approximately RMB7,000,000, RMB6,500,000 and RMB3,700,000 respectively. Shanghai Jiaolian is a subsidiary of Shanghai Pharmaceuticals, which is a promoter and substantial Shareholder of the Company and therefore, Shanghai Jiaolian is a connected person of the Company under the Listing Rules. The transactions contemplated under the Renewal Agreement of the Research Cooperation Agreement are carried out on a continuing or recurring basis in the ordinary and usual course of business of the Company and therefore, constitute continuing connected transactions of the Company under the Listing Rules. Since the highest applicable percentage ratio for the highest proposed annual cap for each of the three years ending 31 December 2021 for the continuing connected transactions contemplated under the Renewal Agreement exceeds 0.1% but is below 5%, such transactions are subject to the reporting and announcement requirements, but are exempt from the independent Shareholders' approval requirements under Chapter 14A of the Listing Rules. During the year 2019, the Group received an amount of RMB6,372,000 from Shanghai Jiaolian, the nature of the transaction was in the context of the research cooperation agreement and the amount did not exceed the annual cap which was approved at the Board meeting.

Continuing Connected Transactions under Strategic Cooperation Agreement for Innovative Pharmaceuticals R&D with Shanghai Pharmaceuticals

In February 2011, the Company entered into the original strategic cooperation agreement for innovative pharmaceuticals R&D (the "Original Strategic Cooperation Agreement") with Shanghai Pharmaceuticals, with the expiration date of 31 December 2013. Both parties would jointly share the risks of, and cooperate on, the research, development and commercialization of the relevant potential pharmaceuticals owned by the Group which are currently at various research stages. To renew the Original Strategic Cooperation Agreement, the Company entered into the strategic cooperation agreement for innovative pharmaceuticals R&D (the "Strategic Cooperation Agreement") with Shanghai Pharmaceuticals on 19 March 2013, with the expiration date of 31 December 2016. On 18 March 2016, the Company entered into the supplemental agreement with Shanghai Pharmaceuticals to revise the annual cap for 2016 under the Strategic Cooperation Agreement from RMB20,000,000 to RMB34,000,000, which was approved at the annual general meeting held on 13 May 2016. For more details, please refer to the announcements of the Company dated 23 February 2011, 19 March 2013, 18 March 2016 and the circulars of the Company dated 8 April 2011, 12 April 2013 and 13 April 2016. On 10 May 2017, the Company and Shanghai Pharmaceuticals entered into a renewal agreement, which extends the term of the Strategic Cooperation Agreement for a period of three years with effect from 1 January 2017 to 31 December 2019. For more details, please refer to the announcement of the Company dated 10 May 2017. The annual caps for the continuing connected transactions contemplated under the Strategic Cooperation Agreement (as renewed by the renewal agreement) for the three years ending 31 December 2019 are approximately RMB28,000,000, RMB28,000,000 and RMB28,000,000, respectively. Shanghai Pharmaceuticals is a promoter and substantial shareholder of the Company and therefore, is a connected person of the Company under the Listing Rules. The transactions under the Strategic Cooperation Agreement (as renewed by the renewal agreement) were carried out on a continuing or recurring basis in the ordinary and usual course of business of the Company and therefore, constitute continuing connected transactions of the Company under the Listing Rules. Since the highest applicable percentage ratio for the proposed annual cap for each of the three years ending 31 December 2019 for the continuing connected transactions under the Strategic Cooperation Agreement (as renewed by the renewal agreement) exceeds 0.1% but is less than 5%, such transactions are subject to the reporting, announcement and annual review requirements, but are exempt from the independent shareholders' approval requirements under Chapter 14A of the Listing Rules. During the year 2019, the Group received an amount of RMB336,000 from Shanghai Pharmaceuticals for cooperation and development, the nature of the transaction was in the context of the Strategic Cooperation agreement and the amount did not exceed the annual cap which was approved at the Board meeting.

The above connected transactions are closely monitored by the Company's Internal Audit and Control Department. The Audit Committee and Independent Non-executive Directors have reviewed the above mentioned continuing connected transactions along with the report of external auditors and confirmed that the transactions have been entered into:

(1) in accordance with the Group's pricing policies;

(2) in the ordinary and usual course of business of the Group;

(3) on normal commercial terms or better; and

(4) according to the agreement governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The Company's auditor was engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditor has issued his unqualified letter containing his findings and conclusions in respect of the continuing connected transactions in accordance with Rule 14A.56 of the Listing Rules. A copy of the auditor's letter has been provided by the Company to the Stock Exchange on 18 February 2020.

For the year ended 31 December 2019, the one-off connected transactions of the Group are set out as follow:

Acquisition of 30.23% Equity Interest in Taizhou Fudan-Zhangjiang

As approved by the Board meeting on 8 March 2019 and the annual general meeting, the class meeting of holders of H shares and the class meeting of holders of domestic shares on 26 April 2019, the Company proposed to acquire the minor equity interests in Taizhou Fudan-Zhangjiang by using the proceeds raised from the Issue of A Shares. Through the public transfer procedures, on 28 June 2019, the Company entered into the state-owned equity transfer agreement with Taizhou Huaxin, Taizhou Huasheng and Taizhou Public Resources Trading Center, pursuant to which Taizhou Huaxin and Taizhou Huasheng respectively agreed to sell, and the Company agreed to acquire an aggregate of 30.23% equity interest in Taizhou Fudan-Zhangjiang. The consideration for the equity transfer under the state-owned equity transfer agreement is RMB178,000,000. For more details, please refer the announcement and supplemental announcement dated 28 June 2019 and 2 July 2019. As Taizhou Huaxin is a substantial Shareholder of Taizhou Fudan-Zhangjiang, a non-wholly-owned subsidiary of the Company , and Taizhou Huasheng is a non wholly-owned subsidiary of Taizhou Huaxin, Taizhou Huaxin and Taizhou Huasheng are connected persons at the subsidiary level of the Company. Therefore, the proposed acquisition constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules. Pursuant to Rule 14A.101 of the Listing Rules, since (i) the Board has approved the proposed acquisition; and (ii) the independent non-executive Directors have confirmed that the terms of the proposed acquisition are on normal commercial terms and are fair and reasonable and the proposed acquisition is in the interests of the Company and its shareholders as a whole, the proposed acquisition is subject to the reporting and announcement requirements but is exempt from the independent Shareholders' approval requirement. During the year 2019, the Company has paid the consideration amounting to RMB178,000,000. The registration procedure in respect of the transfer was completed on 17 July 2019. After the acquisition, Taizhou Fudan-Zhangjiang became a wholly-owned subsidiary of the Company.

Strategic Allotment under the Issue of A Shares by Connected persons

In accordance with the Company Law, the Implementation Measures for Issue and Underwriting of Shares on the Sci-Tech Innovation Board of Shanghai Stock Exchange (《上海證券交易所科創板股票發行與承銷實施辦法》), the Guidelines for Issue and Underwriting of Shares on the Sci-Tech Innovation Board of Shanghai Stock Exchange (《上海證券交易所科創板股票發行與承銷業務指引》) and the provisions of other relevant laws, regulations and regulatory documents, and the Articles of Association of the Company, the Company formulated the Strategic Allotment Plan. The participants of the Strategic Allotment Plan shall be the senior management and core employees of the Company, who may participate in the Strategic Allotment under the Issue of A Shares to subscribe for the approved number of A Shares upon the consideration and approval by the Board meeting and/or the general meeting of the Company in accordance with the Strategic Allotment Plan. Pursuant to the Strategic Allotment Plan, the Company may allot not more than 12 million A Shares to its senior management and core employees under the Issue of A Shares. The number of A Shares to be allotted to anyone of the participants under the Strategic Allotment Plan shall not exceed 10% of the total number for subscription under the Strategic Allotment Plan, i.e. not more than 1.2 million A Shares. The subscription price of the A Shares to be allotted under the Strategic Allotment Plan shall be identical to the issue price under the Issue of A Shares, and will be paid by the participants with their own or self-raised funds. For more details, please refer to the announcement of the Company dated 26 April 2019 and 21 June 2019 and the circular of the Company dated 6 June 2019. The participants of the Strategic Allotment Plan include, among others, Mr. Wang Hai Bo, Mr. Su Yong, Mr. Zhao Da Jun, Mr. Gan Yi Min, Mr. Wang Luo Chun and Ms. Yu Dai Qing, and the aforementioned six persons are the directors and/or supervisors of the Company and/or its subsidiaries and therefore are the connected persons of the Company under the Listing Rules. Pursuant to Chapter 14A of the Listing Rules, the participation in the Strategic Allotment under the Issue of A Shares by the abovementioned connected persons according to the Strategic Allotment Plan constitutes a connected transaction of the Company and is subject to the requirements of reporting, announcement and the Independent Shareholders' approval under the Listing Rules. The participation in the Strategic Allotment under the Issue of A Shares by the connected person, has been approved on the extraordinary general meeting dated 21 June 2019. As at the date of this report, the Strategic Allotment Plan has not been implemented as the proposed Issue of A Shares has not yet been completed.

Connected Transaction under the Entrustment Development Agreement with Shanghai Pharmaceuticals

The Company has entered into the Entrust Development Agreement with Shanghai Pharmaceuticals on 11 September 2018 for the development of the small-molecule compound CLB-SN38 in accordance with the relevant technical parameters by Shanghai Pharmaceuticals for the Company during the contractual period from 11 September 2018 to the completion date of production and verification of samples for registration. For more details, please refer to the announcement of the Company dated 11 September 2018. Shanghai Pharmaceuticals is a promoter and substantial shareholder of the Company and therefore, is a connected person of the Company under the Listing Rules. The transaction under the Entrustment Development Agreement constitutes a connected transactions of the Company under the Listing Rules. Since the highest applicable percentage ratio for the connected transaction under the Entrustment Development Agreement exceeds 0.1% but is less than 5%, such transaction is subject to the reporting, announcement and annual review requirements, but is exempt from the independent shareholders' approval requirements under the Listing Rules. The consideration under the Entrust Development Agreement is paid by stage; during the year 2019, the Group paid an amount of RMB800,000 to Shanghai Pharmaceuticals for the entrustment development and the transaction is in progress in accordance with the Entrust Development Agreement.

The Directors (including the independent non-executive Directors) are of the view that the terms of the above-mentioned one-off connected transactions are reached after arm's length negotiation; they are on normal commercial terms, fair and reasonable and in the interests of the Company and its shareholders as a whole.

Details of material related party transactions undertaken in the ordinary and usual course of business are set out in note 9 to the consolidated financial statements. None of the related party transactions constitutes a connected transaction that should be disclosed, except for the above connected transactions, in respect of which the disclosure requirements in accordance with Chapter 14A of the Listing Rules have been complied with.

SECURITIES TRANSACTIONS BY DIRECTORS

Please refer to "Directors' Securities Transactions" section of the "Corporate Governance Report" for more details.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Neither the Company nor its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2019.

PRE-EMPTIVE RIGHTS

There is no provision for the pre-emptive rights in the Articles of Association or under the laws of the PRC, being the jurisdiction in which the Company was incorporated, which would oblige the Company to offer new shares on a pro-rata basis to its existing shareholders.

AUDIT COMMITTEE

The Audit Committee is responsible for reviewing the financial reporting, internal controls and corporate governance issues and making relevant recommendations to the Board. The Audit Committee comprises two Independent Non-executive Directors and one Non-executive Director, namely, Mr. Lam Yiu Kin, Mr. Xu Qing and Mr. Shen Bo. Mr. Lam Yiu Kin was appointed as the chairman of the Audit Committee.

The Audit Committee reviews the accounting principles and practices adopted by the Group as well as the internal controls to check whether they comply with the Listing Rules, and reviews issues regarding auditing, internal controls, risk management and financial reporting. The Audit Committee reviewed the Group's annual results and financial statements for year 2019 before proposing to the Board for approval.

For more details, please refer to "Report of the Audit Committee" and "Audit Committee" section of the "Corporate Governance Report".

AUDITOR

Considering that the Company has changed the basis for preparing its overseas financial statements to China Accounting Standards for Business Enterprises, as approved by extraordinary general meeting of the Company held on 24 February 2020, the Company changed its overseas auditor from PricewaterhouseCoopers to PricewaterhouseCoopers Zhong Tian LLP. PricewaterhouseCoopers Zhong Tian LLP became the only auditor auditing the financial statements of the Company in accordance with the Chinese Accounting Standards for Business Enterprises, and undertook the role of overseas auditor in accordance with the Listing Rules. PricewaterhouseCoopers Zhong Tian LLP audited the financial statements of the Company for the year ended 31 December 2019 in accordance with the Chinese Accounting Standards for Business Enterprises.

For more details, please refer to the announcement of the Company dated 10 January 2020, and the circulars of the Company dated 20 January 2020.

INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

Pursuant to the Listing Rules, each of the Independent Non-executive Directors of the Company has confirmed with the Company their independence. The Company has received such confirmations from the Independent Non-executive Directors and has confirmed the independence of Independent Non-executive Directors.

ENVIRONMENTAL POLICIES AND PERFORMANCE

The discussion on the Company's environmental policies and performance during the year under review is set out in the section headed "Social Responsibility" of the "Corporate Governance Report" and "Environment, Social and Governance Report".

RISK MANAGEMENT AND INTERNAL CONTROL

During the year under review, the Board was responsible for evaluating and determining the nature and extent of the risks the Company wants to take in achieving the its strategic objectives, and ensuring that the Company establishes and maintains appropriate and effective risk management and internal control systems. Meanwhile, the Board oversees the management in the design, implementation and monitoring of the risk management and internal control systems, and the management has provided a confirmation to the Board on the effectiveness of these systems. The Board and Audit Committee oversaw the Company's risk management and internal control systems on an ongoing basis and conducted a review of the effectiveness of the Group's risk management and internal control systems during the year under review. The review covered all material controls, including financial, operational and compliance controls. The Board review ensured the adequacy of resources, staff qualifications and experience, training programs and budget of the Company's accounting, internal audit and financial reporting functions.

COMPLIANCE WITH THE RELEVANT LAWS AND REGULATIONS

During the year under review, the Company has complied with the relevant laws and regulation that have a significant impact on the Company, including but not limited to Pharmaceutical Administration Law of the People's Republic of China and its implementation regulations, Measures for the Supervision over and Administration of Pharmaceutical Production, Law of China on the Protection of the Rights and Interests of Consumers of the People's Republic, Trademark Law of the People's Republic of China, Patent Law of the People's Republic of China and its rules for implementation, etc. Details of the relevant laws and regulations on environment and society with which the Company has complied during the year under review are set out in the "Environment, Social and Governance Report".

By Order of the Board
Wang Hai Bo
Chairman

Shanghai, the PRC
28 February 2020

As at the date of this report, the Board comprises:

Mr. Wang Hai Bo *(Executive Director)*
Mr. Su Yong *(Executive Director)*
Mr. Zhao Da Jun *(Executive Director)*
Mr. Shen Bo *(Non-executive Director)*
Ms. Yu Xiao Yang *(Non-executive Director)*
Mr. Zhou Zhong Hui *(Independent Non-executive Director)*
Mr. Lam Yiu Kin *(Independent Non-executive Director)*
Mr. Xu Qing *(Independent Non-executive Director)*
Mr. Yang Chun Bao *(Independent Non-executive Director)*

Report of the Supervisory Committee

To the Shareholders:

The supervisory committee of Shanghai Fudan-Zhangjiang Bio-Pharmaceutical Co., Ltd. (the "Supervisory Committee") has performed its duties for the year 2019 in accordance with the relevant provisions and requirements of the Company Law and the Articles of Association, and the Supervisors have attended all on-site Board meetings. They reviewed the Group's financial statements and gave advice and recommendations on the issues which were reflected in the Group's operations and management.

The Supervisory Committee duly supervised the Directors and senior management's compliance with the laws and regulations as well as the Articles of Association, in carrying out their duties, and the legal procedures on the change of directors. The Supervisory Committee held the opinion that there was no violation of the PRC laws and regulations or the Articles of Association by the Directors and managers during the year 2019.

The Supervisory Committee was of the view that the resolutions passed in all Board meetings for the year 2019 had been made with a view to protecting the Group's interests. No insider dealings, or anything which was prejudicial to the interests of the Group, or loss of Group's assets was acknowledged. The auditors' reports issued by PricewaterhouseCoopers Zhong Tian LLP are accurate and objective. The Group's financial statements have accurately reflected the Group's financial position.

The Supervisory Committee is satisfied with the achievement and progress of each task of the Group in 2019 and has great confidence in the future of the Group.

SUPERVISORY COMMITTEE

Mr. Zhou Xi *(Chairman)*
Mr. Wang Luo Chun
Mr. Liu Xiao Long
Mr. Huang Jian
Ms. Yu Dai Qing

Shanghai, the PRC
28 February 2020

Report of the Audit Committee

The Audit Committee is comprised of two Independent Non-executive Directors (Mr. Lam Yiu Kin and Mr. Xu Qing) and one Non-executive Director (Mr. Shen Bo). Mr. Lam Yiu Kin, Independent Non-executive Director, was appointed as the chairman of the Audit Committee. Mr. Lam Yiu Kin is a fellow member of the Association of Chartered Certified Accountants (ACCA), the Institute of Chartered Accountants in England & Wales (ICAEW), the Institute of Chartered Accountants in Australia and New Zealand (ICAA), and Hong Kong Institute of Certified Public Accountants (HKICPA). Mr. Shen Bo holds a master degree in professional accounting with a qualification of Chinese Institute of Certified Public Accountants (CICPA). He is currently an executive Director, a vice president and the chief financial officer of Shanghai Pharmaceuticals. Mr. Xu Qing is currently a professor of Tongji Unversity Medical School, doctor-postgraduate supervisor, deputy director of the Oncology Department and Tumor Institute, and director, chief physician of Medical Oncology Department of the Tenth People's Hospital affiliated to Tongji University. And he is director of Medical Oncology Department of Shanghai Dermatology Hospital affiliated to Tongji University. All of them have extensive experience in accounting, industry, and financial management.

The Audit Committee assists the Directors in discharging their duties through independent reviews and supervision of financial reporting, the Group's effective internal control and appointment of external auditors. The Audit Committee reviews issues involving the accounting principles and practice principles adopted by the Group, including studying audit functions, financial reporting, risk management and internal control, participating in the formulation of the corporate governance policy of the Group, and participating in the disclosure compliance in the Corporate Governance Report of the Group, etc. If necessary, the Audit Committee will also invite external auditors, the general manager and senior management to attend meetings. The Principles of the Audit Committee which were passed by the Board of the Company specifically laid down the terms of reference of the Audit Committee and elaborated its role and the power as conferred to the Audit Committee by the Board.

The Audit Committee has sufficient resources to carry out its duties. The Audit Committee is accountable to the Board, and the minutes of its meetings were submitted to the Board forcirculation.

A summary of the work performed by the Audit Committee in 2019 is as follows:

1) Review the financial reports for the year ended 31 December 2018 and for the six months ended 30 June 2019, respectively;

2) Review connected transactions of the Group during the year 2018;

3) Supervise the Group's financial reporting system and internal control procedures;

4) Review the external audit arrangements and related explanations;

5) Review and approve the audit fees for 2019;

6) Discuss the risk management and internal control systems with the management on a regular basis to ensure that the management has performed its duty to establish effective systems.

In addition, the meeting of the Audit Committee held on 10 January 2020 reviewed and approved the proposed change of overseas auditors of the Company and the adoption of Chinese Accounting Standard for Business Enterprises as the basis for preparing overseas financial statements. The meeting of the Audit Committee held on 28 February 2020 reviewed the Company's 2019 consolidated financial statements together with the Company's external auditors, including a review of the accounting principles and practice principles adopted by the Group. Based on the results of the review and after discussion with the management and the auditors, the Audit Committee agreed with the accounting treatments adopted by the Group, and has made efforts to ensure that the financial information disclosed in the consolidated financial statements complies with relevant requirements of the applicable accounting principles and the Listing Rules. Accordingly, the Audit Committee proposed that the Board approved the annual results announcement and the consolidated financial statements for the year ended 31 December 2019. Meanwhile, In view of the change to the standards in the preparation of the Company's overseas financial statements, the Audit Committee proposed to appoint PricewaterhouseCoopers Zhong Tian LLPas the domestic and overseas auditor of the Group for the year 2020 auditing the financial statements of the Company in accordance with the Chinese Accounting Standards for Business Enterprises, and undertakes the role of overseas auditor in accordance with the Listing Rules.

The Audit Committee held four meetings in 2019.

AUDIT COMMITTEE

Mr. Lam Yiu Kin *(Chairman)*
Mr. Shen Bo
Mr. Xu Qing

Shanghai, the PRC
28 February 2020

Report of the Remuneration Committee

The Remuneration Committee is comprised of 3 members, namely Mr. Zhou Zhong Hui, Mr. Lam Yiu Kin, and Mr. Yang Chun Bao. Mr. Zhou Zhong Hui is the Chairman of the Committee.

The terms of reference for the Remuneration Committee is: to make recommendations to the Board on the Company's remuneration policy and structure for all Directors, supervisors and senior management and on the establishment of a formal and transparent procedure for developing such a remuneration policy; to formulate the remuneration management policy and remuneration packages of individual Executive Directors and senior management and make recommendations to the Board; such remuneration packages include benefits in kind, pension rights and compensation payments (including any compensation payable for loss or termination of their office or appointment), and make recommendations to the Board of the remuneration of Non-executive Directors and supervisors; in formulating the remuneration policies and standards, the Remuneration Committee should consider factors such as salaries paid by comparable companies, time commitment and responsibilities of the Directors, supervisors and senior management, employment conditions of other positions in the Group and desirability of performance-based remuneration; to review and approve the remuneration packages of the management with reference to corporate goals and objectives resolved by the Board from time to time; to review and approve the compensation payable to Executive Directors and senior management in connection with any loss or termination of their office or appointment to ensure that such compensation is determined in accordance with relevant contractual terms or that such compensation is otherwise fair and not excessive for the Company; to review and approve compensation arrangements relating to dismissal or removal of directors and supervisors for misconduct to ensure that such arrangements are determined in accordance with relevant contractual terms or that any compensation payment is otherwise reasonable and appropriate; to ensure that no Director or supervisor or any of their associates is involved in deciding his/her own remuneration; to research the share incentive plan of the Company and put forward proposals; the scope of work for the Remuneration Committee under the Listing Rules of other places where the Company's securities are listed (as amended from time to time).

The Principles of the Remuneration Committee which were passed by the Board specifically laid down the terms of reference of the Remuneration Committee and elaborated its role and the power as conferred to the Remuneration Committee by the Board. The Remuneration Committee has sufficient resources to carry out its duties. If necessary, it also makes references to the opinions of external human resources advisers in respect of human resources management and remuneration policies. After each meeting, the Remuneration Committee reports to the Board. The Remuneration Committee is accountable to the Board, and the minutes of its meetings should be submitted to the Board for circulation.

A summary of the work performed by the Remuneration Committee in 2019 is as follows:

1) Reviewed the remuneration scheme for the Directors and Supervisors for the year 2018;

2) Formulated the remuneration scheme for the Directors and Supervisors for 2019.

The Remuneration Committee held one meeting in 2019.

REMUNERATION COMMITTEE

Mr. Zhou Zhong Hui *(Chairman)*
Mr. Lam Yiu Lin
Mr. Yang Chun Bao

Shanghai, the PRC
28 February 2020

Report of the Nomination Committee

The Nomination Committee is comprised of 3 members, namely, Mr. Wang Hai Bo (Chairman, Chairman of Board of Directors), Mr. Zhou Zhong Hui (Independent Non-executive Director), and Mr. Xu Qing (Independent Non-executive Director).

The Board of the Company set up the Nomination Committee in April 2012 and approved the Principles of the Nomination Committee which stipulated the terms of reference for the Nomination Committee and elaborated its role and the authority delegated to it by the Board. The Nomination Committee is provided with sufficient resources to perform its duties. The Nomination Committee is accountable to the Board and its meeting minutes should be submitted to the Board for circulation.

The Nomination Committee is responsible for reviewing the structure, size and composition (including the skills, knowledge and experience) of the Board and make recommendations on any proposed changes to the Board to match the Company's corporate strategy; examining the candidates for directors, chief executive, deputy chief executive, finance officer, general legal counsel, chief economist, assistant to chief executive and secretary of Board and put forward examination opinions and appointment recommendations; assessing the independence of Independent Non-executive Directors; making recommendations to the Board on the appointment or re-appointment of directors and succession planning for directors, in particular the chairman and the chief-executive; researching the standard, procedure and method of selection of directors, chief executive and other members of senior management of the Company and to put forward proposals to the Board; and other authority delegated to the Nomination Committee by the Board and matters assigned by the Board.

A summary of the work performed by the Nomination Committee in 2019 is as follows:

1) Assessed the independence of Independent Non-executive Directors;

2) Reported to the Board the composition of the Board members and monitored the implementation of n Board diversity policy.

The Nomination Committee held one meeting in 2019.

NOMINATION COMMITTEE

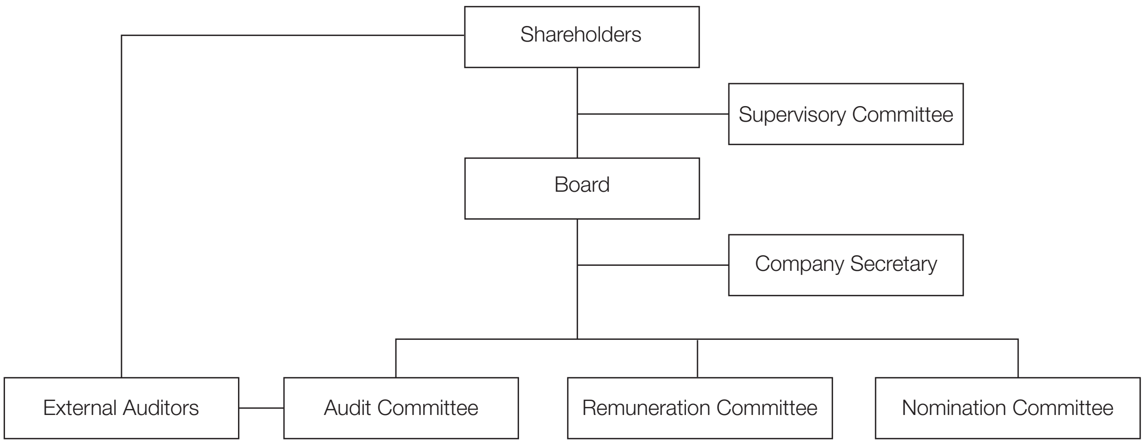
Mr. Wang Hai Bo *(Chairman)*
Mr. Zhou Zhong Hui
Mr. Xu Qing

Shanghai, the PRC
28 February 2020

Corporate Governance Report

CORPORATE GOVERNANCE PRACTICE

The Company's corporate governance structure is as follows:



The Company's Corporate Governance Code includes but is not limited to the following documents:

a) Articles of Association;

b) Principles of the Audit Committee;

c) Principles of the Remuneration Committee;

d) Principles of the Nomination Committee;

e) Principles regarding transactions in the Company's securities;

f) Regulations for information disclosure;

g) Regulations for internal control management;

h) Daily management documents of the Company.

The Audit Committee and the Board have reviewed the documents relating to corporate governance policies adopted by the Company and considered that it had complied with most of the principles and codes set out in the Corporate Governance Code (the "Code") contained in Appendix 14 of the Listing Rules.

Major aspect which deviates the provisions as set out in the Code:

– The positions of the chairman and the general manager rest on the same person. Although the Articles of Association contains specific requirements on the responsibilities of the chairman and the general manager (chief executive), such being the responsibilities of managing the operation of the Board and managing the daily operation of the Company, respectively, the two positions are still taken by one person. Considering that the scale of the Company is relatively small with its businesses mainly focused on the areas of research, production and sales of innovative drugs, and for the sake of management efficiency, the Board takes the view that the positions of chairman and chief executive being taken by one person is beneficial for the Company's development at the present stage. Along with the development of the Company, the Board will consider to segregate duties of the chairman and the chief executive.

BOARD

The Company is governed by the Board which is responsible for leadership and control of the Company. The Directors are collectively responsible for promoting the success of the Company by directing and supervising the Company's affairs.

DIRECTORS

Currently, the Board comprises the Chairman, two other Executive Directors, two Non-executive Directors and four Independent Non-executive Directors.

Particulars of the Directors are set out in the section headed "Profiles of Directors, Supervisors and Senior management" of the annual report. Members of the Board and details of their appointments are as follows:

Directors	Time of first appointment	Date of recent re-appointment	Term
Executive Directors			
Wang Hai Bo *(Chairman)*	11 November 1996	9 June 2017	Three years
Su Yong	20 January 2002	9 June 2017	Three years
Zhao Da Jun	20 January 2002	9 June 2017	Three years
Non-executive Directors			
Shen Bo	29 June 2012	9 June 2017	Three years
Yu Xiao Yang	30 May 2013	9 June 2017	Three years
Independent Non-executive Directors			
Zhou Zhong Hui	30 May 2013	9 June 2017	Three years
Lam Yiu Kin	9 October 2013	9 June 2017	Three years
Xu Qing	29 May 2015	9 June 2017	Three years
Yang Chun Bao	9 June 2017	–	Three years

The Company's Independent Non-executive Directors have a wide range of skills and experience. They are able to provide adequate checks and balances for safeguarding the interests of shareholders and the Company as a whole. The Board considers that they can make independent judgments effectively in compliance with the guidelines for assessment of independence under Rule 3.13 of the Listing Rules. All the Directors have the terms of office for no more than three years, and can be nominated for re-election at the annual general meeting.

POWERS OF THE BOARD

The Board reviews the performance of the operating divisions against their proposed budgets and business targets on a regular basis, and also exercises a number of reserved powers pursuant to the Articles of Association, including:

1) Responsible for convening shareholders general meetings, and presenting reports at the meetings;

2) Implementing the resolutions of the general meetings;

3) Determining the operation plans and investment plans of the Company;

4) Formulating annual financial budget plans and final accounting plans of the Company;

5) Formulating profit distribution plans and loss compensation plans of the Company;

6) Setting up liability and financial policies of the Company, plans for the increase or reduction of the Company's registered capital and plans for the issuance of the Company's bonds;

7) Formulating material acquisition or disposal plans of the Company, and the Company's merger, demerger and dissolution plans;

8) Determining deployments of the Company's internal management;

9) Appointing or removing the Company's managers, and appointing or removing the Company's deputy managers, financial controller, Board secretary in accordance with the nomination of the general manager, and deciding on their remunerations;

10) Setting the basic management policies of the Company;

11) Formulating the amendment plans to the Articles of Association;

12) Deciding other material affairs and management affairs of the Company other than those to be resolved at the general meeting pursuant to the Company Law and the Articles of Association, and signing other important agreements.

The Board is responsible for leadership and control of the Group as well as promoting the success of the Group by directing and supervising the Group's affairs. The Board focuses on formulating the Group's overall strategies, approving the development plan and budget; monitoring financial and operating performance; reviewing the effectiveness of the internal control system; supervising and managing management's performance of the Group; and setting the Group's values and standards. The Board delegates the day-to-day management, administration and operation of the Group to the management. The Board is responsible for the completeness of financial information and the effectiveness of the Group's internal controls system and risk management processes. The Board is also responsible for preparing financial accounts of the Company. Achievement of the Company's business objectives and the daily management of business are delegated to the general manager (chief executive). The Board regularly reviews the duties of the general manager and the powers delegated to the general manager, so as to ensure the appropriateness of such arrangements.

Powers of the Management

Pursuant to the Articles of Association，the management (i.e: one general manager，with a certain number of deputy general managers, one financial controller who will assist the general manager in his work) shall be accountable to the Board of directors and exercise the following functions and powers:

(1) to be in charge of the Company's production, operation and management and to organize the implementation of the resolutions of the Board of directors;

(2) to organize the implementation of the Company's annual business plan and investment plan;

(3) to draft plans for the establishment of the Company's internal management structure;

(4) to draft the Company's basic management system;

(5) to formulate basic rules and regulations of the Company;

(6) to propose the appointment or dismissal of the Company's deputy general managers and the financial controller;

(7) to appoint and dismiss management personnel other than those required to be appointed or dismissed by the Board of directors;

(8) other functions and powers conferred by the Articles of Association and the Board of directors.

Chairman and the General Manager

Although the Articles of Association contains specific requirements on the responsibilities of the chairman and the general manager (chief executive), such being the responsibilities of managing the operation of the Board and managing the daily operation of the Company, respectively, the two positions are still taken by one person. Considering that the scale of the Company is relatively small, with its businesses mainly focused in the areas of research, production and sales of innovative drugs, and for the sake of management efficiency, the Board takes the view that the positions of chairman and chief executive being taken by one person is beneficial for the Company's development at the present stage. Along with the development of the Company, the Board will consider to segregate duties of the Chairman and the chief executive.

Board Diversity

The Board has adopted a Board diversity policy which became effective on 9 October 2013. The Company seeks to achieve Board diversity through consideration of a number of factors, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service. All Board appointments will be based on meritocracy, and candidates will be considered against objective criteria, having due regard to the benefits of diversity on the Board.

Selection of candidates will be based on a range of diversity perspectives, including but not limited to gender, age, cultural background and educational background, ethnicity, professional experience, skills, knowledge and length of service. The ultimate decision will be based on merit and contribution that the selected candidates will bring to the Board.

As at the date of this report, the Board comprises 9 directors. One of them area female Director and two of them resides in Hong Kong. Four of them are Independent Non-executive Directors and are able to promote a critical review and control of the management process. The composition of the Board is diversified in terms of gender, nationality, professional background and skills.

Board Meetings

The Chairman is responsible for the leadership of the Board and ensuring the Board to perform its duties effectively. The Chairman is also responsible for setting agenda for the Board meetings and considering matters which are proposed by other directors for inclusion in the agenda. The agenda and accompanying Board documents of regular Board meetings are circulated where possible at least seven days prior to the Board or committee meeting. The Chairman is also responsible for making sure that all Directors are properly briefed on issues which will be discussed at Board meetings. The Chairman ensures that the Directors can receive accurate, timely and clear information. Directors are encouraged to update their skills, knowledge and familiarity with the Group through their ongoing participation at Board and committee meetings, and through meeting key employees in the divisions.

All Directors have access to the services of the Company Secretary who regularly updates the Board on governance and regulatory matters. Any Director, wishing to do so in the furtherance of his or her duties, may take independent professional advice through the Chairman at the Company's expense. The availability of professional advice extends to all Committees.

Minutes of Board meetings are taken by the Company Secretary and, together with any supporting Board documents, are available to all Board members. Board meetings are structured to encourage open discussion and frank debate among the Directors, such that the Non-executive Directors can put forward effective queries to each Executive Director effectively. The Independent Non-executive Directors meet privately to discuss matters which are associated with their specific responsibilities when necessary,

In furtherance of good corporate governance, the Board has established three sub-committees: the Audit Committee, the Remuneration Committee and the Nomination Committee. All of them have terms of reference which accord with the principles set out in the Code. The Company Secretary takes minutes of the meetings of these committees and the work of these committees is reported to the Board.

The Board held 6 meetings during 2019, all are on-site. The attendance of individual directors at the Board meetings in 2019 is set out in the table below.

Members of the Board	Required number of attendance for the year	Attendance in person	Attendance by way of communication	Attendance by proxy	Absence	Attendance rate
Executive Directors						
Wang Hai Bo *(Chairman)*	6	6	0	0	0	100%
Su Yong	6	6	0	0	0	100%
Zhao Da Jun	6	6	0	0	0	100%
Non-executive Directors						
Shen Bo	6	5	1	0	0	100%
Yu Xiao Yang	6	1	5	0	0	100%
Independent Non-executive Directors						
Zhou Zhong Hui	6	4	2	0	0	100%
Lam Yiu Kin	6	2	4	0	0	100%
Xu Qing	6	6	0	0	0	100%
Yang Chun Bao	6	4	2	0	0	100%

Note: Attendance by proxy is not be counted as attendance rate.

The table below sets out the date and major agenda of Board meetings in 2019:

Date of Board meetings	Major agenda
Regular Board meetings	
28 February 2019	Reviewed the annual report of 2018; Considered the distribution plan of dividend; Reviewed the connected transactions of 2018; Considered the re-appointment of auditor; Considered the 2019 remuneration plans for Directors and Supervisors; Considered the transfer of part of the equity of Derma Clinic and agreed to the transferee's subsequent capital increase proposal
8 March 2019	Considered the initial public offering of the RMB ordianry shares (A Shares) of the Company and the listing on the Sci-Tech Innovation Board of the Shanghai Stock Exchange; Considered the authorization to the Board by the general meeting to deal with matters relating to the Issue of A Shares; Considered the investment projects to be funded by proceeds raised from the Issue of A Shares; Considered the accumulated profit distribution plan before the Issue of A Shares; Considered the three-year Shareholders' dividend return plan after the Issue of A Shares; Considered the share price stabilization plan within three years after the Issue of A Shares; Considered the undertakings on the matters in connection with the Issue of A Shares and putting forward restraining measures; Considered the recovery measures regarding dilution of immediate return by the Issue of A Shares and undertakings of relevant responsible parties; Considered the proposed amendments to the Articles and formulation of certain rules of procedures; Considered the formulation of Rules of Procedure for the General Meeting of the Company; Considered the formulation of Rules of Procedure for the Board of Directors of the Company; Considered the proposed formulation of the Administrative Measures for Use of Proceeds; Considered the proposed establishment of the Strategy Committee of the Board; Considered the related-party transactions of the Company during the reporting period; Considered the engagement of intermediaries for the Issue of A Shares; Determined the time for annual general meeting and class meetings.

