



丽珠医药
LIVZON

麗珠醫藥集團股份有限公司 Livzon Pharmaceutical Group Inc.*

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

(Stock code: 1513)

ANNUAL REPORT

2019



* For identification purpose only

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Chairman of the Board
Mr. Zhu Baoguo

Dear Shareholders,

In the past few years, the business environment of the Chinese pharmaceutical industry has undergone major and profound changes and a number of reform policies and new regulations were introduced successively. As the new medical reform entered a new period, competition for survival is intensified, the industry reshuffle has accelerated, and the market is restructuring. Following changes in rules of market access and business ecosystem in the pharmaceutical industry, a number of complicated policies, the increasingly tightened regulation, and higher standards for market access, the business environment of the pharmaceutical industry is moving towards compliance, innovation and increased competition.

As a pharmaceutical enterprise, Livzon always adheres to the belief that continuous enhancement in our core capabilities, products with sound quality and continuous improvement in our comprehensive competitiveness in proactively responding to changes in the industry environment are the key to explore a new path in a changing market and achieve high quality development of the Group. During 2019, the Group has worked on the management principles of "reform, responsibilities, innovation and development" in our daily operation to develop our three major strategies of "talents, products and markets", and has achieved a profit growth hitting record high and outstanding operation results by our dedicated employees at all levels.

REVIEW OF 2019

In 2019, the Group realized operating income of RMB9,384.70 million, representing a year-on-year increase of 5.91%; the net profit was RMB1,461.58 million, representing a year-on-year increase of 23.68%; the net profit attributable to shareholders of the Company was RMB1,302.88 million, representing a year-on-year increase of 20.39%; excluding gains and losses from extraordinary items, the net profit attributable to shareholders of the Company generated from principal operations of the Company in 2019 was RMB1,191.54 million, representing a year-on-year increase of 25.79%.

THE MANAGEMENT TEAM OF THE COMPANY



Mr. Tang Yanggang
Executive Director,
President



Mr. Xu Guoxiang
Executive Director,
Vice President



Mr. Yang Daihong
Vice President



Mr. Zhou Peng
Vice President



Ms. Si Yanxia
Vice President,
Chief Financial Officer



Ms. Huang Yuxuan
Vice President



Mr. Dai Weiguo
Vice President



Mr. Yang Liang
Company Secretary

Based on the operating results and overall financial position of the Group for 2019, the Board proposed a profit distribution plan of the Group for 2019 as follows: it is expected to distribute cash dividend of RMB11.50 (tax inclusive) for every 10 shares in a total amount of RMB1,074,977,076.25 (tax inclusive), based on the Company's total share capital of 934,762,675 shares as at the end of 2019. There will be no bonus shares, nor will the capital reserves be capitalized. If there is any change in the total issued share capital of the Company as a result of issue of new shares, option exercise of share incentive and repurchase of shares before implementing the distribution plan, the proportion of allocation will be adjusted in accordance with the principle of "the total amount of cash distribution remains unchanged". The profit distribution plan for 2019 was still subject to consideration and approval at the 2019 annual general meeting of the Company.

In 2019, we have further increased our effort in market access, enhanced the detailed appraisal of sales staff for end users and centralized management on the sales markets, and have been continuously expanding the hospital coverage of key varieties. Following the inclusion of Ilaprazole Enteric-Coated Tablet for Gastroesophageal Reflux Disease in the coverage of national medical insurance reimbursement, the inclusion of Perospirone Hydrochloride Tablets in the regular catalogue of national medical insurance and the inclusion of Ilaprazole Sodium for Injection in the negotiation catalogue of national medical insurance, all these measures would help the marketing and future sales of our products and would have positive effects on Livzon's operating results in the future. We have been actively exploring markets globally, while pursuing and maintain strategic cooperations. The contribution from overseas sales of active pharmaceutical ingredients ("APIs") and intermediates has increased year by year, the product sales of which have covered all parts of the world. We have also been increasing our efforts in promoting the international markets of drug preparation products. In terms of research and development, we continued to conduct research and development on the principles of independent innovation and generic innovation with high barriers and on the aims of meeting the unfulfilled clinical demand. We have been improving our research and development, placing priority on the development of key varieties under research and exploring the strategy of integrating APIs and drug preparation products.

Furthermore, our management on production and quality has improved steadily. While the production lines met the requirements of domestic GMP standards, we actively promote international certification. In terms of strategic development, we have established companies in domestic and overseas and have made external investment in order to enhance the professionalism of Livzon's equity investment, enrich Livzon's current research and development pipelines, create synergistic integration effect between businesses and accelerate Livzon's international industrial layout.

To share the results from its development with all employees, shareholders and the general public, Livzon has formulated the Shareholders' Return Plan for the Three Years (2019-2021) and launched the Medium to Long-term Business Partner Share Ownership Scheme (Draft) following the implementation of 2015 Restricted A Shares Incentive Scheme and 2018 Share Options Incentive Scheme. The ownership scheme has been formulated to establish an innovative long-term incentive stock ownership mechanism for senior management and core technical teams, which will effectively advance and promote their change from "managers" to "partners" and promote the long-term stable development of the Company and enhance the overall value of the Company.

FUTURE OUTLOOK

Looking forward to 2020, Livzon will keep the commitment to the mission of "cultivate nourished lives" and develop our business on the philosophy of "back to square one and start all over again". We will continue to work in an efficient, practical and meticulous manner, expand our efforts to reform and innovation, and use first class enterprises as benchmark, so that we as a whole can fully complete the tasks for 2020. In terms of personnel, we will focus on selection, deployment and cultivation of personnel. In this regard, we will adopt the two-pronged approach of combining in-house training and attracting talents from the market to build an elite force with outstanding performance. In terms of production, we will consider safety, environmental protection and quality as the lifeblood of our business, while maintaining strict control on costs. In terms of research and development and sales, we will make bold innovations and do our best in constantly launching new items and make each day better than the last.

In the new year, we will adhere to the spirit of innovation and rise to new challenges with the mindset of backing to square one. In this regard, we will maintain our focus on the following four aspects:

Firstly, we will make the best use of our existing products and areas of advantages. We will enhance the competitive advantages of our existing products in the market and do a good job in launching our new products under our plans.

Secondly, we will explore new products and new markets. Based on our traditional segments of reproduction and gastroenterology on which we have advantages, we will enhance our products in the segments of neurology, oncology and immunity. Meanwhile, we will continue to promote the development of research and development platforms such as microsphere sustained release technologies platform, research and development platform of biologics, APIs and polypeptide technology.

Thirdly, we will enhance capabilities of our team. We will adhere to the principle of "selecting talents while caring about both performance and good characters" in our employment. We will make targeted in-house management and implement result-oriented appraisal in a scientific and efficient manner. We will do a good job in building the appraisal system for our management teams and accelerate the development of our pool of talents.

Fourthly, we will implement a system of promoting competent personnel and eliminating under-performing staff in the sales team to fully motivate our sales personnel. We will focus on the assessments on the market coverage and conduct refined data management. We will integrate resources in sales and research and development, and develop sales team with more enhanced professional performance.

The past is gone, all is prepared for the future. In a new round of market competition, Livzon has well prepared for forging ahead towards targets at higher levels. Facing with new challenge and competition, it will be a historic opportunity for Livzon to achieve further development in a new era. We will actively embrace evolution and provide doctors and patients with better products and services in enormous spirit of struggling and achieving results, and make our best efforts to become a leading domestic, world-class international pharmaceutical enterprise.

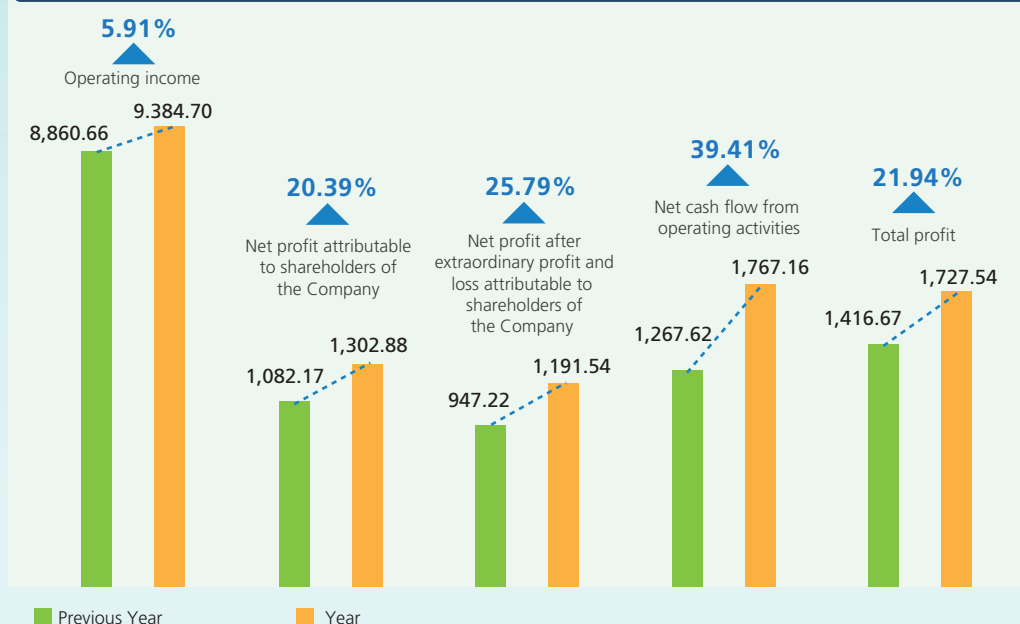
I would like to take this opportunity to express my sincere thanks to all shareholders, all members of the board of directors, the management of the Group, all staff and business partners for their long-lasting care and support.

Zhu Baoguo
Chairman

25 March 2020



Major Financial Indicators (RMB in millions)



Basic earnings per share (RMB/Share)

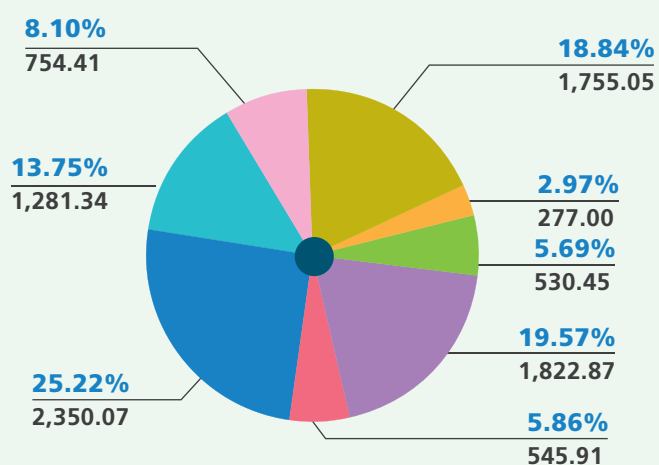
Diluted earnings per share (RMB/Share)



Composition of Principal Businesses (RMB in millions)

By sector

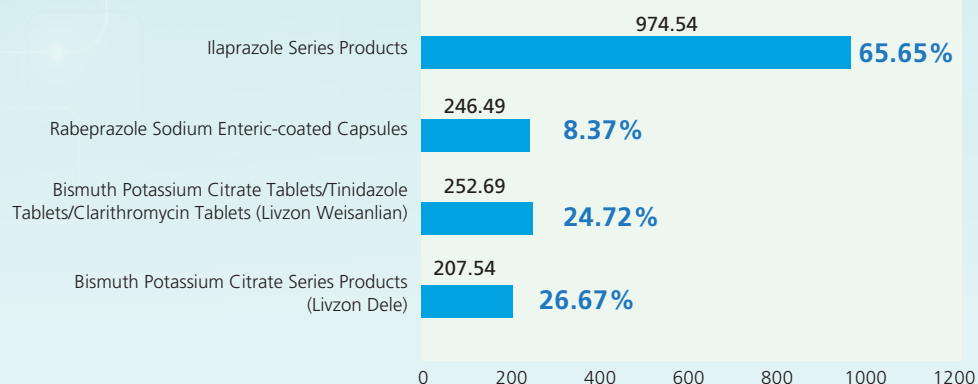
Income of Principal Businesses



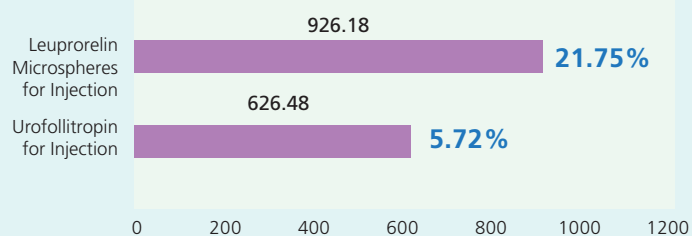
Total 9,317.11

Income from Sales of Key Products During the Year (RMB in millions) and Year-on-year Change

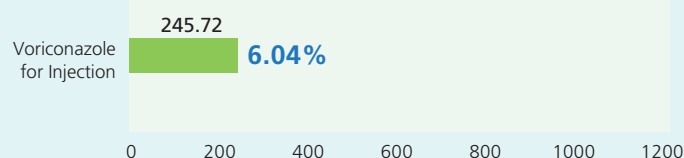
Drug preparation products: gastroenterology



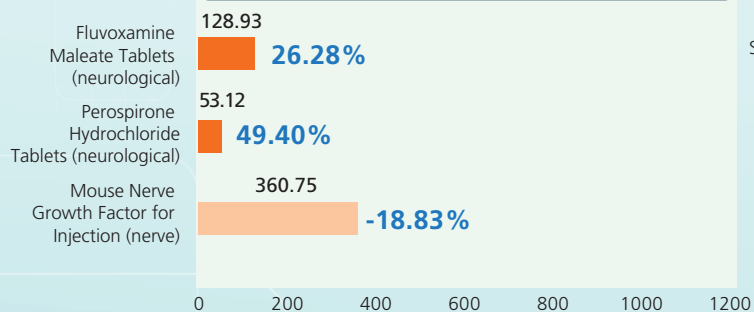
Drug preparation products: gonadotropic hormones



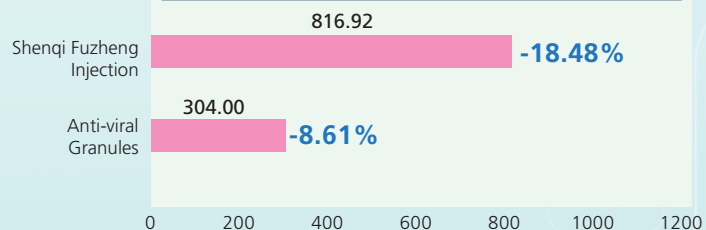
Drug preparation products: antimicrobials



Drug preparation products: others – psychiatry/neurology

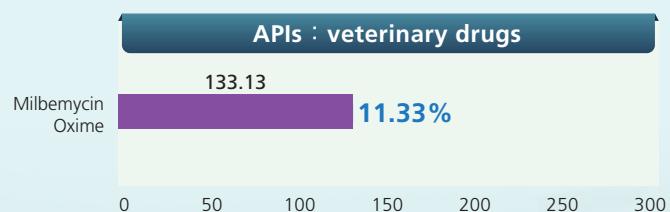
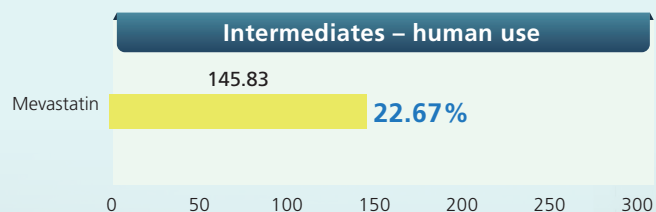
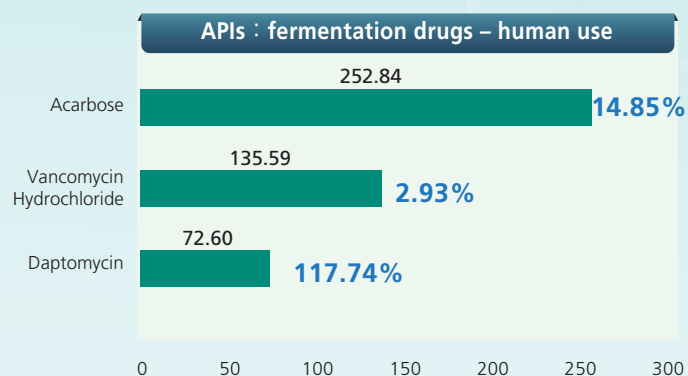
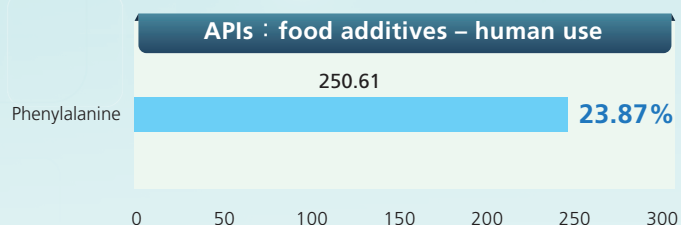


Drug preparation products: traditional Chinese drug preparation



8 FINANCIAL HIGHLIGHTS

Income from Sales of Key Products During the Year (RMB in millions) and Year-on-year Change



IMPORTANT NOTICE

The Board, the Supervisory Committee and the Directors, Supervisors and senior management of Livzon Pharmaceutical Group Inc.* hereby warrant the truthfulness, accuracy and completeness of the contents of this annual report (the “Report”), and that there are no false representations, misleading statements or material omissions contained in the Report, and severally and jointly accept responsibility.

The financial statements of the Group for the year ended 31 December 2019 have been prepared in accordance with the China Accounting Standards for Business Enterprises, and have been audited by Grant Thornton (Special General Partnership) who issued standard unqualified opinions in the audit report.

Mr. Zhu Baoguo (朱保國), the person-in-charge of the Company, Ms. Si Yanxia (司燕霞), the person-in-charge of the Company’s financial affairs (mainly responsible for accounting work), and Ms. Zhuang Jianying (莊健瑩), the person-in-charge of the accounting department (the head of the accounting department), declare that they hereby warrant for the truthfulness, accuracy and completeness of the financial statements contained in the Report.

All Directors of the Company have attended the Board meeting in person for considering the Report.

After consideration and approval by the Board of the Company, the Company’s profit distribution plan for 2019 is as follows: it is expected to distribute cash dividend of RMB11.50 (tax inclusive) for every 10 shares to all Shareholders in a total amount of RMB1,074,977,076.25 (tax inclusive) on 29 June 2020, based on the Company’s total share capital of 934,762,675 shares as at the end of 2019. There will be no bonus shares, nor will the capital reserves be capitalized. If there is any change in the total issued share capital of the Company as a result of issue of new shares, option exercise of share incentive and repurchase of shares before implementing the distribution plan, the proportion of allocation will be adjusted in accordance with the principle of “the total amount of cash distribution remains unchanged” (“Dividend Distribution Plan for the Year”). The Dividend Distribution Plan for the Year is still required to be submitted to the 2019 Annual General Meeting (“AGM”) of the Company for consideration and approval.

The Company analysed possible risk factors and corresponding strategies in respect of the future development of the Company in Section IV “Operation Discussion and Analysis (Report of the Board)” of this Report. Investors are advised to review it.

The Report contains forward-looking statements which involve subjective assumptions and judgments of future policies and economic conditions. These statements are subject to risks, uncertainties and assumptions. The actual outcomes may be substantially different from these statements. Investors should exercise caution that inappropriate reliance on and usage of such information may lead to investment risks.

The Report is prepared in both Chinese and English. In case of any discrepancies, the Chinese version shall prevail.



DEFINITIONS

In this Report, unless the context otherwise requires, the following expressions shall have the following meanings:

"Company"	Livzon Pharmaceutical Group Inc.* (麗珠醫藥集團股份有限公司), a joint stock company incorporated under the laws of the PRC with limited liability, whose H Shares and A Shares are listed on the main board of the Hong Kong Stock Exchange and the main board of the Shenzhen Stock Exchange respectively
"Group"	the Company and its subsidiaries
"Board"	the board of directors of the Company
"Director(s)"	directors of the Company
"Supervisory Committee"	the supervisory committee of the Company
"Supervisor(s)"	supervisor(s) of the Company
"Shareholder(s)"	shareholder(s) of the Company
"A Share(s)"	the ordinary shares in the registered capital of the Company with a nominal value of RMB1.00 each, which are listed and traded on the main board of the Shenzhen Stock Exchange
"B Share(s)"	domestically listed foreign shares originally issued by the Company
"H Share(s)"	the ordinary shares in the registered capital of the Company with a nominal value of RMB1.00 each, which are listed and traded on the main board of the Hong Kong Stock Exchange
"A Shareholder(s)"	holder(s) of A Shares of the Company
"H Shareholder(s)"	holder(s) of H Shares of the Company
"Year", "Reporting Period" or "Period"	the twelve months from 1 January to 31 December 2019
"Same Period Last Year", "Previous Period" or "Previous Year"	the twelve months from 1 January to 31 December 2018
"End of the Previous Year", or "End of the Previous Period"	31 December 2018
"Beginning of the Year", "Beginning of the Reporting Period", "Beginning of the Period"	1 January 2019
"End of the Year", "End of the Reporting Period" or "End of the Period"	31 December 2019
"CSRC"	China Securities Regulatory Commission
"Shenzhen Stock Exchange"	Shenzhen Stock Exchange

DEFINITIONS *(continued)*

"Hong Kong Stock Exchange"	The Stock Exchange of Hong Kong Limited
"China Accounting Standards for Business Enterprises"	Accounting Standards for Business Enterprises – Basic Standard and 38 specific accounting standards, the Application Guidance to Accounting Standards for Business Enterprises, Interpretations of Accounting Standards for Business Enterprises and other related requirements subsequently promulgated by the Ministry of Finance of the PRC on 15 February 2006
"Company Law"	the Company Law of the People's Republic of China
"Securities Law"	the Securities Law of the People's Republic of China
"Shenzhen Listing Rules"	the Stock Listing Rules of the Shenzhen Stock Exchange
"Hong Kong Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited
"Corporate Governance Code"	the Code of Corporate Governance as set out in Appendix 14 of the Hong Kong Listing Rules
"Model Code"	the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Hong Kong Listing Rules
"SFO"	Securities and Futures Ordinance (Cap 571 of the Laws of Hong Kong)
"Articles of Association"	the Articles of Association of Livzon Pharmaceutical Group Inc.* (《麗珠醫藥集團股份有限公司章程》)
"B-To-H Share Conversion"	conversion of the domestically listed foreign shares (B Shares) of the Company into H Shares by way of introduction for listing and trading on the Main Board of the Hong Kong Stock Exchange
"Restricted A Shares Incentive Scheme"	the Restricted A Shares Incentive Scheme (Revised Draft) considered and approved by the Company at the 2015 first extraordinary general meeting
"Restricted Shares"	A Shares granted to the incentive participants under the Restricted A Shares Incentive Scheme of the Company
"Joincare"	Joincare Pharmaceutical Industry Group Co., Ltd.* (健康元藥業集團股份有限公司) (Shanghai Stock Exchange stock code: 600380), a joint stock company incorporated under the laws of the PRC and listed on the main board of the Shanghai Stock Exchange in 2001 and one of the Company's controlling shareholders
"Joincare Group"	Joincare and its subsidiaries (excluding the Group)
"Baiyeyuan"	Shenzhen Baiyeyuan Investment Co., Ltd.* (深圳市百業源投資有限公司)
"Topsino"	Topsino Industries Limited
"Begol"	Guangzhou Begol Trading Holdings Limited* (廣州市保科力貿易公司)

DEFINITIONS *(continued)*

"Jiaozuo Hecheng"	Jiaozuo Livzon Hecheng Pharmaceutical Manufacturing Co., Ltd. *(焦作麗珠合成製藥有限公司)
"Livzon MAB"	Livzon MABPharm Inc.* (珠海市麗珠單抗生物技術有限公司)
"Xinbeijiang Pharmaceutical"	Livzon Group Xinbeijiang Pharmaceutical Manufacturing Inc.* (麗珠集團新北江製藥股份有限公司)
"Fuzhou Fuxing"	Livzon Group Fuzhou Fuxing Pharmaceutical Co., Ltd.* (麗珠集團福州福興醫藥有限公司)
"Ningxia Pharmaceutical"	Livzon Group (Ningxia) Pharmaceutical Manufacturing Co., Ltd. (麗珠集團(寧夏)製藥有限公司)
"Pharmaceutical Factory"	Livzon Group Livzon Pharmaceutical Factory* (麗珠集團麗珠製藥廠)
"Livzon Diagnostics"	Zhuhai Livzon Diagnostics Inc.* (珠海麗珠試劑股份有限公司)
"Sichuan Guangda"	Sichuan Guangda Pharmaceutical Manufacturing Co., Ltd.* (四川光大製藥有限公司)
"Shanghai Livzon"	Shanghai Livzon Pharmaceutical Manufacturing Co., Ltd.* (上海麗珠製藥有限公司)
"Jiaozuo Joincare"	Jiaozuo Joincare Pharmaceutical Industry Co., Ltd.* (焦作健康元生物製品有限公司)
"Haibin Pharma"	Shenzhen Haibin Pharmaceutical Co., Ltd.* (深圳市海濱製藥有限公司)
"Blue Treasure Pharma"	Guangdong Blue Treasure Pharmaceutical Co., Ltd.* (廣東藍寶製藥有限公司)
"Livzon Gene"	Livzon Gene Diagnostics Inc.* (珠海市麗珠基因檢測科技有限公司)
"Lizhu HK"	Lizhu (Hong Kong) Co., Limited* (麗珠(香港)有限公司)
"Livzon Biologics"	Livzon Biologics Limited
"Livzon International"	Livzon International Limited
"Joincare BVI"	Joincare Pharmaceutical Group Industry Co., Ltd
"Biologics Limited"	Livzon Biologics Hong Kong Limited * (麗珠生物科技香港有限公司)
"Biotechnology Company"	Zhuhai Livzon Biotechnology Co., Ltd.* (珠海市麗珠生物醫藥科技有限公司)
"PRC" or "China"	the People's Republic of China
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC

DEFINITIONS *(continued)*

"RMB"	Renminbi, the lawful currency of the PRC
"HK\$" or "HKD"	Hong Kong dollars, the lawful currency of Hong Kong
"MOP"	Macau Patacas, the lawful currency of Macau
"US\$" or "USD"	US dollars, the lawful currency of the United States
"Cninfo"	www.cninfo.com.cn (巨潮資訊網)
"Company's website"	the website of the Company (www.livzon.com.cn)

I. COMPANY INFORMATION

	A Shares	H Shares
Stock abbreviation	Livzon Group	Livzon Pharma ^{Note 1} , 麗珠H代 ^{Note 2}
Stock code	000513	01513 ^{Note 1} , 299902 ^{Note 2}
Amended stock abbreviation (if any)	Note applicable	
Stock exchange of listed securities	Shenzhen Stock Exchange	The Stock Exchange of Hong Kong Limited
Chinese name of the Company	麗珠醫藥集團股份有限公司	
Abbreviation of the Chinese Name	麗珠集團	
English name of the Company	LIVZON PHARMACEUTICAL GROUP INC. *	
Abbreviation of the English name	LIVZON GROUP	
Legal representative of the Company	Zhu Baoguo (朱保國)	
Registered addresss in the PRC	Headquarters Building, 38 Chuangye North Road, Jinwan District, Zhuhai City, Guangdong Province, the PRC	
Postal code of registered address in the PRC	519090	
Office address in the PRC	Headquarters Building, 38 Chuangye North Road, Jinwan District, Zhuhai City, Guangdong Province, the PRC	
Postal code of office address in the PRC	519090	
Principal place of business in Hong Kong	Unit 1301, 13/F, China Evergrande Centre, 38 Gloucester Road, Wan Chai, Hong Kong	
Company's website	www.livzon.com.cn	
E-mail	LIVZON_GROUP@livzon.com.cn	

Note 1: On 16 January 2014, the Company's domestically listed foreign shares ("B Shares") were converted into overseas listed foreign shares ("H Shares") by way of introduction for listing and trading on the Main Board of the Hong Kong Stock Exchange. The stock code of the H Shares of the Company is "01513" and the stock abbreviation thereof is "Livzon Pharma".

Notes 2: The abbreviation and the stock code are only used by domestic Shareholders of original B Shares of the Company in respect of their trading of H Shares of the Company after H Shares of the Company were listed on the main board of the Hong Kong Stock Exchange.

* For identification purpose only

II. CONTACT PERSONS AND CONTACT DETAILS

	Secretary to the Board	Representative of securities affairs
Name	Yang Liang (楊亮)	Ye Delong (葉德隆)
Address	Headquarters Building, 38 Chuangye North Road, Jinwan District, Zhuhai City, Guangdong Province, the PRC	
Telephone	(0756) 8135888	(0756) 8135888
Fax	(0756) 8891070	(0756) 8891070
E-mail	yangliang2014@livzon.com.cn	yedelong@livzon.com.cn

III. INFORMATION DISCLOSURE AND PLACES FOR INSPECTION

Name of media selected by the Company for information disclosure	China Securities Journal, Securities Times, Shanghai Securities News and Securities Daily
Website designated by the CSRC for publication of the Report	www.cninfo.com.cn
Website for publication of the Report in Hong Kong	www.hkexnews.hk, www.livzon.com.cn
Place at which the Report is available for inspection	Secretariat for the Board of the Company, the Company's principal place of business in Hong Kong

DRUG
PREPARATION
PRODUCTSILAPRAZOLE SODIUM FOR
INJECTION

For treatment of Peptic ulcer hemorrhage.



Ilaprazole Enteric-Coated Tablets
For treatment of duodenal ulcers and reflux esophagitis.

Leuprorelin Acetate Microspheres for Injection
Endometriosis; hysteromyoma; premenopausal breast cancer with estrogen receptor positive; prostate cancer; central precocious puberty.



Urofollitropin for Injection

For treatment of anovulation and sufferers for whom Clomifene Citrate produces no curative effect and to assist ovarian hyperstimulation of reproductive technology.



Anti-viral Granules
Used for clearing heat, eliminating dampness, cooling blood and detoxifying. For treatment of upper respiratory tract infection and influenza.

Shenqi Fuzheng
Injection

Benefiting vital energy and strengthening physique. For the treatment of weakness and tiredness, lassitude, spontaneous sweating, vertigo which are caused by the energy deficiency of lung and spleen; the adjuvant therapy for the patients of lung cancer and stomach cancer with the above symptoms.



IV. CHANGE IN REGISTRATION DETAILS

Unified social credit code	914404006174883094
Change in principal activities of the Company since listing (if any)	No change
History of changes in controlling shareholder (if any)	There was no change in the controlling shareholder of the Company in the most recent decade

V. OTHER RELEVANT INFORMATION

1. Accounting firm appointed by the Company

Name of accounting firm	Grant Thornton (Special General Partnership)
Office address of accounting firm	5th Floor, Scitech Palace, 22 Jianguomen Wai Avenue, Chaoyang District, Beijing
Name of signing accountants	Li Encheng, Zhang Fang

2. Authorized Representatives and Institutions Appointed by the Company Pursuant to the Hong Kong Listing Rules

Authorized representatives appointed pursuant to the Hong Kong Listing Rules	Tang Yanggang (唐陽剛) ^{Note} , Yang Liang (楊亮)
Company secretary	Yang Liang (楊亮)
Alternate authorized representative	Yuan Ailing (袁藹鈴)
Name of H Share Registrar	Tricor Investor Services Limited
Address of H Share Registrar	Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong

Note: Mr. Tao Desheng has resigned as the authorized representative of the Company with effect from 16 August 2019. In addition, Mr. Tang Yanggang, an Executive Director and the President of the Company, has been appointed as the authorized representative of the Company with effect from 16 August 2019 upon consideration and approval by the thirtieth meeting of the ninth session of the Board of the Company.

APIS



DIAGNOSTIC REAGENTS



Diagnostics Kit for Antibody to Hepatitis C Virus (ELISA)

Diagnostics Kit for IgM Antibody to Mycoplasma pneumoniae (Colloidal Gold)



Diagnostics Kit for Antigen and Antibody to Human Immunodeficiency Virus (ELISA)



V. OTHER RELEVANT INFORMATION *(continued)***3. Sponsor appointed by the Company for performing continuous supervisory responsibilities during the Year**✓ Applicable ☐ Not applicable

Name of sponsor	Office address of sponsor	Name of representative of Sponsor	Period of continuous supervision
Minsheng Securities Co., Ltd.	Level 16-18, Block A, Minsheng Financial Centre, 28 Jianguomen Nei Avenue, Dongcheng District, Beijing	Yu Chunyu (于春宇), Xu Weili (徐卫力)	From 20 September 2016 to 31 December 2019

4. Financial advisor appointed by the Company for performing continuous supervisory responsibilities during the Year☐ Applicable ✓ Not applicable**VI. CHANGES IN SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND ACCOUNTING METHOD AND CORRECTION OF ACCOUNTING ERRORS**✓ Applicable ☐ Not applicable**1. Changes in accounting policies**✓ Applicable ☐ Not applicable

On 27 March 2019, the 25th meeting of the ninth session of the Board of the Company has considered and approved the Resolution Regarding Changes in the Accounting Policies. The Company has made corresponding changes to its accounting policies in accordance with the Accounting Standards for Enterprises No. 21 – Leases (as revised in 2018) promulgated by the Ministry of Finance of the People's Republic of China. These changes has become effective from 1 January 2019.

On 25 March 2020, the 37th meeting of the ninth session of the Board of the Company has considered and approved the Resolution Regarding Changes in the Accounting Policies. The Company has made corresponding changes to its accounting policies in accordance with the Accounting Standards for Enterprises No. 12 – Debt Restructuring and the Accounting Standards for Enterprises No. 7 – Exchange of Non-monetary Assets promulgated by the Ministry of Finance of the People's Republic of China. These changes have become effective from 1 January 2019.

2. Changes in accounting estimates☐ Applicable ✓ Not applicable**3. Correction of accounting errors**☐ Applicable ✓ Not applicable

VII. PRINCIPAL ACCOUNTING DATA AND FINANCIAL INDICATORS PREPARED IN ACCORDANCE WITH CHINA ACCOUNTING STANDARDS FOR BUSINESS ENTERPRISES

1. Whether the Company has made retrospective adjustments or restatements of accounting data of prior years due to changes in accounting policies and correction of accounting errors

✓ YES □ NO

Unit: RMB'000

Item	2019	2018	Year-on-Year change	2017	2016	2015
Operating income	9,384,695.84	8,860,655.67	5.91%	8,530,968.60	7,651,775.29	6,620,516.54
Net profit attributable to shareholders of the Company	1,302,875.44	1,082,174.91	20.39%	4,428,684.56	784,353.61	622,641.03
Net profit attributable to shareholders of the Company after deduction of extraordinary gains and losses	1,191,535.17	947,216.31	25.79%	820,022.56	682,466.19	538,364.28
Net cash flow from operating activities	1,767,162.88	1,267,621.18	39.41%	1,315,865.47	1,279,215.04	927,788.46
Total profit	1,727,542.39	1,416,674.35	21.94%	5,724,922.79	1,005,061.18	807,921.30

Item	31 December 2019	31 December 2018	Change as at the End of the Year from the Beginning of the Year	31 December 2017	31 December 2016	31 December 2015
Total assets	17,976,463.12	17,437,346.86	3.09%	15,897,730.72	10,529,262.95	8,077,537.79
Total liabilities	5,701,225.54	5,687,469.95	0.24%	4,664,107.16	3,423,624.45	3,267,641.05
Net assets attributable to shareholders of the Company	11,166,752.45	10,651,977.47	4.83%	10,772,739.77	6,505,987.40	4,346,255.33
Share capital	934,762.68	719,050.24	30.00%	553,231.37	425,730.13	396,889.55
Shareholders' equity per share attributable to shareholders of the Company	11.95	14.81	-19.34%	19.47	15.28	10.95

Unit: RMB

Item	2018		Year-on-Year Change		2017		2016		2015	
	Before adjustment	After adjustment	Before adjustment	After adjustment	Before adjustment	After adjustment	Before adjustment	After adjustment	Before adjustment	After adjustment
Basic earnings per share	1.39	1.51	1.16	19.83%	8.09	4.79	1.98	0.90	1.62	0.74
Diluted earnings per share	1.39	1.51	1.16	19.83%	8.06	4.77	1.97	0.90	1.60	0.73
Basic earnings per share after deduction of extraordinary gains and losses	1.27	1.32	1.02	24.51%	1.50	0.89	1.72	0.78	1.40	0.64

Item	2019	2018	Year-on-Year Change	2017	2016	2015
Return on weighted average net assets (%)	12.02%	10.15%	Increased by 1.87 percentage points	51.17%	15.48%	15.51%
Return on equity attributable to shareholders of the Company (%)	11.67%	10.16%	Increased by 1.51 percentage points	41.11%	12.06%	14.33%
Ratio of equity attributable to shareholders of the Company to total assets (%)	62.12%	61.09%	Increased by 1.03 percentage point	67.76%	61.79%	53.81%

Note: As a result of the conversion of capital reserves into share capital by the Company in 2019, the data of earnings per share in prior years have been adjusted based on the latest share capital in accordance with the requirements of the relevant accounting standards.