Date of Board meetings	Major agenda
26 April 2019	Reviewed the first quarterly results of 2019; Reviewed the rules, regulations and rules of procedure of the Company effect from the Issue of A Shares and the listing on the Sci-Tech Innovation Board of the Shanghai Stock Exchange; Reviewed the participation in strategic allotment under the Issue of A Shares by senior management and core employees of the Company; Reviewed the proposal to convene the extraordinary general meeting; Reviewed financial statements for 2016, 2017 and 2018 of the Company; Reviewed the appointment of members of the strategy committee of the Board.
20 August 2019	Reviewed the interim results of 2019; Reviewed the financial statements and audit reports of the Company and its subsidiaries for the year 2016, 2017, 2018 and as of 30 June 2019 according to the accounting standards of enterprises; Reviewed the proposal for liquidationand deregistration of Shanghai Baosu Pharmaceutical Technology Co., Ltd
11 September 2019	Reviewed the Sales and Distribution Agreement with Shanghai Pharmaceutical.
31 October 2019	Reviewed the third quarterly results of 2019; Reviewed the financial statements and audit report for the Company and its subsidiaries in accordance with the accounting standards of enterprises during the nine months ended 30 September 2019.

Directors' Training

The Company provides introduction and information to newly appointed directors on their legal and other responsibilities as directors and their functions. In addition, the Company invites legal adviser to answer in detail the questions about the above documents and the questions raised by the newly appointed directors.

During the year under review, all directors participated in the continuing education program to develop and update their knowledge and skills. The Company secretary arranged on-site training once, and sent the documents such as industry frontier information, Director's responsibilities to the directors for reference by e-mail once during the year under review. The attendance of the training was as follows:

Members of the Board	Attendance/ Times of trainings	Attendance rate
Wang Hai Bo *(Chairman)*	2/2	100%
Su Yong	2/2	100%
Zhao Da Jun	2/2	100%
Shen Bo	2/2	100%
Yu Xiao Yang	2/2	100%
Zhou Zhong Hui	2/2	100%
Lam Yiu Kin	2/2	100%
Xu Qing	2/2	100%
Yang Chun Bao	2/2	100%

The Company has kept training record to assist the Directors to record the training sessions they participated in. The attendance record above does not include any external training which the Directors participated in by themselves.

Directors' and Supervisors' Interests

All Directors must disclose to the Board on their first appointment their interests as a director or otherwise in other companies or organizations and such declarations of interests are updated annually (if any). When the Board considers any proposal or transaction in which a Director has a conflict of interest, the Director needs to declare his interest,abstain from voting, and withdraw from the meetings as appropriate. The Company will seek confirmation from Directors in every financial report period in respect of any transactions of the Company or its subsidiaries which are related to Directors or their associates (if any). This practice is also applicable to the Supervisors.

The Group has not entered into any transactions agreement or contract of significance in which the Group's Directors or Supervisors have direct or indirect material interests during any time in 2019.

Directors' and Supervisors' Service Contracts

All the Directors and Supervisors have entered into service contracts with the Company, which are renewable upon expiry, subject to re-election at the general meeting. The terms of the service contracts are approved by the Remuneration Committee. The Company did not entered into any relevant service contract which is not terminable within a year without payment of any compensation (Other than statutory compensation).

Rights of Directors, Chief Executive and Supervisors in Purchasing Shares or Debentures

None of the Directors, chief executive or Supervisors or their spouse or children under age of 18 years has been authorized by the Company or any subsidiary any right to purchase shares or debentures in the Company or any other body corporate, or have exercised such rights within the year 2019.

Interests of Directors, Chief Executive and Supervisors in the Shares of the Company

Please refer to the section headed "Directors, Chief Executive and Supervisors" in the "Report of the Directors".

SUPERVISORY COMMITTEE

Currently, the Supervisory Committee comprises the Chairman (Shareholder representative Supervisor), two Employee representative Supervisors, and two Independent Supervisors.

Particulars of the Supervisors are set out in the section headed "Profiles of Directors, Supervisors and Senior management" of the annual report. Members of the Supervisory Committee and their appointments are as follows:

Supervisors	Time of initial appointment	Date of latest re-appointment	Term
Shareholder representative Supervisor			
Zhou Xi (Chairman)	29 May 2015	9 June 2017	3 years
Employee representative Supervisor			
Wang Luo Chun	22 February 2016	9 June 2017	3 years
Yu Dai Qing	9 June 2017	–	3 years
Independent Supervisor			
Liu Xiao Long	13 May 2016	9 June 2017	3 years
Huang Jian	9 June 2017	–	3 years

The Supervisory Committee held five meetings during 2019, and the attendance of each of the Supervisors was as follows:

Members of the Supervisory Committee	Attendance in person/Times of meetings	Attendance rate
Zhou Xi (Chairman)	3/5	60%
Wang Luo Chun	5/5	100%
Yu Dai Qing	5/5	100%
Liu Xiao Long	4/5	80%
Huang Jian	5/5	100%

The Supervisory Committee takes the view that the financial statements presented by the Company give a true and fair view of the state of affairs, operation performance and cash flows of the Group.

DIRECTORS' SECURITIES TRANSACTIONS

The amended "Code of transactions in the Company's securities", which was passed on 11 August 2009 by the Board meeting of the Company, has the terms no less strict than the required standard of dealings set out in the Model Code for Securities Transactions by Directors of Listed Issuers under Appendix 10 of the Listing Rules. Directors and relevant employees shall comply with this code. A copy of the code is sent to each Director upon his appointment and thereafter, a notification not to deal in the securities of the Company until after the half-year results have been published would be sent to the Directors BoardBoard 60 days immediately preceding the date of the Board meeting in which the annual results will be approved or, if shorter, the period from the end of the relevant financial year up to the publication date of the results; and 30 days immediately preceding the date of the Board meeting in which the half-year results will be approved half-year results or, if shorter, the period from the end of the relevant quarterly or half-year period up to the publication date of the results,

Under this code, the Directors are required to notify the Chairman and receive a dated written acknowledgement before dealing in the securities and derivatives of the Company and, in the case of the Chairman himself, he must notify the delegated directors and receive a dated written acknowledgement before any dealing.

Supervisors' securities transactions should comply with the code for the Directors. All the relevant employees, if any, having any price-sensitive information of the Group which is not yet disclosed should also comply with the code for the Directors.

All Directors, Supervisors and relevant employees have complied with the relevant requirements in 2019. The previous year has not found the Directors, the Supervisors and the relevant employees violating the above regulations.

RISK MANAGEMENT AND INTERNAL CONTROL

The responsibilities of the Board of the Company include the establishment of complete risk management and internal control and its effective implementation. During the year under review, the Board was responsible for evaluating and determining the nature and extent of the risks the Group wants to take in achieving the its strategic objectives, and ensuring that the Group establishes and maintains appropriate and effective risk management and internal control systems. Meanwhile, the Board oversees the management in the design, implementation and monitoring of the risk management and internal control systems, and the management has provided a confirmation to the Board on the effectiveness of these systems. The Audit Committee of the Board oversaw the Group's risk management and internal control systems on an ongoing basis and conducted a review of the effectiveness of the Group's risk management and internal control systems during the year under review. The review covered all material controls, including financial, operational and compliance controls and ensured the adequacy of resources, staff qualifications and experience, training programs and budget of the Group's accounting, internal audit and financial reporting functions. Such systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and the Company can only provide reasonable and not absolute assurance against material misstatement or loss.

In February 2011, the Company established the Internal Audit and Control Department of the Company (the "IACD") to enhance its internal control system and guarantee the effectiveness of the Group in respect of financial, operational, compliance and risk management. The IACD reports important points in risk identification to the Audit Committee on a quarterly basis and elaborates on corresponding measures and subsequent improvements. During the year under review, the IACD made four reviews in the Audit Committee meetings focusing on risk management, risk identification and the effectiveness of internal control and the Audit Committee summarized and reported the results to the Board. Furthermore, the IACD discussed risk management and internal control systems with the Audit Committee and reviewed the effectiveness of the risk management and internal control systems. In addition, the IACD was continually working on risk management and internal control, organizing and coordinating with each department on risks identification, analysis, assessment, alert and treatment as well as renewing the risks list in order to help the IACD perform more effective risk identification and internal control for forming a risk management culture of active and steady operation.

The Company's Audit Committee and the Board have reviewed the effectiveness of the risk management and internal control systems of the Group during the year 2019 and the Board considers the current risk management and internal control systems of the Group are effective and adequate. The Company will further enhance the Group's risk management and internal control systems pursuant to the requirements of the Listing Rules on internal control, to ensure that the Group's financial, operational, compliance and risk management are under effective control during the process of its continuing development, and to protect the interests of shareholders.

The Company formulated several rules focusing on risk management and internal control including the "regulations for information disclosure" and the "regulations for internal control management". Pursuant to these regulations, the main procedures for the delivery, review and disclosure of inside information is as follow:

1) Relevant responsible persons who obtain the information which might be disclosed, are required to review the faithfulness, accuracy and completeness of the information;

2) The main responsible persons or their designated special responsible staff shall deliver relevant information to the Company Secretary, and shall take confidential measures;
3) The Company Secretary shall review according to relevant requirements and determine whether to approve their disclosure applications; and
4) Make the information disclosure to the public in accordance with the stipulated procedures.

During the year under review, the Company fulfilled its information disclosure obligation strictly. The Company announced the important information which needed to be disclosed in order to ensure its faithfulness, accuracy, completeness and timeliness and ensure investors can obtain publicly disclosed information through the open, fair and equitable method.

Corporate Governance Measures to Manage Potential Conflicts of Interests

Since the Non-Competition Undertaking was entered into by Shanghai Pharmaceuticals in 2000, the Company has been adopting certain corporate governance measures to ensure compliance of the Non-Competition Undertaking by Shanghai Pharmaceuticals. The existing corporate governance measures require the Company to regularly communicate with Shanghai Pharmaceuticals and monitor the business activities of Shanghai Pharmaceuticals.

The Company has enhanced the effectiveness of its original corporate governance measures by modifying the measures as follows:

– The Independent Non-executive Directors will review, on an annual basis, the compliance with the Non-Competition Undertaking by Shanghai Pharmaceuticals;

– Shanghai Pharmaceuticals will provide the necessary information for the annual review by the Independent Non-executive Directors in relation to the compliance and enforcement of the Non-Competition Undertaking; and

– The Company will disclose, with basis, decisions on matters reviewed by the Independent Non-executive Directors relating to the compliance and enforcement of the Non-Competition Undertaking in its annual reports.

AUDIT COMMITTEE

The Audit Committee is responsible for reviewing the financial report, internal control and corporate governance issues and making relevant recommendations to the Board. The Audit Committee is comprised of two Independent Non-executive Directors (Mr. Lam Yiu Kin and Mr. Xu Qing) and one Non-executive Director (Mr. Shen Bo). Mr. Lam Yiu Kin is a fellow member of the Association of Chartered Certified Accountants (ACCA), the Institute of Chartered Accountants in England & Wales (ICAEW), the Institute of Chartered Accountants in Australia and New Zealand (ICAA), and Hong Kong Institute of Certified Public Accountants (HKICPA). Mr. Shen Bo holds a master's degree in professional accounting with qualification of Chinese Institute of Certified Public Accountants (CICPA). He is currently a Director, a vice president and the chief financial officer of Shanghai Pharmaceuticals. Mr. Xu Qing is currently a professor of Tongji Unversity Medical School, doctor-postgraduate supervisor, deputy director of the Oncology Department and Tumor Institute, and director, chief physician of Medical Oncology Department of the Tenth People's Hospital affiliated to Tongji University. And he is director of Medical Oncology Department of Shanghai Dermatology Hospital affiliated to Tongji University. All of them have extensive experience in accounting, industry, and financial management.

The Company has formulated specific "Principles of the Audit Committee" as a guideline for the Audit Committee in dealing with various matters. The updated Principles of the Audit Committee were passed by the Board of Directors on 30 December 2015.

The Audit Committee held four meetings in 2019. Senior management and/or external auditors were invited to attend each meeting. In 2019, the Audit Committee has reviewed reports of external auditors, the accounting principles and practices adopted by the Group, internal controls to check whether they comply with the Listing Rules and reviewed issues regarding auditing, internal controls, risk management and financial reporting. The Audit Committee made discussions on the Group's 2019 interim results and 2018 annual results before proposing to the Board for approval. The Audit Committee has discussed the appointment of external auditors and the audit fees, and has made proposals to the Board in respect of such matters.

Attendance of meetings of the Audit Committee in 2019:

Audit Committee	Attendance in person/Times of meetings	Attendance rate
Lam Yiu Kin (chairman)	4/4	100%
Shen Bo	4/4	100%
Xu Qing	4/4	100%

Connected transactions

The Audit Committee has reviewed the connected transactions during the year under review. For the year ended 31 December 2019, the connected transactions comply with relevant rules and regulations and have been approved by the Board or shareholders' general meetings (if applicable).

External auditors

As approved by the annual general meeting of the Company on 26 April 2019, the Company appointed PricewaterhouseCoopers and PricewaterhouseCoopers Zhong Tian LLP as the Company's international and statutory auditors respectively in 2019.

Considering that the Company has changed the basis for preparing its overseas financial statements to China Accounting Standards for Business Enterprises, as approved by extraordinary general meeting of the Company held on 24 February 2020, the Company changed the its overseas auditor from PricewaterhouseCoopers to PricewaterhouseCoopers Zhong Tian LLP. PricewaterhouseCoopers Zhong Tian LLP became the only auditor auditing the financial statements of the Company in accordance with the Chinese Accounting Standards for Business Enterprises, and undertook the role of overseas auditor in accordance with the Listing Rules. PricewaterhouseCoopers Zhong Tian LLP audited the financial statements of the Company for the year ended 31 December 2019 in accordance with the Chinese Accounting Standards for Business Enterprises.

The fees on the audit services, non-audit services and related expenses of the Group for the year and the previous year are set out as follows:

Auditors	**Audit fees and non-audit fees in 2019**	Audit fees and non-audit fees in 2018
PricewaterhouseCoopers	**–**	RMB1,126,000
PricewaterhouseCoopers Zhong Tian LLP	**RMB2,034,000**	RMB1,260,000
PricewaterhouseCoopers Business Consulting (Shanghai) Co. Limited	**RMB108,491**	RMB100,000
Other auditors	**RMB575,669**	RMB210,542

Details of the audit fees and non-audit fees are set out as follows:

	Fees in 2019	Fees in 2018
Audit fees		
Annual statutory audit	**RMB2,010,000**	RMB2,383,000
Other audit	**RMB575,669**	RMB198,000
Non-audit fees		
Environmental, Social and Governance ("ESG") Report	**RMB108,491**	RMB100,000
Counting services at annual general meeting and extraordinary general meeting	**RMB24,000**	RMB16,000

The Group has formulated the policy of appointment of auditors to provide non-audit services which stipulates the principle in appointing auditors to provide non-audit services. The policy included the rules to ensure the independence of external auditors.

REMUNERATION COMMITTEE

The Remuneration Committee is responsible for formulating the Group's remuneration policy, recommending and approving the remuneration of all the Directors and senior executives, including the annual allocation of share options under the share option scheme (if feasible). The Remuneration Committee reviews the existing remuneration policy annually, and makes proposals to the Board for changes to the remuneration policy and system. If necessary, it also makes references to the opinions of external human resources advisers in respect of human resources management and remuneration policies. After each meeting, the Remuneration Committee reports to the Board.

The staff salaries of various level of the Group have been determined by reference to those of the comparable companies, especially companies located in Shanghai and Zhangjiang Hi-tech Park which have direct comparability. In order to retain the expertise for the Company's successful operation, salary level of the Company has to be competitive, which normally comprises three parts, namely fixed portion, unfixed portion and statutory benefits. The fixed portion is the basic salary, which is mainly determined by reference to the level of salaries of similar type of works in comparable companies. Individual salaries may be different due to the difference in position, performance, skills and experience. Certain adjustments may be made each year to the basic salaries based on the performance of the Company's business, market competition and inflation. In addition to the fixed portion, bonus may also be released to the relevant people as an incentive to their performance and to enhance their loyalty to the Company. The Company also provides other benefits such as free lunch and transportation allowances. Under the relevant laws and regulations of China, the Company is required to pay statutory benefits such as retirement insurance funds, common reserve funds, medical insurance and unemployment insurance funds for the staff.

The Board established the Remuneration Committee, and stipulated the "Principles of the Remuneration Committee" with specific terms of reference of the Remuneration Committee. The Remuneration Committee comprised of 3 members, namely Mr. Zhou Zhong Hui (Chairman, Independent Non-executive Director), Mr. Lam Yiu Kim (Independent Non-executive Director) and Mr. Yang Chun Bao (Independent Non-executive Director). The updated Principles of the Remuneration Committee were passed by the Board on 30 May 2014.

The Remuneration Committee held one meeting during 2019 (held on 28 February 2019), the attendance of which was as follows:

Remuneration Committee	**Attendance in person/Times of meetings**	**Attendance rate**
Zhou Zhong Hui *(chairman)*	1/1	100%
Lam Yiu Kin	1/1	100%
Yang Chun Bao	1/1	100%

Pursuant to the principles above, recommended by the Remuneration Committee and approved by the Board and general meeting, the remuneration of some senior management of the Group have been adjusted during the year 2019. Please refer to note 9(7) and note 9(8) to the consolidated financial statements for the emoluments of Directors and senior management for 2019.

Remuneration Policy for Executive Directors

The primary goal of the remuneration policy on executive remuneration packages is to enable the Company to motivate and retain Executive Directors by linking their compensation with performance as measured against corporate objectives. Under the policy, a director is not allowed to approve his own remuneration.

The principal elements of the Company's executive remuneration package include basic salary, discretionary bonus, share option (if appropriate), and statutory benefits. In determining guidelines for each element, the Remuneration Committee refers to remuneration surveys conducted by independent external consultants on companies operating in similar businesses.

Basic salaries

Basic salaries are determined mainly by reference to the salary levels of comparable companies. There are some adjustments to the basic salaries for each year based on the Company's business performance, market competition, and inflation. The Remuneration Committee reviews the remunerations for Directors annually, under which circumstance that the Directors concerned should abstain.

Discretionary bonus

The computation of discretionary bonus is based on measurable performance contributions of business units headed by the respective Executive Directors.

Statutory benefits

Under the relevant laws and regulations of China, the Company is required to pay statutory benefits such as retirement insurance funds, common reserve funds, medical insurance and unemployment insurance funds. The ratios of such benefits to the salaries are also subject to adjustments pursuant to relevant regulations.

During the year under review, none of the Executive Directors of the Company charged any Director's fee.

Remuneration for Non-executive Directors

The remuneration of Non-executive Directors is subject to annual assessment and recommendation by the Remuneration Committee for shareholders' approval at the annual general meeting. Reimbursement is allowed for out-of-pocket expenses incurred in connection with the performance of their duties including attendance at the Company meetings.

The Company has only paid remuneration to the Independent Non-executive Directors, and has not paid any statutory benefit to the Non-executive Directors.

NOMINATION COMMITTEE

The Nomination Committee is responsible for reviewing the structure, size and composition (including the skills, knowledge and experience) of the Board and make recommendations on any proposed changes to the Board to complement the Company's corporate strategy; examining the candidates of directors and chief executive and the candidates of deputy chief executive, finance officer, general legal counsel, chief economist, assistant to chief executive and secretary of Board and putting forward examination opinions and appointment recommendations; assessing the independence of Independent Non-executive Directors; making recommendations to the Board on the appointment or re-appointment of directors and succession planning for directors, in particular the chairman and the chief executive; researching the standard, procedure and method of selection of directors, chief executive and other senior management of the Company and putting forward proposals to the Board; and other authority delegated to the Committee by the Board and matters assigned by the Board.

The Board of the Company established the Nomination Committee in April 2012 and approved the "Principles of the Nomination Committee" which stipulated the terms of reference for the Nomination Committee. The updated "Principles of the Nomination Committee" were passed by the Board on 30 May 2014. The Nomination Committee is comprised of 3 members, who are Mr. Wang Hai Bo (Chairman, Chairman of Board of Directors), Mr. Zhou Zhong Hui (Independent Non-executive Director) and Mr. Xu Qing (Independent Non-executive Director).

The Nomination Committee held one meeting during 2019 (held on 28 February 2019), the attendance of which was as follows:

Members of the Nomination Committee	**Attendance in person/Times of meetings**	**Attendance Rate**
Wang Hai Bo *(chairman)*	1/1	100%
Zhou Zhong Hui	1/1	100%
Xu Qing	1/1	100%

Pursuant to the Code Provision A.5.6 under Appendix 14 of the Listing Rules, the Nomination Committee should be with due regard for the benefits of diversity in Board members, to identify individuals who are suitably qualified to become Board members and to select or to make recommendations to the Board on the selection of individuals nominated for directorships; the candidates for directorship will be selected taken into account a wide range of factors, including but not limited to, gender, age, cultural and educational background, races, professional experience, skills, knowledge and service term.

COMPANY SECRETARY

The primary responsibility of the company secretary of the Company is to ensure good information exchange between Board members, and investors with the Company as well. In addition, the company secretary should be responsible for the compliance with the policies and procedures of the Board of directors as well as all applicable regulations. During the year 2019, the Company Secretary has completed over 15 hours training provide by the professional agents.

RIGHTS OF INVESTORS

Shareholders requisitioning the convening of extraordinary general meetings of shareholders or class meetings shall abide by the following procedures:

(1) Two or more shareholders holding in aggregate 10% or more of the shares carrying the right to vote at the meeting sought to be held shall sign a written requisition in one or more counterparts in the same form and contents, requiring the Board of directors to convene a shareholders' extraordinary general meeting or a class meeting thereof and stating the matters to be considered at the meeting. The Board of directors shall as soon as possible after receipt of the requisition proceeds to convene a shareholders' extraordinary general meeting or a class meeting thereof.

    The amount of shareholdings of the requisitioning shareholders referred to in the preceding paragraph shall be calculated as at the date of the deposit of the requisition.

(2) If the Board of directors fails to issue a notice of such a meeting within 30 days from the date of receipt of the requisition, the requisitioning shareholders may themselves convene such a meeting within 4 months of the receipt of the requisition by the Board of directors. In so convening a meeting, the requisitioning shareholders should adopt a procedure as similar as possible as that of shareholders' general meetings to be convened by the Board of directors.

All reasonable expenses incurred in connection with a meeting convened by any shareholders themselves by reason of the failure of the Board of directors to convene a meeting pursuant to a requisition shall be borne by the Company and shall be set off against sums owed by the Company to the directors in default.

The Company is committed to fair disclosure and comprehensive, transparent reporting. The Chairman is ultimately responsible for ensuring that there is effective communication with investors and that the Board understands the views of shareholders. The Chairman therefore makes himself available to meet shareholders for this purpose. On a day-to-day basis the Board's primary contact with shareholders is through the Company Secretary. In addition, the Company Secretary may respond to the various enquiries of shareholders, and provide relevant information.

When the Company convenes a shareholders' general meeting, shareholders severally or jointly holding 3% or more of the shares of the Company, may raise the interim proposals and submit them in writing to the Board prior to the date of the shareholders' general meeting; the Board shall, within two (2) days after receipt of such proposals, notify other shareholders, and ensure to announce the content of the interim proposals ten (10) business days prior to the date of shareholders' general meeting. The contents of the interim proposals shall be within the scope of the functions and powers of the shareholders' general meeting, and contain clear issues and specific matters for resolutions.

RELATIONSHIP WITH INVESTORS

In recent years, the Company has attracted much higher attention from the capital markets. Investors home and abroad addressed invitations to the Company through various means, including on-site surveys, telephone surveys, and invitations to participate in investment strategy forums. Based on the principles of active communication and information disclosure, the Company enhanced the efforts on the reception of investors to improve its market image.

As at 31 December 2019, the public float of the Company has increased to 29.19%. Based on information that is publicly available to the Company and within the knowledge of the Directors as at the latest practicable date prior to the issue of this annual report, the Directors believe that the Company has at all times during the year ended 31 December 2019 maintained the relevant applicable minimum percentage of listed securities as prescribed by Rule 8.08(1)(a) of the Listing Rules.

For the year 2019, there is no change on the Articles of Association of the Company. As approved by the extraordinary general meeting and class meetings of the Company on 24 February 2020, the Company amended its Articles of Association and the amendments took effect upon approval by the extraordinary general meeting and class meetings. As approved by the annual general meeting and class meetings of the Company on 26 April 2019, the Company amended its Articles of Association and formulated the Articles of Association (Draft); as approved by the extraordinary general meeting and class meetings of the Company on 24 February 2020, the Company further amended its Articles of Association (Draft). The amendments to the Articles of Association (Draft) will take effect on the date of official listing of A Shares on the Sci-Tech Innovation Board of the Shanghai Stock Exchange upon approval of the Issue of A Shares of the Company by the Shanghai Stock Exchange and the registration of A Shares with the CSRC

All the issues should be individually raised by resolutions and voted by poll at the annual general meeting. The Company's PRC counsels are required to attend the meeting and witness the results of voting, and issue their legal opinion.

In 2019, the Company has held an annual general meeting, details of which is as follow:

Time	10:00 a.m., 26 April 2019
Location	No. 308 Cailun Road, Zhangjiang Hi-tech Park, Shanghai, the PRC
Nature	Shareholders annual general meeting
Way of voting	Poll
Major issues	General matters of the annual general meeting; To consider and approve the proposed formulation of the Administrative Measures for Use of Proceeds of the Company; To consider and approve the establishment of the Strategy Committee of the Board; To consider and approve the proposed profit distribution plan for the year ended 31 December 2018 and the final dividend distribution plan for the year ended 31 December 2018, and to authorize the Board to distribute such final dividend to its Shareholders; To consider and approve the class and nominal value of new Shares to be issued, the issue size, the target subscribers, the method of issuance, the pricing methodology; the method of underwriting, the place of listing and the valid period of the resolution in relation to the Issue of A Shares; To consider and approve the investment projects to be funded by proceeds raised from the Issue of A Shares; To consider and approve the investment projects to be funded by proceeds raised from the Issue of A Shares; To consider and approve the accumulated profit distribution plan before the Issue of A Shares; To consider and approve the three-year Shareholders' dividend return plan after the Issue of A Shares; To consider and approve the share price stabilization plan within three years after the Issue of A Shares; To consider and approve the undertakings on the matters in connection with the Issue of A Shares and putting forward restraining measures; To consider and approve the recovery measures regarding dilution of immediate return by the Issue of A Shares and undertakings of relevant responsible parties; To consider and approve the proposed amendments to the Articles; To consider and approve the formulation of Rules of Procedure for the General Meeting of the Company; To consider and approve the formulation of Rules of Procedure for the Board of Directors of the Company; To consider and approve the formulation of Rules of Procedure for the Supervisory Committee of the Company; To consider and approve the related-party transactions of the Company during the reporting period.

In 2019, the Company has held two extraordinary general meetings, details of which are as follows:

Time	10:00 a.m., 21 June 2019
Location	No. 308 Cailun Road, Zhangjiang Hi-tech Park, Shanghai, the PRC
Nature	extraordinary general meeting
Way of voting	Poll
Major issues	To consider and approve: (1) the participation in the Strategic Allotment under the Issue of A Shares by connected persons and their maximum number of Shares to be allotted be and are hereby approved, including not more than 1,000,000 A Shares, 800,000 A Shares, 800,000 A Shares, 600,000 A Shares, 300,000 A Shares and 300,000 A Shares to be allotted to Mr. Wang Hai Bo, Mr. Su Yong, Mr. Zhao Da Jun, Mr. Gan Yi Min, Mr. Wang Luo Chun and Ms. Yu Dai Qing respectively; and (2) any one of the directors of the Company be and is hereby authorized to do, approve and transact all such acts and things as the director may in his/her absolute discretion consider necessary or desirable in connection therewith.

Time	10:00 a.m., 28 October 2019
Location	No. 308 Cailun Road, Zhangjiang Hi-tech Park, Shanghai, the PRC
Nature	extraordinary general meeting
Way of voting	Poll
Major issues	To consider and approve: (1) the entering into of the Sales and Distribution Agreement dated 11 September 2019 between the Company and Shanghai Pharmaceuticals, a copy of which has been produced to the extraordinary general meeting for the purpose of identification, and the proposed annual caps for the two years ending 31 December 2020 for the continuing connected transactions contemplated thereunder be and are hereby approved, confirmed and ratified; and (2) any one of the directors of the Company be and is hereby authorized to do, approve and transact all such acts and things as the director may in his/her absolute discretion consider necessary or desirable in connection therewith.

In 2019, the Company has held one class meeting of holders of H Shares, details of which are as follows:

Time	11:00 a.m., 26 April 2019
Location	No. 308 Cailun Road, Zhangjiang Hi-tech Park, Shanghai, the PRC
Nature	Class meeting of holders of H Shares
Way of voting	Poll
Major issues	To consider and approve the class and nominal value of new Shares to be issued, the issue size, the target subscribers, the method of issuance, the pricing methodology; the method of underwriting, the place of listing and the valid period of the resolution in relation to the Issue of A Shares; To consider and approve the investment projects to be funded by proceeds raised from the Issue of A Shares; To consider and approve the accumulated profit distribution plan before the Issue of A Shares; To consider and approve the three-year Shareholders' dividend return plan after the Issue of A Shares; To consider and approve the share price stabilization plan within three years after the Issue of A Shares; To consider and approve the undertakings on the matters in connection with the Issue of A Shares and putting forward restraining measures; To consider and approve the recovery measures regarding dilution of immediate return by the Issue of A Shares and undertakings of relevant responsible parties; To consider and approve the proposed amendments to the Articles.

In 2019, the Company has held one class meeting of holders of Domestic Shares, details of which are as follows:

Time	11:30 a.m., 26 April 2019
Location	No. 308 Cailun Road, Zhangjiang Hi-tech Park, Shanghai, the PRC
Nature	Class meeting of holders of Domestic Shares
Way of voting	Poll
Major issues	To consider and approve the class and nominal value of new Shares to be issued, the issue size, the target subscribers, the method of issuance, the pricing methodology; the method of underwriting, the place of listing and the valid period of the resolution in relation to the Issue of A Shares; To consider and approve the investment projects to be funded by proceeds raised from the Issue of A Shares; To consider and approve the investment projects to be funded by proceeds raised from the Issue of A Shares; To consider and approve the accumulated profit distribution plan before the Issue of A Shares; To consider and approve the three-year Shareholders' dividend return plan after the Issue of A Shares; To consider and approve the share price stabilization plan within three years after the Issue of A Shares; To consider and approve the undertakings on the matters in connection with the Issue of A Shares and putting forward restraining measures; To consider and approve the recovery measures regarding dilution of immediate return by the Issue of A Shares and undertakings of relevant responsible parties; To consider and approve the proposed amendments to the Articles of Association.

The attendance of individual directors at the general meeting during the year 2019 is set out in the table below:

Member of the Board	Attendance in person/Times of meetings	Attendance rate
Executive Director		
Wang Hai Bo *(chariman)*	5/5	100%
Su Yong	5/5	100%
Zhao Da Jun	5/5	100%
Non-executive Director		
Shen Bo	5/5	100%
Yu Xiao Yang	5/5	100%
Independent Non-executive Director		
Zhou Zhong Hui	5/5	100%
Lam Yiu Kin	5/5	100%
Xu Qing	5/5	100%
Yang Chun Bao	5/5	100%

Arrangements for the dates of the annual results in 2019, the interim results in 2020 and the annual general meeting are as follows:

Items	Proposed time
Announcement of 2019 results	28 February 2020
Annual general meeting	30 March 2020
Announcement of 2020 interim results	Around 15 August 2020

SOCIAL RESPONSIBILITY

Environment and Society

As a listed company, the Company has been active to fulfill its social responsibilities, focusing on environmental protection for many years. We take into account this responsibility as an important factor in all aspect. This means that we not only focus on daily production, but also focus on all the other aspect ranging from procurement to administration. The Group will adopt the best practice measures as far as possible and reasonable. The relevant functional departments will consider the environmental management by assessing the policy, strategies, objectives, implementation and measurement method in terms of the pollution of water, air, noise and the other wastes.

During the year under review, the Group has always followed the environment policy, strictly complied with national laws and regulations and emission standards. The Group has been inspected many times by relevant government institutions on sewage discharge during the year and no violation of laws, regulations has been found. In addition, the Company also appointed a third party professional institution to assess the environmental indicators including noise, air and water regularly. Our objective is to control environment risks effectively and ensure the pollutant can reach the standard of discharge.

Details please refer to “Environmental, Social and Governance Report”.

Social public welfare

During the year under review, the Group continued on the public welfare assistance program named “Looking for the kiss of Angel” to provide PWS patients with financial difficulties various preferential schemes, to aim at reducing the financial burden of patients, improve the quality of their life and help them get better treatment.

During the year under review, the Company prepared ESG report pursuant to Appendix 27 “Environmental, Social and Governance Reporting Guide” of the Listing Rules.

By order of the Board
Xue Yan
Secretary

Shanghai, the PRC
28 February 2020

Environmental, Social and Governance Report

ABOUT THIS REPORT

Shanghai Fudan-Zhangjiang Bio-Pharmaceutical Co., Ltd. ("the Company" or "Shanghai FDZJ") hereby issues the Environmental, Social and Governance ("ESG") Report of the Company and its subsidiaries (hereinafter collectively the "Group" or "we"), to demonstrate Group's philosophy and practice for sustainable development and social responsibility to its stakeholders from both environmental and social areas.

The Group has adopted appropriate policies and procedures to evaluate and improve the functions of risk management and internal control. The Board is responsible for the deliberation of the design, implementation and supervision of the risk management and internal control systems. For detailed information, please refer to the Corporate Governance Report.

Reporting Scope

This report covers the Group's main businesses, including diagnostic reagent production and drug research for the period from 1 January 2019 to 31 December 2019 ("the reporting period"). The environmental key performance indicators ("KPIs") disclosed in the report cover Shanghai Fudan-Zhangjiang Bio-Pharmaceutical Co., Ltd., Taizhou Fudan-Zhangjiang Pharmaceutical Co., Ltd. ("Taizhou FDZJ") and Shanghai Tracing Bio-technology Co., Ltd. ("Shanghai Tracing") for the reporting period.

There is no significant adjustment to the reporting scope as compared to the Environmental, Social and Governance Report included in the 2018 Annual Report of Shanghai Fudan-Zhangjiang Bio-Pharmaceutical Co., Ltd.

Reference and Principles

This report is prepared in accordance with the Environmental, Social and Governance Reporting Guide set out in Appendix 27 to the *Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited*. This report is in compliance with the disclosure requirement of "comply or explain", and inapplicable disclosure rules have been interpreted.

This report is prepared in accordance with the following Reporting Principles:

➢ **Materiality:** The Group determines material ESG issues by stakeholder engagement and materiality assessment which have been disclosed in this report;

➢ **Quantitative:** Information on the standards, methodologies and source of conversion factors used for the reporting of emission and energy consumption has been disclosed in this report;

➢ **Consistency:** The statistical methods are in consistency with those of the prior years. The KPIs in environmental area have been changed during this reporting period (see the environment section for details), and the subsequent periods will be consistency with this reporting period. As the Group restated the revenue in 2018, all the intensity in environmental KPIs were restated and disclosed in this report.

GOVERNANCE

ESG Strategy

We insist on pharmaceutical innovation with core concept of owning full intellectual property right. We respect basic human values for not only customers but also employees. We pursue our social meaning and emphasize our contribution and responsibilities to environment and society. In accordance with the sustainable ESG management policy, we are committed to providing employees with a safe and healthy working environment, as well as scientific and practical training plans. We are also committed to establishing a transparent, standard and environmental-friendly supply chain and a positive industry environment, and providing safe and healthy products for customers.

The Group has established an effective and sound ESG management system. The Board is the highest decision-maker of ESG management in the Group. The Board oversees the Group's ESG issues and takes full responsibility for the Group's ESG strategy and reporting. The Board develops ESG management approach and strategy, including evaluating, prioritizing, and managing material ESG-related issues and their risks to the Group' business. The Board regularly reviews the Group's ESG performance, and examines and approves the Group's annual ESG report.

The management of the Group arranges work of ESG working group based on the ESG management approach and strategy established by the Board. The management reports ESG-related risks and opportunities to the Board, and provides the Board with the annual ESG performance and annual ESG report.

The Group has established the ESG working group to carry out ESG work. The ESG working group involves the head of each department, and designated special staff to carry out daily ESG work and prepare annual ESG report. The ESG working group reports to the management on the daily ESG performance and the progress of annual ESG report.

Communication with Stakeholders

We have always been convinced that effective participation and ongoing support from stakeholders play an important role for the Group's long-term development. We have established a stakeholder communication mechanism for stakeholders to express their opinions, comments and suggestions on the Group's sustainable performance and future development strategy. The Group's stakeholders are from different backgrounds, including consumers, employees, shareholders, suppliers, government and regulatory agencies, non-governmental organizations and local communities, whose opinions and suggestions are also the focus of this report.

- We disclose our contact information to distributors and customers and have established open channels for communication with them, so as to learn about their expectations and constantly optimise our service system based on their expectations;

- We communicate with suppliers by ways of in-person communication, business communication, regular meetings, etc., to ensure an excellent supply chain and build a faithful and win-win cooperation atmosphere;

- We actively improve our drug research technologies and participate in industrial activities such as industrial seminar and academic forum; we also focus on cutting-edge technologies and changes in industry supervision requirements;
- We have established an effective risk management system to ensure good return on investment; we also publish business announcement regularly and make active communication with investors and shareholders;
- We have built favourable working environment for employees and are always prepared to hear employees' voice through communication channels such as employee survey;
- We have applied the concept of green office and raised the efficiency of resources for environment protection.

Materiality Assessment

After discussion with the management and in combination with communication results with stakeholders and practical operation, we have defined the following important and related ESG topics which exert substantial effect on the Group:

Materiality Assessment	Operation	Employee	Environment
Material issues	• Bettering customer service and communication • Improving product quality and safety • Supply chain management • Anti-corruption	• Focusing on occupational health and safety • Production safety education • Protection of employees' rights and interests	• Water resource and effluents management • Energy consumption and management • Greenhouse gas emission management • Waste management
Related issues	• Advertising and labelling management • Community investment	• Offering employee training • Complying with labour standards	• Environment-friendly activities • Waste gas management

Anti-corruption

Institutional Guarantee

The Group strictly complies with laws and regulations relating to anti-corruption, anti-extortion, anti-fraud and anti-money laundering, including but not limited to the Criminal Law of the People' s Republic of China , the Anti-money Laundering Law of the People' s Republic of China, and the Regulations on Anti-Commercial Bribery, etc. The Group continuously strengthens internal control and supervision mechanism, upholds integrity management, and strictly conforms to rules of fair competition. According to Employee Handbook and Regulations on Anti-Commercial Bribery, the Group requires the employees to be honest and self-disciplined, comply with regulations on anti-commercial bribery in Anti-Unfair Competition Law of the People's Republic of China and Criminal Law of the People's Republic of China and the Group's management regulations on honesty and self-discipline, follow principles of law-abiding, honest, fair and scientific, resolutely refuse to accept commercial bribery, accept bribery and commit other improper business practices. The Group will report personnel suspected of crimes to relevant authorities.