Total share capital of the Company as at the trading day prior to disclosure

Total share capital of the Company as at the trading day prior to disclosure (shares)	935,656,757
Fully diluted earnings per share based on the most updated share capital (RMB/share)	1.39

VII. PRINCIPAL ACCOUNTING DATA AND FINANCIAL INDICATORS PREPARED IN ACCORDANCE WITH CHINA ACCOUNTING STANDARDS FOR BUSINESS ENTERPRISES

(continued)

2. Whether corporate debts exist

☐ YES ☒ NO

3. Whether the Company has incurred losses in the latest two consecutive years

☐ YES ☒ NO ☐ Not applicable

VIII. DIFFERENCES IN ACCOUNTING DATA UNDER DOMESTIC AND FOREIGN ACCOUNTING STANDARDS

Differences in net profit and net assets between financial reports disclosed concurrently under international accounting standards and China Accounting Standards

☐ Applicable ☒ Not applicable

Differences in net profit and net assets between financial reports disclosed concurrently under foreign accounting standards and China Accounting Standards

☐ Applicable ☒ Not applicable

Explanation on reasons for the differences in accounting data under domestic and foreign accounting standards

☐ Applicable ☒ Not applicable

IX. QUARTERLY PRINCIPAL FINANCIAL INDICATORS

Unit: RMB

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Operating income	2,607,551,347.14	2,331,514,246.80	2,355,828,996.31	2,089,801,244.76
Net profit attributable to shareholders of the Company	392,774,866.65	346,172,897.04	300,889,793.79	263,037,883.45
Net profit attributable to shareholders of the Company after deduction of extraordinary gains and losses	328,501,854.84	330,096,785.24	298,809,919.58	234,126,609.80
Net cash flow from operating activities	480,832,779.95	477,530,724.67	469,858,122.47	338,941,255.68

Whether significant differences exist between the above financial indicators or their total amounts and the relevant financial indicators in the quarterly reports or interim reports already disclosed by the Company

☐ YES ☒ NO

X. ITEMS AND AMOUNTS OF EXTRAORDINARY GAINS AND LOSSES

✓ Applicable ☐ Not applicable

Unit: RMB

Item	Amount in 2019	Amount in 2018	Amount in 2017
Gains and losses on disposal of non-current assets (including the written-off portion of provisions made for asset impairment)	460,273.31	15,792,181.49	4,504,302,450.88
Government grants included in profit and loss for current period (except for government grants closely associated with corporate businesses, entitled at fixed amount or fixed level according to the national unified standards)	154,959,775.56	257,704,892.65	161,721,876.94
Gains and losses from investments entrusted to or assets managed by others	–	–	11,387,922.35
Gains and losses on fair value changes in financial assets and financial liabilities held for trading and from investment income on disposal of financial assets and financial liabilities held for trading and available-for-sale financial assets, except for effective hedging activities related to the ordinary operating business of the Company	-9,792,768.00	-55,583,678.31	7,608,235.70
Other non-operating income and expenses apart from the above items	-2,392,090.75	-32,985,967.52	-2,642,343.73
Less: income tax effect	20,785,731.83	27,784,750.10	1,056,999,539.60
Effect of non-controlling interests (after tax)	11,109,186.82	22,184,077.88	16,716,594.06
Total	111,340,271.47	134,958,600.33	3,608,662,008.48

For items of extraordinary gains or losses defined by the Company according to the definitions as set out in the “Notice on Explanation of Information Disclosure of Companies Publicly Issuing Securities No.1 – Extraordinary Gains or Losses”, and items of extraordinary gains or losses illustrated in the “Notice on Explanation of Information Disclosure of Companies Publicly Issuing Securities No.1 – Extraordinary Gains or Losses” which are defined as items of recurring gains or losses, the Company shall provide the reasons

☐ Applicable ✓ Not applicable

During the Year, the Company has not defined any extraordinary gains or losses as defined and illustrated in the “Notice on Explanation of Information Disclosure of Companies Publicly Issuing Securities No.1 – Extraordinary Gains or Losses” as recurring gains and losses.

I. PRINCIPAL BUSINESSES OF THE COMPANY DURING THE YEAR

During the Year, there was no change in the principal businesses of the Group. The Group was primarily engaged in the research and development, production and sale of pharmaceutical products, which covered drug preparation products, active pharmaceutical ingredients ("APIs") and intermediates as well as diagnostic reagents and equipment. Major products include drug preparation products such as Ilaprazole (Ilaprazole Enteric Coated Tablet and Ilaprazole Sodium for Injection) (壹麗安(艾普拉唑腸溶片及注射用艾普拉唑納)), a series of Bismuth Potassium Citrate Granules (麗珠得樂(枸橼酸鉍鉀)) products, Leuporelin Acetate Microspheres for Injection (貝依(注射用醋酸亮丙瑞林微球)), Urofollitropin for Injection (麗申寶(注射用尿促卵泡素)), Menotropins for Injection (樂寶得(注射用尿促性素)), Shenqi Fuzheng Injection (參芪扶正注射液), Anti-viral Granules (抗病毒顆粒), Voriconazole for Injection (麗福康(注射用伏立康唑)) and Mouse Nerve Growth Factor for Injection (麗康樂(注射用鼠神經生長因子)); APIs and intermediates such as Mevastatin (美伐他汀), Acarbose (阿卡波糖), Colistin Sulfate (硫酸粘菌素), Phenylalanine (苯丙氨酸) and Ceftriaxone Sodium (頭孢曲松鈉); and diagnostic reagents such as ELISA HIV Testing Reagent (HIV抗體診斷試劑), MYCOII Testing Reagent (肺炎支原體抗體診斷試劑) and TPPA Testing Reagent (梅毒螺旋體抗體診斷試劑).

II. MATERIAL CHANGES IN MAJOR ASSETS

1. Material Changes in Major Assets

Major assets	Details of material changes
Equity assests	Decreased by 8.32%, there was no material change in the Year.
Other equity instrument investment	Increased by 17.67%, there was no material change in the Year.
Fixed assests	Decreased by 1.79%, there was no material change in the Year.
Intangible assets	Decreased by 5.99%, there was no material change in the Year.
Construction in progress	Increased by 26.54%, there was no material change in the Year.
Other receivables	Increased by 85.62%, which was mainly due to an increase in the distribution of dividend receivables from associates and an increase in insurance claims receivable during the Year.
Development expenditure	Increased by 83.01%, which was mainly due to the increase in research and development expenses arising from the entry into the clinical trials of Recombinant Humanized Anti-IL-6R Monoclonal Antibody for Injection (重組人源化抗人IL-6R單克隆抗體注射液), Recombinant Human Chorionic Gonadotropin for Injection (注射用重組人絨促性素) and other projects.
Non-current assets due within one year	Increased by 60.98%, which was mainly due to the increase in consideration receivables for transfer of certain equity interests in the subsidiary which was due within one year.
Long-term receivables	Decrease by 46.66%, which was mainly due to aging change as a result of transfer of long-term receivables due within one year to non-current assets due within one year.

2. Major Foreign Assets

☐ Applicable ☒ Not applicable

III. ANALYSIS OF CORE COMPETITIVE STRENGTHS

The Group adheres to the three major strategies of “talents, products and markets” with the goal of becoming a leading domestic, world-class international pharmaceutical enterprise. The Group continuously improved the efficiency of management control and governance standards, made steady progress in research and development and enhanced marketing management, thereby achieving stable growth in the performance results. During the Year, the Group’s core competitive strengths have no material changes and were primarily reflected in the following aspects:

(1) Diversified product mix and business layout

The products of the Group cover a number of pharmaceutical sub-sectors such as drug preparation products, APIs and intermediates and diagnostic reagents and equipment. The Group has established an advantageous market position in a number of therapeutic segments such as anti-tumor medicine, assisted reproduction, gastrointestinal drugs, psychotropic drugs and neurological drugs. Currently, the Company further focus on the research and development of biologics, while commences the research and development of cell therapy. Under the policy of the consistency evaluation and minimum procurement commitment, Livzon enjoys unique advantage in terms of APIs and will continue to increase its efforts to integrate API and drug preparation products.

(2) Comprehensive marketing system and professional marketing team

The Group refined its management on marketing activities by improving the establishment of its marketing system, optimizing its incentive assessment mechanism and continuously strengthening academic marketing and outlet promotion. Through optimization of resources allocation, a professional marketing team specialised in, among others, drug preparation products (including prescription medicines and non-prescription medicines), diagnostic reagents and APIs has been gradually established to form a more comprehensive marketing system. The Group has nearly 10,000 staff members serving in its marketing management teams for various business segments and providing professional sales services to the Group. The Group’s marketing network spreads across the PRC and has expanded into relevant overseas countries and regions, covering end-users such as leading medical institutions, chain drugstores, disease control centres, health authorities and pharmaceutical enterprises.

(3) Mature quality management system

The Group has established a comprehensive quality management system covering the production quality, scientific research and sales of its products. During the Year, the Group made continuous efforts to improve its quality management, while the effective overall management of production and operating quality of the Group and its sound quality management system has ensured the safety and stability of the Group’s products in various fields, further enhancing the market competitiveness of the Group’s products.

(4) Strong R&D capabilities and global R&D vision

The Group has strong research and development (“R&D”) capabilities and global R&D vision in areas such as chemical and traditional Chinese drug preparation products, biologics and diagnostic reagents, and has established specialised technology platforms for R&D of Sustained Release Microspheres and R&D of biologics with core leading R&D talents. By proactively introducing domestic and foreign experts and innovative talents, increasing R&D investments and developing overseas strategic alliances, the Group has established a clear products R&D pipeline focusing on medicine products such as antitumor, assisted reproduction, gastrointestinal, psychotropic and neurological drugs, which further enhanced the R&D competitiveness of the Group.

I. BUSINESS SCOPE

For the principal businesses of the Group during the Year, please refer to Section III “PRINCIPAL BUSINESSES OF THE COMPANY DURING THE YEAR” of the Report.

II. SUMMARY

The year 2019 saw a business environment with tightened policies for the pharmaceutical industry with complex and volatile market environment. Amendments to the Pharmaceutical Administration Law, extension of the purchase with quantity and adjustments to the national medical insurance catalogue have caused profound effects on the industry development. During the Year, the Group has adhered to the three major strategies of “talents, products and markets” in steadily advancing the development of each of our segments. The Group has achieved outstanding operating results and substantially improved the efficiency of the research and development. The Group has also effectively implemented various measures in respect of its production system with a focus on safety, quality and cost control.

During the Year, the Group recorded an operating income of RMB9,384.70 million, representing an increase of 5.91% as compared with RMB8,860.66 million of the Previous Year; a net profit of RMB1,461.58 million, representing an increase of 23.68% as compared with RMB1,181.71 million of the Previous Year; and a net profit attributable to Shareholders of the Company of RMB1,302.88 million, representing an increase of 20.39% as compared with RMB1,082.17 million of the Previous Year. Excluding extraordinary gains and losses, the Company's net profit attributable to its shareholders generated from principal businesses in 2019 was RMB1,191.54 million, representing an increase of 25.79% as compared with RMB947.22 million of the Previous Year.

The progress of the major work in various business segments of the Group are as follows:

(1) Chemical and traditional Chinese drug preparation products: making progress in national medical insurance and refining marketing evaluation

During the Year, the Group's business in drug preparation products recorded a total sales revenue of RMB6,212.63 million, representing 66.20% of the operating income recorded by the Group during the Year, including RMB4,931.29 million from chemical drug preparation products, representing an increase of 16.35% as compared with the Previous Year, and RMB1,281.34 million from traditional Chinese drug preparation products, representing a decrease of 16.39% as compared with the Previous Year.

In respect of marketing, during 2019, the Group's marketing team for drug preparation products made active deployment under the guidance of “Three Marketing” principles, and mainly achieved the following tasks: (i) enforcing the refined evaluation of sales staff for end users, enhancing the development and promotions of key varieties in blank markets, and continuously increasing the market coverage of key varieties; (ii) paying active attention to the adjustments to the catalogue of national medical insurance, including the inclusion of Ilaprazole Enteric-Coated Tablet for Gastroesophageal Reflux Disease in the coverage of national medical insurance reimbursement, the new inclusion of Perospirone Hydrochloride Tablets in the regular catalogue of national medical insurance and the inclusion of Ilaprazole Sodium for Injection in the negotiation catalogue of national medical insurance; (iii) enhancing the overall management of sales market, optimizing the management on the structure of the sales team for prescription drugs, integrating the sales divisions of primary care and psychotropic products; (iv) conducting continuous post-market re-evaluation on key varieties to provide evidence-based medicine data for clinical applications to drive the on-going growth of products; (v) consolidating the business channels of retail distribution, concentrating resources on refined marketing to create a chain of benchmark products, and launching a series of end-user promotional activities.

II. SUMMARY *(continued)*

(1) Chemical and traditional Chinese drug preparation products: making progress in national medical insurance and refining marketing evaluation *(continued)*

In respect of research and development ("R&D"), we continued to conduct R&D on the principles of independent innovation and generic innovation with high barriers and on the aims of meeting the unfulfilled clinical demand by continuously improving the capability of R&D and increasing R&D investments in 2019. In organizational structure, the Company established the headquarters for clinical operation and medicine and further expanded the clinical and medical teams through external recruitment and internal nurturing. Meanwhile, dedicated teams were formed under the marketing management team to be responsible for services work related to clinical R&D, thereby safeguarding the clinical development of the on-research projects of the Company. During the Year, the Group prioritized the progress of key on-research varieties and achieved good results: production license was obtained for Vancomycin Hydrochloride for Injection (注射用鹽酸萬古黴素), supplemental application approval was obtained for Voriconazole for Injection (注射用伏立康唑) (0.1 g), clinical approval was obtained for Leuprorelin Acetate Microspheres for Injection (注射用醋酸亮丙瑞林微球) (3-month), the license application was filed for Octreotide Acetate Microspheres for Injection (注射用醋酸奧曲肽微球) (1 month), the clinical trial was applied for Aripiprazole Microspheres for Injection (注射用阿立哌唑微球) (1 month), and advanced assessments for Ryanodex for Injection (注射用丹曲林鈉) and Blonanserin Tablets (布南色林片) were accepted. In the consistency evaluation projects, Amlodipine Besylate Capsules (苯磺酸氨氯地平膠囊), Clarithromycin Tablets (克拉黴素片) and Omeprazole Sodium for Injection (注射用奧美拉唑鈉) were filed for registration.

In 2019, all drug preparation production enterprises of the Group continuously improved the quality management system and ensured compliant operation of their systems, continuously optimized the production and organization model, improved product production process, enhanced product quality, and reduced production costs while increased investment in safety and environmental software and hardware and continuously improved safety and environmental risk management system. All production enterprises of the Group improved the whole life cycle management system of pharmaceutical products continuously to ensure that product safety and quality have met control standards.

In 2019, the quality management head office of the Company conducted 16 interactive inspections among drug preparation enterprises, 4 tracking inspections, 2 special inspections, 2 extended inspections for sub-contract production and a total of 24 quality audits in the whole Year, which effectively promoted continuous improvement of quality management systems of each subsidiary.

In 2019, the Company further increased its effort in the overseas sales of drug preparations products and continuously advanced the market access and sales of gonadotropic hormones, gastroenterology, psychotropic and anti-infective drugs in the countries and regions including Pakistan, Philippines and Central America. Meanwhile, we have evaluated and selected products in overseas market with higher potential and have increased efforts in registration to continuously expand new international markets. During the Year, Kanamycin Solution for Injection (卡那黴素注射液) passed international certification (WHO project).

II. SUMMARY *(continued)*

(2) APIs and intermediates: improvement in gross profit and expansion of overseas markets

In 2019, our APIs business adhered to the guiding concept of “Ensuring safety and environmental protection, improving quality and reducing cost”, continuously strengthened our work in EHS, quality, R&D, production and sales. During the Year, the business generated sales revenue of approximately RMB2,350.07 million, representing 25.04% of the operating income recorded by the Group during the Year and a decrease of 0.18% as compared with the Previous Year; and gross profit margin increased by 7.00 percentage points as compared with the Previous Year, with continuous enhancement of gross margin and profitability.

In respect of marketing, we further consolidated and expanded the international market in respect of API and intermediates products and the contribution from overseas sales has increased year by year. In recent years, with the approval for the launch of high-end antibiotic products such as Vancomycin (萬古黴素), Daptomycin (達托黴素) and Teicoplanin (替考拉寧) in the US and Europe, the relevant API subsidiaries of the Group has commenced strategic business cooperation with world-renowned pharmaceutical manufacturing companies, and has established strategic cooperation with leading global animal healthcare companies for high-end pet drugs. During the Year, we have commenced commercial sales of Daptomycin (達托黴素) in the US market while exploring the markets in EU, Japan and Korea. Milbemycin Oxime (米爾貝肟), our high-end pet drug products, have been successfully sold to a number of overseas animal healthcare companies with which we have established strategic cooperation. We have in particular maintained strategic cooperation with major clients for our intermediates products with a focus on attracting their orders. Meanwhile, we have achieved strategic transformation for Phenylalanine (苯丙氨酸) through long-term strategic cooperation agreements with downstream manufacturers.

R&D has been the core competitiveness of the Group's API segment. The Company has established technology and process leadership in technologies of microbial strain modification, process optimization for fermentation, asymmetric synthesis process and online control and preparation for crystallization. For our existing semi-synthetic fermentation products, we have achieved commercial sales of Selamectin (賽拉菌素) in Europe and commercial sales of Vancomycin (萬古黴素) and Daptomycin (達托黴素) in the US. During the Year, we made continuous efforts to improve our R&D capabilities in API, which were reflected primarily by: (i) Fermentation R&D Center has improved the R&D of peptide-type products and the construction of quality research platform, and leveraged the fermentation semi-synthetic technology to successfully develop a number of high-end special APIs such as Oritavancin (奧利萬星), Telavancin (特拉萬星), Dalbavancin (達巴萬星) and Doramectin (多拉菌素), which have greater technical difficulty and higher added value. We have submitted applications for registration of Milbemycin Oxime (米爾貝肟) and Doramectin (多拉菌素) in European countries and the US. We have completed pilots and are ready to file for a number of products such as Rapamune (雷帕菌素). Meanwhile, we have completed pilots trials for 3 peptide-type products. (ii) The Synthesis R&D Center continued the R&D and industrialization of semi-synthetic and full-synthetic APIs products, and completed the US DMF filing of Pimavanserin Tartrate (酒石酸匹莫范色林), a product developed with green synthetic process that we owned the intellectual property right. We have also completed the independent R&D and industrialization for a project and the industrialization for another introduced project. These achievements provided a strong R&D support for the Group's strategy of integrating the APIs and drug preparation products while we were developing our APIs products.

In 2019, the API business unit continuously optimized management with steady improvement of production quality management of each subsidiary by increasing investment in safety and environment, thereby achieving good operation in production and reinforcement in risk control. Meanwhile, we optimized production process and reduced production costs through strengthening cost analysis of all aspects of production with continuous increase of gross profit. While meeting the requirements of domestic GMP standards, each subsidiary actively promoted international certification. During the Year, Xinbeijiang Pharmaceutical passed the FDA certification inspection with zero defects; Fuzhou Fuxing passed the EU-GMP inspection for its key varieties and successfully passed the on-site inspections of Japanese official PMDA and Korean official MFDS; Ningxia Pharmaceutical has successfully passed the on-site inspections of Korean official MFDS and US FDA.

II. SUMMARY *(continued)*

(2) APIs and intermediates: improvement in gross profit and expansion of overseas markets *(continued)*

As at 31 December 2019, 20 varieties of APIs have passed the on-site inspections of international certification, 28 varieties have obtained certificates for international certification during the validity period (including 9 varieties which have passed the FDA on-site inspection and 7 varieties which have obtained CEP certificates), and a total of 44 varieties in production have carried out resubmission for more than 300 projects in 93 countries (regions).

(3) Biologics: focusing on R&D projects and acceleration of clinical progress

During the Year, the Group actively optimized and adjusted the branch executives and executive management team of Livzon MAB to fully enhance the execution capacity. We have completed the following major tasks: (i) comprehensively reviewed and evaluated projects to strengthen process management, substantially improving the quality and timeliness of the R&D progress; (ii) focused on the clinical research aspects of the core projects. In particular, the Group coordinated the departments of clinical operation and medical research by integrating marketing resources of the Group to accelerate clinical progress of the core projects; (iii) strengthened the communication with CDE and leading institutes of ongoing clinical trials, and improved the clinical development strategies; (iv) regarding the pre-clinical projects, focused on the values to meet clinical demand, and actively enriched the pipelines of innovative drugs, in particular, targeted biologics and cell therapies. The Long-acting Tumor Targeting Cytokine Drugs for Treatment (治療用新型長效腫瘤靶向細胞因子藥物) has completed the IND application. Innovation projects, such as the Humanized Dual Targeting Autologous CAR-T (人源化雙特異性自體CAR-T細胞注射液) and the Dual Targeting Autologous T cell Vaccines (新型治療性T細胞疫苗注射液) etc., are in the course of preclinical R&D status. The technology, quality control and manufacturing of CAR-T platform have been established with improved production capabilities to support the pilot trials, which enhanced the Company's short-, medium-and long-term R&D layout of innovative drugs. As at the End of the Year, the R&D progresses for the core projects are as follows: the Recombinant Humanized Anti-IL-6R Monoclonal Antibody for Injection (重組人源化抗人IL-6R單克隆抗體注射液) project has completed the phase I trial and is in the phase III trial with rapid patient enrollment; the Recombinant Anti-HER2 Domain II Humanized Monoclonal Antibody for Injection (重組抗HER2結構域II人源化單克隆抗體注射液) project is in phase Ib trial with the completion of patient enrollment; the Recombinant Humanized Anti-PD-1 Monoclonal Antibody for Injection (注射用重組人源化抗PD-1單克隆抗體) project is in phase Ib trial, and four of clinical centers has initiated patient enrollment; we have completed the IND application for the Long-acting Tumor Targeting Cytokine Drugs for Treatment (治療用新型長效腫瘤靶向細胞因子藥物).

Moreover, biologics license application for the Recombinant Human Chorionic Gonadotropin for Injection (注射用重組人絨促性素) was submitted at the end of 2018 and the clinical on-site inspection was completed in 2019. The Group is now preparing for its manufacturing pre-approval inspection. Exploring overseas marketing opportunity of the Recombinant Human Chorionic Gonadotropin (重組人絨促性素) has also commenced, and the preliminary business negotiations have been carried out in France, Indonesia, Pakistan, Egypt, South Africa, South Korea, Russia and other regions.

In order to concentrate the superior resources into the Company's key R&D projects, Livzon MAB is actively looking for opportunities of external collaborations and technology transfer for other projects.

II. SUMMARY *(continued)*

(4) Diagnostic reagents and equipment: positive effects from transformation and achievement gradually from R&D

During the Year, the Group's diagnostic reagents and equipment realized sales revenue of RMB754.41 million, representing 8.04% of the operating income recorded by the Group during the Year and an increase of 8.19% as compared with the Previous Year. With intensive cultivation in the past few years, the Company's network of diagnostic reagents and equipment covers large-to-medium and primary hospitals, blood collecting and supplying systems, disease control centres and third party health centres across the PRC.

During the Year, (i) with intensive promotion of respiratory products among pediatrics and respiratory department, the sales of respiratory diseases diagnostic kits and in particular, rapid diagnostic kits for MYCOII/ chlamydial pneumonia continued to increase rapidly; (ii) through a series of marketing campaigns for colleges and universities, drug concentration products maintained a steady increase even with a market share of 50%; (iii) by further deepening the cooperation with KingMed Diagnostics, Adicon Laboratories, Meinian Onehealth and other companies, Livzon Diagnostics has achieved significant breakthrough in its third party health examination business.

During the Year, on the base of the technology platforms of enzyme, colloidal gold and microbial, Livzon Diagnostics continued to expand its investment in scientific research and make innovation, establishing three major technology platforms of molecular diagnostics, multi-immunity and singleperson chemiluminescence. During the Year, X-ray irradiator, Single-person Chemiluminescence PCT Project, IL-6, Voriconazole diagnostic test kit were launched to the market; the blood nucleic acid in the Molecular Nucleic Acid Platform, quantitative detection products for HIV Nucleic Acid, the Full Automated Multi-immunity Analyzer and the first batch of 15/13/9 products using anti-nuclear and anti-antibodies and the Full Automated Chemiluminescence Analyzer were all granted certifications, injecting new impetus to the development of the Company. During the Year, we have simultaneously carried out the pre-market quality assessemnent, assurance for quality system in changing production line and market warming for these new products.

In 2019, Livzon Diagnostics steadily advanced the production management work and continuously impelled the suppliers development of raw and supplemental materials and optimization of technology and performance for major products, with continuous decline in the costs of self-produced products. During the Reporting Period, Livzon Diagnostics completed the preparation for production of new products which are ready to produced once launched to market to ensure suffcient supply.