Better Training

Internal audit and control department is responsible for supervision of commercial bribery, internal dissemination and implementation of relevant national laws, regulations and policies on commercial bribery, and revision of the Group's relevant regulations in reaction to change of policies. In addition, it is also responsible for supervision and management personnel on important positions and practical implementation of anti-corruption and anti-commercial bribery work in business.

We actively carry out relevant training and learning activities to strengthen employees' compliance awareness and risk identification ability. The Group's Admin & HR department makes arrangements for new employees to study regulations on anti-commercial bribery before induction, records the training and requires each new employee to sign on the record.

In October 2019, the Legal Department and Internal Audit/Control Department of Shanghai FDZJ conducted compliance trainings to each department, including anti-commercial bribery compliance, production and quality compliance, etc.

Supply Chain Integrity Management

We focus on Supply Chain Integrity Management. When the Group cooperated with distributors and promotion agents, we make clear agreement about anti-commercial bribery in the distribution agreement and promotion agreement. In the agreement, all parties promised to strictly comply with regulations on anti-commercial bribery, such as the *Unfair Competition Law of the People's Republic of China*, and create fair and honest marketing environment.

In 2019, the Group strengthened its due diligence on new suppliers and clients. While selecting cooperative partners, the Group paid close attention to its internal management and compliance commitment including anti-corruption, anti-commercial bribery, anti-unfair competition and other compliance issues. The Group placed emphasis on integrity management in the contract, requiring both parties to comply with related laws and regulations on anti-corruption, anti-commercial bribery and anti-unfair competition, etc.

OPERATION

Quality Management and Control

With the tenet of More Exploring More Healthy, the Group constantly develops new drugs on multiple research and development platforms. To ensure product quality and safety, we are in strict compliance with the *Drug Administration Law of the People's Republic of China, the Regulations for Implementation of the Drug Administration Law of the People's Republic of China, the Law of the People's Republic of China on Product Quality, the Good Manufacturing Practice for Drugs ("GMP"), the Administrative Measures for Reporting and Monitoring Adverse Drug Reactions* and other laws and regulations.

Quality Management Strategy

To provide the best products to customers, we have developed a full set of GMP quality management system according to the GMP and the principle of quality management. The system covers all the factors affecting medicine quality, including personnel, equipment, materials, production, testing, quality assurance, ongoing monitoring, etc., to provide guidelines for management and operation of every step and minimise risks such as pollution, cross contamination, confusion and errors in drug production.

In the production process, we strictly control product quality which helps win the market. The small-dose injection (antineoplastic drugs), bulk drug (Aminolevulinic Acid Hydrochloric) and powders have got GMP certificates from the State Food and Drug Administration ("SFDA").

Whole-process Management

We have established a sound quality risk management procedure which is applied to whole quality management in a systematic manner, and specified the product manufacturing process and responsibilities of every department, including supplier management, material release management, production and release management, return and recall etc.

➢ Supplier management: All suppliers which provide materials for the products to be marketed are audited. Only qualified and approved suppliers could provide products to the Group. For details of management measures, please refer to the Section "Supply Chain Management";

➢ Material release management: When receiving materials, Logistics Department is responsible for checking materials, and storing them according to specified conditions; Quality Management Department is responsible for sampling and testing, and finally determining whether the materials can be used.

- Production and release management: Manufacturing Department ensures that products are manufactured and packaged with satisfactory manufacturing techniques and equipment in satisfied environment, and stores them under appropriate conditions; Quality Management Department takes samples at key control points during production to test intermediate products or finished products; product release is decided by authorised personnel;

- Return and recall: Customers or distributors could file complaint or return products if they are not satisfied with the products in use or sales; the Group recalls the products in time if they find risks lying in products delivered to customers.

Material and Product Inspection Management

According to the *GMP* and the *Chinese Pharmacopoeia*, we have formulated the management procedure – Material and Product Inspection, to regulate inspection basis, requirements and result processing operation procedure for materials and products such as raw materials, packaging materials, intermediate products and finished products.

For materials and products, sampling inspection is carried out on site and physical and chemical inspection and microbiological inspection are finished in laboratory. Inspection procedures and related records should comply with GMP management regulations and relevant requirements in the *General Notice of Chinese Pharmacopoeia*. Inspection report should be prepared after inspection and quality certificate should be issued for finished products to ensure the quality of materials and products.

We strictly implement the *Materials and Products Destruction Management* developed according to the *GMP* to regulate and control the destruction procedure of materials and products.

Technical Platform

The Group provides a steady stream of scientific and technological impetus for new drug innovation based on the following four fully advanced technical platforms:

- **Photodynamic technical platform:** The Group pays close attention to the trend of international scientific research. It has gradually set up the Photodynamic therapy (PDT) R&D platform, established a complete R&D system including photosensitizer synthesis and screening, research on indications and mechanism of action, process development, clinical studies, and development of supporting laser equipment and medical devices. The Group has been expanding development of drugs based on photodynamic technical platform.

- **Nano technical platform:** The nano-drug R&D platform of the Group mainly consists of the lipid-based drug delivery system and albumin-based nanoparticles. Phospholipids and HAS (human serum albumin) with good biocompatibility and safety were respectively selected as drug carriers to form a new drug delivery system, which improved the therapeutic efficacy of original agents, reduced their side effects and improved compliance.

- **Genetic engineering technical platform:** The platform has established the two major technology systems, prokaryotic cell expression system and eukaryotic cell expression system. It has undertaken one thematic subject and one important subject of China state 863 funds (R&D for new type lymphotoxin, and clinical research for new type lymphotoxin), State Projects For Essential Drug Research and Development (a key technical research work of mammalian cell industrialized culture and drug manufacture， research on antibody-drug conjugate).

- **Oral solid preparation technology platform:** In the past few years, the group has gradually established the technical system of the platform in cooperation with a third-party, and been in the process of developing a number of new drugs and generic drugs with unique clinical treatment value. Oral solid formulation technology will be one of the basic technology platforms for the long-term development of the group.

Consumer Services

Upholding the principle of integrity, we try the best to provide accurate consumption information, protect consumer's right to know, and provide a reliable service environment for consumers. In accordance with the *Law of the People's Republic of China on the Protection of Consumer Rights and Interests* and other laws and regulations, we have developed the management procedure of Product Complaint to regulate procedure of complaint registration, evaluation, investigation and treatment, under which problems from consumers should be solved immediately and effectively to improve consumers' satisfaction.

- Any department or personnel informed of customers' complaints should forward them to Sales Department and Quality Management Department;
- Quality Management Department takes charge of organizing investigation on the complaints, making and approving relevant corrective and preventive action plans in necessary, assisting Sales Department to reply to customers and reporting to competent authorities if necessary;
- Sales Department assists Quality Management Department to investigate complaints, provides and implements sales measures, communicates with customers and answers the complaints;
- Customers can file complaints by oral, telephone, mail, fax, visiting or in other forms;
- We regularly review analyse the trend of product complaints in product quality review.

We pay great attention to medical safety of patients and monitoring and reporting of adverse drug reactions. In accordance with the *Administrative Measures for Reporting and Monitoring Adverse Drug Reactions* and other laws and regulations, we have developed relevant management regulations on reporting and monitoring of adverse drug reactions, established procedure of reporting and monitoring of adverse drug reactions. We actively monitor adverse reactions and report them to national adverse reaction monitoring centre in a timely manner.

The Group effectively protects customers' privacy by regarding their information as the Group's secret, keeping it secure through proper measures, and accessing to authorized personnel only.

Advertising and Labelling Management

The Group manages labelling and advertising by laws to protect consumers' rights and maintain brand image. The Group conforms to requirements of *Advertisements Law of the People's Republic of China, Regulations on Management of Medical Advertising, Drug Administration Law of the People's Republic of China, Provisions for Drug Advertisement Examination, Good Manufacturing Practices (2010 revision)* and other laws and regulations. The Group formulated *Design and Change of Packing Materials* to manage design and change of packaging materials used for new products or additional existing products to make the product package conform to characteristics of products, demand of market, technical conditions and provisions of national laws and regulations. Design draft of label, manual and package should include product specifications, packaging specifications, size requirements, material requirements, appearance requirements, packaging safety requirements and other specific contents which are reviewed by marketing department, manufacturing department, logistics department, quality management department and quality authorized personnel.

Supply Chain Management

Supplier management is one of the most important parts of quality management for pharmaceutical enterprises. Stability, safety and effectiveness of product is directly influenced by the selection of suppliers. The Group formulated *Supplier Management Policy* to regulate the operational procedures of evaluation and approval for material suppliers, and clarify the suppliers' qualification, selection principle, quality evaluation methods, evaluation standard, and approval procedure for material supplier. In the procedure of selecting suppliers, the Group requires the suppliers should have relevant qualification certificates and be able to guarantee uniform source and controllable quality. Priority is given to suppliers passing GMP examinations and suppliers with good reputations.

Risk Assessment

The Group conducts risk assessment for suppliers and assesses and controls suppliers based on the assessment result. Quality management department conducts nominal audit and on-site audit for material suppliers based on the result of risk assessment:

- Nominal Audit: Quality management department evaluates supplier based on information from completed supplier questionnaires.

- On-site Audit: Quality management department organizes related departments (logistics department and manufacturing department) to set up audit team. The audit covers personnel institutions, facilities and equipment, material management, production process and management, equipment, instruments and documents management of quality control laboratory. The audit verifies authenticity of qualification certificates and testing reports of suppliers, and checks if they have testing condition.

The Group conducts continuous testing to performance of approved suppliers, including annual review and regular audit. Annual review includes testing result of quality testing, quality complaints and unqualified management records etc., by which the risk of supplier is further assessed. The Group will increase audit frequency or change nominal audit to on-site audit or immediate audit in the circumstances where supplier have quality issues or their production condition, technology, quality standard, inspection methods and other significant factors influencing quality have great change.

Environmental and risk management

In order to ensure that the suppliers of the Group have reduced environmental pollution in the production and storage process, and complied with relevant requirements of social responsibility, the Group formulated *Regulations on Environmental and Social Responsibility of Suppliers*, and raises strict requirements of environmental responsibility to suppliers. For instance, it is required that the pollutant discharged by suppliers should comply with relevant standards, and priority selection should be given to environmental-friendly and energy saving technologies. During storage and transportation process, the suppliers should ensure that the discharge meets relevant standards and the process is safe. In addition, for the suppliers' social responsibility, the Group requires all suppliers to prevent child and forced labour, ensure employees' health and safety, and strictly fulfil the responsibilities to their product.

The Group formulated *Supplier Questionnaire* for the evaluation of the suppliers' quality system. The questionnaire is set up to investigate and manage relevant qualifications of suppliers and investigate the EHS management situation of suppliers, requiring them to strengthen environmental and social risk management. The Group formulated *Materials Purchase Management* to regulate management and procedure of material purchase and control rationality and normalization of purchasing process. Besides, the Group developed *Regulations on Anti-Commercial Bribery* to guide stakeholders including suppliers to follow the law, resist corruptions and fulfil social responsibilities.

Community Investment

At the same time of creating value for shareholders and creating wealth for customers, the Group actively devotes itself to public services, pays attention to vulnerable groups and poverty-stricken people, fulfils social responsibilities, and promotes harmonious development of community, company and regional economy. The Group established *Management Regulations of Charity and Public Benefit Activities* to regulate community investment activities.

In December 2019, the parallel session in Pudong District of the 26th fund raising activity, "Love in Sky, thousands of people donate to help thousands of families", was held by Shanghai Charity Foundation in Changtai Plaza. The Group actively participated in this activity and donated. All the donations in this activity were used to help the extremely needy families in Pudong District.

EMPLOYEE

We always implement the management culture of "Human Oriented" and fully respect each employee, to create a harmonious working atmosphere for employees and build harmonious and win-win labour relations.

Occupational Health and Safety

We make efforts to safeguard employees' occupational health and safety, provide safe working environment and equipment, and implement safe working behaviours. We strictly observe the *Production Safety Law of the People's Republic of China, the National Emergency Plan for Work Safety Accidents* and other laws and regulations. In combination with the Group's operational characters, we have developed a sound emergency management system for safety accidents and a strict hazardous chemicals management procedure, continuously carry out safety education and emergency exercises, and provide employees with health examinations and examinations for occupational diseases, to ensure the safety of employees, equipment and assets.

During the reporting period, the Group did not commit violations related to occupational health and safety.

Health Examination

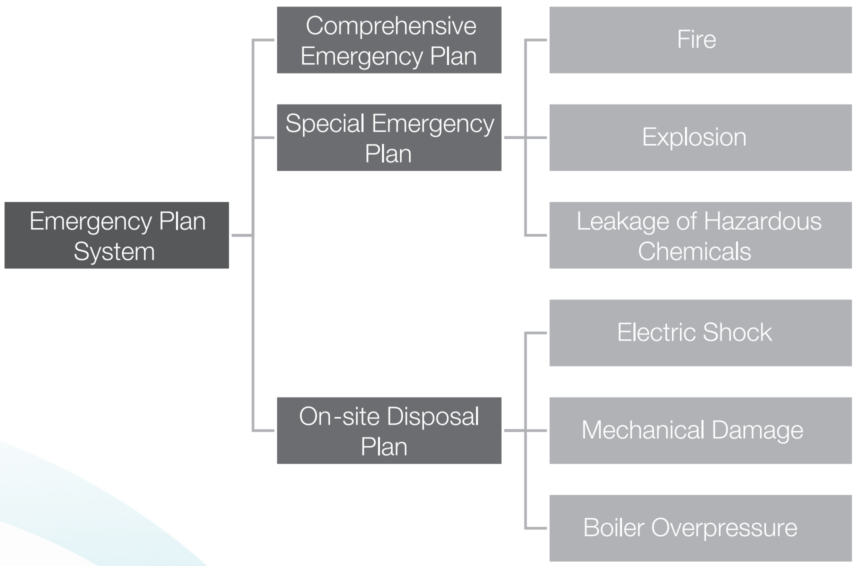
We provide health examination for employees per year, which includes orientation examination and on-the-job examination under the GMP as well as orientation, on-the-job and exit examinations to prevent employees from occupational diseases. We entrust qualified inspection and testing institution with regular inspection and testing on occupational hazard equipment, protection equipment and personal protection equipment. Occupational hazard factors testing report is provided by the institution.

In addition, for employees' physical fitness, we carry out sports activities and encourage employees' participation including swimming, badminton, table tennis, billiards, basketball, etc.

Emergency Management for Safety Accidents

We have established an emergency command centre based on the principle of "reporting in time, responding rapidly and human oriented", to strengthen the organisation and management of emergency response activities. We popularise our accident emergency operation procedures among employees through the *Emergency Plan for Work Safety Accidents*, so that emergency rescue can be implemented rapidly, efficiently and orderly after an accident to protect employees' life safety and reduce property loss.

After risk assessment on hazardous sources, we have identified major hazardous elements and work places, and formulated emergency plan system. In August 2019, Taizhou FDZJ organised emergency drill for organic solvent leakage in raw material workshop (warehouse). Through training for all the staff in raw material workshop (warehouse), explanation of on-site emergency response plan and on-site practices, each emergency personnel was clear with his responsibility and familiar with emergency plan and could response in accordance with predetermined procedures and methods in the accident.



Fire and Explosion Prevention

Conforming to the principle of "prevention first and human-oriented", we have developed the Emergency Plan for Fire, Explosion and Chemical Accidents and the Hot Work Management Policy and other regulations so that we can respond to and control accident rapidly and orderly, prevent pollution, protect production safety and employee life safety, and minimise loss and damage in case of any chemical, fire or explosion accident.

We combine accident emergency response with prevention work, enhance management of hazardous sources, and carry out accident prevention, prediction, warning and forecast. We have equipped fire-fighting equipment at work places such as fire pump station, fire hydrant, fire hammer, fire telephone, voice-activated alarm, fire sprinkler, smoke detector, etc. We have also posted evacuation map at visible places. Supplies and equipment are checked once every month to ensure that employees could use nearest emergency supplies in case of emergency accident.

We also organised fire protection training and drill to raise employees' fire protection awareness and knowledge.

Shanghai FDZJ Fire training

Taizhou FDZJ Fire drill

Management of Hazardous Materials

To standardise management regulations for hazardous materials and protect the safety of life , production and property, we have formulated the *Management Regulations for Toxic, Inflammable and Explosive Hazardous Materials* to regulate the purchase, acceptance, entering, storage, distribution and usage of hazardous materials as well as subsequent treatment and emergency treatment. We have developed standard safety protection operation procedures specifically for particular categories of hazardous materials.

- Hazardous materials should be managed by special personnel who have attend relevant training and obtained job skill certificate;
- Hazardous materials should be stored by category according to minimum safe storage amount, and enough safety distance should be arranged for passageway between stackings;
- Safety measures should be taken for places dedicated to holding chemicals, such as ventilation, anti-explosion, fire protection, lightning protection, extinguishment and sunblock according to materials' type and property;
- Hazardous chemicals, which easily burn, explode and produce toxic gas in case of fire or moist, should not be stored in any place which is open, humid, low-lying and easy to collect water.

Production Safety Education and Training

We ensure safe production and strengthen safety awareness education by implementing the Management Policy for Production Safety Education and Training. We organise emergency exercises to strengthen employees' safety awareness and emergency ability. We have established a safety production leading group, which takes charge of propaganda of laws, regulations, prevention of production safety accidents, risk avoidance, disaster avoidance, and common sense of self-rescue and mutual-rescue among all employees and organises safety education and training irregularly.

We organise safety education and training on three levels, including company level (level 1), workshop or department level (level 2), section or group level (level 3). Employees should take relevant training and pass the examination before taking up the posts. Pressure vessel operator, electrician, high matches electrician, metering personnel, driver and other special operation personnel should take technical training and get certificates from competent authority before taking special operation.

Protection of Employees' Rights and Interests

We strictly comply with *the Labor Law of the People's Republic of China, the Labor Contract Law of the People's Republic of China* and relevant laws and regulations, and have developed a series of staff management policies as follows, to protect the lawful rights and interests of the Group's employees:

➢ Labor Management Policy

➢ Employee Handbook

➢ Employee Compensation Management Policy

➢ Employee Evaluation Policy

➢ Attendance Management Policy

➢ Evaluation Policy for Department Managers

➢ Policy for Team Building

Recruitment and Dismissal

We make recruitment plan conforming to the principle of "capable, efficient and putting quality before quantity", and recruit talents through open recruitment and employee referral according to the principle of "compete openly and select the best". We select employees by work attitude, applicable ability, knowledge, experience, potential and teamwork. All employees of the Group are entitled to an employment contract according to relevant laws and regulations at the start of their employment. Resignation and dismissal are processed according to the standard procedures of work handover to meet requirements of relevant laws and regulations and internal policies.

Compensation and Promotion

We implement classified job subsidy system. The job subsidy levels are determined according to position responsibilities and ability requirements. The remuneration system consists of standard salary, subsidy, benefit, performance distribution and award.

In accordance with national regulations, we contribute to various public funds for each employee, including a public pension fund, a public housing fund, a medical insurance fund, an unemployment insurance fund, labor union expenditure, education expenditure, benefit expenditure and other commercial insurance and subsidies beside mandated benefits.

We perform evaluation on department managers and employees annually and comprehensively quantify the work completion, work quality and attitude through self-evaluation, mutual evaluation among superiors and subordinates and scoring by supervisors, as the basis of performance management and employee promotion.

Working Hours and Holidays

We employ the standard working hours system to regulate attendance management. Employees are entitled to overtime pay if they obtain prior approval. We provide employees with paid days off from work for national public holidays, maternity leave and accompanying maternity leave, compassionate leave, medical treatment period and sick leave, personal leave and injury leave. Employees working for more than one year are entitled to paid annual leave and marriage leave.

Anti-discrimination

In strict compliance with national and local regulations, every department, organization and personnel of the Group allow no biases against any employee based on race, gender, skin color, age, family background, tradition, religion, physical quality, national origin and other personal characteristics, so as to ensure that employees are treated in a fair and open manner in every aspect such as recruitment, duty performing, remuneration, training, promotion and compensation.

Caring for Employees

We pay close attention to demands of employees and organise meaningful events for employees, with an aim to share a warm family feeling among employees. We hold annual meeting every year to summarise and recognise the employees' work; organise various group activities and a 3-5 day department-wide outing according to actual situation; arrange team building expenditure for every department every year; organise employee tour expenditure every year; provide donations and help to employees who have difficulties due to illness, deliering love and mildness.

In 2019, Shanghai FDZJ organised employees to visit Shanghai Tracing and Taizhou FDZJ for communication exchange. Besides, we also arranged employees to take a trip to Hainan, Xi'an and other cities to ease stress at work and tighten their attachment.

Labour Standard

In accordance with the *Labour Law of the People's Republic of China, Labour Contract Law of the People's Republic of China, Provisions on the Prohibition of Using Child Labour* and other laws and regulations, the Group avoided any use of child labour and forced labour. According to *Labour and Personnel Regulations*, all new employees' identification cards will be checked before they join in the Group to ensure their age meets requirements of laws and regulations.

Besides, *according to Attendance Regulations*, if any employee has to work overtime, he/she should apply to department manager and get the manager's approval.

In the reporting period, the Group did not use child labour and forced labour.

Development and Training

The Group respects talents and applies sound regulations to select talents and unlock employees' potential. Various types of training are provided based on work and employees' career need. Management Policy for Education and Training was formulated to regulate training and continuing education. The following types of training are already in place:

Internal Training: Internal training includes routine training by internal trainer and external trainer.

Induction Training: Within one week after any employee joins in the Group, Admin & HR department jointly with employing department conduct system trainings on policy and business.

Professional Training: Arrangements are made for employees to take external professional trainings based on employees' technical and business development demand.

Work License Training: Work license training and continuing education should be taken according to work demand.

Moreover, in order to promote employees' interpersonal communication and teamwork, Shanghai FDZJ has founded teamwork training fund to provide expenditure for every department, and developed *Regulations of Use of Teamwork Training Fund* to specify fund amount and usage.

In 2019, following the idea of deepening employees' understanding of products and industries and further building a learning-oriented enterprise, the Group arranged its key employees to attend 2019 course training of International Pharmaceutical Engineering Management (IPEM) co-sponsored by Peking University and Food and Drug Administration (FDA). The course provided a systematic integration study of R&D, registration, production, quality, supervision and industrial policy to comprehensively improve these employees' professional competence.

ENVIRONMENT

In accordance with the *Energy Conservation Law of the People's Republic of China, Environmental Protection Law of the People's Republic of China, Atmospheric Pollution Prevention and Control Law of the People's Republic of China, Law of the People's Republic of China on the Prevention and Control of Environmental Pollution by Solid Waste, Water Pollution Prevention and Control Law of the People's Republic of China* and other relevant laws and regulations, the Group always pays much attention to environmental protection. A leadership team for environmental protection management has been set up to work with department heads and form a sound management network. The list of the team members is updated every year.

Emissions Reduction

The Group continuously improves design, uses clean energy and resources, adopts advanced technologies and equipment, improves management and comprehensive utilization in production, by which pollutions are reduced from the source, resources are used more efficiently, and generations and emissions of pollutants in production and services are reduced or avoided. The Group formulated *Environmental Protection Management Regulation* to guarantee the practical implementation of normalized measures and provide a basis for emission management.

Wastewater, exhaust gas, greenhouse gas, solid waste etc. consist of most of the pollutant discharge in the Group. In accordance with national standards, local standards and biopharmaceutical discharge standards, the Group invites qualified institutions to monitor effluents and air emissions. The Group has established environmental emergency response plans and emergency response flows for various discharges.

In the reporting period, the Group did not commit violations related to emissions.

Effluents and Air Emissions

Industrial effluents and domestic sewage from drug development and production consist of most of the wastewater in the Group. *Environmental Pollution Prevention Regulations and Standard Operation Regulation of Effluent Comprehensive Treatment Equipment* are developed to strictly control effluent emissions and comprehensively treat the effluents. Sewage is discharged into the municipal sewer system after being treated and reaching the discharge standards. In accordance with the *Discharge Standard of Pollutants for Bio-pharmaceutical Industry*, the Group adopts primary treatment to effluents which cannot be directly discharged and accepts irregular monitoring by relevant authorities.

Exhaust gas from drug development and production consists of most of the air emissions in the Group. In accordance with *Industrial Air Emissions Standard of Shanghai*, the Group developed *Standard Operation Procedures of Air Emission Treatment Equipment* to regulate and control operation of air treatment equipment to make the air emissions reach relevant standard.

In 2019, Taizhou FDZJ improved the cleaning process of hemoporfin reactor, replacing the original lye soak cleaning with alkali spray cleaning. The improvement greatly reduced the usage of lye and neutralising liquid, avoided excessively high pH during sewage treatment, and remarkably improved the efficiency of sewage treatment. In addition, as the government required to cut emissions of carbon oxides, sulfides and nitrides, Taizhou FDZJ installed solar photovoltaic grid-connected power generation system on its plant roof, with the annual on-grid generating capacity expected to reach approximately 500,000 kWh. It could reduce the emission of power generation and relieve the pressure of municipal power supply.

During the reporting period, the Group's KPIs related to emissions are shown as below:

Types of Emissions	2019	2018	2017
Wastewater (ton)	**61,471.80**	46,910.90	31,951.30
COD (kg)	**1,991.30**	1,421.43	1,818.11

Note：

1. The Group's wastewater emissions data is calculated according to the amount of wastewater multiplied by the concentration of emissions detected periodically.

2. During the reporting period, the wastewater emissions detection indicator in Taizhou FDZJ and Shanghai Tracing included only COD. The wastewater emissions detection indicators in Shanghai FDZJ included COD, N-NH3, acetonitrile, methanol, formaldehyde, animal and vegetable oils, total chlorine and suspended solid. In order to maintain the integrity of data, only the amount of wastewater and COD emissions were disclosed during the reporting period. Other KPIs and emissions data was not disclosed and subsequent periods will be consistency with this reporting period.

Greenhouse Gas

Energy Indirect greenhouse gas emissions (scope II) are mainly resulting from electricity consumption of production equipment and in workplaces of the Group. Direct greenhouse gas emissions (scope I) are resulting from natural gas used by boiler, naphtha and diesel oil used by vehicles and small number of fire extinguishers. The Group makes efforts to reduce greenhouse gas emissions by improving energy efficiency. Detail energy-conservation measures are shown in section "Resource Conservation".

During the reporting period, the Group's KPIs related to greenhouse gas emissions are shown as below:

Greenhouse gas	2019	2018	2017
Direct Greenhouse Gas Emissions (Scope I) (tCO2e)	**828.39**	816.89	1,054.00
Energy Indirect Greenhouse Gas Emissions (Scope II) (tCO2e)	**7,609.38**	7,609.91	7,429.00
Total Greenhouse Gas Emissions (tCO2e)	**8,437.77**	8,426.80	8,482.00
Intensity (tCO2e/million RMB of revenue)	**8.20**	11.36	17.00

Note: Greenhouse gas emissions are presented in CO2e, accounting method and conversion factors come from the Accounting Methods and Reporting Guide for Greenhouse Gas Emissions from Chemical Industry Enterprises issued by the National Development and Reform Commission (NDRC).

Wastes

Hazardous and non-hazardous wastes are produced from drug research and production by various departments in the Group.

The Group has registered with Solid Waste Management Information System in Shanghai and Taizhou to monitor the treatment of wastes, and conducts strict management over wastes as per *Regulations on Treatment and Management of Industrial Wastes and Regulations on Management of Wastes*. The Group requires departments to fill in the *Application Form for Industrial Waste Treatment* which requires material name, packing specification, chemical property, component, content, amount, waste form and waste reason. The form is checked and archived by dedicated management personnel. After being approved and signed by leader of competent authority, wastes are stored in specified waste storage room or neutralization tank.

The Group entrusts professional institutions which have *Shanghai Hazardous Wastes Disposal Permit* and hazardous treatment qualification certificate to treat hazardous wastes. These institution Non-hazardous wastes are collected and treated by sanitation department.

During the reporting period, the Group's KPIs related to hazardous and non-hazardous waste discharge are shown as below：

Wastes	**2019**	2018	2017
Hazardous Waste Emissions in Total (ton)	**98.02**	65.04	46.76
Intensity (ton/million RMB of revenue)	**0.10**	0.09	0.20
Non-hazardous Waste Emissions in Total (ton)	**34.01**	34.01	34.01
Intensity (ton/million RMB of revenue)	**0.03**	0.05	0.07

Note:

1. The types and emissions of hazardous wastes of the group are calculated according to the hazardous wastes transfer form;

2. During the reporting period, the total amount and intensity of hazardous wastes have been disclosed according to the provisions KPIA1.3 total hazardous waste produced and intensity in the ESG reporting guide. The types and emissions of hazardous wastes haven't been disclosed and the subsequent periods will be consistent with this reporting period.

3. The Group's non-hazardous wastes are collected and disposed by the local Municipal Environmental Sanitation Department, which estimated the total amount of wastes and charge the Group. During the reporting period, the non-hazardous wastes emission of the Group estimated by the Department kept consistency with that in the prior reporting period, so did the fees charged for the non-hazardous waste treatment. Thus, the total emission of non-hazardous waste during the reporting period had no significant difference with that in the prior reporting period.

Resources Conservation

Resources used by the Group are principally electricity, water and natural gas. The Group has developed *Management Procedure of Energy and Resources* to use energy/ resource effectively and reasonably, improve usage efficiency, reduce waste and implement the principles of saving energy, reducing consumption, reducing pollution, and improving efficiency.

The Group motivates departments to save energy through an energy-conservation performance management system. Historical data and the actual production conditions are considered to set energy-conservation target for departments. Department heads should develop energy-conservation target for their department according to the Group's energy-conservation target. Departments of using production resources should improve utilization of raw materials, take measures to reduce unqualified product rate, gradually reduce resources used for unit product, promote regular statistics and analysis on resources loss, make solutions and decide the agenda and responsible person. Resource consumption in departments is monitored and measured regularly. Reason analysis should be conducted for the projects which do not complete energy-conservation plan. Relevant measures should be made and the implementation of the measures should be supervised and examined.

The Group seasonally adjusts the high electricity consumption equipment such as air conditioner in clean plant to reduce load. After energy-conservation reconstruction, warm water generated in heat source of water equipment, such as heat exchange of cooling water in distilled water machine and pure steam generator, is used as boiler makeup water. This could recycle boiler water, reduce cooling water discharge, cut down boiler heat consumption, save energy and reduce emissions.

Shanghai FDZJ magnified the production lot size of ALA, increasing the production volume of each lot, which greatly reduced the number of lots required for the same output, and reduced the usage of sterilization steam and water consumption for disinfection and cleaning in the production process, thereby improving energy efficiency and saving water.

During the reporting period, the Group's KPIs for resources usage are as follows:

Resource Consumption	2019	2018	2017
Diesel (MWh)	0.07	0.02	0.12
Gasoline (MWh)	82.92	89.13	88.33
Natural Gas (MWh)	4,041.72	3,976.63	5,161.05
Total Direct Energy (MWh)	4,124.71	4,065.78	5,249.50
Electricity (MWh)	10,816.47	10,817.22	10,559.41
Total Indirect Energy (MWh)	10,816.47	10,817.22	10,559.41
Total Energy Consumption (MWh)	14,941.18	14,883.00	15,808.92
Intensity (MWh/Million RMB of Revenue)	14.52	20.06	31.76
Total Water Consumption (ton)	94,727.00	82,137.00	59,201.00
Intensity (ton/Million RMB of Revenue)	92.03	110.72	119.00
Packaging Materials in Total (ton)	71.25	49.95	43.75

Note：

1. Total energy consumption is calculated based on the amount of electricity purchased and the consumption of natural gas, diesel and gasoline considering the default parameter values to fossil fuel as shown in Attached Table 1 and default fuel densities as shown in Attached Table 2 to the Accounting Methods and Reporting Guide for Greenhouse Gas Emissions from Chemical Industry Enterprises issued by the NDRC.

2. As the Group's production activities only involve the development and production of drugs and the Group does not use other environmental and natural resources, A3 The Environmental and natural resources and A3.1 Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them is not disclosed in this report.

3. During the reporting period, the total packaging material was disclosed according to the provisions A2.5 total packaging material used for finished products in the ESG reporting guide. The types and usage of packaging material was not disclosed and the subsequent periods will be consistency with this reporting period.

4. KPI A2.5 total packaging material used for finished products with reference to per unit produced is not disclosed in this report as the Group provides a large variety of products and it is difficult to accurately measure the total weight of the products. We will disclose such information where possible in the future.

Profiles of Directors, Supervisors and Senior Management

DIRECTORS

Executive Directors

Wang Hai Bo, aged 59, was appointed as an Executive Director of the Company in November 1996. He is also the chairman of the Board and general manager of the Company. He is concurrently appointed as the chairman of Board of directors of Taizhou Fudan-Zhangjiang Pharmaceutical Co., Ltd. as well as the director of Fernovelty (Hong Kong) Holding Co.,Ltd, which are the subsidiaries of the Company. He founded the Company in November 1996. He was an associate professor at Fudan University from May 1995 to June 1996. He has published numerous articles, and thus earned awards such as the State Star Fire Grade III Award (國家星火三等獎), Education Committee Grade II Award (教委二等獎) and Technology Advancement Award of the Shanghai Municipality (上海市科技進步獎). He graduated from Fudan University with a bachelor's degree in Biology in July 1983 and master's degree in July 1986. He was the former chief technology officer of Zhejiang Shenghua Biok Biology Co., Ltd., a company listed on the Shanghai Stock Exchange (Shanghai Stock Code: 600226).

Su Yong, aged 55, was appointed as an Executive Director in January 2002. He is also the deputy general manager of the Company. He joined the Company in April 1997. He has been working in the field of genetic engineering for over twenty years. He was the chief engineer of Hangzhou Jiuyuan Gene Engineering Co., Ltd. from January 1994 to April 1997, during which he was responsible for managing the genetic engineering department. He graduated from Northwest Normal University with a bachelor's degree in Biology Science in July 1985, from Fudan University with a master's degree in Biochemistry in July 1993, and from Zhejiang University with a Ph.D. in Oncology in June 2000.

Zhao Da Jun, aged 49, was appointed as an Executive Director in January 2002. He is also the deputy general manager and an authorized representative of the Company. At the same time, he is concurrently appointed as the chairman of the Board of directors of Shanghai Tracing Bio-technology Co., Ltd., a subsidiary of the Company. He is a cofounder of the Company. He was a teaching assistant at the Law School of Fudan University from August 1995 to October 1996. He was awarded the National Education Committee on Technology Advancement Grade II Award (國家教委科技進步二等獎) in 1997. He graduated from Fudan University with a bachelor's degree in Biology in July 1992, a master's degree in Biology in July 1995, and from University of Hong Kong with a master's degree in Business Administration in November 2001.

Non-executive Directors

Shen Bo, aged 47, was appointed as a Non-executive Director in June 2012. He was a non-practising member of the Chinese Institute of Certified Public Accountants. He is an executive director, a vice president and the chief financial officer of Shanghai Pharmaceuticals Holding Co., Ltd., and concurrently appointed as a executive director of China International Pharmaceutical (Holding) Corporation Limited, chairman of Shanghai TCM Co., Ltd.; chairman and legal representative of Shanghai Harvest Pharmaceutical Co., Ltd.; chairman of SPH Changzhou Pharmaceutical Co., Ltd.. He was the deputy manager of the financial department of Shanghai Jinling Co., Ltd. from 1996 to 2000, the financial director of Shanghai Jinling Tai Ke IT Development Co., Ltd. from May 2000 to January 2001; the general manager of finance department of Shanghai Industrial United Holdings Co., Ltd. from January 2006 to November 2006; the financial controller of Shanghai Industrial Pharmaceutical Investment Co., Ltd. from November 2006 to March 2010. He graduated from the Shanghai Institute of Construction Materials Industry with a bachelor's degree in Economics in July 1996, and Chinese University of Hong Kong with a master's degree in Professional Accounting in December 2007.

Yu Xiao Yang, aged 63, was appointed as a Non-executive Director in May 2013. She has over 20 years of banking and investment experience. She was a founding partner of China New Enterprise Investment and a founder and managing partner of Victoria Capital Limited, a corporate finance advisory firm in 1998. She was among the first mainland Chinese to embark on a professional career with major international financial institutions. She served at Paris Bank in Geneva, Dresdner Bank in Frankfurt, London and New York from 1980 to 1985, and Salomon Brothers from 1987 to 1991, working in the areas of mergers and acquisitions and corporate finance. She graduated from International Management Institute (Geneva), predecessor of International Institute for Management Development, with a master's degree in Business Administration in May 1982.

Independent Non-executive Directors

Zhou Zhong Hui, aged 72, was appointed as an Independent Non-executive Director on 30 May 2013. He is currently a member of the Financial Advisory Expert Committee of the China Association for Public Companies, managing director of China Appraisal Society. He was appointed as a member of the International Advisory Committee of the China Securities Regulatory Commission, the Audit Standard Committee of Chinese Institute of Certified Public Accountant. He used to be the chief accountant of the China Securities Regulatory Commission from 2007 to 2011, a partner, the general manager and chief accountant of PricewaterhouseCoopers Zhong Tian CPAs Limited Company from 1992 to 2007 and a professor of Shanghai University of Finance and Economics from 1989 to 1998. He has been an independent nonexecutive director of Shanghai Oriental Pearl Media Co., Ltd. (Formerly known as BesTV New Media Co., Ltd., a company listed on the Shanghai Stock Exchange (Shanghai Stock Code: 600637)) since 23 December 2011 and resigned on 4 June 2015. He has been an independent non-executive director of Juneyao Airlines Co., Ltd., a company listed on the Shanghai Stock Exchange (Shanghai Stock Code: 603885) since 29 June 2014 and resigned on 28 June 2017 He has been an independent non-executive director of China Pacific Insurance (Group) Co., Ltd., a company listed on the Shanghai Stock Exchange (Shanghai Stock Code: 601601) and the Stock Exchange (Stock Code: 02601) since 31 May 2013, and resigned on 18 July 2019. He has been an independent director of S.F. Holding Co., Ltd., a company listed on the Shenzhen Stock Exchange (formerly known as Maanshan Dingtai Rare Earth & New Materials Co., Ltd., Shenzhen Stock Code: 002352) since 28 December 2016. He has been an independent non-executive director of COSCO SHIPPING Holdings Co. Ltd., a company listed on the Shanghai Stock Exchange and the Main Board of the Stock Exchange (formerly known as China COSCO Holdings Co., Ltd., Shanghai Stock Code: 601919, Stock Code: 01919) since 25 May 2017. He has been an independent non-executive director of CITIC Securities Company Limited, a company listed on the Shanghai Stock Exchange (Shanghai Stock Code: 600030) and the Main Board of the Stock Exchange (Stock Code: 6030). He graduated from Shanghai University of Finance and Economics with a master's degree in Economics in November 1983, and a Ph.D. in Economics in January 1993.