In respect of international registration and certification, as at 31 December 2019, 14 varieties were granted 15 medical device certificates in the European Union, and 6 of which passed the on-site inspection of TUV international certification.

During the Year, Livzon Diagnostics established Zhuhai Qiao Biotechnology Co., Ltd.* (珠海啟奧生物技術有限公司), a joint venture company, to jointly develop a new generation of rapid molecular diagnostic medical diagnostic equipment (快速分子檢測醫療診斷設備) and reagent products.

II. SUMMARY *(continued)***(5) Functions and strategies: implementation of the three core strategies and reinforcement of capital operation**

In 2019, under the management guideline of “talent strategy, product strategy and market strategy”, all functional departments of the Group cooperated actively and the awareness and level of services and support improved substantially. (i) the Group has sorted out the organizational structure and institutional settings at all levels by dividing them into functional departments and business units and integrated the departments such as business development and medicine head office; (ii) the Group has introduced global high-end talents, which covered the fields of R&D, investment, medicine, clinical, etc.; (iii) the Group has optimized the performance appraisal management system by sorting out and optimizing the evaluation plans of scientific research units and production units and by establishing scientific cadre assessment methods; (iv) the Group has made rational arrangements for funds management, improved return on funds, strengthened the management system for foreign exchange risk and enhanced the tax planning function; (v) the Group has constantly promoted the capability of information technology across the Group by putting into operation of the ERP systems of all production enterprises, which enabled the integration of business and financial activities.

In terms of strategic development and investment, during the Year, in order to accelerate the international industrial layout of the Company and further enhance the industrial structure, the Group established investment companies in China and overseas respectively with a view to promoting the Company's external development in the industry. Livzon Diagnostics, a subsidiary of the Group, established a joint venture to develop a new generation of rapid molecular detection medical diagnostic products (快速分子检测医疗诊断产品), while the subsidiary Kadi increased capital contribution in Yizun Biopharmaceuticals to accelerate strategic layout in area of cell therapy business.

In 2019, in order to further improve and refine the decision-making of dividends and supervision mechanism of the Group and to actively provide return to our investors, the Group has formulated the Shareholders' Return Plan for the Three Years (2019-2021); in order to motivate the senior management and the core technicians in keeping their struggling spirit and pioneering enthusiasm for sound development of the Company in the long run, the Group has proposed the medium and long-term business partner share ownership scheme, which was approved by the general meeting in February 2020.

III. ANALYSIS OF PRINCIPAL BUSINESSES**1. Summary**

Whether it is the same as the summary disclosed in the discussion and analysis of operation

☒ Yes ☐ No

Please refer to the “Summary” in Section IV of the Report for relevant information.

2. The future development and plans disclosed in published documents such as prospectus, offering circular and assets restructuring report continued until the Reporting Period

☐ Applicable ☒ Not applicable

None of the future development and plans which continued until the Reporting Period were disclosed in published documents such as prospectus, offering circular and assets restructuring report.

3. Segment information

The Group has one single operating segment in the PRC, i.e. pharmaceutical manufacturing. Accordingly, no operating segment information of the Group is presented.

III. ANALYSIS OF PRINCIPAL BUSINESSES (continued)

4. Income and costs

(1) Composition of principal businesses

Unit: RMB

		2019		2018		Year-on-year change
		Amount	As a percentage of income of principal businesses	Amount	As a percentage of income of principal businesses	
Total incomes of principal businesses		9,317,112,446.94	100%	8,822,319,939.95	100%	5.61%
By sector						
Chemical drug preparation products	Gastroenterology	1,755,053,839.75	18.84%	1,247,598,526.74	14.14%	40.67%
	Cardio-cerebral vascular	277,001,349.61	2.97%	247,805,732.58	2.81%	11.78%
	Antimicrobial drug	530,449,092.65	5.69%	511,936,181.15	5.80%	3.62%
	Gonadotropic hormones	1,822,871,047.47	19.57%	1,613,273,261.50	18.29%	12.99%
	Others	545,910,084.92	5.86%	617,634,335.36	7.00%	-11.61%
APIs and intermediates		2,350,068,519.91	25.22%	2,354,276,412.34	26.69%	-0.18%
Traditional Chinese drug preparation products		1,281,343,618.13	13.75%	1,532,464,641.30	17.37%	-16.39%
Diagnostic reagents and equipment		754,414,894.50	8.10%	697,330,848.98	7.90%	8.19%
By region						
Domestic		8,083,464,081.64	86.76%	7,729,928,025.92	87.62%	4.57%
Overseas		1,233,648,365.30	13.24%	1,092,391,914.03	12.38%	12.93%
Total		9,317,112,446.94	100.00%	8,822,319,939.95	100.00%	5.61%

(2) Industries, products or regions representing over 10% of operating income or operating profit of the Company

Unit: RMB

	Income from principal businesses	Costs for principal businesses	Gross profit margin	Year-on-year change in income from principal businesses	Year-on-year change in costs for principal businesses	Year-on-year change in gross profit margin
By sector						
Chemical drug preparation products	4,931,285,414.40	1,112,476,450.97	77.44%	16.35%	22.11%	Decreased by 1.06 percentage points
APIs and intermediates	2,350,068,519.91	1,621,724,121.27	30.99%	-0.18%	-9.38%	Increased by 7.00 percentage points
Traditional Chinese drug preparation products	1,281,343,618.13	316,554,406.53	75.30%	-16.39%	-13.06%	Decreased by 0.94 percentage point
Diagnostic reagents and equipment	754,414,894.50	293,181,192.24	61.14%	8.19%	6.78%	Increased by 0.51 percentage point
By region						
Domestic	8,083,464,081.64	2,545,952,333.03	68.50%	4.57%	0.09%	Increased by 1.41 percentage points
Overseas	1,233,648,365.30	797,983,837.98	35.32%	12.93%	0.29%	Increased by 8.15 percentage points

With the adjusted basis of data statistics of the principal businesses of the Company during the Year, data of the principal businesses of the Company in the most recent year after adjustment on basis of the End of the Year

☐ Applicable ☒ Not applicable

III. ANALYSIS OF PRINCIPAL BUSINESSES *(continued)*

4. Income and costs *(continued)*

(2) Industries, products or regions representing over 10% of operating income or operating profit of the Company *(continued)*

During the Year, the Group's principal businesses generated an operating income of RMB9,317.11 million, representing an increase of RMB494.79 million or 5.61% as compared with RMB8,822.32 million of the previous year. In particular, income from chemical drug preparation products increased by 16.35% year-on-year and income from APIs and intermediates decreased by 0.18% year-on-year.

The sales income and year-on-year change of key drug preparation products during the Year are as follows: the income from sales of key gonadotropic hormones products Leuprorelin Acetate Microspheres for Injection (注射用醋酸亮丙瑞林微球) and Urofollitropin (尿促卵泡素) amounted to RMB926.18 million and RMB626.48 million respectively, representing a year-on-year increase of 21.75% and 5.72% respectively. The income from sales of key gastrointestinal product Ilaprazole series (艾普拉唑系列) amounted to RMB974.54 million, representing a year-on-year increase of 65.65%. Among which, the income from sales of Ilaprazole Enteric-Coated Tablet (艾普拉唑腸溶片) amounted to RMB868.31 million, representing a year-on-year increase of 51.15%; the income from sales of Ilaprazole Sodium for Injection (注射用艾普拉唑鈉) amounted to RMB106.24 million, representing a year-on-year increase of 667.09%; the income from sales of Rabeprazole (雷貝拉唑) amounted to RMB246.49 million, representing a year-on-year increase of 8.37%; the income from sales of the Bismuth Potassium Citrate series (得樂系列) amounted to RMB207.54 million, representing a year-on-year increase of 26.67%; the income from sales of Livzon Weisanlian (麗珠維三聯) amounted to RMB252.69 million, representing a year-on-year increase of 24.72%. The income from sales of key neurological product Mouse Nerve Growth Factor for Injection (注射用鼠神經生長因子) amounted to RMB360.75 million, representing a year-on-year decrease of 18.83%. The income from sales of key psychiatric products Fluvoxamine (氟伏沙明) and Perospirone (呱羅匹隆) amounted to RMB128.93 million and RMB53.12 million respectively, representing a year-on-year increase of 26.28% and 49.40% respectively. The income from sales of key antimicrobial product Voriconazole for Injection (注射用伏立康唑) amounted to RMB245.72 million, representing a year-on-year increase of 6.04%. The income from sales of traditional Chinese drug preparation product Shenqi Fuzheng Injection (參芪扶正注射液) amounted to RMB816.92 million, representing a year-on-year decrease of 18.48%. The income from sales of Anti-viral Granules (抗病毒顆粒) amounted to RMB304.00 million, representing a year-on-year decrease of 8.61%.

The income and year-on-year change of key APIs and intermediates are as follows: the income from sales of Acarbose (阿卡波糖) amounted to RMB252.84 million, representing a year-on-year increase of 14.85%; the income from sales of Phenylalanine (苯丙氨酸) amounted to RMB250.61 million, representing a year-on-year increase of 23.87%; the income from sales of Milbemycin Oxime (米爾貝肟) amounted to RMB133.13 million, representing a year-on-year increase of 11.33%; the income from sales of Vancomycin Hydrochloride (鹽酸萬古黴素) amounted to RMB135.59 million, representing a year-on-year increase of 2.93%; the income from sales of Mevastatin (美伐他汀) amounted to RMB145.83 million, representing a year-on-year increase of 22.67%; the income from sales of Daptomycin (達托黴素) amounted to RMB72.60 million, representing a year-on-year increase of 117.74%.

The sales growth of the aforesaid products was primarily due to the Group's continuous progress in marketing reform, refinement in management and continuous optimization in product structure according to the market demand and competition, thereby achieving significantly faster growth in sales from key competitive products in the chemical drug preparation segment as compared to that of the Previous Year. Furthermore, due to the industry policies such as cost control on national medical insurance and lower bid price, the growth of certain products had slowed down or declined.

During the Year, the Group's operating costs of principal businesses amounted to RMB3,343.94 million, representing an increase of RMB4.69 million or 0.14% as compared with RMB3,339.25 million of the Previous Year, which was mainly due to the increase in operating costs for principal businesses resulted from the growth of sales income and decreased costs resulted from improved technology process of the API segment.

III. ANALYSIS OF PRINCIPAL BUSINESSES (continued)

4. Income and costs (continued)

(3) Income from principal businesses by region

Unit: RMB

Regions	Amount incurred in the Year		Amount incurred in the Previous Year	
	Income from Principal Businesses	Cost for Principal Businesses	Income from Principal Businesses	Cost for Principal Businesses
Domestic	8,083,464,081.64	2,545,952,333.03	7,729,928,025.92	2,543,604,959.29
Overseas	1,233,648,365.30	797,983,837.98	1,092,391,914.03	795,642,380.61
Total	9,317,112,446.94	3,343,936,171.01	8,822,319,939.95	3,339,247,339.90

(4) Whether the revenue from physical sales are greater than the revenue from rendering services

✓YES ☐ NO

Since the product structure of the Company is complicated and the measurement unit of each product is different, it is not possible to convert its production and sales volume to a uniform quantity for comparison.

Reasons for the year-on-year changes of over 30%

☐ Applicable ☒ Not applicable

(5) Execution as at the Year of major sales contracts entered into by the Company

✓Applicable ☐ Not applicable

Name of the contracted company	Name of the contracted counterparty	Contract subject	Date of contract	Pricing principle	Transaction consideration (RMB'000)	Connected Transaction	Connected relationship	Execution as at the End of the Reporting Period	Date of disclosure	Index of disclosure
Livzon Group Xinbeijiang Pharmaceutical Manufacturing Inc. (麗珠集團新北江製藥股份有限公司)	Hangzhou Zhongmei Huadong Pharmaceutical Co., Ltd. (杭州中美華東製藥有限公司)	Acarbose APIs (阿卡波糖原料藥)	31 May 2017	Determined by negotiation based on market price	48,060.00	No	Nil	As at the End of the Reporting Period, an aggregate transaction amount (tax inclusive) of RMB480.60 million has been recorded, representing 100% of the contracted amount.	2 June 2017	"Announcement of Livzon Pharmaceutical Group Inc. on entering into material contracts for daily operation by its subsidiaries" (No.2017-046)
Livzon Group Xinbeijiang Pharmaceutical Manufacturing Inc. (麗珠集團新北江製藥股份有限公司)	Hangzhou Zhongmei Huadong Pharmaceutical Co., Ltd. (杭州中美華東製藥有限公司)	Acarbose APIs (阿卡波糖原料藥)	13 February 2019	Determined by negotiation based on market price	53,970.00	No	Nil	As at the End of the Reporting Period, an aggregate transaction amount (tax inclusive) of RMB197.6087 million has been recorded, representing 36.61% of the contracted amount	N/A	N/A

III. ANALYSIS OF PRINCIPAL BUSINESSES (continued)

4. Income and costs (continued)

(6) Composition of operating costs

Unit: RMB

By industry	Item	2019		2018		Year-on-year change
		Amount	As a percentage of operating costs	Amount	As a percentage of operating costs	
Pharmaceutical industry	Material costs	2,176,451,960.40	64.17%	2,225,109,075.65	66.23%	-2.19%
	Labour costs	352,577,217.65	10.40%	331,567,177.07	9.87%	6.34%
	Depreciation	228,010,211.93	6.72%	214,722,766.17	6.39%	6.19%
	Energy and power	259,567,928.90	7.65%	238,224,664.11	7.09%	8.96%
	Others	411,141,295.32	12.12%	390,041,444.93	11.61%	5.41%
	Movement in inventories from the Beginning of the Period to the End of the Period	-36,020,354.01	-1.06%	-40,010,063.81	-1.19%	-9.97 %
	Operating costs	3,391,728,260.19	100.00%	3,359,655,064.11	100.00%	0.95%

(7) Material changes or adjustments in business, products or services during the Year

☐ Applicable ☒ Not applicable

(8) Major customers and suppliers

During the Year, sales to the five largest customers accounted for 8.48% (2018: 8.95%) of the income of principal businesses of the Group, while purchase from the five largest suppliers accounted for approximately 33.50% (2018: 35.15%) of the Group's total purchase of raw materials. The five largest customers have been the customers of the Group for 12 years in average, and the five largest suppliers have been the suppliers of the Group for 13.6 years in average.

Major customers of the Company for the Year

Total sales to the five largest customers (RMB)	790,083,145.40
Total sales to the five largest customers as a percentage of the total sales in the Year	8.48%
Sales to related parties in sales to the five largest customers as a percentage of the total sales in the Year	—

Five largest customers of the Company for the Year

☒ Applicable ☐ Not applicable

No.	Name of customer	Sales (RMB)	As a percentage of the total sales in the Year
1	First	252,552,262.01	2.71%
2	Second	147,751,968.19	1.59%
3	Third	139,593,479.08	1.50%
4	Fourth	126,649,817.61	1.36%
5	Fifth	123,535,618.51	1.33%
Total		790,083,145.40	8.48%

III. ANALYSIS OF PRINCIPAL BUSINESSES *(continued)***4. Income and costs** *(continued)***(8) Major customers and suppliers** *(continued)***Other information about major customers**

☐ Applicable ☒ Not applicable

The Company does not have connected relationship with the five largest customers, and none of the Directors, Supervisors, senior management, core technicians, shareholders with more than 5% of shares, ultimate beneficial owner of the Company or other related parties is interested in the major customers, directly or indirectly.

Major suppliers of the Company for the Year

Total purchase from the five largest suppliers (RMB)	729,044,038.73
Total purchase from the five largest suppliers as a percentage of the total purchase in the Year	33.50%
Purchase from related party in purchase from the five largest suppliers as a percentage of the total purchase in the Year	13.23%

Five largest suppliers of the Company for the Year

☒ Applicable ☐ Not applicable

No.	Name of supplier	Purchase (RMB)	As a percentage of the total purchase in the Year
1	First	288,017,792.41	13.23%
2	Second	152,292,873.34	7.00%
3	Third	124,815,484.20	5.73%
4	Fourth	82,568,412.52	3.79%
5	Fifth	81,349,476.26	3.74%
Total		729,044,038.73	33.50%

Note: This table is based on the purchase for the principal businesses of the Company.

Other information about major suppliers

☒ Applicable ☐ Not applicable

Jiaozuo Joincare, the largest supplier of the Company, is a wholly-owned subsidiary of Joincare. Mr. Zhu Baoguo, the chairman of the Board, is indirectly interested in Jiaozuo Joincare by virtue of his shareholdings in Joincare. For details, please refer to "Changes in Shareholdings of Directors, Supervisors and Senior management" in Section IX of the Report.

To the knowledge of the Directors, none of the Directors, Supervisors, senior management, core technicians or any Shareholders (who, to the knowledge of the Directors, own more than 5% of the Company's issued share capital) and their respective close associates are interested in the aforesaid five largest suppliers (excluding Jiaozuo Joincare) and five largest customers of the Group.

III. ANALYSIS OF PRINCIPAL BUSINESSES (continued)

5. Expenses

During the Year, the Group's expenses, including selling expenses, administrative expenses, R&D expenses and financial expenses, amounted to RMB4,234.66 million in total, representing an increase of RMB123.98 million or 3.02% year-on-year. Details are as follows:

Unit: RMB

	2019	2018	Year-on-year change	Reasons for material changes
Selling expenses	3,093,219,804.38	3,267,279,529.29	-5.33%	No material changes
Administrative expenses	629,346,060.48	546,375,495.41	15.19%	No material changes
Finance expenses	-220,799,167.69	-251,952,496.18	12.36%	No material changes
R&D expenses	732,891,738.02	548,972,707.16	33.50%	Mainly due to the increase in investment as a result of the increase in the number of R&D projects and more projects entered into clinical trials due to efficiency improvement
Total	4,234,658,435.19	4,110,675,235.68	3.02%	-

During the Year, the total income tax expenses were RMB265.96 million, representing an increase of RMB31.01 million or 13.20% year-on-year, which was mainly due to the increase in provision for income tax expenses as a result of profit growth.

6. Investment in research and development

☒Applicable ☐Not applicable

During the Year, the Group's total expenditure relating to research and development amounted to approximately RMB827.73 million (2018: RMB687.24 million), representing a year-on-year increase of 20.44%. The amount accounted for approximately 7.41% of the net assets attributable to Shareholders of the Company and approximately 8.82% (2018: 7.76%) of the Group's total operating income in the Year.

Overall progress of the Group's research and development efforts during the Year is as follows:

(1) Chemical drug preparation

Chemical drug preparation: 18 projects are in the development track, including 11 projects that have been established with pharmaceutical research commenced, 2 projects that have been submitted for production approval, 3 projects that have obtained clinical approval. Projects of Ryanodex for Injection (注射用丹曲林钠) and Blonanserlin Tablets (布南色林片) have been submitted for production approval; projects of Paclitaxel Polymeric Micelles for Injection (注射用紫杉醇聚合物胶束) and Highly Purified Menotrophins for Injection (注射用高纯度尿促性素) have obtained clinical approval and are ready for entering the clinical trial stage.

Consistency evaluation: 17 projects have been established, including 4 projects that have been filed. The projects for Tinidazole Tablets (替硝唑片), Clarithromycin Tablets (克拉霉素片) and Amlodipine Besylate Capsules (苯磺酸氨氯地平胶囊) have been filed for registration and the on-site verification has been completed. The project of Omeprazole Sodium for Injection (注射用奥美拉唑钠) has been filed for registration and is subject to on-site verification.

III. ANALYSIS OF PRINCIPAL BUSINESSES *(continued)***6. Investment in research and development** *(continued)***(1) Chemical drug preparation** *(continued)*

Microspheres platform: 8 projects are in the development track, including 4 projects that have been established with preclinical research, 1 project that has filed the license application, 1 project that is under clinical trial, 1 project that was granted clinical approval and 1 project that has applied for clinical trial. The progress of the key projects is as follows: phase I trial of the Triptorelin Acetate Microspheres (醋酸曲普瑞林微球) (1-month sustained release) project is ongoing, the Leuporelin Acetate Microspheres (醋酸亮丙瑞林微球) (3-month sustained release) project obtained clinical approval, the Octreotide Acetate Microspheres (醋酸奥曲肽微球) (1 month) has been filed the license application and the Aripiprazole Microspheres (阿立哌唑微球) (1 month) has applied for clinical trial.

(2) APIs and intermediates

Fermentation R&D center: 13 projects are in the development track, with Oritavancin (奧利萬星), Telavancin (特拉萬星) and Dalbavancin (達巴萬星) preparing for registration filing; pilots trials for 3 polypeptide products have been completed;

Synthesis R&D center: 10 projects are in the development track. The independent R&D and industrialization for the project of Pimavanserin Tartrate (酒石酸匹莫范色林) and another project were completed. The industrialization for 1 introduced project was completed.

(3) Biologics

R&D platform of biologics: 9 projects in the development track. The Recombinant Human Chorionic Gonadotropin for Injection (注射用重組人絨促性素) has filed the license application and completed the clinical on-site inspection of CDE, and is preparing for the manufacturing on-site inspection; the Recombinant Humanized Anti-IL-6R Monoclonal Antibody for Injection (重組人源化抗IL-6R單克隆抗體注射液) has complete the phase I trial and now is in phase III trial; the Recombinant Anti-HER2 Domain II Humanized Monoclonal Antibody for Injection (重組抗HER2結構域II人源化單克隆抗體注射液) is in phase Ib trial; the Recombinant Humanized Anti-PD-1 Monoclonal Antibody for Injection (注射用重組人源化抗PD-1單克隆抗體) is in phase Ib trial; the Recombinant Humanized Anti-IL-17A/F Monoclonal Antibody for Injection (重組抗人IL-17A/F人源化單克隆抗體注射液) has filed the IND application which was accepted by CDE; the Long-acting Tumor Targeting Cytokine Drugs for Treatment (治療用新型長效腫瘤靶向細胞因子藥物) is preparing for IND application.

(4) Diagnostic reagents and equipment

5 projects are in the development track of the chemiluminescence platform, among which the full-automatic 60-speed single-person chemiluminescence, T-cell detection diagnostic for tuberculosis virus infection, interleukin-6 diagnostic kit and AMH chemiluminescence diagnostic have completed clinical trials and are in the process of registration; 5 projects are in the development track of the molecular nucleic acid platform, among which HCV nucleic acid diagnostic kits, HBV nucleic acid diagnostic kits and HBV nucleic acid diagnostic kits (one-shot method) have completed clinical trials and are in the process of registration; there are 11 projects on the autoimmune multiple platform, among which the myositis-related autoantibody diagnostic kit (magnetic barcode immunofluorescence method) and vasculitis-related autoantibody diagnostic kit (magnetic barcode immunofluorescence method) have completed clinical trials and are in the process of registration; there are 3 projects on the fluorescent chromatography platform, among which Mycoplasma pneumoniae IgM antibody diagnostic kit (fluorescent immunochromatography), Chlamydia pneumoniae IgM antibody diagnostic kit (fluorescent immunochromatography) and influenza A/B virus antigen diagnostic kit (fluorescence Immunochromatography) are in the stage of clinical trial.

III. ANALYSIS OF PRINCIPAL BUSINESSES (continued)

6. Investment in research and development (continued)

Investment in R&D

	2019	2018	Change
Number of R&D staff (person)	729	721	1.11%
Proportion of R&D staff to total employees	8.08%	9.40%	Decreased by 1.32 percentage points
Amount of investment in R&D (RMB)	827,729,912.29	687,239,391.13	20.44%
Proportion of R&D investment to operating income	8.82%	7.76%	Increased by 1.06 percentage point
Amount of capitalized R&D investment (RMB)	67,357,433.92	71,045,218.50	-5.19%
Proportion of capitalized R&D investment to total investment in R&D	8.14%	10.34%	Decreased by 2.20 percentage points

Reasons for significant changes in the proportion of total investment in R&D to operating income as compared with the Previous Year

☐ Applicable ☒ Not applicable

Reasons for substantial changes in capitalization rate of investment in R&D and the rationality

☐ Applicable ☒ Not applicable

IV. ANALYSIS OF NON-PRINCIPAL BUSINESSES

☒ Applicable ☐ Not applicable

Unit: RMB

Item	Amount	As a percentage of total profits	Reason for occurrence	Sustainability
Investment income	-19,597,761.68	-1.13%	Mainly due to changes in profit or loss of associates and loss arising from settlement of forward foreign exchange settlement.	Yes
Gains or losses arising from changes in fair value	1,328,501.70	0.08%	Mainly due to changes in fair value of forward foreign exchange contracts as a result of fluctuations in foreign exchange rates.	Yes
Asset impairment loss	-53,224,067.26	-3.08%	Mainly due to provision for inventory depreciation.	No
Credit impairment loss	-4,860,224.48	-0.28%	Mainly due to provision for credit impairment of receivables.	Yes
Non-operating income	11,483,490.34	0.66%	Mainly due to the gains from the disposal of non-currents assets during the Year.	No
Non-operating expenses	13,794,185.53	-0.80%	Mainly due to donation expenses and loss on retirement of fixed assets.	No
Other income	156,194,635.50	9.04%	Mainly due to the receipt of government grants related to ordinary operation activities.	Yes

V. ANALYSIS OF FINANCIAL CONDITIONS

1. Material changes in assets composition

Unit: RMB

Item	At the end of 2019		At the end of 2018		Increase/ decrease in proportion	Reason for material changes
	Amount	As a percentage of total assets	Amount	As a percentage of total assets		
Cash at bank and on hand	8,855,408,402.78	49.26%	8,587,927,272.41	49.25%	0.01%	No material changes
Accounts receivable	1,472,438,936.26	8.19%	1,381,706,955.95	7.92%	0.27%	No material changes
Inventories	1,168,854,337.03	6.50%	1,117,007,240.91	6.41%	0.09%	No material changes
Investment properties	-	-	-	-	-	-
Long-term equity investments	171,498,988.56	0.95%	188,106,109.58	1.08%	-0.13%	No material changes
Fixed assets	3,160,096,367.19	17.58%	3,217,576,074.00	18.45%	-0.87%	No material changes
Construction in progress	233,489,857.85	1.30%	184,518,928.04	1.06%	0.24%	No material changes
Short-term loans	1,360,840,657.32	7.57%	1,500,000,000.00	8.60%	-1.03%	No material changes
Long-term loans	-	-	700,000.00	0.004%	-0.004%	Mainly due to the disposal and transfer of outstanding long-term loans for which no repayment is required into non-operating income.
Non-current liabilities due within one year	-	-	400,000.00	0.002%	-0.002%	Mainly due to the disposal and transfer of outstanding long-term loans for which no repayment is required into non-operating income.