Lam Yiu Kin, aged 65, was appointed as an Independent Non-executive Director on 9 October 2013. He is a fellow member of the Association of Chartered Certified Accountants (ACCA), the Institute of Chartered Accountants in England & Wales (ICAEW), the Institute of Chartered Accountants of Australia and New Zealand (ICAA), and Hong Kong Institute of Certified Public Accountants (HKICPA). Mr. Lam has extensive experiences in accounting, auditing and business consulting. He was a member of the Listing Committee of the Stock Exchange from 1997 to 2003, a committee member of HKICPA from 1994 to 2009, a member of the Financial Reporting Advisory Panel of the Stock Exchange from 1997 to 2003 and a partner with PricewaterhouseCoopers from 1993 to 2013. He graduated from Hong Kong Polytechnic University with a higher diploma in June 1975 and he was awarded the honorary fellow of Hong Kong Polytechnic University in November 2002. He has been an independent non-executive director of Mason Group Holdings Limited (formerly known as Mason

Financial Holdings Limited), a company listed on the Main Board of the Stock Exchange (Stock Code: 0273) since 1 August 2015 and resigned on 24 May 2017. He has been an independent non-executive director of Vital Innovations Holdings Limited (formerly known as Vital Mobile Holdings Limited), a company listed on the Main Board of the Stock Exchange (Stock Code: 6133) since 19 September 2014. He has been an independent non-executive director of Spring Asset Management Limited, which is the manager of Spring Real Estate Investment Trust whose units are listed on the Main Board of the Stock Exchange (Stock Code: 1426) since 12 January 2015. He has been an independent non-executive director of Global Digital Creations Holdings Limited, a company listed on the Growth Enterprise Market of the Stock Exchange (Stock Code: 8271) since 27 July 2015. He has been an independent non-executive director of Shougang Concord Century Holdings Limited, a company listed on the Main Board of the Stock Exchange (Stock Code: 0103) since 1 August 2015. He has been an independent non-executive director of COSCO Shipping Ports Limited, a company listed on the Main Board of the Stock Exchange (Stock Code: 1199) since 14 August 2015. He has been an independent non-executive director of Nine Dragons Paper (Holdings) Limited, a company listed on the Main Board of the Stock Exchange (Stock Code: 2689) since 3 March 2016. And he has been an independent nonexecutive director of WWPKG Holdings Company Limited, a company listed on the Growth Enterprise Market of the Stock Exchange (Stock Code: 8069) since 16 December 2016. He has been appointed as an independent non-executive director of CITIC Telecom International Holdings Limited, a company listed on the Main Board of the Stock Exchange (Stock Code: 1883) since 1 June 2017. He has also been appointed as an independent non-executive director of Bestway Global Holding Inc., a company listed on the Main Board of the Stock Exchange (Stock Code: 3358) since 18 October 2017, and an independent non-executive director of Topsports International Holdings Limited, a company listed on the Main Board of the Stock Exchange (Stock Code: 6110) since 26 September 2019.

Xu Qing, aged 55, was appointed as an Independent Non-executive Director on 29 May 2015. Mr. Xu was appointed as an independent supervisor in May 2008. He is currently a professor of Tongji University Medical School, doctor-postgraduate supervisor, deputy director of the Oncology Department and Tumor Institute, and director, chief physician of Medical Oncology Department of the Tenth People's Hospital affiliated to Tongji University. And he is director of Medical Oncology Department of Shanghai Dermatology Hospital affiliated to Tongji University. He used to serve as a deputy director, a deputy chief physician, and a deputy professor of the Medical Oncology Department of Chang Zheng Hospital of The Second Military Medical University. He has been engaged in the fundamental and clinical research on tumor for a long time. He has published over 100 articles in medical journals both domestic and abroad. He did his postdoctoral research in the H.Lee. Moffitt Cancer Center of University of South Florida as a visiting scholar. He graduated from The Second Military Medical University in August 1989 with a bachelor's degree of medicine. He obtained a doctor's degree of internal medicine in August 1997.

Yang Chun Bao, aged 50, was appointed as an independent non-executive director on 9 June 2017, is currently a senior partner of Dentons Law Firm Shanghai Office. He was a practice lawyer successively in Shanghai Zhongjian Law Firm and Shanghai Haworth & Lexon Law Firm from 1995 to 2015. And he served as an in-house counsel in Southeast Branch of CMST Shanghai from 1992 to 1995. Mr. Yang is a part-time professor of the Law School of East China University of Science and Technology, part-time post-graduate supervisor of East China University of Political Science & Law and panel mediator with mediation center of CCPIT and CCOIC. He graduated from Fudan University with L.L.B in July 1992 and received J.M of East China University of Political Science and Law in June 2001 and L.L.M of University of Sydney Technology in May 2001.

SUPERVISORS

Zhou Xi, aged 46, was appointed as a shareholder representative Supervisor on 29 May 2015. He is the director of management committee of Jiangwan Campus of Fudan University. He worked as the general manager of Shanghai Fudan Asset Management Co., Ltd.(上海復旦資產經營有限公司). He used to be the deputy secretary of youth communist league committee of Fudan University, assistant to director of the Enterprise Incubation and Equity Management Office of Fudan University, deputy director of Jiangwan campus construction office of Fudan University, vice dean of School of Computer Science and Software School of Fudan University. He graduated from Fudan University in 1996 with a bachelor's degree of science. He obtained a master's degree of science in 2002 and a doctor's degree of science in 2012.

Wang Luochun, aged 50, was appointed as an employee representative Supervisor on 22 February 2016. He is the director of bio-technology research and development and president of the worker's union of the Company. He joined the Company in March 1997 and has been engaged in the research and development for biopharmaceutical drugs. He graduated from Fudan University with a bachelor's degree in Biology in July 1992.

Liu Xiao Long, aged 62, was appointed as an independent Supervisor on 13 May 2016. He is the chairman of the Board and the chief executive officer of Jiuyou Capital Co., Ltd. (上海久有股權投資基金管理有限公司). He worked as the general manager of Shanghai Wai Gao Qiao Free Trade Zone New Development Co., Ltd. (上海市外高橋保稅區新發展有限公司), the chairman of the Board of Shanghai Zhangjiang Hi-Tech Park Development Co., Ltd. (上海張江高科技園區開發股份有限公司) (a company listed on the Shanghai Stock Exchange whose stock code is 600895) and the deputy director of Shanghai Zhangjiang Hi-Tech Park management committee. He was also a member of the standing committee of Shanghai Association for Science and Technology. He graduated from Shanghai Jiao Tong University mechatronics branch campus with a bachelor degree.

Huang Jian, aged 50, was appointed as an independent Supervisor on 9 June 2017, is Professor and Doctoral supervisor in the Biochemistry and Molecular Cytology Department of School of Medicine of Shanghai Jiao Tong University and evaluator of National Natural Science Foundation of China. He conducted his postdoctoral research in the Shanghai Institute of Biochemistry and Cell Biology of Chinese Academy of Sciences and Karolinska Institute in Sweden. He works on molecular oncology for a long time and takes charge of multiple national and provincial research projects as chief researcher. He has published more than 40 published papers on journals home and aBoard. He graduated from Fudan University with a degree of bachelor in science in 1992, a degree of master in science in 1995 and a PhD in science in 1999.

Yu Daiqing, aged 48, is the quality director of the Company. She joined the Company in November 2001, and was successively engaged in quality research and analysis of new drug development, quality control of pharmaceutical manufacturing, establishment of quality management system and daily operation management relating to pharmaceutical manufacturing. She graduated from Shandong University with a bachelor's degree in Chemistry in July 1995 and a master's degree in Analytical Chemistry in July 1998.

SENIOR MANAGEMENT

Li Jun, aged 51, as a deputy general manager of the Company, he is a cofounder of the Company. He has been responsible for several research projects of the Natural Science Fund, and has published numerous articles. He is a certified pharmacist. He was a teaching assistant and lecturer at Fudan University from August 1993 to November 1996, during which he also served as deputy chief technology officer of Zhejiang Shenghua Biok Biology Co. Ltd. and was involved in the research and manufacture of three new drugs. He graduated from Fudan University with a master's degree in Biology in July 1993. Mr. Li Jun has not held any directorships in listed public companies in the past three years.

Yang Xiao Lin, aged 57, joined the Company in January 2006. He is a deputy general manager of the Company. He is also the directors of Derma Clinic. He has participated in and been in charge of several merger, acquisition and restructuring projects for pharmaceutical companies. He has also been responsible for marketing and selling prescribed and OTC medicine in many sectors, and has obtained good results. He used to be the marketing director of Fosun Pharmaceutical Group from December 2001 to January 2005, and the general manager of Zhejiang Kanglaite Pharmaceutical Co., Ltd. from January 2005 to January 2006. He graduated from Chinese Academy of Social Sciences with an MBA degree in 1999. Mr. Yang Xiao Lin has not held any directorships in listed public companies in the past three years.

Gan Yi Min, aged 57, joined the Company in 2010. He is a deputy general manager of the Company. He is also the directors and general manager of Taizhou Fudan-Zhangjiang Pharmaceutical Co., Ltd., which is the subsidiary of the Company. He used to be the general manager of Haini Pharmaceutical Co., Ltd. (Shanghai) from 2003 to 2009, responsible for completion of construction of production workshops, laboratories and workstations, recruitment of staff and managers, and establishing a performance evaluation system. He was the production manager of Xi'an Janssen Pharmaceutical Co., Ltd. from 1995 to 2003, responsible for organizing and implementing a number of medium and large technological transformation projects. He obtained a bachelor's degree in Industrial Automation from Xi'an Technology University in December 1990, an MBA from Xi'an Jiaotong University in December 2001, an EMBA from Antwerp University (Belgium) in October 2002, and a master's degree in Pharma Engineering from Beijing Chemical Engineering University in December 2006. Mr. Gan Yi Min has not held any directorships in listed public companies in the past three years.

COMPANY SECRETARY

Xue Yan, aged 38, was appointed as company secretary in August 2010. She is also the Chief Financial Officer and an authorized representative of the Company. She is also the director of Fernovelty (Hong Kong) Holding Co.,Ltd, which is the subsidiary of the Company. She is a member of the Hong Kong Institute of Certified Public Accountants (HKICPA), a fellow of the Association of Chartered Certified Accountants (ACCA), and a member of the Chinese Institute of Certified Public Accountants (CICPA). She is qualified as an international certified internal auditor. She has extensive professional experience in accounting as well as experience in corporate compliance. She graduated from Shanghai University of Finance & Economics with a bachelor's degree in International Accounting in 2004 and a master degree in Business Administration from the University of Hong Kong in November 2018. Ms. Xue Yan has not held any directorships in listed public companies in the past three years.

INDEPENDENT AUDITOR'S REPORT

For the year ended 31 December 2019

To the Shareholders of Shanghai Fudan-Zhangjiang Bio-Pharmaceutical Co., Ltd.,

OPINION

What we have audited

We have audited the accompanying financial statements of Shanghai Fudan-Zhangjiang Bio-Pharmaceutical Co., Ltd. (hereinafter the "Company"), which comprise:

- the consolidated and company balance sheets as at 31 December 2019;
- the consolidated and company income statements for the year then ended;
- the consolidated and company cash flow statements for the year then ended;
- the consolidated and company statements of changes in shareholders' equity for the year then ended; and
- notes to the financial statements.

Our opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated and company's financial position of the Company and its subsidiaries (the "Group") as at 31 December 2019, and their financial performance and cash flows for the year then ended in accordance with the requirements of Accounting Standards for Business Enterprises ("CASs").

BASIS FOR OPINION

We conducted our audit in accordance with China Standards on Auditing ("CSAs"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

We are independent of the Group in accordance with the Code of Ethics for Professional Accountants of the Chinese Institute of Certified Public Accountants ("CICPA Code"), and we have fulfilled our other ethical responsibilities in accordance with the CICPA Code.

KEY AUDIT MATTERS

Key audit matter is the matter that, in our professional judgment, was of most significance in our audit of the financial statements of the current period. The matter was addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on the matter.

KEY AUDIT MATTERS (Continued)

A key audit matter identified in our audit is capitalisation of development costs:

Key Audit Matter	How our audit addressed the Key Audit Matter
Capitalisation of development costs	
Refer to Note 2(13)(g), Note 2(24)(a)(i) and Note 5(13) (Development costs) to the consolidated financial statements	We obtained a detail listing of all individual research and development projects with expenditure incurred and amounts capitalised in the year, reconciled to the general ledger and agreed sample items to supporting evidence.
As part of its principal activities, the Group researches and develops various bio-pharmaceutical know-how and medical techniques for future commercialisation. The Group incurred total research and development expenditure of RMB130.50 million during the year ended 31 December 2019, of which RMB127.82 million was expensed whereas RMB2.68 million was capitalised, the balance as at 31 December 2019 of the development cost was RMB14.97 million.	For projects with amounts capitalised during the year, we challenged management's assessment as to why they considered those amounts were development costs to be capitalised in nature, in particular on technical feasibility and future economic benefits of the projects.
Expenditure on the research phase is recognised in profit or loss in the period in which it is incurred. Expenditure on the development phase is capitalised only if all of the conditions are satisfied. Management judges whether development expenditure can be capitalized based on the future economic benefits and technical feasibility of development expenditure.	We assessed the appropriateness of management's judgement on technical feasibility by reference to relevant available approval, certificate or registration from/with government authorities, technical milestone reports or the Group's past history of successful development projects.
We focused on this area mainly due to the size of the research and development expenditure incurred, a portion of which being capitalised and the fact that there is judgement involved in assessing whether the criteria set out in the accounting standards for capitalisation of development costs for each individual project have been met, particularly: • The technical feasibility of the project; and • The likelihood of the project delivering sufficient future economic benefits.	For management's judgement on future profitability, we challenged key assumptions used. We corroborated the key assumptions of market scale, market share, gross profit and challenged whether these were appropriate in light of historical experiences, relevant market studies or other similar products. We also evaluated the sensitivity analysis around the key assumptions used in the forecast to ascertain the extent of change in those assumptions that would have negative impacts on the future profitability. We found that management's accounting for capitalisation of development costs was properly supported by the available audit evidences.

OTHER INFORMATION

Management of the Company is responsible for the other information. The other information comprises all of the information included in 2019 annual report of the Company other than the financial statements and our auditor's report thereon.

Our 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 there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

Management of the Company is responsible for the preparation and fair presentation of these financial statements in accordance with the CASs, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing these financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether these 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 opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with CSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS (Continued)

As part of an audit in accordance with CSAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- 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 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 override of internal control.

- Obtain an understanding of internal control relevant 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 the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in these financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation (including the disclosures), 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.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We 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 significant deficiencies in internal control that we identify during our audit.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS (Continued)

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

From the matters communicated with those charged with governance, we determine those matters that were of most 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 law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

PricewaterhouseCoopers Zhong Tian LLP Shanghai, the People's Republic of China	Signing CPA	Antoney Zhu (Engagement Partner)
28 February 2020	Signing CPA	Keane Zhou

CONSOLIDATED BALANCE SHEET

As at 31 December 2019
(All amounts in RMB Yuan unless otherwise stated)

ASSETS	Notes	31 December 2019 Consolidated	31 December 2018 Consolidated (Restated)
Current assets			
Cash at bank and on hand	5(1)	**576,799,410**	588,221,416
Notes receivables	5(2)	**127,592,684**	83,503,452
Accounts receivables	5(3),9(6)	**377,006,911**	278,757,626
Advances to suppliers	5(4)	**16,411,027**	19,780,085
Other receivables	5(5),9(6)	**8,250,226**	17,731,103
Inventories	5(6)	**31,869,051**	32,038,382
Other current assets	5(7)	**310,035**	114,423
Total current assets		**1,138,239,344**	1,020,146,487
Non-current assets			
Other equity instruments	5(8)	**–**	–
Long-term equity investments	5(9)	**28,078,902**	24,000,000
Fixed assets	5(10)	**254,359,522**	276,337,237
Construction in progress	5(11)	**329,602**	3,376,238
Right-of-use assets	5(12)	**5,517,981**	—
Intangible assets	5(13)	**60,460,278**	69,959,963
Development costs	5(13)	**14,970,803**	12,294,217
Goodwill	5(14)	**–**	–
Long-term prepaid expenses	5(15)	**2,414,319**	17,614,541
Deferred tax assets	5(16)	**58,181,130**	41,525,793
Other non-current assets	5(17)	**2,272,672**	4,436,443
Total non-current assets		**426,585,209**	449,544,432
TOTAL ASSETS		**1,564,824,553**	1,469,690,919

Consolidated Balance Sheet

As at 31 December 2019

(All amounts in RMB Yuan unless otherwise stated)

LIABILITIES AND OWNERS' EQUITY	Notes	31 December 2019 Consolidated	31 December 2018 Consolidated (Restated)
Current liabilities			
Short-term borrowings	5(19)	**148,942,573**	150,000,000
Accounts payables	5(20)	**6,827,902**	4,777,196
Contract liabilities	5(21),9(6)	**2,042,726**	2,305,929
Employee benefits payable	5(22)	**48,123,497**	46,390,216
Taxes payable	5(23)	**36,301,432**	41,724,789
Other payables	5(24),9(6)	**325,079,482**	204,371,724
Current portion of non-current liabilities	5(25)	**4,031,927**	–
Total current liabilities		**571,349,539**	449,569,854
Non-current liabilities			
Lease liabilities	5(25)	**2,121,534**	—
Deferred revenue	5(26)	**58,205,366**	65,689,092
Total Non-current liabilities		**60,326,900**	65,689,092
Total liabilities		**631,676,439**	515,258,946
Owners' equity			
Share capital	5(27)	**92,300,000**	92,300,000
Capital surplus	5(28)	**237,796,134**	412,293,387
Other comprehensive income	5(29)	**(13,950,235)**	(14,006,416)
Surplus reserve	5(30)	**46,150,000**	46,150,000
Undistributed profits	5(31)	**569,229,480**	406,481,497
Total equity attributable to equity owners of the Company		**931,525,379**	943,218,468
Minority interests		**1,622,735**	11,213,505
Total owners' equity		**933,148,114**	954,431,973
TOTAL LIABILITIES AND OWNERS' EQUITY		**1,564,824,553**	1,469,690,919

The accompanying notes form an integral part of these financial statements.

Legal representative:	Principal in charge of accounting:	Head of accounting department:
Wang Haibo	Xue Yan	Zhang Wen

COMPANY BALANCE SHEET

As at 31 December 2019
(All amounts in RMB Yuan unless otherwise stated)

ASSETS	Notes	31 December 2019 Company	31 December 2018 Company (Restated)
Current assets			
Cash at bank and on hand		**524,036,350**	554,560,168
Notes receivables	16(1)	**127,592,684**	83,503,452
Accounts receivables	16(2)	**348,545,015**	256,570,212
Advances to suppliers		**16,297,676**	17,733,389
Other receivables	16(3)	**157,685,608**	187,990,672
Inventories		**21,272,140**	16,709,043
Total current assets		**1,195,429,473**	1,117,066,936
Non-current assets			
Long-term equity investments	16(4)	**285,677,396**	142,643,800
Fixed assets		**120,166,184**	115,827,071
Construction in progress		**329,602**	3,281,898
Right-of-use assets	16(5)	**5,517,981**	—
Intangible assets		**9,752,170**	20,654,960
Long-term prepaid expenses		**1,390,576**	2,290,450
Deferred tax assets		**67,197,900**	44,932,563
Other non-current assets		**2,120,672**	4,182,576
Total non-current assets		**492,152,481**	333,813,318
TOTAL ASSETS		**1,687,581,954**	1,450,880,254

Company Balance Sheet

As at 31 December 2019

(All amounts in RMB Yuan unless otherwise stated)

LIABILITIES AND OWNERS' EQUITY	Notes	31 December 2019 Company	31 December 2018 Company (Restated)
Current liabilities			
Short-term borrowings		**148,942,573**	150,000,000
Accounts payables		**5,494,686**	2,597,675
Contract liabilities		**1,622,099**	332,085
Employee benefits payable		**44,442,590**	41,362,279
Taxes payable		**33,190,001**	40,696,606
Other payables		**313,542,721**	187,718,174
Current portion of non-current liabilities	16(6)	**4,031,927**	—
Total current liabilities		**551,266,597**	422,706,819
Non-current liabilities			
Lease liabilities	16(6)	**2,121,534**	–
Deferred revenue		**46,846,675**	51,731,048
Total Non-current liabilities		**48,968,209**	51,731,048
Total liabilities		**600,234,806**	474,437,867
Owners' equity			
Share capital		**92,300,000**	92,300,000
Capital surplus		**315,986,490**	315,986,490
Surplus reserve		**46,150,000**	46,150,000
Undistributed profits		**632,910,658**	522,005,897
Total owners' equity		**1,087,347,148**	976,442,387
TOTAL LIABILITIES AND OWNERS' EQUITY"		**1,687,581,954**	1,450,880,254

The accompanying notes form an integral part of these financial statements.

Legal representative:	Principal in charge of accounting:	Head of accounting department:
Wang Haibo	Xue Yan	Zhang Wen

CONSOLIDATED INCOME STATEMENTS

For the year ended 31 December 2019
(All amounts in RMB Yuan unless otherwise stated)

	Note	2019 Consolidated	2018 Consolidated (Restated)
Revenue	5(32)	**1,029,294,769**	741,841,425
Less: Cost of sales	5(32),5(38)	**(73,340,503)**	(70,793,000)
Taxes and surcharges	5(33)	**(5,297,439)**	(5,503,998)
Selling expenses	5(34),5(38)	**(530,571,185)**	(399,648,905)
General and administrative expenses	5(35),5(38)	**(54,933,261)**	(83,573,756)
Research and development expenses	5(36), 5(38)	**(127,821,947)**	(114,284,250)
Financial expenses – net	5(37)	**(5,627,946)**	(4,546,358)
Including: Interest expenses		**(6,298,820)**	(6,491,172)
Interest income		**2,086,043**	2,866,314
Add: Other income	5(39)	**14,035,376**	27,295,199
Investment income	5(40)	**11,058,615**	12,566,656
Including: Share of profit of associates and joint ventures		**(6,921,098)**	–
Credit impairment losses	5(41)	**(2,519,741)**	(2,773,985)
Asset impairment losses	5(42)	**(7,585,524)**	(7,229,452)
Gains/(Loss) on disposals of assets	5(43)	**790,301**	(334,482)
Operating profit		**247,481,515**	93,015,094
Add: Non-operating income	5(44)	**1,086,695**	994,454
Less: Non-operating expenses	5(45)	**(2,256,628)**	(119,860)
Total profit		**246,311,582**	93,889,688
Less: Income tax expenses	5(46)	**(25,657,487)**	(2,976,512)
Net profit		**220,654,095**	90,913,176
Classified by continuity of operations			
Net profit from continuing operations		**220,654,095**	90,913,176
Net profit from discontinued operations		**–**	–
Classified by ownership of the equity			
Attributable to equity owners of the Company		**227,357,983**	112,129,171
Minority interests		**(6,703,888)**	(21,215,995)

	Note	2019 Consolidated	2018 Consolidated (Restated)
Other comprehensive income, net of tax			
Other comprehensive income that will not be reclassified to profit or loss			
Changes in fair value of other equity instrument investments		–	(13,774,800)
Other comprehensive income that will be reclassified to profit or loss			
Translation differences on translation of foreign currency financial statements		56,181	164,485
		56,181	(13,610,315)
Total comprehensive income		220,710,276	77,302,861
Attributable to equity owners of the Company		227,414,164	98,518,856
Attributable to minority interests		(6,703,888)	(21,215,995)
		220,710,276	77,302,861
Earnings per share			
Basic and diluted earnings per share	5(47)	0.25	0.12

The accompanying notes form an integral part of these financial statements.

Legal representative:	Principal in charge of accounting:	Head of accounting department:
Wang Haibo	Xue Yan	Zhang Wen

COMPANY INCOME STATEMENTS

For the year ended 31 December 2019
(All amounts in RMB Yuan unless otherwise stated)

	Note	2019 Company	2018 Company (Restated)
Revenue	16(7)	**950,411,129**	673,143,068
Less: Cost of sales	16(7)	**(52,858,674)**	(51,413,115)
Taxes and surcharges		**(2,645,970)**	(3,623,542)
Selling expenses		**(509,833,535)**	(374,646,815)
General and administrative expenses		**(32,810,925)**	(31,472,824)
Research and development expenses		**(129,007,520)**	(104,659,009)
Financial expenses-net		**(5,360,508)**	(4,558,615)
Including: Interest expenses		**(5,926,993)**	(6,491,167)
Interest income		**1,923,715**	2,754,114
Add: Other income		**10,429,383**	21,646,170
Investment income	16(8)	**17,095,652**	19,967,353
Including: Share of profit of joint ventures		**(748,804)**	–
Credit impairment losses		**(28,719,246)**	(23,667,398)
Asset impairment losses		**(12,200,000)**	(24,216,200)
Gains/(Loss) on disposals of assets		**869,214**	(310,085)
Operating profit		**205,369,000**	96,188,988
Add: Non-operating income		**1,059,761**	800,880
Less: Non-operating expenses		**(2,066,513)**	(55,016)
Total profit		**204,362,248**	96,934,852
Less: Income tax expenses		**(20,047,487)**	638,055
Net profit		**184,314,761**	97,572,907
Classified by continuity of operations			
Net profit from continuing operations		**184,314,761**	97,572,907
Net profit from discontinued operations		**–**	–
Other comprehensive income, net of tax		**–**	–
Total comprehensive income		**184,314,761**	97,572,907

The accompanying notes form an integral part of these financial statements.

Legal representative: Wang Haibo

Principal in charge of accounting: Xue Yan

Head of accounting department: Zhang Wen

CONSOLIDATED CASH FLOW STATEMENTS

For the year ended 31 December 2019
(All amounts in RMB Yuan unless otherwise stated)

	Note	2019 Consolidated	2018 Consolidated
Cash flows from operating activities			
Cash received from sales of goods or rendering of services		**968,262,544**	646,307,805
Cash received relating to other operating activities	5(48)(a)	**39,642,281**	93,038,176
Sub-total of cash inflows		**1,007,904,825**	739,345,981
Cash paid for goods and services		**(415,210,397)**	(245,665,784)
Cash paid to and on behalf of employees		**(145,910,046)**	(142,882,679)
Payments of taxes and surcharges		**(109,733,885)**	(89,014,549)
Cash paid relating to other operating activities	5(48)(b)	**(67,817,885)**	(81,944,854)
Sub-total of cash outflows		**(738,672,213)**	(559,507,866)
Net cash flows from operating activities	5(48)(f)	**269,232,612**	179,838,115
Cash flows from investing activities			
Net cash received from disposal of fixed assets		**2,618,284**	2,247,734
Net cash received from disposal of subsidiaries	5(48)(h)	**6,796,383**	–
Cash received relating to other investing activities	5(48)(c)	**1,669,829,279**	1,882,578,087
Sub-total of cash inflows		**1,679,243,946**	1,884,825,821
Cash paid to acquire fixed assets, intangible assets and other long-term assets		**(40,385,647)**	(38,962,981)
Net cash paid to acquire Joint venture		**–**	(24,000,000)
Cash paid relating to other investing activities	5(48)(d)	**(1,660,000,000)**	(1,869,900,000)
Sub-total of cash outflows		**(1,700,385,647)**	(1,932,862,981)
Net cash flows from investing activities		**(21,141,701)**	(48,037,160)
Cash flows from financing activities			

Consolidated Cash Flow Statements

For the year ended 31 December 2019
(All amounts in RMB Yuan unless otherwise stated)

	Note	2019 Consolidated	2018 Consolidated
Cash received from capital contributions		–	12,294,000
Including: Cash received from capital contributions by minority shareholders of subsidiaries		–	12,294,000
Cash received from borrowings		151,567,573	150,000,000
Sub-total of cash inflows		**151,567,573**	162,294,000
Cash repayments of borrowings		(150,000,000)	(140,000,000)
Cash payments for distribution of dividends, profits or interest expenses		(70,197,535)	(34,181,172)
Cash payments relating to other financing activities	5(48)(e)	(190,939,136)	–
Sub-total of cash outflows		**(411,136,671)**	(174,181,172)
Net cash flows from financing activities		**(259,569,098)**	(11,887,172)
Effect of foreign exchange rate changes on cash and cash equivalents		**56,181**	164,485
Net increase in cash and cash equivalents	5(48)(g)	**(11,422,006)**	120,078,268
Add: Cash and cash equivalents at beginning of year	5(48)(g)	588,221,416	468,143,148
Cash and cash equivalents at end of year	5(48)(g)	**576,799,410**	588,221,416

The accompanying notes form an integral part of these financial statements.

Legal representative: Wang Haibo

Principal in charge of accounting: Xue Yan

Head of accounting department: Zhang Wen

COMPANY CASH FLOW STATEMENTS

For the year ended 31 December 2019
(All amounts in RMB Yuan unless otherwise stated)

	Note	2019 Company	2018 Company
Cash flows from operating activities			
Cash received from sales of goods or rendering of services		**880,930,380**	549,902,760
Cash received relating to other operating activities		**35,324,213**	86,469,100
Sub-total of cash inflows		**916,254,593**	636,371,860
Cash paid for goods and services		**(410,442,341)**	(233,330,047)
Cash paid to and on behalf of employees		**(122,495,712)**	(98,087,543)
Payments of taxes and surcharges		**(97,240,910)**	(75,884,769)
Cash paid relating to other operating activities		**(54,188,626)**	(59,842,452)
Sub-total of cash outflows		**(684,367,589)**	(467,144,811)
Net cash flows from operating activities		**231,887,004**	169,227,049
Cash flows from investing activities			
Net cash received from disposal of fixed assets		**1,523,215**	1,409,124
Net cash received from disposal of subsidiaries		**7,483,143**	–
Cash received relating to other investing activities		**1,677,239,113**	1,890,545,052
Sub-total of cash inflows		**1,686,245,471**	1,891,954,176
Cash paid to acquire fixed assets, intangible assets		**(29,122,928)**	(28,869,290)
Cash paid to acquire investments		**(178,000,000)**	(7,506,000)
Net cash paid to acquire subsidiaries		**–**	(11,000,000)
Net cash paid to acquire Joint venture		**–**	(24,000,000)
Cash paid relating to other investing activities		**(1,660,000,000)**	(1,869,900,000)
Sub-total of cash outflows		**(1,867,122,928)**	(1,941,275,290)
Net cash flows from investing activities		**(180,877,457)**	(49,321,114)

Company Cash Flow Statements

For the year ended 31 December 2019
(All amounts in RMB Yuan unless otherwise stated)

	Note	2019 Company	2018 Company
Cash flows from financing activities			
Cash received from borrowings		**148,942,573**	150,000,000
Cash repayments of borrowings		**(150,000,000)**	(140,000,000)
Cash payments for distribution of dividends, profits or interest expenses		**(70,197,535)**	(34,181,167)
Cash payments relating to other financing activities		**(10,278,403)**	–
Sub-total of cash outflows		**(230,475,938)**	(174,181,167)
Net cash flows from financing activities		**(81,533,365)**	(24,181,167)
Effect of foreign exchange rate changes on cash and cash equivalents		**–**	–
Net increase in cash and cash equivalents		**(30,523,818)**	95,724,768
Add: Cash and cash equivalents at beginning of year		**554,560,168**	458,835,400
Cash and cash equivalents at end of year		**524,036,350**	554,560,168

The accompanying notes form an integral part of these financial statements.

Legal representative:	Principal in charge of accounting:	Head of accounting department:
Wang Haibo	Xue Yan	Zhang Wen

CONSOLIDATED STATEMENT OF CHANGES IN OWNERS' EQUITY

For the year ended 31 December 2019
(All amounts in RMB Yuan unless otherwise stated)

Item	Attributable to equity owners of the Company						
	Share capital	Capital surplus	Other comprehensive income	Surplus reserves	Undistributed profits (Restated)	Minority interests	Total owners' equity (Restated)
Balance at 1 January 2018	92,300,000	412,293,387	(396,101)	46,150,000	322,042,326	20,091,617	892,481,229
Movements for the year ended 31 December 2018							
Total comprehensive income							
Net profit	–	–	–	–	112,129,171	(21,215,995)	90,913,176
Other comprehensive income	–	–	(13,610,315)	–	–	–	(13,610,315)
Capital contribution and withdrawal by owners							
Capital contribution by owners	–	–	–	–	–	12,294,000	12,294,000
Others	–	–	–	–	–	43,883	43,883
Profit distribution							
Profit distribution to equity owners	–	–	–	–	(27,690,000)	–	(27,690,000)
Balance at 31 December 2018	92,300,000	412,293,387	(14,006,416)	46,150,000	406,481,497	11,213,505	954,431,973
Balance at 1 January 2019	**92,300,000**	**412,293,387**	**(14,006,416)**	**46,150,000**	**406,481,497**	**11,213,505**	**954,431,973**
Movements for the year ended 31 December 2018							
Total comprehensive income							
Net profit	**–**	**–**	**–**	**–**	**227,357,983**	**(6,703,888)**	**220,654,095**
Other comprehensive income	**–**	**–**	**56,181**	**–**	**–**	**–**	**56,181**
Capital contribution and withdrawal by owners							
Profit distribution							
Profit distribution to equity owners	**–**	**–**	**–**	**–**	**(64,610,000)**	**–**	**(64,610,000)**
Acquisition of minority shareholders in the company (Note 5(28))	**–**	**(174,497,253)**	**–**	**–**	**–**	**(3,502,747)**	**(178,000,000)**
Others	**–**	**–**	**–**	**–**	**–**	**615,865**	**615,865**
Balance at 31 December 2019	**92,300,000**	**237,796,134**	**(13,950,235)**	**46,150,000**	**569,229,480**	**1,622,735**	**933,148,114**

The accompanying notes form an integral part of these financial statements.

Legal representative: Wang Haibo

Principal in charge of accounting: Xue Yan

Head of accounting department: Zhang Wen

COMPANY STATEMENT OF CHANGES IN OWNERS' EQUITY

For the year ended 31 December 2019
(All amounts in RMB Yuan unless otherwise stated)

Item	Share capital	Capital surplus	Surplus reserves	Undistributed profits (Restated)	Total owners' equity (Restated)
Balance at 1 January 2018	92,300,000	315,986,490	46,150,000	452,122,990	906,559,480
Movements for the year ended 31 December 2018					
Total comprehensive income					
Net profit	–	–	–	97,572,907	97,572,907
Profit distribution					
Profit distribution to equity owners	–	–	–	(27,690,000)	(27,690,000)
Balance at 31 December 2018	92,300,000	315,986,490	46,150,000	522,005,897	976,442,387
Equity method adjustment of the disposal subsidiary	–	–	–	(8,800,000)	(8,800,000)
Balance at 1 January 2019	**92,300,000**	**315,986,490**	**46,150,000**	**513,205,897**	**967,642,387**
Movements for the year ended 31 December 2019					
Total comprehensive income					
Net profit	**–**	**–**	**–**	**184,314,761**	**184,314,761**
Profit distribution					
Profit distribution to equity owners	**–**	**–**	**–**	**(64,610,000)**	**(64,610,000)**
Balance at 31 December 2019	**92,300,000**	**315,986,490**	**46,150,000**	**632,910,658**	**1,087,347,148**

The accompanying notes form an integral part of these financial statements.

Legal representative: Wang Haibo

Principal in charge of accounting: Xue Yan

Head of accounting department: Zhang Wen

1 GENERAL INFORMATION

Shanghai Fudan-Zhangjiang Bio-Pharmaceutical Co., Ltd. (the "Company") was established in the People's Republic of China ("PRC") on 11 November 1996 as a limited liability company with an initial registered capital of RMB5,295,000.

Pursuant to a series of capital injections on 10 November 1997, 11 May 2000 and 12 September 2000 from the existing or the then shareholders of the Company and the capitalisation of reserves of the Company on 11 December 1997 and 20 October 2000, the registered capital of the Company was increased from RMB5,295,000 to RMB53,000,000.

On 8 November 2000, the Company was transformed into a joint stock company with limited liability. The share capital of the company was RMB 53,000,000, divided into 53,000,000 ordinary shares, with a par value of RMB 1.00 each.

On 20 January 2002, all of the shares of the Company, being 53,000,000 ordinary shares with a par value of RMB1.00 each, were subdivided into 530,000,000 ordinary shares ("Domestic Shares") with a par value of RMB0.10 each.

On 13 August 2002, the trading of the newly issued 198,000,000 ordinary shares ("H Shares") of RMB0.10 each of the Company commenced on the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), including 18,000,000 H Shares converted from Domestic Shares. Therefore, the share capital of the Company was increased to RMB71,000,000.

On 4 February 2013, the Company completed a placing of 142,000,000 H Shares with a par value of RMB0.10 each at a price of HKD1.70, and the share capital of the Company was increased to RMB85,200,000.

On 29 June 2012, the Company adopted a restricted share scheme. Pursuant to the scheme, the Company granted a total of 71,000,000 Domestic Shares as restricted shares to directors, senior management, mid-level management and key research staff of the Group on 24 June 2013 and 21 October 2013 at a price of RMB0.51 with a par value of RMB0.10 each. Upon completion of the grants, the share capital of the Company was increased to RMB92,300,000.

On 16 December 2013, the Company transferred its H Shares listing from GEM to the Main Board of the Stock Exchange.

The Company and its subsidiaries (together, the "Group") are principally engaged in the research, development and selling of self-developed bio-pharmaceutical know-how, carrying out contracted research for customers, manufacturing and selling of medical products and providing other medical services in the PRC.

Subsidiaries comprised in the consolidated financial statements are set out in Note 7.

These financial statements are authorised for issue by the Board of Directors of the Company on 28 February 2020.

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

The Group applies the accounting policies and accounting estimates based on its business operating characteristics, including measurement of financial instruments (Note 2(8)), valuation of inventories (Note 2(9)), depreciation of fixed assets and amortization of intangible assets (Note 2 (11) (13)), judgments to the criteria for capitalization of development expenditures (Note 2 (13)), recognition and measurement of revenue (Note 2 (18)), etc.

Significant judgements to determine the critical accounting policies are disclosed in Note 2(24).

(1) Basis of preparation

The financial statements are prepared in accordance with the Accounting Standard for Business Enterprises – Basic Standard, the specific accounting standards and other relevant regulations issued by the Ministry of Finance on 15 February 2006 and in subsequent periods (hereafter collectively referred to as "the Accounting Standard for Business Enterprises" or "CAS") and the disclosure requirements in the Preparation Convention of Information Disclosure by Companies Offering Securities to the Public No.15 — General Rules on Financial Reporting issued by the China Securities Regulatory Commission.

The financial statements are prepared on a going concern basis.

The new Hong Kong Companies Ordinance has come into force since 3 March 2014. Certain disclosures in the financial statements have been included to reflect the requirements under the new Hong Kong Companies Ordinance.

(2) Statement of compliance with the Accounting Standard for Business Enterprises

The financial statements of the Company for the year ended 31 December 2019 are in compliance with the Accounting Standards for Business Enterprises, and truly and completely present the consolidated and the Company's financial position of the Company as at 31 December 2019 and of their financial performance, cash flows and other information for the year then ended.

(3) Accounting year

The Company's accounting year starts on 1 January and ends on 31 December.

(4) Recording currency

The Company's recording currency is Renminbi (RMB). The recording currency of the Company's subsidiaries is determined based on the primary economic environment in which they operate. The financial statements are presented in RMB.

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

(5) Preparation of consolidated financial statements

The consolidated financial statements comprise the financial statements of the Company and all of its subsidiaries.

Subsidiaries are consolidated from the date on which the Group obtains control and are de-consolidated from the date that such control ceases.

In preparing the consolidated financial statements, where the accounting policies and the accounting periods of the Company and subsidiaries are inconsistent, the financial statements of the subsidiaries are adjusted in accordance with the accounting policies and the accounting period of the Company. For subsidiaries acquired from business combinations involving enterprises not under common control, the individual financial statements of the subsidiaries are adjusted based on the fair value of the identifiable net assets at the acquisition date.

All significant intra-group balances, transactions and unrealised profits are eliminated in the consolidated financial statements. The portion of subsidiaries' owners' equity and the portion of subsidiaries' net profits and losses and comprehensive incomes for the period not attributable to the Company are recognised as minority interests, net profit attributed to minority interests and total comprehensive incomes attributed to minority interests, and presented separately in the consolidated financial statements under owners' equity, net profits and total comprehensive income respectively. Unrealised profits and losses resulting from the sale of assets by the Company to its subsidiaries are fully eliminated against net profit attributable to owners of the parent. Unrealised profits and losses resulting from the sale of assets by a subsidiary to the Company are eliminated and allocated between net profit attributable to owners of the parent and net profit attributed to minority interests in accordance with the allocation proportion of the parent in the subsidiary. Unrealised profits and losses resulting from the sale of assets by one subsidiary to another are eliminated and allocated between net profit attributable to owners of the parent and net profit attributed to minority interests in accordance with the allocation proportion of the parent in the subsidiary.

If the accounting treatment of a transaction is inconsistent in the financial statements at the Group level and at the Company or its subsidiary level, adjustment will be made from the perspective of the Group.

(6) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, deposits that can be readily drawn on demand, and short-term and highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

(7) Foreign currency translation

(a) Foreign currency transactions

Foreign currency transactions are translated into recording currency using the exchange rates prevailing at the dates of the transactions.

At the balance sheet date, monetary items denominated in foreign currencies are translated into recording currency using the spot exchange rates on the balance sheet date. Exchange differences arising from these translations are recognised in profit or loss for the current period, except for those attributable to foreign currency borrowings that have been taken out specifically for acquisition or construction of qualifying assets, which are capitalised as part of the cost of those assets. Non-monetary items denominated in foreign currencies that are measured at historical costs are translated at the balance sheet date using the spot exchange rates at the date of the transactions. The effect of exchange rate changes on cash is presented separately in the cash flow statement.

(b) Translation of foreign currency financial statements

The asset and liability items in the balance sheets for overseas operations are translated at the spot exchange rates on the balance sheet date. Among the owners' equity items, the items other than "undistributed profits" are translated at the spot exchange rates of the transaction dates. The income and expense items in the income statements of overseas operations are translated at the spot exchange rates of the transaction dates. The differences arising from the above translation are presented in other comprehensive income. The cash flows of overseas operations are translated at the spot exchange rates on the dates of the cash flows. The effect of exchange rate changes on cash is presented separately in the cash flow statement.

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

(8) Financial instruments

A financial instrument refers to any contract that gives rise to a financial asset of one party and a financial liability or equity instrument of another party. The Group recognises a financial asset or a financial liability when the Group becomes a party to the contractual provisions of financial instrument.

(a) Financial asset

(i) Classification and measurement

The financial assets of the Group are classified on initial recognition based on the business model of the Group's financial asset management and the characteristics of the financial assets' contractual cash flows: 1) financial assets at amortised cost; 2) financial assets at fair value through OCI; and 3) financial assets at fair value through profit or loss.

Financial assets are measured at fair value on initial recognition. In the case of financial assets at fair value through profit or loss, the relevant transaction costs are directly charged to profit or loss of the current period; transaction costs relating to financial assets of other categories are included in the amount initially recognised. Notes receivable and accounts receivables derived from sales of goods or rendering of services, which do not contain or consider significant financing components are recognised at the amount that the Group is entitled to collect.

Debt instruments

Debt instruments held by the Group are instruments that meet the definition of financial liabilities from the issuers' perspective of the issuers, and are measured by the following three ways.

Amortised cost

The objective of the Group's business model for managing the financial assets is to collect contractual cash flow. The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. Interest income from these financial assets is included in finance income using the effective interest rate method. Such financial assets mainly include cash at bank and on hand, notes receivables, accounts receivables, other receivables.

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

(8) Financial instruments (continued)

(a) Financial asset (continued)

(i) Classification and measurement (continued)

Fair value through OCI

The objective of the Group's business model for managing the financial assets are both collecting contractual cash flows and selling financial asset. The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. The assets are measured at fair value. Interest income, foreign exchange revaluation and impairment losses or reversals are recognised in the income statement. Other fair value changes are recognised in OCI. Such financial assets are presented as financing receivables, other debt investments. The debt investments with maturity within 1 year (inclusive) since the balance sheet date are presented in current portion of non-current assets; debts investments with maturity within 1 year (inclusive) when they are acquired are presented in other current assets.

Fair value through profit or loss

Except for the financial assets at amortised cost and financial assets at fair value through OCI, the Group has classified the remaining financial assets as financial assets at fair value through profit or loss. They are presented in financial assets held for trading. In order to eliminate or significantly reduce accounting mismatch on initial recognition, the Group designates part of financial assets as financial assets at fair value through profit or loss. The assets with maturity more than 1 year and expected to be held for more than 1 year are presented in other non-current financial assets.

Equity instruments

Investments in equity instruments over which the Group exerts no control, joint control or significant influence, are presented as financial assets held for trading and measured at fair value through profit or loss. The assets expected to be held for more than 1 year are presented in other non-current financial assets.

In addition, the Group designates part of financial assets which are not held for trading as financial assets at fair value through OCI, presented in other equity instrument investment. The dividend income is recognised in profit or loss.

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

(8) Financial instruments (continued)

(a) Financial asset (continued)

(ii) Impairment

On the basis of expected credit losses, the Group recognises impairment of financial assets at amortised cost, debt instrument investments, contract assets, lease receivables and financial guarantee contracts at fair value through OCI and other financial assets.

The measurement of expected credit loss reflects the probability-weighted amount of the present value of the difference between contractual cash flows receivable and expected cash flows. Also, the Group consider reasonable and supportable information about past events, current situation and forecasts of future economic conditions as well as take default risk as the weight when measuring expected credit loss.

The Group assesses the expected credit losses at different stages respectively at each balance sheet date. At stage 1: in the case that the credit risk on a financial instrument has not increased significantly since initial recognition, the Group measures the loss allowance of the financial instrument at an amount equal to 12-month expected credit losses; At stage 2: in the case that the credit risk on that financial instrument has increased significantly since initial recognition, but a credit impairment has not occurred, the Group measures the loss allowance for a financial instrument at an amount equal to the lifetime expected credit losses; At stage 3: in the case that the impairment loss has incurred since initial recognition, the Group measures the loss allowance for a financial instrument at an amount equal to the lifetime expected credit losses.

For financial instruments with low credit risk as at balance sheet date, the Group assumes the credit risk has not increased significantly since initial recognition, and measures the loss allowance for the financial instrument at an amount equal to 12-month expected credit losses.

For the financial instruments at stage 1 and stage 2, and those with low credit risk, interest income is calculated based on gross carrying amount without deduction of impairment provision and the effective interest rate. For the financial instruments at stage 3, interest income is calculated based on amortised cost (gross carrying amounts less the impairment provision) and the effective interest rate.

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

(8) Financial instruments (continued)

(a) Financial asset (continued)

(ii) Impairment (continued)

Regarding notes receivables, accounts receivables, receivables financing and contract assets formed as a result of daily operations such as sales of goods and provision of labor services, regardless of whether there is a significant financing component, the Group will use the expected credit losses throughout its lifetime Measure loss reserves. For lease receivables, the Group also chooses to measure loss provisions based on expected credit losses throughout its lifetime.

When the expected credit loss information could not be assessed at reasonable cost. The Group classifies receivables into multiple groups of receivables. The criteria of classification of groups are based on the credit risk characteristics, as follows:

Group of notes receivables	Bank acceptance notes
Group of accounts receivables	All trade receivables
Group of other receivables 1	Amounts due from subsidiaries
Group of other receivables 2	Amounts due from related parties
Group of other receivables 3	Deposits and guarantees
Group of other receivables 4	Staff advances
Group of other receivables 5	Others

For groups of notes receivables, the Group calculates the expected credit loss by referring to historical credit loss experience, current situation and forecasts of economic conditions and based on the exposure at default and lifetime expected credit loss ratio.

For groups of accounts receivables, the Group calculates the expected credit loss by referring to historical credit loss experience, current situation and forecasts of economic conditions and based on the comparison table between accounts receivables' aging and lifetime expected credit loss ratio.

For groups of other receivables, the Group calculates the expected credit loss by referring to historical credit loss experience, current situation and forecasts of economic conditions and based on default risk exposure and expected credit loss rate over the next 12 months or the entire duration.

The Group recognizes provision for losses or reversal of losses in profit or loss for the current period. For debt instruments at fair value through OCI, the Group recognizes impairment losses or gains into profit or loss for the current period and adjusts OCI in the meanwhile.

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

(8) Financial instruments (continued)

(a) Financial asset (continued)

(iii) De-recognition

A financial asset is derecognised when any of the following criteria is met: (1) the contractual rights to receive the cash flows from the financial asset expire; or (2) the financial asset has been transferred and all the risks and rewards of ownership of the financial asset have substantially been transferred to the transferee; or (3) although the Group neither transfers nor substantially retains all the risks and rewards of ownership of the financial asset, the financial asset has been transferred and the Group has not retained control of the financial asset.

On de-recognition of other equity instrument investments, the difference between the carrying amount and the sum of the consideration received and the cumulative changes in fair value that have been recognised directly in equity, shall be transferred to retained earnings. On de-recognition of other financial assets, the difference between the carrying amount and the sum of the consideration received and the cumulative changes has been recognised in OCI, shall be recognised in profit or loss.

(b) Financial liability

Financial liabilities are classified into financial liabilities at amortised cost and financial liabilities at fair value through profit or loss at initial recognition.

The financial liabilities of the Group mainly promise financial liabilities at amortised cost, including notes payable and accounts payable, other payables and borrowings, etc. The financial liabilities are initially measured at fair value exclusive transaction costs and are subsequently measured at effective interest rate method. Financial liabilities with maturities within 1 year (inclusive) are presented in current liabilities. Financial liabilities with maturities more than 1 year but are due within 1 year (inclusive) at the balance sheet date are presented in current portion of non-current liabilities. Others are presented in non-current liabilities.

A financial liability is derecognised or partly derecognised when the current obligation is discharged or partly discharged. The difference between the carrying amount of the derecognised part of the financial liability and the consideration paid is recognised in profit or loss.

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

(8) Financial instruments (continued)

(c) Determination of fair value of financial instruments

The fair value of a financial instrument that is traded in an active market is determined at the quoted price in the active market. The fair value of a financial instrument that is not traded in an active market is determined by using a valuation technique when it is applicable under current conditions and there are enough available data and other information to support. Those inputs should be consistent with the inputs a market participant would use when pricing the asset or liability, and should maximize the use of relevant observable inputs. When related observable inputs can't be acquired or are not feasible to be acquired, then use unobservable inputs.

(9) Inventories

(a) Classification

Inventories include raw materials, work in progress, finished goods and turnover materials, and are stated at the lower of cost and net realisable value.

(b) Costing of inventories

Cost is determined using the weighted average method. The cost of finished goods and work in progress comprise raw materials, direct labour and systematically allocated production overhead based on the normal production capacity.

(c) Basis for determining net realizable values of inventories and method for making provision for decline in the value of inventories

Provision for decline in the value of inventories is determined at the excess amount of the carrying amounts of the inventories over their net realizable value. Net realizable value is determined based on the estimated selling price in the ordinary course of business, less the estimated costs to completion and estimated costs necessary to make the sale and related taxes.

(d) The Group adopts the perpetual inventory system.

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

(9) Inventories (continued)

(e) Amortization method of low value consumables and packaging materials

Turnover materials include low value consumables and packaging materials. Low value consumables are amortised into expenses based upon numbers of usage, and the packaging materials are expensed when issued.

(10) Long-term equity investments

Long-term equity investments comprise the Company's long-term equity investments in its subsidiaries, and the Group's long-term equity investments in its joint ventures and associates.

Subsidiaries are the investees over which the Company is able to exercise control. A joint venture is a joint arrangement which is structured through a separate vehicle over which the Group has joint control together with other parties and only has rights to the net assets of the arrangement based on legal forms, contractual terms and other facts and circumstances; An associate is the investee over which the Group has significant influence on its financial and operating policy decisions.

Investments in subsidiaries are presented in the Company's financial statements using the cost method, and are adjusted to the equity method when preparing the consolidated financial statements. Investments in joint ventures and associates are accounted for using the equity method.

(a) Determination of investment cost

For long-term equity investment acquired through a business combination involving enterprises not under common control, the investment cost shall be the combination cost.

For long-term equity investments acquired not through a business combination: for long-term equity investment acquired by payment in cash, the initial investment cost shall be the purchase price actually paid; for long-term equity investments acquired by issuing equity securities, the initial investment cost shall be the fair value of the equity securities issued.

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

(10) Long-term equity investments (continued)

(b) Subsequent measurement and recognition of related profit and loss

Long-term equity investments accounted for using the cost method are measured at initial investment cost, and cash dividends or profit distributions declared by the investees are recognised as investment income in profit or loss.

For long-term equity investments accounted for using the equity method, where the initial investment cost of a long-term equity investment exceeds the Group's share of the fair value of the investee's identifiable net assets at the acquisition date, the long-term equity investment is measured at the initial investment cost; where the initial investment cost is less than the Group's share of the fair value of the investee's identifiable net assets at the acquisition date, the difference is included in profit or loss and the cost of the long-term equity investment is adjusted upwards accordingly.

For long-term equity investments accounted for using the equity method, the Group recognises the investment income according to its share of net profit or loss of the investee. The Group discontinues recognising its share of net losses of an investee after the carrying amount of the long-term equity investment together with any long-term interests that, in substance, form part of the investor's net investment in the investee are reduced to zero. However, if the Group has obligations for additional losses and the criteria with respect to recognition of provisions under the accounting standards on contingencies are satisfied, the Group continues recognising the investment losses and the provisions. For changes in shareholders' equity of the investee other than those arising from its net profit or loss, the Group records its proportionate share directly into capital surplus, OCI, and profit distribution. The carrying amount of the investment is reduced by the Group's share of the profit distribution or cash dividends declared by an investee. The unrealised profit or loss arising from the intra-group transactions amongst the Group and its investees is eliminated in proportion to the Group's equity interests in the investees, and then based on which the investment income is recognised. For the loss on the intra-group transaction amongst the Group and its investees attributable to asset impairment, any unrealised loss is not eliminated.

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

(10) Long-term equity investments (continued)

(c) Basis for determining existence of control, joint control and significant influence over investees

Control is the power to govern an investee, so as to obtain variable returns from its involvement with the investee, and has the ability to use its power over the investee to affect the amount of the investor's returns.

Joint control is a contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

(d) Impairment of long-term equity investments

The carrying amounts of long-term equity investments in subsidiaries, joint ventures and associates are reduced to the recoverable amounts when the recoverable amounts are below their carrying amounts (Note 2(15)).

(e) Disposal part of the equity investment and loss control of the subsidiary

Disposed of the equity investment in the Company's financial statements is charged to profit or loss of the current period according to the difference between its book value and actual obtained price; Meanwhile, the residual equity is recognized as long-term equity investment or other related financial assets according to its book value. Relevant accounting treatment, which specifies the conversion from the cost method to the equity method, will be carried out if the residual equity after disposal has material impacts on original subsidiary company.

In the consolidated financial statements, the residual equity is remeasured at fair value at the date of losing control. The difference between sum of the consideration from equity disposal and the fair value of residual equity, and sum of the portion of net assets calculated according to the original shareholding ratio on a continuously basis from the purchase date and goodwill, is charged to investment income of losing control of the current period. Additionally, the changes of other owners' equity and other comprehensive income, relating with the equity investment of the original subsidiary, will transfer to the current profit or loss when losing control. However, other comprehensive income arising from the re-measurement of net liabilities or changes in net assets of the benefit plan by the invested party will all be excluded.

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

(11) Fixed assets

(a) Recognition and initial measurement of fixed assets

Fixed assets comprise buildings, machinery and equipment, motor vehicles, computers and electronic equipment and office equipment.

Fixed assets are recognised when the economic benefits associated with them are likely to flow into the Group and their costs can be measured reliably. Fixed assets purchased or constructed by the Group are initially measured at cost at the time of acquisition.

Subsequent expenditures incurred for a fixed asset are included in the cost of the fixed asset when it is probable that the associated economic benefits will flow to the Group and the related cost can be reliably measured. The carrying amount of the replaced part is derecognised. All the other subsequent expenditures are recognised in profit or loss for the period in which they are incurred.

(b) Depreciation method of fixed assets

Fixed assets are depreciated using the straight-line method to allocate the cost of the assets to their estimated residual values over their estimated useful lives. For the fixed assets that have been provided for impairment loss, the related depreciation charge is prospectively determined based upon the adjusted carrying amounts over their remaining useful lives.

The estimated useful lives, the estimated residual values expressed as a percentage of cost and the annual depreciation rates of fixed assets are as follows:

	Estimated useful lives	Estimated net residual values	Annual depreciation rates
Buildings	10 to 20 years	0%-10%	4.50% to 9.00%
Machinery and equipment	3 to 10 years	0%-10%	9.00% to 33.33%
Motor vehicles	5 to 8 years	0%-10%	11.25% to 20.00%
Computers and electronic equipment	5 years	0%-10%	18.00% to 20.00%

The estimated useful life and the estimated net residual value of a fixed asset and the depreciation method applied to the asset are reviewed, and adjusted as appropriate at each year-end.

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

(11) Fixed assets (continued)

(c) When the recoverable amount of a fixed asset is lower than its book value, the book value is written down to the recoverable amount (Note 2(15)).

(d) Disposal of fixed assets

A fixed asset is derecognised on disposal or when no future economic benefits are expected from its use or disposal. The amount of proceeds from disposals on sale, transfer, retirement or damage of a fixed asset net of its carrying amount and related taxes and expenses is recognised in profit or loss for the current period.

(12) Construction in progress

Construction in progress is measured at actual cost. Actual cost comprises construction costs, installation costs, borrowing costs that are eligible for capitalisation and other costs necessary to bring the fixed assets ready for their intended use. Construction in progress is transferred to fixed assets when the assets are ready for their intended use, and depreciation is charged starting from the following month. When the recoverable amount of a project under construction is lower than its book value, the book value is written down to the recoverable amount (Note 2(15)).

(13) Intangible assets

Intangible assets include land use rights, proprietary technologies, research and development technology (capitalized development expenditures of the Group's internal research and development projects), licenses and software, etc., and are measured at cost.

(a) Land use rights

Land use rights acquired and land use rights acquired by way of payment of land transfer payments are recorded at the actual payment and are amortized on a straight-line basis over a useful life of 47-50 years. Where it is difficult to reasonably allocate the land and building purchase price between the land use right and the building, all of them shall be regarded as fixed assets.

(b) Proprietary technology

Proprietary technology is accounted for at the price actually paid, and is amortized on average over the estimated useful life of 5-10 years.

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

(13) Intangible assets (continued)

(c) Research and development technology

The research and development technology will be amortized according to the estimated benefit period of 5-10 years from the time when the technology is ready for its intended use.

(d) License

The license is amortized on the basis of an estimated useful life of 27 years.

(e) Software

Software and is amortized on average over the estimated useful life of 3-10 years.

(f) Periodical review of useful life and amortisation method

For an intangible asset with a finite useful life, review of its useful life and amortisation method is performed at each year-end, with adjustment made as appropriate.

(g) Research and development

The expenditure on an internal research and development project is classified into expenditure on the research phase and expenditure on the development phase based on its nature and whether there is material uncertainty that the research and development activities can form an intangible asset at the end of the project.

Expenditure on the research phase is recognised in profit or loss in the period in which it is incurred. Expenditure on the development phase is capitalised only if all of the following conditions are satisfied:

- it is technically feasible to complete the intangible asset so that it will be available for use or sale;
- management intends to complete the intangible asset, and use or sell it;
- it can be demonstrated how the intangible asset will generate economic benefits;
- there are adequate technical, financial and other resources to complete the development and the ability to use or sell the intangible asset; and

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

(13) Intangible assets (continued)

(g) Research and development (continued)

- the expenditure attributable to the intangible asset during its development phase can be reliably measured.

Other development expenditures that do not meet the conditions above are recognised in profit or loss in the period in which they are incurred. Development costs previously recognised as expenses are not recognised as an asset in a subsequent period. Capitalised expenditure on the development phase is presented as development costs in the balance sheet and transferred to intangible assets at the date that the asset is ready for its intended use. At the end of the period, the Group reviews the capitalized development expenditures and recognizes the development expenditures of related development projects that no longer meet the capitalization conditions in the current profit and loss.

(h) Impairment of intangible assets

When the recoverable amount of an intangible asset is lower than its book value, the book value is written down to the recoverable amount (Note 2(15)).

(14) Long-term prepaid expenses

Long-term prepaid expenses include expenditures that have been incurred but should be recognised as expenses over more than one year in the current and subsequent periods. Long-term prepaid expenses are amortised on the straight-line basis over the expected beneficial period and are presented at actual expenditure net of accumulated amortisation.

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

(15) Impairment of long-term assets

Fixed assets, construction in progress, intangible assets with finite useful lives and long-term equity investments in subsidiaries, joint ventures and associates are tested for impairment if there is any indication that the assets may be impaired at the balance sheet date; intangible assets that are not yet available for their intended use are tested for impairment at least annually, irrespective of whether there is any indication of impairment. If the result of the impairment test indicates that the recoverable amount of an asset is less than its carrying amount, a provision for impairment and an impairment loss are recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and the present value of the future cash flows expected to be derived from the asset. Provision for asset impairment is determined and recognised on the individual asset basis. If it is not possible to estimate the recoverable amount of an individual asset, the recoverable amount of a group of assets to which the asset belongs is determined. A group of assets is the smallest group of assets that is able to generate independent cash inflows.

Goodwill that is separately presented in the financial statements is tested at least annually for impairment, irrespective of whether there is any indication that it may be impaired. In conducting the test, the carrying value of goodwill is allocated to the related asset group or groups of asset groups which are expected to benefit from the synergies of the business combination. If the result of the test indicates that the recoverable amount of an asset group or a group of asset groups, including the allocated goodwill, is lower than its carrying amount, the corresponding impairment loss is recognised. The impairment loss is first deducted from the carrying amount of goodwill that is allocated to the asset group or group of asset groups, and then deducted from the carrying amounts of other assets within the asset group or group of asset groups in proportion to the carrying amounts of assets other than goodwill.

Once the above asset impairment loss is recognised, it will not be reversed for the value recovered in the subsequent periods.

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

(16) Employee benefits

Employee benefits refer to all forms of consideration or compensation given by the Group in exchange for service rendered by employees or for termination of employment relationship, which include short-term employee benefits, post-employment benefits, termination benefits and other long-term employee benefits.

(a) Short-term employee benefits

Short-term employee benefits include wages or salaries, bonus, allowances and subsidies, staff welfare, premiums or contributions on medical insurance, work injury insurance and maternity insurance, housing funds, union running costs and employee education costs and etc. The short-term employee benefits actually occurred are recognised as a liability in the accounting period in which the service is rendered by the employees, with a corresponding charge to the profit or loss for the current period or the cost of relevant assets.

(b) Post-employment benefits

The Group classifies post-employment benefit plans as either defined contribution plans or defined benefit plans. Defined contribution plans are post-employment benefit plans under which the Group pays fixed contributions into a separate fund and will have no obligation to pay further contributions; and defined benefit plans are post-employment benefit plans other than defined contribution plans. During the reporting period, the Group's post-employment benefits mainly include the premiums or contributions on basic pensions and unemployment insurance, both of which belong to defined contribution plans.

Basic pensions

The Group's employees participate in the basic pension plan set up and administered by local authorities of Ministry of Human Resource and Social Security. Monthly payments of premiums on the basic pensions are calculated according to the bases and percentage prescribed by the relevant local authorities. When employees retire, the relevant local authorities are obliged to pay the basic pensions to them. The amounts based on the above calculations are recognised as liabilities in the accounting period in which the service has been rendered by the employees, with a corresponding charge to the profit or loss for the current period or the cost of relevant assets.

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

(17) Profit distribution

Proposed profit distribution is recognised as a liability in the period in which it is approved by the shareholders' meeting.

(18) Revenue

On the contract start date, the Group evaluates the contract, and identifies the individual performance obligations contained in the contract, and determines whether the individual performance obligations are performed within a certain period of time or at a certain point in time. Revenue is recognised separately for performance obligations.

When the customer obtains control of the related goods or services, the Group recognizes revenue based on the amount of consideration expected to be received. The part of that the Group has obtained unconditional collection rights is recognized as accounts receivable, and the provision for loss of receivables is recognized on the basis of expected credit loss corresponding loss recognition is based on expected credit losses (Note 2 (8)).

(a) Sales of goods

The Group recognizes revenue when delivers the pharmaceutical and diagnostic products to the carrier designated by the customer, or after the customer's acceptance or after control transfer to customer. The credit period granted to customers by the Group is determined based on the characteristics of customers' credit risk, which is consistent with industry practice and there is no significant financing component. The Group's obligations to transfer goods to customers for consideration received or receivable from customers are shown as contract liabilities.

(b) Technology transfer

The revenue from technology transfer is recognized when the contract execution clause is completed and control related to the technology is transferred.

Under the terms of the technology transfer contract, after the purchaser successfully commercializes the transferred technology, the Group can collect additional concessionary revenue or revenue sharing in the future. When the right to receive relevant revenue is established, concession revenue or revenue share will be recognized.

(c) Cooperative development, technical services and labor services

Revenue from the provision of cooperative development, technical services and labor services is recognised during the period of service provision. The Group will recognize the incremental costs incurred in obtaining labor contracts as contract acquisition costs. Contract acquisition costs with an amortization period of no more than one year are charged to profit or loss of the current period when occured.

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

(19) Government Grants

Government grants refer to the monetary or non-monetary assets obtained by the Group from the government, including tax return, financial subsidy and etc.

Government grants are recognised when the grants can be received and the Group can comply with all attached conditions. If a government grant is a monetary asset, it will be measured at the amount received or receivable. If a government grant is a non-monetary asset, it will be measured at its fair value. If it is unable to obtain its fair value reliably, it will be measured at its nominal amount.

Government grants related to assets refer to government grants which are obtained by the Group for the purposes of purchase, construction or acquisition of the long-term assets. Government grants related to income refer to the government grants other than those related to assets.

Government grants related to assets are either deducted against the carrying amount of the assets, or recorded as deferred revenue and recognised in profit or loss on a systemic basis over the useful lives of the assets. Government grants related to income that compensate the future costs, expenses or losses are recorded as deferred revenue and recognised in profit or loss, or deducted against related costs, expenses or losses in reporting the related expenses; government grants related to income that compensate the incurred costs, expenses or losses are recognised in profit or loss, or deuducted against related costs, expenses or losses directly in current period. The Group applies the presentation method consistently to the similar government grants in the financial statements.

Government grants that are related to ordinary activities are included in operating profit, otherwise, they are recorded in non-operating income or expenses.

(20) Deferred revenue

For the amounts obtained from third parties and subsequent benefit periods, including government subsidies and amounts obtained under long-term agreements, the Company records them into deferred revenue when obtained, and amortizes them into the current profit and loss systematically according to the expected income period.

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

(21) Deferred tax assets and deferred tax liabilities

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

Deferred tax assets are only recognised for deductible temporary differences, deductible losses and tax credits to the extent that it is probable that taxable profit will be available in the future against which the deductible temporary differences, deductible losses and tax credits can be utilised.

Deferred tax liabilities are recognised for temporary differences arising from investments in subsidiaries, associates and joint ventures, except where the Group is able to control the timing of reversal of the temporary difference, and it is probable that the temporary difference will not reverse in the foreseeable future. When it is probable that the temporary differences arising from investments in subsidiaries, associates and joint ventures will be reversed in the foreseeable future and that the taxable profit will be available in the future against which the temporary differences can be utilised, the corresponding deferred tax assets are recognised.

Deferred tax assets and liabilities are offset when:

- the deferred taxes are related to the same tax payer within the Group and the same taxation authority; and,

- that tax payer within the Group has a legally enforceable right to offset current tax assets against current tax liabilities.

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

(22) Lease

(a) Lease accounting policies adopted from 1 January 2019

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The Group as the lessee

At the commencement date, the Company shall recognise the right-of-use asset and measure the lease liability at the present value of the lease payments that are not paid at that date. Lease payments include fixed payments, the exercise price of a purchase option if the lessee is reasonably certain to exercise that option, and payments of penalties for terminating the lease if the lessee exercises an option to terminate the lease. Lease liabilities that are due within one year (inclusive) as from the balance sheet date are included in the current portion of non-current liabilities.

Right-of-use assets of the Company include buildings. Right-of-use assets are measured initially at cost which comprises the amount of the initial measurement of lease liabilities, any lease payments made at or before the commencement date and any initial direct costs, less any lease incentives received. If there is reasonable certainty that the Company will obtain ownership of the underlying asset by the end of the lease term, the asset is depreciated over its remaining useful life; otherwise the asset is depreciated over the shorter of the lease term and its remaining useful life. The carrying amount of the right-of-use asset is reduced to the recoverable amount when the recoverable amount is below the carrying amount

For short-term leases with a term of 12 months or less andleases of an individual asset (when new) of low value, the Company may, instead of recognising right-of-use assets and lease liabilities, include the lease payments in the cost of the underlying assets or in the profit or loss for the current period on a straight-line basis over the lease term.

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

(22) Lease (continued)

(b) Lease accounting policies adopted before 31 December 2018

A lease that transfers substantially all the risks and rewards incidental to ownership of an asset is a finance lease. An operating lease is a lease other than a finance lease.

Lease payments under an operating lease are recognised on a straight-line basis over the period of the lease, and are either capitalised as part of the cost of related assets, or charged as an expense for the current period.

(23) Segment information

The Group identifies operating segments based on the internal organisation structure, management requirements and internal reporting system, and discloses segment information of reportable segments which is determined on the basis of operating segments.

An operating segment is a component of the Group that satisfies all of the following conditions: (1) the component is able to earn revenues and incur expenses from its ordinary activities; (2) whose operating results are regularly reviewed by the Group's management to make decisions about resources to be allocated to the segment and to assess its performance, and (3) for which the information on financial position, operating results and cash flows is available to the Group. Two or more operating segments that have similar economic characteristics and satisfy certain conditions can be aggregated into one single operating segment.

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

(24) Critical accounting estimates and judgements

The Group continually evaluates the critical accounting estimates and key judgements applied based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

(a) Critical accounting judgements

The critical accounting estimates and key assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next accounting year are outlined below:

(i) Development costs

The Group's management determines the capitalisation of development costs based on their commercial and technological feasibility. It could change significantly as a result of technological innovations and the change of estimated profit projections.

Management will write off or write down deferred development costs when there are adverse changes in technological innovations or profit projections.

(ii) Government grants

When government grants are recognised, management determines whether they relate to past expenses, future costs or assets based on the nature of the grants and their purpose intended to compensate, and applies relevant accounting policies accordingly.

Government grants relating to costs are deferred, and management determines a proper calculation method and a relevant time period to recognise each of the grants in the consolidated statement of comprehensive income according to the intention of the grants and nature, duration and progression of the related projects so as to match the grants with costs they are intended to compensate. The calculation method and time period are reviewed and adjusted if appropriate, at the end of each reporting period.

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

(24) Critical accounting estimates and judgements (continued)

(b) Critical accounting estimates and key assumptions

(i) Useful life of fixed assets

The management of the Group determines the estimated useful lives of fixed assets. This estimate is based on experience with the actual useful lives of fixed assets of similar nature and function. This estimate may change significantly due to technological innovation or competitors taking action against severe industry cycles.

Management will increase the depreciation rate for assets with shorter useful lives than previously estimated, or give up and write off technically obsolete assets, or sell non-essential assets.

(ii) Impairment of receivables

The management of the Group tests the impairment of trade and other receivables and makes provisions for bad debts. This estimate is based on the customer's credit history and existing market conditions. Management will re-evaluate relevant impairment provisions at each balance sheet date.

(iii) Fair value of other equity instruments

The management of the Group uses valuation techniques to estimate the fair value of other equity instruments that are not traded in an active market. Management uses judgement to select simulated liquidation valuation models and assumptions to evaluate the fair value of other equity instruments at the end of the reporting period.

(iv) Impairment for investments in subsidiaries, joint ventures and associates

The Group need to make significant judgement when assessing whether subsidiaries, joint ventures and associates have been impaired. In making this judgment, the Group evaluates various factors, including the duration and amount of the fair value of an investment below its cost, the financial situation and short-term business prospects of the investee, industry performance, technological changes, cash flow from operating and financing activities and so on.

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

(24) Critical accounting estimates and judgements (continued)

(b) Critical accounting estimates and key assumptions (continued)

(v) Income tax and deferred revenue tax assets

The Group is subject to income taxes in numerous jurisdictions. There are some transactions and events for which the ultimate tax determination is uncertain during the ordinary course of business. Significant judgement is required from the Group in determining the provision for income taxes in each of these jurisdictions. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

Management estimates that deductible temporary differences and deductible losses will recognized as deferred revenue tax assets when they are likely to be offset against taxable income in the future, but the actual application results may be different.

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

(25) Impact of adopting new standards and new reporting formats

The Ministry of Finance issued the revised ‘Accounting Standards for Business Enterprises No. 21-Leases’ (hereinafter referred to as the “New Leasing Standards”) in 2018, and issued the ‘Circular on the Amendment to the Formats of Corporate Financial Statements for the Year of 2019’ (Cai Kuai [2019] 06), the revised CAS 7 Exchange of Non-Monetary Assets (‘the revised CAS 7’) and the revised CAS 12 Debt Restructuring (‘the revised CAS 12’) in 2019. The financial statements are prepared in accordance with the above standards and circular. The revised CAS 7 and CAS 12 have no impact on the financial statements of the Group and the Company. The impact of other amendments are listed below:

Due to the implementation of the above revised standards, the impact on the consolidated balance sheet as of 1 January 2019 is summarized as follows:

Assets	31 December 2018 Consolidated	New Leasing Standards Note 2(25)(a)	1 January 2019 Consolidated (Restated)
Current assets			
Cash at bank and on hand	588,221,416	–	**588,221,416**
Notes receivables	83,503,452	–	**83,503,452**
Accounts receivables	278,757,626	–	**278,757,626**
Advances to suppliers	19,780,085	–	**19,780,085**
Other receivables	17,731,103	–	**17,731,103**
Inventories	32,038,382	–	**32,038,382**
Other current assets	114,423	–	**114,423**
Total current assets	1,020,146,487	–	**1,020,146,487**
Non-current assets			
Other equity instruments	–	–	**–**
Long-term equity investment	24,000,000	–	**24,000,000**
Fixed assets	276,337,237	–	**276,337,237**
Construction in progress	3,376,238	–	**3,376,238**
Intangible assets	69,959,963	–	**69,959,963**
Development costs	12,294,217	–	**12,294,217**
Right-of-use asset	—	37,516,067	**37,516,067**
Goodwill	–	–	**–**
Long-term prepaid expenses	17,614,541	–	**17,614,541**
Deferred tax assets	41,525,793	–	**41,525,793**
Other non-current assets	4,436,443	–	**4,436,443**
Total non-current assets	449,544,432	37,516,067	**487,060,499**
Total assets	1,469,690,919	37,516,067	**1,507,206,986**

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

(25) Impact of adopting new standards and new reporting formats (continued)

Due to the implementation of the above revised standards, the impact on the consolidated balance sheet as of 1 January 2019 is summarized as follows: (continued)

Liabilities and owners' equity	31 December 2018 Consolidated	New Leasing Standards Note 2(25)(a)	1 January 2019 Consolidated (Restated)
Current liabilities			
Short-term borrowings	150,000,000	–	150,000,000
Note payables	–	–	–
Accounts payables	4,777,196	–	4,777,196
Contract liabilities	2,305,929	–	2,305,929
Employee benefits payable	46,390,216	–	46,390,216
Taxes payable	41,724,789	–	41,724,789
Other payables	204,371,724	(2,354,328)	202,017,396
Current portion of non-current liabilities	–	7,770,965	7,770,965
Total current liabilities	449,569,854	5,416,637	454,986,491
Non-current liabilities			
Lease liabilities	—	32,099,430	32,099,430
Deferred revenue	65,689,092	–	65,689,092
Total non-current liabilities	65,689,092	32,099,430	97,788,522
Total liabilities	515,258,946	37,516,067	552,775,013
Owners' equity			
Share capital	92,300,000	–	92,300,000
Capital reserve	412,293,387	–	412,293,387
Other comprehensive Income	(14,006,416)	–	(14,006,416)
Surplus reserve	46,150,000	–	46,150,000
Undistributed profit	406,481,497	–	406,481,497
Total equity attributable to equity owners of the Company	943,218,468	–	943,218,468
Minority shareholders	11,213,505	–	11,213,505
Total owners' equity	954,431,973	–	954,431,973
Total liabilities and owner's equity	1,469,690,919	37,516,067	1,507,206,986

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

(25) Impact of adopting new standards and new reporting formats (continued)

Due to the implementation of the above revised standards, the impact on the company balance sheet as of 1 January 2019 is summarized as follows:

Assets	31 December 2018 Company	New Leasing Standards Note 2(25)(a)	1 January 2019 Company (Restated)
Current assets			
Cash at bank and on hand	554,560,168	–	**554,560,168**
Notes receivables	83,503,452	–	**83,503,452**
Accounts receivables	256,570,212	–	**256,570,212**
Advances to suppliers	17,733,389	–	**17,733,389**
Other receivables	187,990,672	–	**187,990,672**
Inventories	16,709,043	–	**16,709,043**
Total current assets	1,117,066,936	–	**1,117,066,936**
Non-current assets			
Long-term equity investment	142,643,800	–	**142,643,800**
Fixed assets	115,827,071	–	**115,827,071**
Construction in progress	3,281,898	–	**3,281,898**
Intangible assets	20,654,960	–	**20,654,960**
Right-of-use asset	—	9,048,580	**9,048,580**
Long-term prepaid expenses	2,290,450	–	**2,290,450**
Deferred tax assets	44,932,563	–	**44,932,563**
Other non-current assets	4,182,576	–	**4,182,576**
Total non-current assets	333,813,318	9,048,580	**342,861,898**
Total assets	1,450,880,254	9,048,580	**1,459,928,834**

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

(25) Impact of adopting new standards and new reporting formats (continued)

Due to the implementation of the above revised standards, the impact on the company balance sheet as of 1 January 2019 is summarized as follows:

Liabilities and owners' equity	31 December 2018 Company	New Leasing Standards Note 2(25)(a)	**1 January 2019 Company (Restated)**
Current liability			
Short-term borrowings	150,000,000	–	**150,000,000**
Accounts payables	2,597,675	–	**2,597,675**
Contract liabilities	332,085	–	**332,085**
Employee benefits payable	41,362,279	–	**41,362,279**
Taxes payable	40,696,606	–	**40,696,606**
Other payables	187,718,174	(635,162)	**187,083,012**
Current portion of non-current liabilities	–	4,073,173	**4,073,173**
Total current liabilities	422,706,819	3,438,011	**426,144,830**
Non-current liabilities			
Lease liabilities	—	5,610,569	**5,610,569**
Deferred revenue	51,731,048	–	**51,731,048**
Total non-current liabilities	51,731,048	5,610,569	**57,341,617**
Total liability	474,437,867	9,048,580	**483,486,447**
Owners' equity			
Shares capital	92,300,000	–	**92,300,000**
Capital reserve	315,986,490	–	**315,986,490**
Surplus reserve	46,150,000	–	**46,150,000**
Undistributed profit	522,005,897	–	**522,005,897**
Total owners' equity	976,442,387	–	**976,442,387**
Total liabilities and owners' equity	1,450,880,254	9,048,580	**1,459,928,834**

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

(25) Impact of adopting new standards and new reporting formats (continued)

(a) Lease

The Group and the Company implemented the New Leasing Standards for the first time on 1 January 2019. In accordance with the relevant regulation, the Group and the Company will not re-evaluate the contract options that already exist before the date of the first execution. According to New Lease Standards, the Group's and the Company's cumulative impact on the first adoption of the standards adjusted the retained earnings and other related items in the financial statements at the beginning of 2019. The 2018 comparative financial statements were not restated.

(i) Contents and reasons of changes in accounting policies

	Affected report items	Affected amount 1 January 2019 Consolidated	Company
For the operating lease contracts that existed before the first implementation of the new lease standard, the Group and the company have different approaches based on the remaining lease terms:	Right-of-use assets	37,516,067	9,048,580
	Current potion of non-current liabilities	7,770,965	4,073,173
	Lease liabilities	32,099,430	5,610,569
	Other payables	(2,354,328)	(635,162)

If the remaining lease term is longer than 12 months, the Group and the Company shall recognize the lease liabilities based on the remaining lease payments and incremental borrowing rates on 1 January 2019, and determine the carrying value of the right-of-use asset with an amount equal to the lease liabilities make necessary adjustments based on prepaid rent, etc.

If the remaining lease term is shorter than 12 months, the Group and the Company adopt a simplified method, do not recognize the right-of-use assets and lease liabilities, and have no impact on the financial statements.

For operating lease contracts for low-value assets that existed before the first implementation of the new lease standard, the Group and the Company adopted a simplified method that does not recognize right-of-use assets and lease liabilities, and has no impact on the financial statements.

On 1 January 2019, the Group and the Company used the same discount rate for lease contracts with similar characteristics when measuring lease liabilities. The weighted average of the incremental borrowing rates used was 4.35%.

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

(25) Impact of adopting new standards and new reporting formats (continued)

(a) Lease (continued)

(ii) On 1 January 2019, the reconciliation between the Group's and the Company's disclosed unpaid minimum operating lease payments under the original lease standard and lease liabilities recognized under the new lease standard as follows:

	Consolidated	Company
Minimum future operating lease payments disclosed on 31 December 2018	46,741,001	10,353,479
The present value of the above minimum operating lease payments discounted by incremental borrowing rates	41,780,026	9,923,409
Less: present value of lease contract payments less than 12 months	(1,909,631)	(239,667)
Lease liabilities recognized on 1 January 2019 (including current portion of non-current liabilities) (Note 5 (25))	39,870,395	9,683,742

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

(25) Impact of adopting new standards and new reporting formats (continued)

(b) Format changes of financial statements of general enterprises

(i) The impact on the consolidated and company balance sheet and income statement is shown below:

Contents and reasons of changes in accounting policies	Affected report items	Impact amount			
		31 December 2018		**1 January 2018**	
		Consolidated	Company	Consolidated	Company
The Group and the Company split the account of notes and accounts receivables to notes receivables and accounts receivables.	Accounts receivables	278,757,626	256,570,212	118,953,571	95,583,096
	Notes receivables	83,503,452	83,503,452	55,077,486	55,077,486
	Notes receivables and accounts receivables	(362,261,078)	(340,073,664)	(174,031,057)	(150,660,582)
The Group and the Company split the account of notes and accounts payables to notes payables and accounts payables.	Accounts payables	4,777,196	2,597,675	5,521,018	4,191,863
	Notes payables	–	–	–	–
	Notes payables and accounts payables	(4,777,196)	(2,597,675)	(5,521,018)	(4,191,863)
	Accounts payables				
The Group consolidates current portion of deferred revenue into deferred revenue items.	Current portion of deferred revenue	(5,150,073)	(2,550,720)	(7,635,166)	(5,223,031)
	Deferred revenue	5,150,073	2,550,720	7,635,166	5,223,031

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

(26) Prior year financial statements adjustments

In October 2018, the Company and Huizheng (Shanghai) Pharmaceutical Technology Co., Ltd. ("Shanghai Huizheng") entered into the Market Promotion Service Agreement of Doxorubicin Hydrochloride Liposomal Injection (LIBOd®) (hereinafter referred to as the "Exclusive Promotion Service Agreement"). Pursuant to the agreement, Shanghai Huizheng paid the Company an amount of Rmb50,000,000, which is non-deductible, non-refundable and without subsequent performance obligations after 2018, as a commercial compensation for the expense incurred by the Company in relation to investment in marketing of LIBOd and the change of the promotion service provider. In the same agreement, the Company granted Shanghai Huizheng a 10-years exclusive right for the market promotion of LIBOd.

Considering that there is no accounting standards directly regulate the accounting treatment of the commercial compensation collected from Shanghai Huizheng, which is one-time, non-deductible, non-refundable and without subsequent performance obligations, and that there is no comment practice for similar transactions general accepted among the listed companies in the industry, the Company stipulated the according accounting policies over the commercial compensation with reference to the new revenue standard, which provides the guidelines on the separation of the performance obligations, and on the ways of recognition in the profit and loss account through either amortization over a period of time or one-time charge.

In the process of the Company's applying for the listing of its share on the A-share Science Technology and Innovation Board in 2019, the Company held various discussions with the parties involved in its IPO process, and revisited the referring accounting standards as well as the accounting treatment of the commercial compensation. As a result, the Company's board of directors resolved to change the way of the accounting over the Rmb50,000,000 commercial compensation and to amortize the amount over the period of the Exclusive Promotion Service agreement by viewing the agreement as a whole and following the general accounting principal of deferred revenue. Such change is made with the aim to facilitate investors' better understanding of the transaction, and offer more simplified and understandable accounting information.

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

(26) Prior year financial statements adjustments (continued)

The impact of the above changes on the Group's 2018 consolidated financial statements is as follows:

	31 December 2018/2018 Original amount	31 December 2018/2018 Adjustment amount	31 December 2018/2018 After adjustment amount
Deferred tax assets	31,197,924	10,327,869	41,525,793
Deferred revenue	(16,508,764)	(49,180,328)	(65,689,092)
Selling expense	350,468,577	49,180,328	399,648,905
Income tax expense	13,304,381	(10,327,869)	2,976,512

The impact of the above changes in accounting policies on the subjects of the Company's 2018 consolidated financial statements is as follows:

	31 December 2018/2018 Original amount	31 December 2018/2018 Adjustment amount	31 December 2018/2018 After adjustment amount
Deferred tax assets	34,604,694	10,327,869	44,932,563
Deferred revenue	(2,550,720)	(49,180,328)	(51,731,048)
Selling expenses	325,466,487	49,180,328	374,646,815
Income tax expense	9,689,814	(10,327,869)	(638,055)

3 TAXATION

(1) The main categories and rates of taxes applicable to the Group are set out below:

Category	Taxation basis	Tax rate
Enterprise income tax (a)	Taxable income	15%, 16.5% and 25%
Value-added tax ("VAT") (b)	Taxable value-added amount (Tax payable is calculated using the taxable sales amount multiplied by the applicable tax rate less deductible VAT input of the current period)	17%, 16%, 13%, 6% and 3%
City maintenance and construction tax	The payment amount of VAT and business tax paid	7% and 1%

(a) In 2017, the Company obtained the *Certificate of the High and New Technological Enterprise* (Certificate No. GR201731000222), with a term of validity of three years, jointly issued by Science and Technology Commission of Shanghai Municipality, Shanghai Municipal Finance Bureau, State Administration of Tax Shanghai Municipal Office and Shanghai Municipal Bureau of Local Taxation. Under Article 28 of the *Enterprise Income Tax Law of the People's Republic of China*, the income tax rate applicable to the Company for 2019 was 15% (2018: 15%).

In 2016, Shanghai Tracing Bio-technology Co., Ltd. ("Tracing Bio-technology"), a subsidiary of the Company, obtained the Certificate of the High and New Technological Enterprise (Certificate No. GR201631000760), with a term of validity of three years, jointly issued by Science and Technology Commission of Shanghai Municipality, Shanghai Municipal Finance Bureau, State Administration of Tax Shanghai Municipal Office and Shanghai Municipal Bureau of Local Taxation; Under Article 28 of the Enterprise Income Tax Law of the People's Republic of China, the income tax rate applicable to Tracing Biotechnology for 2018 was 15%; in 2019, Tracing Bio-technology applied for renewal and was officially included in the *Notice for Publicity of the Second Batch of High Technology Enterprise List Planned to be Approved* in 2019, which was issued by Science and Technology Commission of Shanghai Municipality on 31 July 2019. As at the reporting date, the publicity period has ended and Tracing Bio-technology is still waiting for registration and certification. Tracing Bio-technology expects to obtain the renewed certificate in 2020, and Tracing Bio-technology still accounts for its income tax expenses for 2019 at the rate of 15%.

In 2018, Taizhou Fudan-Zhangjiang Pharmaceutical Co., Ltd. ("Taizhou Pharmaceutical") was granted the *Certificate of the High and New Technological Enterprise* (Certificate No. GR201832004505) by Science and Technology Department of Jiangsu Province, Finance Department of Jiangsu Province and State Tax Bureau of Jiangsu Province. The certificate is valid for three years. Under Article 28 of the Enterprise Income Tax Law of the People's Republic of China, the income tax rate applicable to Taizhou Pharmaceutical for 2019 was 15% (2018: 15%). For the years ended 31 December 2018 and 2019, Taizhou Pharmaceutical had no taxable income, thus no income tax expenses were accrued.

3 TAXATION (continued)

(1) The main categories and rates of taxes applicable to the Group are set out below: (continued)

(a) (continued)

Fernovelty (Hong Kong) Holding Co., Limited (Fernovelty Holding), a subsidiary of the Company, is a limited liability company incorporated in Hong Kong. From 1 January 2018, Hong Kong adopted the two-tiered profits tax rate, where applicable tax rate for taxable profits within HKD2,000,000 is 8.25% while that for taxable profits in excess of HKD2,000,000 is 16.5%. For the years ended 31 December 2018 and 2019, Fernovelty Holding had no taxable profits, thus no profits tax was accrued.

For the years ended 31 December 2018 and 2019, the enterprise income tax rate applicable to the Company was 25%.

In accordance with the *Notice of the Ministry of Finance and the State Administration of Taxation on Extending the Loss Carryforward Period for High and New Technology Enterprises and Small and Medium-Sized Technological Enterprises* (Cai Shui [2018] No. 76) and relevant regulations, since 1 January 2018, high and new technology enterprises or small and medium-sized technological enterprises identified in current year are allowed to carry forward the tax losses incurred and not offset in the preceding five years to subsequent years. The longest carryforward period is extended from 5 years to 10 years. Tracing Biotechnology and Taizhou Pharmaceutical, subsidiaries of the Group, completed the income tax filing of 2018 in May 2019 and are allowed by the State Administration of Taxation to extend their carryforward periods for the tax losses incurred and not offset to 10 years.

(b) Pursuant to the *Circular on Adjustment of Tax Rate of Value-added Tax* (Cai Shui [2018] No. 32) and relevant regulations, jointly issued by the Ministry of Finance and the State Administration of Taxation and relevant regulations, the Group's applicable tax rate of revenue arising from sales of drugs is 16% from 1 May 2018, while it was 17% before then. Pursuant to the *Announcement on Relevant Policies for Deepening Value-Added Tax Reform* (Announcement No. 39 [2019], by MOF, STA, and GACC) jointly issued by the Ministry of Finance, the State Administration of Taxation and the General Administration of Customs, from 1 April 2019, the Group's applicable tax rate of revenue from sales of drugs is 13%.

Pursuant to the *Notice of the Ministry of Finance, the General Administration of Customs, the State Administration of Taxation and the State Drug Administration on the Value-Added Tax Policies for Anti-Cancer Drugs* (Cai Shui [2018] No. 47) and relevant regulations, from 1 May 2018, companies are allowed to elect to apply simple taxation method for VAT for revenue arising from production, sales, wholesale and retail of anti-cancer drugs. The applicable rate is 3% while it was 17% before then.

3 TAXATION (continued)

(1) The main categories and rates of taxes applicable to the Group are set out below: (continued)

(b) (continued)

Pursuant to the '*Announcement on Relevant Policies for Deepening the Value-added Tax Reform*' (Cai Shui Haiguan [2019] 39) jointly issued by the Ministry of Finance, the State Administration of Taxation and the General Administration of Customs and the '*Announcement on the Additional Deduction Policies of Value-added Tax for Consumer Service Industry*' (Cai Shui [2019] 87) jointly issued by the Ministry of Finance and the State Administration of Taxation, the Group's subsidiary Shanghai Baosu Pharmaceutical Technology Co., Ltd. ("Baosu Pharmaceutical"), as a consumer service company, qualifies for additional 10% deduction and 15% deduction of input VAT from output VAT from 1 April 2019 to 30 September 2019 and from 1 October 2019 to 31 December 2021 respectively.

4 SUBSIDIARIES

See Note 7 for details.

5 NOTES TO CONSOLIDATED FINANCIAL STATEMENT ITEMS

(1) Cash at bank and on hand

	31 December 2019	31 December 2018
Cash on hand	**15,333**	68,395
Cash at bank	**576,784,077**	588,153,021
Including: cash at bank and on hand overseas	**3,469,264**	3,412,253
	576,799,410	588,221,416

As at 31 December 2019 and 31 December 2018, no cash at bank was restricted.

5 NOTES TO CONSOLIDATED FINANCIAL STATEMENT ITEMS (continued)

(2) Notes receivables

	31 December 2019	31 December 2018
Bank acceptance notes	**127,592,684**	83,503,452
Less: Provision for bad debts	**–**	–
	127,592,684	83,503,452

(a) As at 31 December 2019 and 31 December 2018, the above-mentioned notes of the Group were not subject to collateral or pledge.

(b) As at 31 December 2019, the Group's nots receivables endorsed or discounted but not yet due are as follows:

	31 December 2019	
	De-recognized	**Not de-recognized**
Bank acceptance notes i)	**3,256,902**	**–**

i) In 2019, since endorsements or discount transactions that meet the conditions for derecognition occur by accident and the amount is not significant, the Group measures at amortized cost.

(c) The Group's notes receivables are generated from daily business activities such as the sale of goods and the provision of labor services. Regardless of whether there is a significant financing component, loss provisions are measured in accordance with the expected credit losses throughout the lifetime. As at 31 December 2019 and 31 December 2018, the Group considered that the bank acceptance notes held did not have significant credit risk and would not cause credit losses due to bank defaults, so no provision for bad debt was made.

5 NOTES TO CONSOLIDATED FINANCIAL STATEMENT ITEMS (continued)

(3) Accounts receivables

	31 December 2019	31 December 2018
Accounts receivables	**380,187,531**	281,850,538
Less: Provision for bad debts	**(3,180,620)**	(3,092,912)
	377,006,911	278,757,626

The Group's accounts receivables are generated from daily business activities such as the sales of pharmaceutical and diagnostic products, with credit periods of 30-120 days.

As at 31 December 2019 and 31 December 2018, there were no significant receivables from shareholders who held more than 5% (including 5%) of the voting shares of the company.in the Group's accounts receivables

(a) The aging analysis of accounts receivables is as follows:

	31 December 2019	31 December 2018
Within 1 year	**379,998,095**	279,869,840
1-2 years	**26,700**	1,896,387
2-3 years	**78,425**	84,311
Above 3 years	**84,311**	–
	380,187,531	281,850,538

(b) As at 31 December 2019, the top five accounts receivables based on the balance of the debtors are summarized and analyzed as follows:

	Account Balance	**Amount of bad debt provision**	**% of total balance**
Total top five accounts receivables	152,581,759	(806,404)	40.13%

5 NOTES TO CONSOLIDATED FINANCIAL STATEMENT ITEMS (continued)

(3) Accounts receivables (continued)

(c) Provision for bad debts

	31 December 2018	Change amount in the year Accrual	Reversal	Write-off	**31 December 2019**
Provision for bad debts of accounts receivables	(3,092,912)	(2,566,245)	46,504	2,432,033	**(3,180,620)**

For the accounts receivables, regardless of whether there is a significant financing component, the Group calculates loss provisions in accordance with the expected credit losses throughout the lifetime.

(i) As at 31 December 2019 and 31 December 2018, the Group did not make provision for bad debts for individual accounts receivables.

(ii) As at 31 December 2019, the analysis of accounts receivables for the provision of bad debts is as follows:

Portfolio – sales receivable:

	31 December 2019		
	Accounts Balance	**Provision for bad debts**	
	Amount	**Life expectancy Credit loss rate**	**Amount**
Not overdue	325,207,505	–	–
Overdue within 1 year	54,790,590	5.46%	(2,991,184)
Overdue 1-2 years	26,700	100.00%	(26,700)
Overdue 2-3 years	78,425	100.00%	(78,425)
Overdue more than 3 years	84,311	100.00%	(84,311)
	380,187,531		(3,180,620)

5 NOTES TO CONSOLIDATED FINANCIAL STATEMENT ITEMS (continued)

(3) Accounts receivables (continued)

(c) Provision for bad debts (continued)

(iii) As at 31 December 2018, the analysis of accounts receivables for the provision of bad debts is as follows:

Portfolio – sales receivable:

	31 December 2018		
	Accounts Balance	Provision for bad debts	
	Balance	Life expectancy Credit loss rate	Balance
Not overdue	202,869,643	–	–
Overdue within 1 year	77,000,197	1.45%	(1,117,164)
Overdue 1-2 years	1,896,387	99.74%	(1,891,437)
Overdue 2-3 years	84,311	100.00%	(84,311)
	281,850,538		(3,092,912)

(d) The book value of accounts receivables written off in the current year was RMB2,432,033, and the amount of bad debt provision was RMB2,432,033, of which the important accounts receivables were analyzed as follows:

	Nature of accounts receivables	**Write-off amounts**	**Write-off reasons**	**Write-off procedures**	**Related party transaction (Y/N)**
Chifeng pincheng science and trade Co., Ltd	Trade receivables	2,039,254	Unable to pay	Written off by approval	N

5 NOTES TO CONSOLIDATED FINANCIAL STATEMENT ITEMS (continued)

(4) Advances to suppliers

(a) The ageing of advances to suppliers was analysed as follows:

	31 December 2019		31 December 2018	
	Amount	% of total balance	Amount	% of total balance
Within 1 year	**16,411,027**	**100%**	19,780,085	100%

As at 31 December 2019 and 31 December 2018, there were no significant receivables from shareholders who held more than 5% (including 5%) of the voting shares of the company.in the Group's advances to suppliers.

(b) As at 31 December 2019, the top five advances to suppliers based on the balance of the debtors are summarized and analyzed as follows:

	Amount	% of total balance
Total top five advances to suppliers	7,938,788	48.37%

(5) Other receivables

	31 December 2019	31 December 2018
Equity transfer receivables (Note 6(1))	**6,339,800**	–
Deposit receivables	**1,413,486**	2,633,318
Receivables from employees	**182,608**	1,188,982
Guarantee Receivables	**41,380**	44,380
Commercial compensation receivable (i)	**–**	10,000,000
Advances receivable	**–**	3,764,301
Others	**272,952**	100,122
	8,250,226	17,731,103
Less: Provision for bad debts	**–**	–
	8,250,226	17,731,103

5 NOTES TO CONSOLIDATED FINANCIAL STATEMENT ITEMS (continued)

(5) Other receivables (continued)

(i) In 2018, the Group and Shanghai Huizheng signed a LIBOd multi-marketing service agreement. Since November 1, 2018, Shanghai Huizheng has conducted the LIBOd multi-marketing service agreement promotion. According to the agreement, Shanghai Huizheng paid commercial compensation to the Group to compensate the Group for a series of expenses incurred by changing the marketing service provider. The aforesaid commercial compensation receivables have been received in March 2019.

As at 31 December 2019 and 31 December 2018, there were no significant receivables from shareholders who held more than 5% (including 5%) of the voting shares of the company.in the Group's Other receivables.

(a) The aging analysis of other receivables is as follows:

	31 December 2019	31 December 2018
Within 1 year	**6,759,727**	15,495,065
1-2 years	**69,075**	1,827,703
2-3 years	**1,310,194**	379,605
Above 3 years	**111,230**	28,730
	8,250,226	17,731,103

5 NOTES TO CONSOLIDATED FINANCIAL STATEMENT ITEMS (continued)

(5) Other receivables (continued)

(b) Statement of loss provision and changes in its carrying amount

(i) As at 31 December 2019, the analysis of bad debt provisions of other receivables in the first stage is as follows:

	Book balance	Within the next 12 months Expected credit loss rate	Provision for bad debts
Combined accrual:			
Equity transfer receivables	6,339,800	–	–
Deposit and guarantee	1,454,866	–	–
Receivables from employees	182,608	–	–
Others	272,952	–	–
	8,250,226		–

As at 31 December 2019, the Group has no other receivables in the second and third phases.

(c) Provision for bad debt

	31 December 2018	Change amount in the year			31 December 2019
		Accrual	Reversal	Write-off	
Provision for bad debts of other receivables	–	–	–	–	–

5 NOTES TO CONSOLIDATED FINANCIAL STATEMENT ITEMS (continued)

(5) Other receivables (continued)

(d) As at 31 December 2019, the top five other receivables based on the balance of the debtors are summarized and analyzed as follows:

	Nature	Balance	Aging	% of total amount	Provision for bad debts
Company 1	Equity transfer receivables	6,339,800	Within 1 year	76.84%	–
Company 2	Deposit	1,267,464	2-3 years	15.36%	–
Company 3	Equipment disposal receivables	187,000	Within 1 year	2.27%	–
Company 4	Deposit	101,745	1-2 years	1.23%	–
	Deposit	26,142	Within 1 year	0.32%	–
Company 5	Guarantee	34,000	1-2 years	0.41%	–
		7,956,151		96.44%	–

(6) Inventories

(a) The inventory is classified as follows:

	31 December 2019			31 December 2018		
	Book balance	Provision for decline in the value of inventories	Carrying amount	Book balance	Provision for decline in the value of inventories	Carrying amount
Raw materials	14,757,338	(1,047,362)	13,709,976	9,185,378	–	9,185,378
Work in progress	8,154,274	–	8,154,274	6,878,430	–	6,878,430
Finished goods	11,891,798	(2,490,876)	9,400,922	15,111,664	–	15,111,664
Turnover materials	603,879	–	603,879	884,440	(21,530)	862,910
	35,407,289	(3,538,238)	31,869,051	32,059,912	(21,530)	32,038,382

5 NOTES TO CONSOLIDATED FINANCIAL STATEMENT ITEMS (continued)

(6) Inventories (continued)

(b) The analysis of the Provision for decline in the value of inventories is as follows:

	31 December 2018	Accrual	Reversal	**31 December 2019**
Raw materials	–	(1,058,810)	11,448	**(1,047,362)**
Work in progress	–	–	–	**–**
Finished goods	–	(2,764,174)	273,298	**(2,490,876)**
Turnover materials	(21,530)	13,376	8,154	**–**
	(21,530)	(3,809,608)	292,900	**(3,538,238)**

(7) Other current assets

	31 December 2019	31 December 2018
VAT-in to be deducted	**310,035**	114,423

(8) Other equity instruments

	31 December 2019	31 December 2018
Equity instruments		
Unlisted equity investment	**–**	–

	31 December 2019	31 December 2018
Adgero		
– Cost	**13,774,800**	13,774,800
– Cumulative fair value change	**(13,774,800)**	(13,774,800)
	–	–

5 NOTES TO CONSOLIDATED FINANCIAL STATEMENT ITEMS (continued)

(8) Other equity instruments (continued)

As at 1 January 2018, the Group adopted IFRS 9 and reclassed the investment to financial assets at fair value through other comprehensive income.

Adgero is a drug research and development enterprise. As at 31 December 2018, the company was still in the research and development stage and had not generated any revenue. During the year ended 31 December 2018, the founder and CEO of Adgero who also leads the major development and research projects resigned from Adgero due to health reason, and limited progress has been reached for the research and development projects, the management of the Group thereby considered the success of the development and research project of Adgero contains significant uncertainty and involved valuation institute to evaluate the fair value of the investment in Adgero as at 31 December 2018. According to the valuation report, the fair value of Adgero was regarded as zero as of 31 December 2018, using a simulated liquidation model. The management of the Group accordingly adjusted down the investment in Adgero to zero, and charged the fair value difference to other comprehensive income.

As at 31 December 2019, the progress of Adgero's operations and research and development projects was basically stagnant. Accordingly, the fair value of equity instruments held by the Company for Adgero remained zero.

(9) Long-term equity investments

	31 December 2019	31 December 2018
Joint ventures (Note 7(2))	**23,251,196**	24,000,000
Associates (Note 7(2))	**5,160,462**	332,756
	28,411,658	24,332,756
Less: Provision for impairment of long-term equity investments	**(332,756)**	(332,756)
	28,078,902	24,000,000

5 NOTES TO CONSOLIDATED FINANCIAL STATEMENT ITEMS (continued)

(9) Long-term equity investments (continued)

(a) Joint ventures

	31 December 2018	Changes in the year: Investment Addition	Reduce investment	Equity pick up	OCI Adjustment	Other equity changes	Declare cash dividends or profits	Provision for impairment	Other	31 December 2019	Impairment balance
Changzhou BVCF Investment Management Partnership (Limited Liability Partnership) ("BVCF Fund")	24,000,000	–	–	(748,804)	–	–	–	–	–	**23,251,196**	–

During 2018, the Company subscribed for RMB60,000,000 shares, accounting for 29.85% shares of Changzhou BVCF Investment Management Partnership (Limited Liability Partnership) ("BVCF Fund"), the Company is a limited partner. The Company had paid RMB24,000,000 to BVCF Fund as at 31 December 2018 and 31 December 2019. In January 2020, the Company paid RMB36,000,000 to BVCF Fund.

One of the four members of the Investment Committee of BVCF Fund is appointed by the Group. Significant investment matters must be agreed by the Investment Committee before they can form an investment committee decision. Therefore, the Group considers it as a joint venture.

(b) Associates

	31 December 2018	Changes in the year: Investment Addition	Reduce investment	Equity pick up	OCI Adjustment	Other equity changes	Declare cash dividends or profits	Provision for impairment	Other	31 December 2019	Impairment balance
Shanghai Lead Discovery Limited Company ("Lead Discovery")	332,756	–	–	–	–	–	–	–	–	**332,756**	(332,756)
Derma Clinic Investment Co., Ltd.("Derma") (Note 6(2))	–	–	–	(6,172,294)	–	–	–	–	11,000,000	**4,827,706**	–
	332,756	–	–	(6,172,294)	–	–	–	–	11,000,000	**5,160,462**	(332,756)

5 NOTES TO CONSOLIDATED FINANCIAL STATEMENT ITEMS (continued)

(10) Fixed assets

	Buildings	Machinery and equipment	Electronic and office equipment	Motor vehicles	Total
Cost					
31 December 2018	199,941,921	268,167,904	9,391,613	3,401,088	480,902,526
Other increases in the current year	120,918	32,583,043	798,378	316,533	33,818,872
Transfers from construction in progress	5,896,598	–	–	–	5,896,598
Decrease in the current year	(22,702)	(16,985,124)	(839,367)	(9,427)	(17,856,620)
Disposal of a subsidiary	–	(16,256,285)	(1,078,011)	–	(17,334,296)
31 December 2019	205,936,735	267,509,538	8,272,613	3,708,194	485,427,080
Accumulated depreciation					
31 December 2018	(60,606,134)	(133,995,223)	(6,398,913)	(1,931,936)	(202,932,206)
Increase in the current year	(9,383,740)	(34,703,710)	(636,935)	(233,311)	(44,957,696)
Decrease in the current year	6,460	13,861,632	645,313	5,791	14,519,196
Disposal of a subsidiary	–	5,157,776	471,288	–	5,629,064
31 December 2019	(69,983,414)	(149,679,525)	(5,919,247)	(2,159,456)	(227,741,642)
Accumulated impairment					
31 December 2018	–	(934,613)	(698,470)	–	(1,633,083)
Increase in the current year	(1,253,955)	(1,960,466)	(111,495)	–	(3,325,916)
Disposal of a subsidiary	–	934,613	698,470	–	1,633,083
31 December 2019	(1,253,955)	(1,960,466)	(111,495)	–	(3,325,916)
Carrying amount					
31 December 2019	134,699,366	115,869,547	2,241,871	1,548,738	254,359,522
31 December 2018	139,335,787	133,238,068	2,294,230	1,469,152	276,337,237

5 NOTES TO CONSOLIDATED FINANCIAL STATEMENT ITEMS (continued)

(10) Fixed assets (continued)

In 2019, the amount of depreciation expense RMB44,957,696 (2018: RMB43,468,463) charged to cost of sales, development costs, selling expenses, general and administrative expenses and research and development exepenses were RMB18,332,228, RMB164,640, RMB11,450,412,RMB2,569,016 and RMB12,441,400 respectively (2018: RMB17,692,976, RMB160,441, RMB: 9,231,021, RMB3,091,211 and RMB13,292,814).

The amount of fixed assets transferred from construction in progress was RMB5,896,598 (2018: RMB2,181,574)

As at 31 December 2019 and 31 December 2018, the Group has no fixed assets that are temporarily idle and fixed assets that have not completed the property right certificate.

(11) Construction in progress

	31 December 2019			31 December 2018		
	Book Balance	**Provision for impairment**	**Carrying amount**	Book Balance	Provision for impairment	Carrying amount
Fudanzhangjiang Workshop Reconstruction Project	**329,602**	**–**	**329,602**			
Fudanzhangjiang Lab Reconstruction Project				3,281,898	–	3,281,898
Taizhou Workshop Reconstruction Project	**–**	**–**	**–**	94,340	–	94,340
	329,602	**–**	**329,602**	3,376,238	–	3,376,238

5 NOTES TO CONSOLIDATED FINANCIAL STATEMENT ITEMS (continued)

(11) Construction in progress (continued)

(i) Changes in major construction projects

Project name	Budget	December 31 2018	Increase in the current year	Transfer to fixed assets	Transfer to Long-term prepaid expenses	Disposal	December 31 2019	% of Budget	Project progress	Sources of funds
Fudanzhangjiang Lab Reconstruction Project	5,896,598	3,281,898	2,614,700	(5,896,598)	–	–	-	100%	100%	Equity fund
Fudanzhangjiang Workshop Reconstruction Project	759,300	–	329,602	–	–	–	329,602	43.41%	43.41%	Equity fund
Taizhou Workshop Reconstruction Project	94,340	94,340	–	–	–	(94,340)	-	100%	100%	Equity fund
		3,376,238	2,944,302	(5,896,598)	–	(94,340)	329,602			

As at 31 December 2019 and 31 December 2018, the Group had no impaired construction in progress.

5 NOTES TO CONSOLIDATED FINANCIAL STATEMENT ITEMS (continued)

(12) Right-of-use assets

	Buildings
Cost	
31 December 2018	—
Changes in accounting policies	37,516,067
1 January 2019	37,516,067
Increases in the current year	
New lease contract	349,701
Decreases in the current year	
Lease cancellation	(2,337,453)
Disposal of a subsidiary	(26,130,034)
31 December 2019	9,398,281
Accumulated depreciation	
31 December 2018	—
Changes in accounting policies	–
1 January 2019	–
Increase in the current year	
Accrual	(5,588,882)
Decrease in the current year	
Lease cancellation	220,385
Disposal of a subsidiary	1,488,197
31 December 2019	(3,880,300)
Carrying amount	
31 December 2019	5,517,981
1 January 2019	37,516,067

5 NOTES TO CONSOLIDATED FINANCIAL STATEMENT ITEMS (continued)

(13) Intangible assets

	Land use rights,	Proprietary technology	R&D technology	License	Software	Total
Cost						
31 December 2018	37,355,573	9,198,789	44,399,679	3,390,811	8,517,960	102,862,812
Increase in the current year						
Purchase	–	–	–	–	721,373	721,373
Disposal of a subsidiary	–	(355,625)	–	(3,390,811)	(231,395)	(3,977,831)
31 December 2019	37,355,573	8,843,164	44,399,679	–	9,007,938	99,606,354
Accumulated amortization						
31 December 2018	(7,967,649)	(4,822,199)	(15,513,779)	(376,758)	(3,568,994)	(32,249,379)
Increase in the current year	(790,251)	(726,792)	(4,165,138)	(41,862)	(570,486)	(6,294,529)
Disposal of a subsidiary	–	53,770	–	418,620	28,912	501,302
31 December 2019	(8,757,900)	(5,495,221)	(19,678,917)	–	(4,110,568)	(38,042,606)
Provision for impairment loss						
31 December 2018	–	–	(653,470)	–	–	(653,470)
Increase in the current year	–	(450,000)	–	–	–	(450,000)
31 December 2019	–	(450,000)	(653,470)	–	–	(1,103,470)
Carrying amount						
31 December 2019	28,597,673	2,897,943	24,067,292	–	4,897,370	60,460,278
31 December 2018	29,387,924	4,376,590	28,232,430	3,014,053	4,948,966	69,959,963

The amortization amount of intangible assets in 2019 was RMB6,294,529. (2018: RMB6,442,491)

5 NOTES TO CONSOLIDATED FINANCIAL STATEMENT ITEMS (continued)

(13) Intangible assets (continued)

The Group's development costs is listed below:

	December 31 2018	Increase in the current year	Decrease in the current year: Credited to profit or loss	Decrease in the current year: Recognized as intangible assets	**December 31 2019**
Taizhou Generic Pharmaceutical Industrialization Project	12,294,217	2,676,586	–	–	**14,970,803**

In 2019, the Group's research and development expenditure totaled RMB130,489,533 (2018: RMB115,619,103): of which RMB127,821,947 (2018: RMB114,284,250) was included in profit or loss in the current period, and RMB2,676,586 (2018: RMB1,334,853) was included in the year-end balance of development expenditure. As at 31 December 2019, the proportion of intangible assets formed by internal research and development to the book value of intangible assets was 40% (2018: 40%)

(14) Goodwill

	31 December 2018	Increase in the current year	Decrease in the current year	**31 December 2019**
Goodwill	8,937,000	–	–	**8,937,000**
Less: Provision for impairment (a)	(8,937,000)	–	–	**(8,937,000)**
	–	–	–	**–**

Goodwill arises from the Group's 2015 premium purchase of equity in Shanghai Youni Bio-tech Co., Ltd. ("Youni"), On September 30, 2015, Youni was absorbed by Shanghai Tracing Bio-technology Co., Ltd.

5 NOTES TO CONSOLIDATED FINANCIAL STATEMENT ITEMS (continued)

(14) Goodwill (continued)

(a) Impairment

The goodwill allocated to the asset groups and groups of asset groups are summarised by operating segments as follows:

	31 December 2019	31 December 2018
Food diagnostic reagents	**8,937,000**	8,937,000

When conducting a goodwill impairment test, the Group compares the book value of the relevant assets or asset portfolio (including goodwill) with its recoverable amount. If the recoverable amount is lower than the book value, the relevant difference is included in the current profit and loss (note 5(43)). The Group's allocation of goodwill has not changed since the date of purchase.

The recoverable amounts of asset groups and groups of asset groups are calculated using the estimated cash flows determined according to the five-year budget approved by management, together with the constant growth rates thereafter. The latter are set out in the following table.

The main assumptions applied in calculating discounted future cash flows are as follows:

	Food diagnostic reagents
	31 December 2018
Forecast period	
Growth rates	14%
Gross margins	59%
Discount rates	16%
Growth rate to extrapolate cash flows beyond the budget period	2.5%

The weighted average growth rate adopted by the Company refers to the forecast data contained in other companies in the same industry, and does not exceed the long-term average growth rate of each product. The Company determines the budgeted gross margin based on historical experience and forecasts of market development, and uses a pre-tax interest rate that reflects the specific risks of the relevant asset portfolio and asset portfolio combination as the discount rate.

5 NOTES TO CONSOLIDATED FINANCIAL STATEMENT ITEMS (continued)

(15) Long-term prepaid expenses

	31 December 2018	Increase in the current year	Transfer From CIP	Business combinations not under common control	Disposal of a subsidiary	Amortization in the current year	**31 December 2019**
Right-of-use asset improvement	14,187,534	–	–	–	(12,207,639)	(1,942,709)	**37,186**
Others	3,427,007	–	–	–	–	(1,049,874)	**2,377,133**
	17,614,541	–	–	–	(12,207,639)	(2,992,583)	**2,414,319**

(16) Deferred tax assets

Deferred assets and liabilities before offsetting of certain debit and credit balances are set out as follows:

(a) Deferred tax assets

	31 December 2019		31 December 2018	
	Deductible temporary differences	**Deferred tax assets**	Deductible temporary differences (Restated)	Deferred tax assets (Restated)
Credit impairment provision	**26,744,177**	**4,011,627**	23,617,712	3,542,657
Impairment of assets	**–**	**–**	5,504,400	825,660
Accrual expenses	**297,195,596**	**44,579,339**	178,864,051	26,829,607
Commercial compensation	**44,262,295**	**9,590,164**	49,180,328	10,327,869
	368,202,068	**58,181,130**	257,166,491	41,525,793
Including:				
Expected to be recovered within one year (inclusive)		**49,328,671**		31,109,969
Expected to be recovered after one year		**8,852,459**		10,415,824
		58,181,130		41,525,793

5 NOTES TO CONSOLIDATED FINANCIAL STATEMENT ITEMS (continued)

(16) Deferred tax assets (continued)

(b) Deductible temporary differences and deductible losses that are not recognised as deferred tax assets are analysed as follows:

	31 December 2019	31 December 2018
Deductible temporary differences	**73,279,817**	92,064,950
Deductible losses	**102,742,948**	159,517,479
	176,022,765	251,582,429

(c) Deductible losses that are not recognised as deferred tax assets will be expired in following years:

	31 December 2019	31 December 2018
2019	**—**	1,254,614
2020	**–**	10,159,278
2021	**–**	27,185,834
2022	**–**	51,501,289
2023	**3,524,696**	69,416,464
2024	**1,254,614**	–
2025	**6,759,495**	–
2026	**18,011,512**	–
2027	**33,203,995**	–
2028	**25,318,033**	–
2029	**14,670,603**	–
	102,742,948	159,517,479

5 NOTES TO CONSOLIDATED FINANCIAL STATEMENT ITEMS (continued)

(17) Other non-current assets

	31 December 2019	31 December 2018
Prepaid equipment	2,272,672	4,436,443

(18) Asset impairment and loss provisions

(a) Asset impairment

	31 December 2018	Accounting policy changes	1 January 2019	Increase in the current year	Decrease in the current year			31 December 2019
					Reverse	write-off	Disposal of a subsidiary	
Goodwill impairment provision	8,937,000	–	8,937,000	–	–	–	–	8,937,000
Provision for impairment of fixed assets	1,633,083	–	1,633,083	3,325,916	–	–	(1,633,083)	3,325,916
Provision for impairment of intangible assets	653,470	–	653,470	450,000	–	–	–	1,103,470
Inventory impairment provision	21,530	–	21,530	3,831,138	(21,530)	(292,900)	–	3,538,238
	11,245,083	–	11,245,083	7,607,054	(21,530)	(292,900)	(1,633,083)	16,904,624

(b) Credit impairment provision

	31 December 2018	Accounting policy changes	1 January 2019	Increase in the current year	Decrease in the current year		31 December 2019
					Reverse	write-off	
Provision for bad debts of accounts receivablse	3,092,912	–	3,092,912	2,566,245	(46,504)	(2,432,033)	3,180,620

5 NOTES TO CONSOLIDATED FINANCIAL STATEMENT ITEMS (continued)

(19) Short-term borrowings

	31 December 2019	31 December 2018
Short-term bank borrowings, unsecured	**148,942,573**	140,000,000
Short-term bank borrowings, secured (i)	**–**	10,000,000
	148,942,573	150,000,000

(i) As at 31 December 2018, a secured short-term bank borrowing of RMB10,000,000 and RMB10,000,000 was taken by the Company. The borrowing was mortgaged by the Company's 7 intellectual properties. These intellectual properties do not have any carrying value in the Group's financial statements.

As at 31 December 2019, the interest rate of short-term borrowings ranges from 3.87% to 3.915%. (31 December 2018: 4.35% to 4.5675%).

(20) Accounts payables

	31 December 2019	31 December 2018
Accounts payables	**6,827,902**	4,777,196

As at 31 December 2019 and 31 December 2018, the Group's accounts payable were all payables for material purchases and no significant amounts due to shareholders holding more than 5% (including 5%) of the voting shares of the Company.

5 NOTES TO CONSOLIDATED FINANCIAL STATEMENT ITEMS (continued)

(21) Contract liabilities

	31 December 2019	31 December 2018
Advance payments	2,042,726	2,305,929

(22) Employee benefits payable

	31 December 2019	31 December 2018
Short-term employee benefits payable(a)	48,123,497	46,389,295
Defined contribution plans payable(b)	–	921
	48,123,497	46,390,216

(a) Short-term employee benefits payable

	31 December 2018	Increase in the current year	Decrease in the current year	31 December 2019
Wages and salaries, bonus, allowances and subsidies	46,013,192	116,601,288	(114,494,579)	48,119,901
Staff welfare	–	4,350	(4,350)	–
Social security contributions	435	7,353,801	(7,354,236)	–
Including: Medical insurance	396	6,678,180	(6,678,576)	–
Work injury insurance	13	147,801	(147,814)	–
Maternity insurance	26	527,820	(527,846)	–
Housing funds	–	7,688,617	(7,688,617)	–
Labour union funds and employee education funds	375,668	836,406	(1,208,478)	3,596
	46,389,295	132,484,462	(130,750,260)	48,123,497

5 NOTES TO CONSOLIDATED FINANCIAL STATEMENT ITEMS (continued)

(22) Employee benefits payable (continued)

(b) Defined contribution plans payable

	31 December 2018	Increase in the current year	Decrease in the current year	**31 December 2019**
Basic pensions	887	14,853,747	(14,854,634)	**–**
Unemployment insurance	34	555,492	(555,526)	**–**
	921	15,409,239	(15,410,160)	**–**

(23) Taxes payable

	31 December 2019	31 December 2018
Enterprise income tax payable	**18,648,131**	28,767,149
Unpaid VAT	**14,075,886**	8,505,606
Withholding of personal income tax for employees	**3,576,476**	4,384,321
Others	**939**	67,713
	36,301,432	41,724,789

5 NOTES TO CONSOLIDATED FINANCIAL STATEMENT ITEMS (continued)

(24) Other payables

	31 December 2019	31 December 2018
Accrual for marketing and sales promotion expenses	258,490,287	144,876,198
Accrual for Shanghai Pharmaceuticals Holding Co. Ltd. (“SPH”) cooperative research project transfer	3,690,000	3,690,000
Guarantee payable	41,741,333	30,449,333
Payable to long-term assets	6,726,276	10,076,371
Others	14,431,586	15,279,822
	325,079,482	204,371,724

(a) As at 31 December 2019, other payables with an age of more than one year were RMB40,567,808. As at 31 December 2018, other payables with an age of over one year amounted to RMB13,225,542. Other payables with an age of more than one year are mainly payable to long-term assets and guarantee payable, because the long-term asset payment node has not been reached, and the amount has not been settled.

(25) Lease liabilities

	31 December 2019	31 December 2018
Lease liabilities	6,153,461	–
Less: Current portion of non-current liabilities	(4,031,927)	–
	2,121,534	–

As at 31 December 2019, the Group had no events that were not included in the lease liabilities, but would result in potential future cash outflows.

5 NOTES TO CONSOLIDATED FINANCIAL STATEMENT ITEMS (continued)

(26) Deferred revenue

	31 December 2019	31 December 2018 (Restated)
Commercial compensation (a)	**44,262,295**	49,180,328
government grant (b)	**11,698,071**	14,263,764
R&D project transfer	**2,245,000**	2,245,000
	58,205,366	65,689,092

	31 December 2018 (Restated)	Increase in the current year	Decrease in the current year	31 December 2019	Cause of formation
Commercial compensation(a)	49,180,328	–	(4,918,033)	**44,262,295**	Commercial compensation
government grant (b)	14,263,764	11,469,683	(14,035,376)	**11,698,071**	Receive government grants
R&D project transfer	2,245,000	–	–	**2,245,000**	R&D project transfer income
	65,689,092	11,469,683	(18,953,409)	**58,205,366**	

(a) In 2018, the Group signed a market promotion service agreement with Shanghai Huizheng stating that since November 1 2018, Shanghai Huizheng would carry out market promotion for LIBOd. According to the agreement, Shanghai Huizheng paid RMB50,000,000 to the Group as a commercial compensation for a series of expenses incurred by the Group due to the product market switch caused by the change of the promotion service provider. The aforesaid commercial compensation shall be recognized as deferred revenue, and shall be amortized and confirmed as profit or loss during the period of the marketing service contract (Note 2(26)).

(b) Government grant

	31 December 2018	Increase in the current year	Decrease in the current year (Credited to other income)	31 December 2019	Asset related/Income related
R&D project industrialization subsidy	13,322,750	–	(2,317,000)	**11,005,750**	Asset related
Medical R&D Project Grant	941,014	623,900	(872,593)	**692,321**	Income related
Financial support	–	9,240,000	(9,240,000)	**–**	Income related
High-tech enterprise subsidies	–	690,000	(690,000)	**–**	Income related
Others	–	915,783	(915,783)	**–**	Income related
	14,263,764	11,469,683	(14,035,376)	**11,698,071**	

5 NOTES TO CONSOLIDATED FINANCIAL STATEMENT ITEMS (continued)

(26) Deferred revenue (continued)

(b) Defined contribution plans payable (continued)

The breakdown of government grant included in the Group's profit and loss for 2019 is as follows:

Government grants	Category	Amount credited to profit or loss for the year	Items reported in profit or loss for the year
Financial support	Income related	9,240,000	Other income
R&D project industrialization subsidy	Asset related	2,317,000	Other income
Medical R&D Project Grant	Income related	872,593	Other income
High-tech enterprise subsidies	Income related	690,000	Other income
Others	Income related	915,783	Other income
		14,035,376	

5 NOTES TO CONSOLIDATED FINANCIAL STATEMENT ITEMS (continued)

(27) Share capital

	31 December 2018	Change in the current year: Issue new shares	scrip issue	Premium transfer to capital	Others	Subtotal	31 December 2019
Unlisted tradable shares-domestic corporate and individual holdings	**58,300,000**	**–**	**–**	**–**	**–**	**–**	**58,300,000**
Listed tradable shares-foreign listed foreign shares	**34,000,000**	**–**	**–**	**–**	**–**	**–**	**34,000,000**
Share capital	**92,300,000**	**–**	**–**	**–**	**–**	**–**	**92,300,000**

	31 December 2017	Change in the current year: Issue new shares	scrip issue	Premium transfer to capital	Others	Subtotal	31 December 2018
Unlisted tradable shares-domestic corporate and individual holdings	58,300,000	–	–	–	–	–	58,300,000
Listed tradable shares-foreign listed foreign shares	34,000,000	–	–	–	–	–	34,000,000
Share capital	92,300,000	–	–	–	–	–	92,300,000

5 NOTES TO CONSOLIDATED FINANCIAL STATEMENT ITEMS (continued)

(28) Capital surplus

	31 December 2018	Increase in the current year	Decrease in the current year	31 December 2019
Share premium (i)	412,293,387	–	(174,497,253)	237,796,134

	31 December 2017	Increase in the current year	Decrease in the current year	31 December 2018
share premium (i)	412,293,387	–	–	412,293,387

The company signed an equity transfer contract with the minority shareholders of its subsidiary Taizhou Pharmaceutical, acquiring 30.23% of its total shares in Taizhou Pharmaceutical. As at 31 December 2019, the company has paid all equity transfers of RMB178,000,000, and decrease capital surplus of RMB174,497,253 and minority interests of RMB3,502,747. The relevant equity transfer procedures have been completed on July 17, 2019.

5 NOTES TO CONSOLIDATED FINANCIAL STATEMENT ITEMS (continued)

(29) Other comprehensive income

	Other comprehensive income in the balance sheet			Other comprehensive income in the 2019 income statement				
	31 December 2018	Attributable to the company after tax	31 December 2019	Amount before income tax	Less: other comprehensive income transferred out this year	Deduct: income tax expense	Attributable to the company after tax	Attributable to minority shareholders
Other comprehensive income that cannot be reclassified into profit or loss								
Changes in fair value of other equity instrument investments	(13,774,800)	-	(13,774,800)	-	-	-	-	-
Other comprehensive income can be reclassified into profit or loss								-
Translation differences in foreign currency financial statements	(231,616)	56,181	175,435	56,181	-	-	56,181	-
	(14,006,416)	56,181	(13,950,235)	56,181	-	-	56,181	-

	Other comprehensive income in the balance sheet				Other comprehensive income in the 2018 income statement				
	31 December 2017	Changes in accounting policies	1 January 2018	Attributable to the company after tax	31 December 2018	Amount before income tax	Less: other comprehensive income transferred out this year	Deduct: income tax expense	Attributable to the company after tax	Attributable to minority shareholders
Other comprehensive income that cannot be reclassified into profit or loss										
Changes in fair value of other equity instrument investments	-	-	-	(13,774,800)	(13,774,800)	(13,774,800)	-	-	(13,774,800)	-
Other comprehensive income can be reclassified into profit or loss										
Translation differences in foreign currency financial statements	(396,101)	-	(396,101)	164,485	(231,616)	164,485	-	-	164,485	-
	(396,101)	-	(396,101)	(13,610,315)	(14,006,416)	(13,610,315)	-	-	(13,610,315)	-

5 NOTES TO CONSOLIDATED FINANCIAL STATEMENT ITEMS (continued)

(30) Surplus reserve

	31 December 2018	Increase in the current year	Decrease in the current year	31 December 2019
Statutory surplus reserve	**46,150,000**	**–**	**–**	**46,150,000**

	31 December 2017	Increase in the current year	Decrease in the current year	31 December 2018
Statutory surplus reserve	46,150,000	–	–	46,150,000

In accordance with the Company Law and the Company's Articles of Association, the Company should appropriate 10% of net profit for the year to the statutory surplus reserve, and the Company can cease appropriation when the statutory surplus reserve accumulated to more than 50% of the registered capital. The statutory surplus reserve can be used to make up for the loss or increase the share capital after approval from the appropriate authorities. As of 31 December 2016, the accumulated amount of the company's statutory surplus reserve has reached 50% of the registered capital, so no appropriate will be made in 2019 and 2018.

(31) Undistributed profits

	2019	2018 (Restated)
Undistributed profits at the beginning of year	**406,481,497**	322,042,326
Add: net (loss)/profit attributable to shareholders of the Company	**227,357,983**	112,129,171
Less: appropriation to statutory surplus reserve	**–**	–
dividend declared	**(64,610,000)**	(27,690,000)
Undistributed profits at the end of year	**569,229,480**	406,481,497

In accordance with the resolution of the Annual General Meeting on 26 April 2019, the Company decided the payment of a final dividend of RMB 0.07 per ordinary share, totalling RMB 64,610,000 for the year ended 31 December 2018. The final dividend in respect of the year ended 31 December 2018 is calculated based on the total number of shares 923,000,000 in issue.

In accordance with the Board of Directors on 28 February 2020, the Company recommends the payment of a final dividend of RMB 0.07 per ordinary share, totalling RMB 64,610,000 for the year ended 31 December 2019. The proposed final dividend in respect of the year ended 31 December 2019 is calculated based on the total number of shares 923,000,000 in issue. The payment of the proposed final dividend is to be approved by the shareholders at the Company's forthcoming Annual General Meeting.

5 NOTES TO CONSOLIDATED FINANCIAL STATEMENT ITEMS (continued)

(32) Revenue and cost of sales

	2019	2018
Main operations revenue	1,028,955,330	740,421,865
Other operations revenue	339,439	1,419,560
	1,029,294,769	741,841,425

	2019	2018
Main operations cost	(73,339,340)	(70,793,000)
Other operations cost	(1,163)	–
	(73,340,503)	(70,793,000)

(a) Main operations revenue and main operations cost

	2019		2018	
	Main operations revenue	Main operations cost	Main operations revenue	Main operations cost
– Sale of pharmaceutical and diagnostic products	997,065,230	(70,997,893)	729,101,598	(63,209,452)
– Technology transfer income (Note (i))	29,900,000	–	–	–
– Service	1,942,666	(2,341,447)	9,671,858	(6,178,077)
– Others	47,434	–	1,648,409	(1,405,471)
	1,028,955,330	(73,339,340)	740,421,865	(70,793,000)

On 11 March 2019, the Company and Shanghai Institute of Biological Products Co., Ltd. entered into a technology license and transfer agreement. In 2019, the Company has completed the performance obligation of the transfer of control on the technology, and recognized the technology transfer income of RMB29,900,000. As at 31 December 2019, the company had received the transfer price of RMB29,900,000.

5 NOTES TO CONSOLIDATED FINANCIAL STATEMENT ITEMS (continued)

(32) Revenue and cost of sales (continued)

(b) Other operations revenue and other operations cost

	2019		2018	
	Other operations revenue	**Other operations cost**	Other operations revenue	Other operations cost
Revenue from cooperation agreements with SPH (Note (i))	**336,400**	**–**	1,419,560	–
Others	**3,039**	**(1,163)**	–	–
	339,439	**(1,163)**	1,419,560	–

(i) On 23 February 2011, the Company and SPH signed an innovative drug research and development strategic cooperation agreement (the "Agreement") in relation to four of the existing drug research projects undertaken by the Group. The Agreement was renewed on 19 March 2013 and 10 May 2017 respectively. According to the Agreement, SPH will pay 80% of the ongoing research and development ("R&D") expenses of these projects from 1 January 2011 (inclusive), and the Group and SPH will share equally the future benefits generated from the commercialization of these projects. In addition, SPH also agreed to pay 80% of the R&D expenses on these research projects prior to 1 January 2011 (the "Pre-2011 Costs") but the payments of the Pre-2011 Costs are subject to the completion of certain milestones between 2011 and 2018 as set out in the Agreement.

In 2019, the Company received total payments of RMB336,400 from SPH under the Agreement (2018: RMB2,089,500), and RMB336,400 was recognised as related service income. As at 31 December 2019 (2018: RMB1,419,560), the R&D project of Vincristine Sulphate Liposome ("LVCR") was transferred in 2014, and the other three drug cooperation research projects have been terminated. Accordingly, in 2019, there was no relevant service income.

5 NOTES TO CONSOLIDATED FINANCIAL STATEMENT ITEMS (continued)

(33) Taxes and surcharges

	2019	2018
Educational surcharge	2,225,897	3,102,380
Real estate tax	1,281,462	988,366
City maintenance and construction tax	1,018,547	827,398
Land use tax	405,936	454,517
Others	365,597	131,337
	5,297,439	5,503,998

(34) Selling expenses

	2019	2018 (Restated)
Marketing and academic promotion fees	401,633,434	264,326,137
Salary costs	70,764,064	71,511,322
Travel expenses	15,188,839	13,400,008
Depreciation and amortization	12,309,522	9,517,391
Conference fees	11,720,162	10,468,493
Business Hospitality	6,838,254	8,313,942
Right-of-use asset depreciation	3,880,300	—
Shipping fee	2,257,528	1,902,509
Office expenses	1,553,380	1,136,228
Rental fees	159,300	4,032,469
others	4,266,402	15,040,406
	530,571,185	399,648,905

5 NOTES TO CONSOLIDATED FINANCIAL STATEMENT ITEMS (continued)

(35) General and administrative expenses

	2019	2018
Salary costs	29,761,966	43,283,313
Depreciation and amortization	6,197,804	11,408,651
Rent and property fees	3,873,526	7,170,677
Administrative expenses	3,639,584	5,952,962
Audit fees	2,718,160	2,618,828
Consulting fee	1,770,782	2,512,419
Right-of-use asset depreciation	1,708,582	—
Service fee	104,591	3,521,407
other	5,158,266	7,105,499
	54,933,261	83,573,756

(36) R&D expenses

	2019	2018
Outsourced R&D expenses	36,151,615	22,743,753
Salary costs	32,278,865	35,568,378
Information and materials costs	26,763,958	18,034,681
R&D department expenses	20,186,109	18,155,432
Depreciation	12,441,400	13,292,814
Development expenditure expensed	–	6,489,192
	127,821,947	114,284,250

5 NOTES TO CONSOLIDATED FINANCIAL STATEMENT ITEMS (continued)

(37) Financial expenses-net

	2019	2018
Interest costs	**5,587,535**	6,491,172
Less: Amounts capitalised on qualifying assets	**–**	–
Add: Interest expense on lease liabilities	**711,285**	—
Interest expenses	**6,298,820**	6,491,172
Less: Interest income	**(2,086,043)**	(2,866,314)
Exchange gains or losses	**1,127,469**	701,928
Others	**287,700**	219,572
	5,627,946	4,546,358

5 NOTES TO CONSOLIDATED FINANCIAL STATEMENT ITEMS (continued)

(38) Expenses by nature

The cost of sales, selling expenses, general and administrative expenses and research and development expenses in the income statements are listed as follows by nature::

	2019	2018 (Restated)
Changes in inventories of finished goods and work in progress	1,526,523	(2,869,969)
Consumed raw materials and low value consumables, etc.	41,681,522	35,563,935
Marketing and sales promotion expenses	438,753,634	321,527,772
Employee benefit expenses	147,893,701	169,564,555
Less: Amounts capitalized in development costs	(151,758)	(233,778)
Less: Capitalizd long-term deferred expenses	–	(12,982)
	147,741,943	169,317,795
Outsourced R&D expenses	36,151,615	22,743,753
Depreciation and amortization	54,244,808	56,953,047
Less: Amounts capitalized in development costs	(164,640)	(160,441)
	54,080,168	56,792,606
R&D department expenses	20,186,109	18,155,432
Quality inspection expenses	8,817,287	9,710,182
Right-of-use asset depreciation	5,588,882	—
Audit Fees	2,718,160	2,618,828
– audit services	2,585,669	2,502,828
– non-audit services	132,491	116,000
Rental	1,347,649	10,097,092
Decrease of the capitalised R&D expenditure	–	6,489,192
Others	33,415,035	18,153,293
	792,008,527	668,299,911

As mentioned in Note 2 (22), the rental expenses of short-term leases and low-value leases are directly included in the current profit and loss, and the amount in 2019 is RMB1,347,649.

5 NOTES TO CONSOLIDATED FINANCIAL STATEMENT ITEMS (continued)

(39) Other income

	2019	2018	Asset related/ Income related
Financial support	9,240,000	19,510,000	Income related
R&D project industrialization subsidy	2,317,000	2,317,000	Asset related
Medical R&D Project Grant	872,593	4,079,652	Income related
High-tech enterprise subsidies	690,000	406,500	Income related
Patent model enterprise subsidy	–	420,000	Income related
Others	915,783	562,047	Income related
	14,035,376	27,295,199	

(40) Investment income

	2019	2018
Gain/(loss) from disposal of subsidiaries (Note 6(1))	8,150,434	(111,431)
Financial product income	9,829,279	12,678,087
Equity pick up	(6,921,098)	–
	11,058,615	12,566,656

In 2019 and 2018, the bank wealth management products purchased by the Group are measured at fair value and their changes are included in the current profit and loss. As at 31 December 2019 and 31 December 2018, the Group had no balance of wealth management products.

(41) Credit impairment loss

	2019	2018
Accounts receivables bad debt losses	2,519,741	2,773,985

5 NOTES TO CONSOLIDATED FINANCIAL STATEMENT ITEMS (continued)

(42) Asset impairment losses/(reversal)

	2019	2018
Goodwill impairment loss	–	4,937,000
Impairment losses on fixed assets	3,325,916	1,633,083
Impairment losses on intangible assets	450,000	–
Impairment losses on inventory	3,809,608	659,369
	7,585,524	7,229,452

(43) Gains/(loss) on disposals of assets

	2019	2018	Amount included in 2019 non-recurring profit and loss
Gain/(loss) on disposal of fixed assets	790,301	(334,482)	790,301

(44) Non-operating income

	2019	2018	Amount included in 2019 non-recurring profit and loss
Others	1,086,695	994,454	1,086,695

5 NOTES TO CONSOLIDATED FINANCIAL STATEMENT ITEMS (continued)

(45) Non-operating expenses

	2019	2018
Losses from scrap of fixed assets	1,509,441	–
Losses from scrap of inventory	724,354	–
Loss	12,830	22,658
Others	10,003	97,202
	2,256,628	119,860

(46) Income tax expenses

	2019	2018 (Restated)
Current income tax	42,312,824	39,510,581
Deferred income tax	(16,655,337)	(36,534,069)
	25,657,487	2,976,512

5 NOTES TO CONSOLIDATED FINANCIAL STATEMENT ITEMS (continued)

(46) Income tax expenses (continued)

The reconciliation from income tax calculated based on the applicable tax rates and total profit presented in the consolidated financial statements to the income tax expenses is listed below:

	2019	2018 (Restated)
Total profit	246,311,582	93,889,688
Income tax expenses calculated at applicable tax rates 25%	61,577,896	23,472,420
Effect of favourable tax rates	(23,212,636)	(15,646,076)
Tax losses not recognised as deferred tax assets	1,730,341	11,508,992
Deductible temporary differences not recognised as deferred tax assets	418,480	432,288
Additional deduction of research and development Expenses	(12,166,759)	(14,728,933)
Costs, expenses and losses not deductible for tax purposes	633,916	855,398
Effect of eliminated unrealised profits on intra-group transactions	(2,912,500)	(2,537,500)
Utilisation of previously unrecognised deductable temporary differences	(709,378)	(1,464,038)
Reversal of previously deductible temporary differences recognised as deferred tax assets	–	795,312
Others	298,127	288,649
Income tax expenses	25,657,487	2,976,512

5 NOTES TO CONSOLIDATED FINANCIAL STATEMENT ITEMS (continued)

(47) Earnings per share

(a) Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to the shareholders of the Company by the weighted average number of ordinary shares outstanding.

	2019	2018
Profit attributable to shareholders of the Company	**227,357,983**	112,129,171
Weighted average number of ordinary shares outstanding	**923,000,000**	923,000,000
Basic earnings per share	**0.25**	0.12
Among them:		
– Basic earnings per share from continuing operations:	**0.25**	0.12
– Basic earnings per share from discontinuing operations::	**–**	–

(b) Diluted earnings per share

Diluted earnings per share is calculated by dividing net profit attributable to ordinary shareholders of the Company adjusted based on the dilutive potential ordinary share by the adjusted weighted average numbers of ordinary shares outstanding. As there were no dilutive potential ordinary shares for the year ended 31 December 2019 (2018: nil), diluted earnings per share equals to basic earnings per share.

5 NOTES TO CONSOLIDATED FINANCIAL STATEMENT ITEMS (continued)

(48) Notes to the consolidated cash flow statement

(a) Cash received relating to other operating activities

	2019	2018
Deposits and guarantees	15,373,823	26,331,361
Government grant	11,469,683	22,846,047
Commercial compensation	10,000,000	40,000,000
Interest income	2,086,043	2,866,314
Others	712,732	994,454
	39,642,281	93,038,176

(b) Cash paid relating to other operating activities

	2019	2018
Administrative and data fees	21,272,050	17,686,841
Travel expenses	15,188,839	13,400,008
Consulting service fee	11,097,389	7,693,824
Business Hospitality	6,838,254	8,313,942
Advertising expenses	1,341,810	4,890,182
Others	12,079,543	29,960,057
	67,817,885	81,944,854

(c) Cash received relating to other investing activities

	2019	2018
Selling wealth management products	1,669,829,279	1,882,578,087

5 NOTES TO CONSOLIDATED FINANCIAL STATEMENT ITEMS (continued)

(48) Notes to the consolidated cash flow statement (continued)

(d) Cash paid relating to other investing activities

	2019	2018
Buying wealth management products	1,660,000,000	1,869,900,000

(e) Cash payments relating to other financing activities

	2019	2018
Buying a minority stake in a subsidiary	178,000,000	–
Prepaid IPO agency fee	6,734,962	–
Payment of lease liabilities	6,204,174	–
	190,939,136	–

In 2019, the total lease-related cash outflow paid by the Group was RMB7,551,823. Except for the amount of the above-mentioned lease liabilities payment included in financing activities, the remaining cash outflows were included in operating activities.

5 NOTES TO CONSOLIDATED FINANCIAL STATEMENT ITEMS (continued)

(48) Notes to the consolidated cash flow statement (continued)

(f) Reconciliation from net profit to cash flows from operating activities

	2019	2018 (Restated)
Net profit	**220,654,095**	90,913,176
Add: Provisions for asset impairment	**7,585,524**	7,229,452
Credit impairment provision	**2,519,741**	2,773,985
Right-of-use assets amortization	**5,588,882**	–
Decrease of the capitalised R&D expenditure	**–**	6,953,657
Depreciation of fixed assets	**44,793,056**	43,308,022
Amortisation of intangible assets	**6,294,529**	6,442,491
Amortisation of long-term prepaid expenses	**2,992,583**	7,042,093
Losses on disposal of fixed assets	**(695,961)**	334,482
Losses on scrapping of fixed assets	**1,509,441**	–
Financial expenses – net	**6,298,820**	6,491,172
Investment losses	**(11,058,615)**	(12,678,087)
Increase in deferred tax assets	**(16,655,337)**	(36,534,069)
Decrease in inventories	**(4,327,656)**	6,969,689
Decrease in operating receivables	**(122,900,906)**	(206,108,526)
Increase in operating payables	**134,118,142**	211,969,402
(Decrease)/Increase in deferred revenue	**(7,483,726)**	44,731,176
Net cash flows from operating activities	**269,232,612**	179,838,115

(g) Cash

	31 December 2019	31 December 2018
Cash	**576,799,410**	588,221,416
Less restricted cash at bank	**–**	–
Cash	**576,799,410**	588,221,416

5 NOTES TO CONSOLIDATED FINANCIAL STATEMENT ITEMS (continued)

(48) Notes to the consolidated cash flow statement (continued)

(h) Disposal of subsidiaries

	2019
Cash and cash equivalents received by disposal of Derma this year	10,182,200
Less: payment of transaction costs	(2,699,057)
Less: Cash and cash equivalents held by Derma when lose control	(686,760)
Cash and cash equivalents received by disposal of subsidiaries this year	6,796,383

(50) Foreign currency items

	31 December 2019		
	Foreign currency balance	Exchange rate	RMB balance
Cash at bank and on hand –			
USD	497,300	6.9762	3,469,264
HKD	15,312	0.8958	13,716
			3,482,980

	31 December 2018		
	Foreign currency balance	Exchange rate	RMB balance
Cash at bank and on hand –			
USD	497,181	6.8632	3,412,253
HKD	16,338	0.8762	14,316
			3,426,569

6 CHANGES IN SCOPE OF BUSINESS COMBINATIONS

(1) Disposal of subsidiaries

(a) The relevant information for the disposal of subsidiaries in 2019 is summarized as follows:

Subsidiary	Consideration received	% of equity interests disposed	Disposal method	Date of lose control	Basis of losing control	The difference between the disposal consideration and the share of subsidiary's net assets in the consolidated financial statements	The amount of OCI related to the equity investment of the subsidiary transferred to the investment gains and losses
Derma	16,522,000	30.04%	Transfer by agreement	April 29, 2019	Complete industrial and commercial registration of equity change	(150,509)	–

As approved by the Board meeting on 28 February 2019, the Company entered into an equity acquisition agreement with Shenyang Bringspring Roadtop Health Data Industrial Equity Investment LLP.* ("Bringspring-Roadtop"), pursuant to which the Company has agreed to sell 30.04% equity interest in Derma, a subsidiary of the Company, to Bringspring-Roadtop with a consideration of RMB16,522,000 related to the registered capital of RMB16,522,000. Meanwhile, other shareholders of Derma will also sell certain proportion of equity interest to Bringspring-Roadtop under the agreement. Upon completion of the disposal, Bringspring Roadtop owns 63% of equity interest in Derma while the Company owns 20% of equity interest in Derma Clinic. For more details, please refer to the announcement of the Company dated 28 February 2019. The Company completed the industrial and commercial registration for the change in respect of the disposal of 30.04% equity interest in Derma on 29 April 2019. As at 31 December 2020, the Company has received part of the consideration amounting to RMB10,182,200. The remaining amount of RMB6,339,800 will be collected when the conditions agreed in the contract are met.

6 CHANGES IN SCOPE OF BUSINESS COMBINATIONS (continued)

(1) Disposal of subsidiaries (continued)

(b) Disposal gains and losses and related cash flow information are as follows:

(i) Derma

The disposal gains and losses are calculated as follows:

	Amount
Disposal price	16,522,000
Fair value of residual equity	11,000,000
Less: Enjoyed share of Derma's net asset at the consolidated financial statement level	(16,672,509)
Less: equity transaction costs	(2,699,057)
Investment income from disposal	8,150,434

7 EQUITY IN OTHER SUBJECTS

(1) Equity in subsidiaries

(a) The structure of the Group

Name	Corporate category	Place of operation	Place of incorporate	Principal activities	Registered capital	Share proportion Direct	Share proportion Indirect	Acquisition method
Taizhou Pharmaceutical	Limited liability company	Jiangsu Taizhou	No. 1 Yaocheng Avenue, Taizhou City, Jiangsu Province	Production of freeze-dried powder injections and APIs; research and development of pharmaceuticals and medical devices Development, technology development, technology transfer, technology consulting and technology promotion services, sales of Class II medical devices.	86,000,000	100%	–	Set up
Tracing Bio-technology	Limited liability company	Shanghai	308 Cailun Road, Shanghai	Research and development of medical diagnostic products (except human stem cells, genetic diagnosis and therapeutic technology development and application) and related technical services, daily necessities, sales of Class II clinical laboratory analysis instruments and software.	24,800,000	84.68%	–	Set up
Fernovelty Holding	Limited liability company	Hong Kong	LOCKHART RD WANCHAI, RM 1501, 15F	Invest in overseas medical projects.	17,438,000	100%	–	Set up
Baosu Pharmaceutical	Limited liability company	Shanghai	308 Cailun Road, Shanghai	Technology development, technical services, technical consulting, technology transfer (except human stem cells, genetic diagnosis and treatment technology development and application) in the field of medical technology, medical technology, business consulting, corporate management consulting, corporate image planning, marketing planning, design and production of various advertising expo services.	15,800,000	69.62%	–	Set up

(b) Subsidiaries with significant minority interests

As at 31 December 2019, the Group has no subsidiaries with significant minority interests.

As at 31 December 2019, the Group's subsidiaries with significant minority interests are as follows:

Name of subsidiaries	Shareholding proportion of minority interests	Net profit attributable to minority interests for the year ended 31 December 2018	Dividends distributed to minority interests for the year ended 31 December 2018	Minority interests on 31 December 2018
Taizhou Pharmaceutical	30.23%	841,363	–	9,783,631
Derma	49.96%	14,774,223	–	(122,741)

7 EQUITY IN OTHER SUBJECTS (continued)

(1) Equity in subsidiaries (continued)

(b) Subsidiaries with significant minority interests (continued)

The main financial information of the above significant non-wholly-owned subsidiaries is listed below:

	31 December 2018					
	Current assets	Non-current assets	Total assets	Current liabilities	Non-current liabilities	Total liabilities
Taizhou Pharmaceutical	55,228,838	219,529,408	274,758,246	146,391,255	36,005,750	182,397,005
Derma	3,998,679	27,296,470	31,295,149	31,853,460	–	31,853,460

	The year ended Decmber 31,2018			
	Revenue	Net loss	Total comprehensive loss	Net cash flows from operating activities
Taizhou Pharmaceutical	66,048,084	2,782,970	2,782,970	31,141,001
Derma	15,614,266	29,998,997	29,998,997	(14,415,599)

(2) Equity in joint venture and associates

(a) Summarised financial information of significant joint venture and associates:

	Place of operation	Place of incorporate	Principal activities	If strategic for group activities	Share proportion Direct	Share proportion Indirect
Joint venture –						
BVCF	Changzhou	Changzhou	Healthcare investment	No	29.85%	–
Associates –						
Derma	Shanghai	Shanghai	Healthcare investment	No	20.00%	–

The Group uses the equity method to account for the above equity investments.

7 EQUITY IN OTHER SUBJECTS (continued)

(2) Equity in joint venture and associates (continued)

(b) Summarised financial information of significant joint venture

	31 December 2019 BVCF	31 December 2018 BVCF
Current assets	**19,290,600**	65,002,942
Non-current assets	**96,000,000**	–
Total assets	**115,290,600**	65,002,942
Current liabilities	**–**	(4,478)
Total liabilities	**–**	(4,478)
Equity attributable to shareholders of the company	**115,290,600**	65,007,420
Share of net assets by shareholding	**23,251,196**	24,000,000
Carrying amount of investments in joint ventures	**23,251,196**	24,000,000

	2019	2018
General and administrative expenses	**(5,716,243)**	–
Financial expenses – net	**2,003,423**	7,420
Income tax expenses	**–**	–
Net profit	**(3,712,820)**	7,420
Other comprehensive income,	**–**	–
Total comprehensive income	**(3,712,820)**	7,420
Dividends received by the Group from joint ventures the year	**–**	–

7 EQUITY IN OTHER SUBJECTS (continued)

(2) Equity in joint venture and associates (continued)

(c) Summarised financial information of significant associate

	31 December 2019 Derma
Current assets	5,001,553
Non-current assets	32,955,521
Total assets	37,957,074
Current liabilities	49,421,285
Total liabilities	49,421,285
Equity attributable to shareholders of the company	(11,464,211)
Share of net assets by shareholding	(2,292,842)
Carrying amount of investments in associate	4,827,706

7 EQUITY IN OTHER SUBJECTS (continued)

(2) Equity in joint venture and associates (continued)

(c) Summarised financial information of significant associate (continued)

	Period from 30 April 2019 to 31 December 2019
Revenue	11,053,697
Cost of sales	(5,381,481)
Taxes and surcharges	(9,844)
Selling expenses	(3,147,960)
General and administrative expenses	(18,078,486)
Financial expenses – net	308,897
Credit impairment loss	(11,293,145)
Investment loss	(4,170,000)
Non-operating income	79,438
Non-operating expense	(44,200)
Income tax expenses	2,103
Net loss	(30,680,981)
Other comprehensive income	–
Total comprehensive income	(30,680,981)
Dividends received by the Group from associates the year	–

7 EQUITY IN OTHER SUBJECTS (continued)

(2) Equity in joint venture and associates (continued)

(d) Summarised financial information of non-significant joint venture and associates:

	Place of operation	Place of incorporate	Principal activities	If strategic for group activities	Share proportion	
					Direct	Indirect
Associates –						
Lead Discovery	Shanghai	Shanghai	Efficient screening of new drugs in China, development of "me-too" and natural medicine technology	No	35%	–

The Group uses the equity method to account for the above equity investments.

The associate is an unlisted company and has no significant impact on the Group's financial information.

In 2012, the company's carrying amount of investment in the associated company's Lead Discovery has fully made provision for impairment. There are no changes in 2019 and 2018.

8 SEGMENT INFORMATION

The Group is principally engaged in research, development and sale of pharmaceutical products and therefore does not distinguish between different business segments.

The Company and its subsidiaries other than Fernovelty Holding all operate in Mainland China. The Group's revenue is mainly derived from Mainland China and it does not distinguish between different regional branches.

9 RELATED PARTIES AND RELATED PARTY TRANSACTIONS

(1) The parent company

The company has no parent company and ultimate controlling party.

(2) Significant subsidiaries

For basic and related information of significant subsidiaries, please refer to Note 7.

(3) Joint ventures and associates

For basic and related information of joint ventures and associates, please refer to Note 7.

(4) Other related parties

	Relationship with the Group
SPH	Shareholder
Shanghai Pharmaceutical Co., Ltd.	Subsidiary of SPH
Shanghai Suzuken Chinese Medicine Co., Ltd.	Subsidiary of SPH
Jiangsu Hongkang Pharmaceutical Co., Ltd.	Subsidiary of SPH
SPH Ningbo Pharmaceutical Co., Ltd.	Subsidiary of SPH
Shandong Pharmceutical Co., Ltd.	Subsidiary of SPH
SPH Keyuan Xinhai Pharmaceutical Hubei Co., Ltd.	Subsidiary of SPH
SPH Ningbo Pharmaceutical Co., Ltd. Biological Products Branch	Subsidiary of SPH
Shanghai Pharmaceutical Holdings Jiangsu Co., Ltd.	Subsidiary of SPH
Heilongjiang Keyuan Xinhai Pharmaceutical Co., Ltd.	Subsidiary of SPH
SPH Keyuan Xinhai Pharmaceutical Jilin Co., Ltd.	Subsidiary of SPH
SPH Changzhou Pharmaceutical Co., Ltd.	Subsidiary of SPH
Beijing Keyuan Xinhai Pharmaceutical Co., Ltd.	Subsidiary of SPH
SPH Keyuan Xinhai Pharmaceutical Shanxi Co., Ltd.	Subsidiary of SPH
Xuzhou SPH Pharmaceutical Co., Ltd.	Subsidiary of SPH
China Medical Foreign Trading Liao Ning Co., Ltd.	Subsidiary of SPH
Shanghai Jiaolian Pharmaceutical R&D Co., Ltd.	Subsidiary of SPH

9 RELATED PARTIES AND RELATED PARTY TRANSACTIONS (continued)

(5) Related party transactions

(a) Pricing policies

The products sold by the Group to related parties are priced on the basis of prices sold to similar third parties.

(b) Sales of goods and services

Related party	Related transaction	2019	2018
Shanghai Suzuken Chinese Medicine Co., Ltd.	Sale of pharmaceutical products	20,967,655	12,018,130
Shanghai Pharmaceutical Co., Ltd.	Sale of pharmaceutical products	15,046,797	15,160,529
Heilongjiang Keyuan Xinhai Pharmaceutical Co., Ltd.	Sale of pharmaceutical products	8,977,786	262,488
Jiangsu Hongkang Pharmaceutical Co., Ltd.	Sale of pharmaceutical products	5,060,092	2,432,569
SPH Keyuan Xinhai Pharmaceutical Shanxi Co., Ltd.	Sale of pharmaceutical products	3,230,304	–
SPH Ningbo Pharmaceutical Co., Ltd. Biological Products Branch	Sale of pharmaceutical products	2,608,707	344,854
Xuzhou SPH Pharmaceutical Co., Ltd.	Sale of pharmaceutical products	1,368,748	–
SPH Changzhou Pharmaceutical Co., Ltd.	Sale of pharmaceutical products	1,000,050	204,218
China Medical Foreign Trading Liao Ning Co., Ltd.	Sale of pharmaceutical products	841,580	–
SPH Keyuan Xinhai Pharmaceutical Jilin Co., Ltd.	Sale of pharmaceutical products	744,977	215,752
Shanghai Pharmaceutical Holdings Jiangsu Co., Ltd.	Sale of pharmaceutical products	731,133	265,201
SPH Keyuan Xinhai Pharmaceutical Hubei Co., Ltd.	Sale of pharmaceutical products	314,307	610,198
Shanghai Pharmaceutical Ningbo Pharmaceutical Co., Ltd.	Sale of pharmaceutical products	299,269	899,699
Beijing Keyuan Xinhai Pharmaceutical Co., Ltd.	Sale of pharmaceutical products	171,406	192,779
Shandong Pharmceutical Co., Ltd.	Sale of pharmaceutical products	129,172	796,034
		61,491,983	33,402,451

9 RELATED PARTIES AND RELATED PARTY TRANSACTIONS (continued)

(5) Related party transactions (continued)

(c) Obtaining cooperation agreement payments

Related party	Related transaction	2019	2018
SPH	Obtaining cooperation agreement payments	336,400	2,089,500
Shanghai Jiaolian Pharmaceutical R&D Co., Ltd.	Obtaining cooperation agreement payments	6,372,000	–
		6,708,400	2,089,500

(d) Payment of cooperation agreement

Related party	Related transaction	2019	2018
SPH	Payment of cooperation agreement	800,000	200,000

(e) Key management compensation

	2019	2018
Key management compensation	18,376,000	15,286,000

9 RELATED PARTIES AND RELATED PARTY TRANSACTIONS (continued)

(6) Receivables from and payables to related parties

(a) Accounts receivables

	31 December 2019		31 December 2018	
	Carrying amount	**Provision for bad debts**	Carrying amount	Provision for bad debts
Shanghai Suzuken Chinese Medicine Co., Ltd.	**7,489,615**	**(7,049)**	1,332,000	–
Heilongjiang Keyuan Xinhai Pharmaceutical Co., Ltd.	**2,364,648**	**(4,729)**	172,236	–
SPH Keyuan Xinhai Pharmaceutical Shanxi Co., Ltd.	**1,904,392**	**(9,522)**	–	–
Shanghai Pharma Co., Ltd.	**1,272,600**	**–**	2,290,680	–
Jiangsu Hongkang Pharmaceutical Co., Ltd.	**613,121**	**(3,066)**	867,266	–
Xuzhou SPH Pharmaceutical Co., Ltd.	**176,226**	**–**	–	–
SPH Keyuan Xinhai Pharmaceutical Hubei Co., Ltd.	**175,116**	**(876)**	652,950	–
China Medical Foreign Trading Liao Ning Co., Ltd.	**172,802**	**–**	–	–
SPH Changzhou Pharmaceutical Co., Ltd.	**165,440**	**–**	59,477	–
SPH Ningbo Pharmaceutical Co., Ltd. Biological Products Branch	**62,568**	**–**	–	–
Shanghai Pharmaceutical Ningbo Pharmaceutical Co., Ltd.	**53,899**	**(269)**	161,698	–
Shandong Pharmceutical Co., Ltd.	**12,825**	**–**	128,250	–
Shanghai Pharmaceutical Holdings Jiangsu Co., Ltd.	**–**	**–**	115,624	–
	14,463,252	**(25,511)**	5,780,181	–

9 RELATED PARTIES AND RELATED PARTY TRANSACTIONS (continued)

(6) Receivables from and payables to related parties (continued)

(b) Contract liabilities

	31 December 2019	31 December 2018
Shanghai Jiaolian Pharmaceutical R&D Co., Ltd.	**1,030,369**	–

(c) Other payables

	31 December 2019	31 December 2018
SPH	**3,690,000**	3,690,000

9 RELATED PARTIES AND RELATED PARTY TRANSACTIONS (continued)

(7) Benefits and interests of directors

(a) Directors and chief executive's emoluments

The emoluments in respect of each of the executive directors, supervisors and independent non-executive directors paid/payable by the Group for the year ended 31 December 2019 are as follows:

	Fee	Basic salaries and allowances	Retirement benefit costs	Bonus	Allowance and other benefits	Emoluments in respect of director's other services in connection with the management of the affairs of the Company or its subsidiary undertaking	Total
Executive directors							
Mr. Wang Hai Bo	–	1,989,000	91,000	1,300,000	–	–	3,380,000
Mr. Su Yong	–	1,344,000	91,000	1,100,000	–	–	2,535,000
Mr. Zhao Da Jun	–	1,344,000	91,000	1,100,000	–	–	2,535,000
Independent non-executive directors							
Mr. Zhou Zhong Hui	–	150,000	–	–	–	–	150,000
Mr. Lam Yiu Kin	–	150,000	–	–	–	–	150,000
Mr. Xu Qing	–	150,000	–	–	–	–	150,000
Mr. Yang Chun Bao	–	150,000	–	–	–	–	150,000
Independent supervisors							
Mr. Liu Xiao Long	–	100,000	–	–	–	–	100,000
Mr. Huang Jian	–	100,000	–	–	–	–	100,000

9 RELATED PARTIES AND RELATED PARTY TRANSACTIONS (continued)

(7) Benefits and interests of directors (continued)

(a) Directors and chief executive's emoluments (continued)

The emoluments in respect of each of the executive directors, supervisors and independent non-executive directors paid/payable by the Group for the year ended 31 December 2018 are as follows:

	Fee	Basic salaries and allowances	Retirement benefit costs	Bonus	Allowance and other benefits	Emoluments in respect of director's other services in connection with the management of the affairs of the Company or its subsidiary undertaking	Total
Executive directors							
Mr. Wang Hai Bo	–	1,926,000	95,000	940,000	–	–	2,961,000
Mr. Su Yong	–	1,249,000	95,000	800,000	–	–	2,144,000
Mr. Zhao Da Jun	–	1,249,000	87,000	800,000	–	–	2,136,000
Independent non-executive directors							
Mr. Zhou Zhong Hui	–	150,000	–	–	–	–	150,000
Mr. Lam Yiu Kin	–	150,000	–	–	–	–	150,000
Mr. Xu Qing	–	150,000	–	–	–	–	150,000
Mr. Yang Chun Bao	–	150,000	–	–	–	–	150,000
Independent supervisors							
Mr. Liu Xiao Long	–	100,000	–	–	–	–	100,000
Mr. Huang Jian	–	100,000	–	–	–	–	100,000

9 RELATED PARTIES AND RELATED PARTY TRANSACTIONS (continued)

(7) Benefits and interests of directors (continued)

(b) Directors' retirement benefits

There are no retirement benefits for the directors. The Group only contributes to state-sponsored retirement schemes for the directors in PRC.

(c) Directors' termination benefits

There are no directors' termination benefits for the directors.

(d) Consideration provided to third parties for making available directors' services

The Group did not pay consideration to any third parties for making available directors' services during the year (2018: Nil).

(e) Information about loans, quasi-loans and other dealings in favour of directors, controlled bodies corporate by and connected entities with such directors

No loans, quasi-loans and other dealings were made available in favour of directors, bodies corporate controlled by and entities connected with directors subsisted at the end of the year or at any time during the year (2018: Nil).

9 RELATED PARTIES AND RELATED PARTY TRANSACTIONS (continued)

(8) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year ended 31 December 2018 include 3 directors (2018: 3 individuals), whose emoluments are reflected in Note (9 (7)). The emoluments paid and payable to these 2 individuals (2018: 2 individuals) for the year are as follows:

	2019	2018
Salary, bonus and allowance	**5,182,000**	4,098,000
Social pension	**98,000**	100,000
Housing funds, medical insurance and other social insurance	**84,000**	90,000
	5,364,000	4,288,000

	Head count	
	2019	2018
Emoluments bands:		
HKD2,000,000 – HKD2,500,000	**–**	2
HKD2,500,000 – HKD3,000,000	**1**	–
HKD3,000,000 – HKD3,500,000	**1**	–
	2	2

10 CONTINGENCIES

(1) Contingent liabilities and their financial impacts arising from significant pending litigation or arbitration

The Group has no significant pending litigation or arbitration.

(2) Contingent liabilities and their financial impacts arising from debt guarantee to other entities

The Group provides no debt guarantee to other entities.

11 COMMITMENTS

(1) Capital commitments

Capital expenditures contracted for by the Group but are not yet necessary to be recognised on the balance sheet as at the balance sheet date are as follows:

	31 December 2019	31 December 2018
Buildings, machinery and equipment	**1,260,346**	3,037,424

12 EVENTS AFTER THE BALANCE SHEET DATE

Since the outbreak of the new coronavirus ("New Crown Epidemic") began in January 2020 across the country, the company has actively responded to and strictly implemented the various regulations and requirements of the Party and national governments at all levels for virus epidemic prevention and controls. To ensure both epidemic prevention and production, the company and its subsidiaries have resumed work since February 10, and implemented strict internal management to implement epidemic prevention work.

The company expects that the new crown epidemic situation and prevention and control measures will have a certain temporary impact on the group's production and operation, and the degree of impact depends on the progress and duration of epidemic prevention and control and the implementation of local prevention and control policies.

The company will continue to pay close attention to the development of the new crown epidemic, and evaluate and actively respond to its impact on the financial position and operating results of the group. As of the reporting date of this financial statement, no significant adverse impact has been found.

13 FINANCIAL INSTRUMENTS AND RISKS

The Group's activities expose it to a variety of financial risks: market risk (primarily including currency risk and interest rate risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

(1) Market risk

(a) Foreign exchange risk

The Group's main business is located in the PRC and its main business is settled in RMB. Therefore, the Group has no significant foreign exchange risk.

(b) Interest rate risk

The Group's interest rate risk arises from long-term interest bearing borrowings including long-term borrowings. Financial liabilities issued at floating rates expose the Group to cash flow interest rate risk. Financial liabilities issued at fixed rates expose the Group to fair value interest rate risk. The Group determines the relative proportions of its fixed rate and floating rate contracts depending on the prevailing market conditions. As at 31 December 2019 and 31 December 2019, the Group have no long-term interest bearing borrowings.

The Group's finance department at its headquarters continuously monitors the interest rate position of the Group. Increases in interest rates will increase the cost of new borrowing and the interest expenses with respect to the Group's outstanding floating rate borrowings, and therefore could have a material adverse effect on the Group's financial performance. The Group makes adjustments timely with reference to the latest market conditions and may enter into interest rate swap agreements to mitigate its exposure to interest rate risk. During 2019 and 2018, the Group did not enter into any interest rate swap agreements.

As at 31 December 2019, if interest rates on the floating rate borrowings rise/fall by 10 basis points while holding all other variables constant, the Group's net profit will decrease/increase by approximately RMB111,646.

As at 31 December 2018, if interest rates on the floating rate borrowings rise/fall by 10 basis points while holding all other variables constant, the Group's net profit will decrease/increase by approximately RMB101,370.

13 FINANCIAL INSTRUMENTS AND RISKS (continued)

(2) Credit risk

Credit risk is managed on the grouping basis. Credit risk mainly arises from cash at bank, notes receivables, accounts receivables, other receivables etc. As at the balance sheet date, the book value of the Group's financial assets represents its maximum credit risk exposure; there is no credit risk exposure arising from the performance of financial guarantees off the balance sheet.

The Group expects that there is no significant credit risk associated with cash at bank since they are deposited at state-owned banks and other medium or large size listed banks. Management does not expect that there will be any significant losses from non-performance by these counterparties.

In addition, the Group has policies to limit the credit exposure on notes receivables, accounts receivables and other receivables. The Group assesses the credit quality of and sets credit limits on its customers by taking into account their financial position, the availability of guarantee from third parties, their credit history and other factors such as current market conditions. The credit history of the customers is regularly monitored by the Group. In respect of customers with a poor credit history, the Group will use written payment reminders, or shorten or cancel credit periods, to ensure the overall credit risk of the Group is limited to a controllable extent.

As at the balance sheet date, the Group has no significant collateral or other credit enhancements held as a result of the debtor's mortgage.

(3) Liquidity risk

Cash flow forecasting is performed by each subsidiary of the Group and aggregated by the Group's finance department in its headquarters. The Group's finance department at its headquarters monitors rolling forecasts of the Group's short-term and long-term liquidity requirements to ensure it has sufficient cash and securities that are readily convertible to cash to meet operational needs, while maintaining sufficient headroom on its undrawn committed borrowing facilities from major financial institutions so that the Group does not breach borrowing limits or covenants on any of its borrowing facilities to meet the short-term and long-term liquidity requirements.

13 FINANCIAL INSTRUMENTS AND RISKS (continued)

(3) Liquidity risk (continued)

The financial liabilities of the Group at the balance sheet date are analysed by their maturity date below at their undiscounted contractual cash flows:

	31 December 2019				
	Within 1 year	**1 to 2 years**	**2 to 5 years**	**Over 5 years**	**Total**
Financial liabilities –					
Short-term borrowings	**152,512,427**	**–**	**–**	**–**	**152,512,427**
Accounts payables	**6,827,902**	**–**	**–**	**–**	**6,827,902**
Other payables	**62,899,195**	**–**	**–**	**–**	**62,899,195**
Lease liabilities	**4,031,927**	**2,121,534**	**–**	**–**	**6,153,461**
	226,271,451	**2,121,534**	**–**	**–**	**228,392,985**

	31 December 2018				
	Within 1 year	1 to 2 years	2 to 5 years	Over 5 years	Total
Financial liabilities –					
Short-term borrowings	153,550,077	–	–	–	153,550,077
Accounts payables	4,777,196	–	–	–	4,777,196
Other payables	55,805,526	–	–	–	55,805,526
	214,132,799	–	–	–	214,132,799

14 FAIR VALUE ESTIMATES

The level in which fair value measurement is categorised is determined by the level of the fair value hierarchy of the lowest level input that is significant to the entire fair value measurement:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3: Unobservable inputs for the asset or liability.

(1) Assets measured at fair value on a recurring basis

Assets measured at fair value on a recurring basis are other equity instruments and financial products, both of which are level 3 assets

The changes in level 3 assets e are as follows

	Other equity instruments	Financial products	Total
1 January 2018	13,774,800	–	13,774,800
Purchase	–	1,869,900,000	1,869,900,000
Sell	–	(1,882,578,087)	(1,882,578,087)
A gain or loss included in profit or loss.	–	12,678,087	12,678,087
A gain or loss included other comprehensive income	(13,774,800)	–	(13,774,800)
31 December 2018	–	–	–
Purchase	**–**	**1,660,000,000**	**1,660,000,000**
Sell	**–**	**(1,669,829,279)**	**(1,669,829,279)**
A gain or loss included in profit or loss.	**–**	**9,829,279**	**9,829,279**
A gain or loss included other comprehensive income	**–**	**–**	**–**
31 December 2019	**–**	**–**	**–**

A gain or loss included in profit or loss are recorded in investment income.

14 FAIR VALUE ESTIMATES (continued)

(2) Assets and liabilities not measured at fair value but for which the fair value is disclosed

Financial assets and liabilities measured at amortised cost mainly include cash, receivables, short-term borrowings, payables.

There is little difference between the book value and fair value of the Group's financial assets and financial liabilities which are not measured at fair value.

15 CAPITAL MANAGEMENT

The Group's capital management policies aim to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders, and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, refund capital to shareholders, issue new shares or sell assets to reduce debts.

The Group's total capital is calculated as 'owners' equity' as shown in the consolidated balance sheet. The Group is not subject to external mandatory capital requirements, and monitors capital on the basis of debt ratio as other company in this industry. This ratio is calculated as net debt divided by total capital, which is borrowings minus cash. As at 31 December 2019 and 31 December 2018, the cash balance of the Group was much larger than the borrowing balance and, therefore, the debt ratio was not applicable.

16 NOTES TO THE COMPANY'S FINANCIAL STATEMENTS

(1) Notes receivables

	31 December 2019	31 December 2018
Bank acceptance notes	**127,592,684**	83,503,452
Less: Provision for bad debts	**–**	–
	127,592,684	83,503,452

(a) As at 31 December 2019 and 31 December 2018, the above-mentioned notes of the Group were not subject to collateral or pledge.

16 NOTES TO THE COMPANY'S FINANCIAL STATEMENTS (continued)

(1) Notes receivables (continued)

(b) As at 31 December 2019 and 31 December 2018, the Group's nots receivables endorsed or discounted but not yet due are as follows:

	31 December 2019	
	De-recognized	Not de-recognized
Bank acceptance notes	**3,256,902**	**–**

i) In 2019, since endorsements or discount transactions that meet the conditions for derecognition occur by accident and the amount is not significant, the Group measures at amortized cost.

(c) Provision for bad debts

The Group's notes receivables are generated from daily business activities such as the sale of goods and the provision of labor services. Regardless of whether there is a significant financing component, loss provisions are measured in accordance with the expected credit losses throughout the lifetime.

As at 31 December 2019 and 31 December 2018, the Group considered that the bank acceptance notes held did not have significant credit risk and would not cause credit losses due to bank defaults, so no provision for bad debt was made.

(2) Accounts receivables

	31 December 2019	31 December 2018
Accounts receivables	**351,536,192**	257,387,924
Less: Provision for bad debts	**(2,991,177)**	(817,712)
	348,545,015	256,570,212

16 NOTES TO THE COMPANY'S FINANCIAL STATEMENTS (continued)

(2) Accounts receivables (continued)

(a) The aging analysis of accounts receivables is as follows:

	31 December 2019	31 December 2018
Within 1 year	**351,536,192**	257,387,924

(b) As at 31 December 2019, the top five accounts receivables based on the balance of the debtors are summarized and analyzed as follows:

	Account Balance	**Amount of bad debt provision**	**% of total balance**
Total top five accounts receivable	126,531,062	(806,404)	35.99%

(c) Provision for bad debts

	31 December 2018	Change amount in the year			**31 December 2019**
		Accrual	Reversal	Write-off	
Provision for bad debts of accounts receivables	(817,712)	(2,566,246)	–	392,781	**(2,991,177)**

For the accounts receivables in 2019 and 2018, regardless of whether there is a significant financing component, the Group calculates loss provisions in accordance with the expected credit losses throughout the lifetime.

(i) As at 31 December 2019 and 31 December 2018, the Group did not make provision for bad debts for individual accounts receivables.

16 NOTES TO THE COMPANY'S FINANCIAL STATEMENTS (continued)

(2) Accounts receivables (continued)

(c) Provision for bad debts (continued)

(ii) As at 31 December 2019, the analysis of accounts receivables for the provision of bad debts is as follows:

Portfolio – sales receivable:

	31 December 2019		
	Accounts Balance	**Provision for bad debts**	
	Amount	**Life expectancy Credit loss rate**	**Amount**
Not overdue	**296,752,248**	**–**	**–**
Overdue within 1 year	**54,783,944**	**5.46%**	**(2,991,177)**
	351,536,192		**(2,991,177)**

(iii) As at 31 December 2018, the analysis of accounts receivables for the provision of bad debts is as follows:

Portfolio – sales receivable:

	31 December 2018		
	Accounts Balance	Provision for bad debts	
	Balance	Life expectancy Credit loss rate	Balance
Not overdue	202,887,018	–	–
Overdue within 1 year	54,500,906	1.50%	(817,712)
	257,387,924		(817,712)

16 NOTES TO THE COMPANY'S FINANCIAL STATEMENTS (continued)

(3) Other receivables

	31 December 2019	31 December 2018
Amount due from subsidiary	**175,168,276**	198,880,802
Amounts due from related parties (i)	**23,753,000**	–
Equity transfer	**6,339,800**	–
Commercial compensation receivable	**–**	10,000,000
Deposit receivable	**1,304,544**	1,304,544
Receivables from employees	**62,608**	591,946
Guarantee receivables	**10,380**	13,380
others	**–**	–
	206,638,608	210,790,672
Less: provision for bad debts	**(48,953,000)**	(22,800,000)
	157,685,608	187,990,672

i) As at 31 December 2019, the Company receivables from related parties of Derma RMB23,753,000. On February 28, 2019, the company signed a share transfer agreement with Bringspring-Roadtop. After the agreement stipulates that Bringspring-Roadtop has transferred the equity, the loan will be returned by the cash flow generated by the Derma through operating activities, and the relevant profit will be given priority The loan was repaid, and pledge guarantees were provided by its new shareholder Bringspring-Roadtop and the equity of Derma held by other shareholders. Based on the current operating conditions of Derma, the company made provision for impairment of this receivable.

(a) The aging analysis of other receivable is as follows:

	31 December 2019	31 December 2018
Within 1 year	**157,528,684**	64,447,548
1-2 year	**47,801,800**	146,311,394
2-3 year	**1,276,394**	3,000
Above 3 years	**31,730**	28,730
	206,638,608	210,790,672

16 NOTES TO THE COMPANY'S FINANCIAL STATEMENTS (continued)

(3) Other receivables (continued)

(b) Statement of loss provision and changes in its carrying amount

(i) As at 31 December 2019, the analysis of bad debt provisions of other receivables in the first stage is as follows:

	Book balance	Within the next 12 months Expected credit loss rate	Provision for bad debts
Combined accrual:			
Amount due from subsidiary	149,968,276	–	–
Equity transfer receivables	6,339,800	–	–
Deposit and guarantee	1,314,924	–	–
Receivables from employees	62,608	–	–
	157,685,608		–

As at 31 December 2019, the Group has no other receivables in the second phases.

As at 31 December 2019, the analysis of bad debt provisions of other receivables in the third stage is as follows:

	Book balance	Expected credit loss rate throughout the lifetime	Provision for bad debts
Individual accruals:			
Amount due from subsidiary	25,200,000	100%	(25,200,000)
Amounts due from related parties	23,753,000	100%	(23,753,000)
	48,953,000		(48,953,000)

16 NOTES TO THE COMPANY'S FINANCIAL STATEMENTS (continued)

(3) Other receivables (continued)

(b) Statement of loss provision and changes in its carrying amount (continued)

(ii) As at 31 December 2018, the analysis of bad debts provisions of other receivables in the first stage is as follows:

	Book balance	Within the next 12 months Expected credit loss rate	Provision for bad debts
Combined accrual:			
Amount due from subsidiary	176,080,802	–	–
Deposit and guarantee	1,317,924	–	–
Receivables from employees	591,946	–	–
Others	10,000,000	–	–
	187,990,672		–

As at 31 December 2018, the Group has no other receivables in the second phases.

As at 31 December 2018, the analysis of bad debt provisions of other receivables in the third stage is as follows:

	Book balance	Expected credit loss rate throughout the lifetime	Provision for bad debts
Individual accruals:			
Amounts due from related parties	22,800,000	100.00%	(22,800,000)

16 NOTES TO THE COMPANY'S FINANCIAL STATEMENTS (continued)

(3) Other receivables (continued)

(c) As at 31 December 2019, the top five other receivables based on the balance of the debtors are summarized and analyzed as follows:

	Nature	Balance	Aging	% of total Amount	Provision for bad debts
Subsidiary[1]	Entrusted Loan	120,000,000	Within a year	58.07%	–
	Entrusted Loan	25,000,000	One to two years	12.10%	–
	Advances	3,235,883	Within a year	1.57%	–
Subsidiary[2]	Entrusted Loan	25,200,000	Within a year	12.20%	(25,200,000)
Related party[1]	loan	22,800,000	One to two years	11.03%	(22,800,000)
Related party[1]	loan	953,000	Within a year	0.46%	(953,000)
Company[1]	Equity transfer receivables	6,339,800	Within a year	3.07%	–
Company[2]	deposit	1,267,464	Two to three years	0.61%	–
		204,796,147		99.11%	(48,953,000)

(4) Long-term equity investments

	31 December 2019	31 December 2018
Subsidiaries (a)	**297,338,000**	146,860,000
Joint ventures (b)	**23,251,196**	24,000,000
Associates (c)	**332,756**	332,756
	320,921,952	171,192,756
Less: Provision for impairment of long-term equity investments		
– Subsidiaries	**(34,911,800)**	(28,216,200)
– Associates	**(332,756)**	(332,756)
	(35,244,556)	(28,548,956)
	285,677,396	142,643,800

16 NOTES TO THE COMPANY'S FINANCIAL STATEMENTS (continued)

(4) Long-term equity investments (continued)

(a) Subsidiaries

	31 December 2018	Changes in the year: Investment Addition	Reduce investment	Provision/ write-off for impairment	Other	31 December 2019	Impairment balance	Cash dividends declared this year
Taizhou Pharmaceutical	60,000,000	178,000,000	–	–	–	**238,000,000**	–	–
Tracing Bio-technology	21,963,000	–	–	(9,600,000)	–	**12,363,000**	18,537,000	–
Derma	22,017,600	–	(16,522,000)	5,504,400	(11,000,000)	**-**	–	–
Fernovelty Holding	3,663,200	–	–	–	–	**3,663,200**	13,774,800	–
Baosu Pharmaceutical	11,000,000	–	–	(2,600,000)	–	**8,400,000**	2,600,000	–
	118,643,800	178,000,000	(16,522,000)	(6,695,600)	(11,000,000)	**262,426,200**	34,911,800	

(b) Joint venture

	31 December 2018	Changes in the year: Investment Addition	Reduce investment	Equity pick up	OCI Adjustment	Other equity changes	Declare cash dividends or profits	Provision for impairment	Other	31 December 2019	Impairment balance
BVCF Fund	24,000,000	–	–	(748,804)	–	–	–	–	–	**23,251,196**	–

(c) Associate

	31 December 2018	Changes in the year: Investment Addition	Reduce investment	Equity pick up	OCI Adjustment	Other equity changes	Declare cash dividends or profits	Provision for impairment	Other	31 December 2019	Impairment balance
Lead Discovery	332,756	–	–	–	–	–	–	–	–	**332,756**	(332,756)
Derma	–	–	–	(8,800,000)	–	–	–	–	8,800,000	**-**	–
	332,756	–	–	(8,800,000)	–	–	–	–	8,800,000	**332,756**	(332,756)

16 NOTES TO THE COMPANY'S FINANCIAL STATEMENTS (continued)

(5) Right-of-use asset

	Buildings
Cost	
31 December 2018	—
Changes in accounting policies	9,048,580
1 January 2019	9,048,580
Increases in the current year	
New lease contract	349,701
31 December 2019	9,398,281
Accumulated depreciation	
31 December 2018	—
Changes in accounting policies	–
1 January 2019	–
Increases in the current year	
Accrual	(3,880,300)
31 December 2019	(3,880,300)
Carrying amount	
31 December 2019	5,517,981
1 January 2019	9,048,580

16 NOTES TO THE COMPANY'S FINANCIAL STATEMENTS (continued)

(6) Lease liabilities

	31 December 2019	31 December 2018
Lease liabilities	**6,153,461**	—
Less: Current portion of non-current liabilities	**(4,031,927)**	—
	2,121,534	—

As at 31 December 2019, the Company had no events that were not included in the lease liabilities, but would result in potential future cash outflows.

(7) Revenue and cost of sales

	2019	2018
Main operations revenue	**949,996,977**	672,025,555
Other operations revenue	**414,152**	1,117,513
	950,411,129	673,143,068

	2019	2018
Main operations cost	**(52,850,723)**	(50,898,081)
Other operations cost	**(7,951)**	(515,034)
	(52,858,674)	(51,413,115)

16 NOTES TO THE COMPANY'S FINANCIAL STATEMENTS (continued)

(7) Revenue and cost of sales (continued)

(a) Main operations revenue and main operations cost

	2019		2018	
	Main operations revenue	**Main operations cost**	Main operations revenue	Main operations cost
– Sale of pharmaceutical and diagnostic products	**912,453,356**	**(45,207,102)**	664,227,707	(43,279,478)
– Revenue from technology transfer	**29,900,000**	**–**	–	–
– Provide technology service	**7,643,621**	**(7,643,621)**	7,797,848	(7,618,603)
	949,996,977	**(52,850,723)**	672,025,555	(50,898,081)

(b) Other operations revenue and other operations cost

	2019		2018	
	Other operations revenue	**Other operations cost**	Other operations revenue	Other operations cost
– Revenue from cooperation agreements with SPH	**336,400**	**–**	583,686	–
– Sales of materials	**6,487**	**(4,611)**	460,613	(509,744)
– Others	**71,265**	**(3,340)**	73,214	(5,290)
	414,152	**(7,951)**	1,117,513	(515,034)

16 NOTES TO THE COMPANY'S FINANCIAL STATEMENTS (continued)

(8) Investment income

	2019	2018
Financial product income	9,829,279	12,678,087
Interest income from entrusted loans	7,409,834	7,966,965
Investment income/(loss) from disposal of long-term equity investments	605,343	(677,699)
Equity pick up	(748,804)	
	17,095,652	19,967,353

The company does not have any significant restrictions on repatriation of investment income.

SUPPLEMENTARY INFORMATION OF FINANCIAL STATEMENTS

For the year ended 31 December 2019
(All amounts in RMB Yuan unless otherwise stated)

1 SUMMARY OF NON-RECURRING PROFIT OR LOSS

	2019	2018
Gains and losses from disposal of non-current assets	**790,301**	(334,482)
Government grants recognised in profits	**14,035,376**	27,295,199
Except for effective hedging business related to the Group's normal business operations, gains and losses on changes in fair value from holding transactional financial assets, and investment income from disposal of transactional financial assets and other non-current financial assets	**9,829,279**	12,566,656
Investment income from disposal of subsidiary	**8,150,434**	–
Non-operating income and expenses other than the above	**(1,169,933)**	874,594
	31,635,457	40,401,967
Impact of income tax expense	**(3,108,970)**	(5,112,351)
Impact on the minority interests, net of tax	**(65,647)**	(1,887,323)
	28,460,840	33,402,293

Basis for preparation of summary of non-recurring profit or loss

Under the requirements in Explanatory announcement No.1 on information disclosure by companies offering securities to the public – non-recurring profit or loss [2008] from CSRC, non-recurring profit or loss refer to those arises from transactions and events that are not directly relevant to ordinary activities, or that are relevant to ordinary activities, but are extraordinary and not expected to recur frequently that would have an influence on users of financial statements making economic decisions on the financial performance and profitability of an enterprise.

2 RECONCILIATION OF DOMESTIC AND FOREIGN FINANCIAL STATEMENTS

The company is an H-share company listed on the Stock Exchange of Hong Kong Limited (the "Stock Exchange"). In 2018, the group has prepared financial statements in accordance with International Financial Reporting Standards. There is no difference between these financial statements in terms of consolidated net profit and consolidated net assets and the financial statements prepared by the Group in accordance with IFRS.

On 24 February 2020, according to the approval of the shareholders' meeting, the Company started to use the consolidated financial statements prepared under CAS to file the annual report with the Stock Exchange from the year ended 31 December 2019. Since that, the Group did not prepare the reconciliation between the financial statements prepared used CAS and IFRS.

3 RETURN ON NET ASSETS ANDEARNINGS PER SHARE

	Weighted average return on net assets (%) 2019	Earnings per share	
		Basic earnings per share 2019	Diluted earnings per share 2019
Net profit attributable to ordinary shareholders of the Company	**24.16%**	**0.25**	**0.25**
Net profit attributable to ordinary shareholders of the Company after deducting non-recurring profit or loss	**21.46%**	**0.22**	**0.22**

	Weighted average return on net assets (%) 2018 (Restated)	Earnings per share	
		Basic earnings per share 2018 (Restated)	Diluted earnings per share 2018 (Restated)
Net profit attributable to ordinary shareholders of the Company	11.83%	0.12	0.12
Net profit attributable to ordinary shareholders of the Company after deducting non-recurring profit or loss	8.63%	0.09	0.09