V. ANALYSIS OF FINANCIAL CONDITIONS (continued)

2. Assets and liabilities measured at fair value

✓Applicable ☐Not applicable

Unit: RMB

Item	At the Beginning of the Period	Change in fair value for the Period	Accumulated change in fair value in equity	Impairment provision for the Period	Amount purchased during the Period	Amount sold during the Period	At the End of the Period
Financial assets							
1. Financial assets measured at fair value and whose changes are recorded in current profit or loss (excluding derivative financial assets)	15,409,698.08	-315,520.44	-	-	-	-	15,094,177.64
2. Derivative financial assets	525,040.12	1,572,643.98	-	-	-	-	2,097,684.10
3. Other equity instrument investments	407,707,119.32	-	48,716,432.89	-	123,407,313.19	100,093,056.54	479,737,808.86
Sub-total for financial assets	423,641,857.52	1,257,123.54	48,716,432.89	-	123,407,313.19	100,093,056.54	496,929,670.60
Investment properties	-	-	-	-	-	-	-
Productive biological assets	-	-	-	-	-	-	-
Others	-	-	-	-	-	-	-
Total	423,641,857.52	1,257,123.54	48,716,432.89	-	123,407,313.19	100,093,056.54	496,929,670.60
Financial liabilities	85,294.16	71,378.16	-	-	-	-	13,916.00

Whether there were material changes in major assets measurement during the Year

☐YES ☒NO

3. Restrictions on asset entitlements as at the End of the Reporting Period

✓Applicable ☐Not applicable

The thirteenth meeting of the Ninth Session of the Board of the Company considered and approved the "Resolution on Launching the Bill Pool Business" and agreed that the Company and its subsidiaries shall share the cap amount for the bill pool business of no more than RMB1.4 billion which can be utilized on a revolving basis. As at the End of the Reporting Period, the Company had applied to the bank for a remaining sum of pledge of RMB212.142 million for its bills receivable.

As at the End of the Reporting Period, the remaining amount of the actual deposit paid by the subsidiaries to the bank for the application of businesses such as forward foreign exchange contracts and letter of credit was RMB1.2225 million.

V. ANALYSIS OF FINANCIAL CONDITIONS (continued)

4. Material changes in consolidated balance sheet items

Item	31 December 2019	31 December 2018	Unit: RMB Year-on- year change
Other receivables	91,848,022.04	49,482,179.59	85.62%
Non-current assets due within one year	17,497,288.62	10,869,100.00	60.98%
Long-term receivables	10,828,143.63	20,299,509.76	-46.66%
Development expenditure	148,504,020.49	81,146,586.57	83.01%
Financial liabilities held for trading	13,916.00	85,294.16	-83.68%
Contract liabilities	151,765,150.53	115,973,464.09	30.86%
Employee benefits payables	278,117,911.92	186,046,426.55	49.49%
Non-current liabilities due within one year	—	400,000.00	-100.00%
Long-term loans	—	700,000.00	-100.00%
Deferred income tax liabilities	90,884,958.20	54,479,730.16	66.82%
Other non-current liabilities	70,000,000.00	—	—
Share capital	934,762,675.00	719,050,240.00	30.00%
Treasury shares	—	25,208.04	-100.00%
Other comprehensive income	26,403,971.65	-29,164,814.15	190.53%

Reasons for the year-on-year changes of over 30% were:

- (1) Other receivables increased by 85.62% year-on-year, which was mainly due to an increase in the distribution of dividend receivables from associates and an increase in insurance claims receivable during the Year.
- (2) Non-current assets due within one year increased by 60.98% year-on-year, which was mainly due to an increase in the consideration receivable due within one year for the transfer of part of the equity interest in the subsidiary during the Year.
- (3) Long-term receivables decreased by 46.66% year-on-year, which was mainly due to a change in the accounting period and a transfer of the long-term receivables due within one year to the non-current assets due within one year.
- (4) Development expenditure increased by 83.01% year-on-year, which was mainly due to the increase in research and development expenses arising from the entry into the clinical trials of Recombinant Humanized Anti-IL-6R Monoclonal Antibody for Injection (重組人源化抗人IL-6R單克隆抗體注射液), Recombinant Human Chorionic Gonadotropin for Injection (注射用重組人絨促性素) and other projects.
- (5) Financial liabilities held for trading decreased by 83.68% year-on-year, which was mainly due to a change in the fair value of forward foreign exchange contracts arising from the change in exchange rates.
- (6) Contract liabilities increased by 30.86% year-on-year, which was mainly due to an increase in the advances from Livzon Diagnostics, a controlling subsidiary of the Company.
- (7) Employee benefits payables increased by 49.49% year-on-year, which was mainly due to the withdrawal of special funds of the Medium to Long-term Business Partner Share Ownership Scheme during the Year.

V. ANALYSIS OF FINANCIAL CONDITIONS *(continued)*4. Material changes in consolidated balance sheet items *(continued)*

- (8) Non-current liabilities due within one year decreased by 100% year-on-year, which was mainly due to the disposal and transfer of outstanding long-term loans for which no repayment is required into non-operating income.
- (9) Long-term loans decreased by 100% year-on-year, which was mainly due to the disposal and transfer of outstanding long-term loans for which no repayment is required into non-operating income.
- (10) Deferred income tax liabilities increased by 66.82% year-on-year, which was mainly due to an increase in taxable temporary differences arising from accelerated depreciation of fixed assets and changes in fair value of other equity instruments.
- (11) Other non-current liabilities recorded RMB70,000,000.00 as at the End of the Period, which was mainly due to the compensation for demolition received by a wholly-owned subsidiary, Sichuan Guangda.
- (12) Share capital increased by 30.00% year-on-year, which was mainly attributable to the issuance of 3 bonus shares for every 10 shares to all Shareholders by way of conversion of capital reserve in accordance with the 2018 profit distribution plan approved by the general meeting of the Company.
- (13) Treasury shares decreased by 100% year-on-year, which mainly due to the corresponding decrease in treasury shares arising from the repurchase and cancellation of the A shares of the Restricted A Shares Incentive Scheme which did not meet the unlocking conditions.
- (14) Other comprehensive income increased by 190.53% year-on-year, which was mainly due to the changes in fair value of investments in other equity instruments.

Asset-liability ratio

The asset-liability ratios of the Group as at 31 December 2019 and 31 December 2018 were calculated by dividing total liabilities by total assets of the Group as at the respective dates. The asset-liability ratio of the Group decreased from 32.62% as at 31 December 2018 to 31.71 % as at 31 December 2019.

5. Material changes in consolidated income statement items

Item	The Year	The Previous Period	Unit: RMB
			Year-on-year change
R&D expenses	732,891,738.02	548,972,707.16	33.50%
Other income	156,194,635.50	85,097,367.17	83.55%
Investment income	-19,597,761.68	-42,445,887.41	53.83%
Gains from changes in fair value	1,328,501.70	-2,410,266.97	155.12%
Credit impairment loss	-4,860,224.48	30,700,999.19	-115.83%
Gains on disposal of assets	460,273.31	-549,283.16	183.80%
Non-operating income	11,483,490.34	176,898,473.07	-93.51%
Non-operating expenses	13,794,185.53	34,719,651.84	-60.27%
Profit or loss from non-controlling interests	158,702,118.36	99,539,813.05	59.44%
Other comprehensive net income after taxation	58,697,018.11	26,035,358.56	125.45%

V. ANALYSIS OF FINANCIAL CONDITIONS *(continued)*5. Material changes in consolidated income statement items *(continued)*

Reasons for the year-on-year changes of over 30% were:

- (1) R&D expenses increased by 33.50% year-on-year, which was mainly due to increased R&D projects and improved efficiency which led to increased projects entering clinical trials, thereby resulting in increase in investment.
- (2) Other income increased by 83.55% year-on-year, which was mainly due to the increase in the reclassification to "the receipt of government grants related to ordinary operation activities" during the Year.
- (3) Investment income increased by 53.83% year-on-year, which was mainly due to the loss of forward settlement contracts falling due resulted from higher fluctuation of exchange rate in the Previous Year.
- (4) Gain from changes in fair value increased by 155.12% year-on-year, which was mainly due to the combined effects of fluctuation in market value of the securities investment subjects held and movement in fair value of forward exchange contracts resulted from the changing exchange rate.
- (5) Credit impairment loss decreased by 115.83% year-on-year, which was mainly due to the reversal of credit impairment provision for receivables according to the expected credit loss rate during the Same Period Last Year.
- (6) Gains on disposal of assets increased by 183.80% year-on-year, which was mainly due to the gains from disposal of fixed assets during the Period.
- (7) Non-operating income decreased by 93.51% year-on-year, which was mainly due to the decrease in the reclassification to "the receipt of government grants not related to ordinary operation activities" during the Year..
- (8) Non-operating expenses decreased by 60.27% year-on-year, which was mainly due to the loss of the discard of assets in the Previous Year.
- (9) Profit or loss from non-controlling interests increased by 59.44% year-on-year, which was mainly due to the correspondingly increase of such profit or loss resulted from the increase in profits of non-wholly-owned subsidiaries.
- (10) Other comprehensive net income after taxation increased by 125.45% year-on-year, which was mainly due to the changes in fair value of investment in other equity instruments.

6. Material changes in consolidated cash flow items

Item	The Year	The Previous Period	Unit: RMB Year-on-year change
Net cash flows from operating activities	1,767,162,882.77	1,267,621,181.04	39.41%
Sub-total of cash inflows from investing activities	226,497,499.50	63,431,546.12	257.07%
Sub-total of cash outflows from investing activities	542,521,979.50	1,084,276,714.22	-49.96%
Net cash flows from investing activities	-316,024,480.00	-1,020,845,168.10	69.04%
Sub-total of cash inflows from financing activities	1,523,945,477.94	2,438,789,047.19	-37.51%
Sub-total of cash outflows from financing activities	2,705,027,317.75	1,581,365,048.31	71.06%
Net cash flows from financing activities	-1,181,081,839.81	857,423,998.88	-237.75%
Effect of foreign exchange rate changes on cash and cash equivalents	20,418,084.63	58,537,258.94	-65.12%
Net increase in cash and cash equivalents	290,474,647.59	1,162,737,270.76	-75.02%

V. ANALYSIS OF FINANCIAL CONDITIONS *(continued)***6. Material changes in consolidated cash flow items** *(continued)*

Reasons for the year-on-year changes of over 30% were:

- (1) Net cash flows from operating activities increased by 39.41% year-on-year, which was mainly due to the payment of enterprise income tax of RMB789.8350 million in the Previous Year in respect of the disposal of equity interest in Zhuhai Weixing Shiye Co., Ltd. (珠海維星實業有限公司) in 2017.
- (2) Sub-total of cash inflows from investing activities increased by 257.07% year-on-year, which was mainly due to the redemption of the SEEKERS FUND during the Period.
- (3) Sub-total of cash outflows from investing activities decreased by 49.96% year-on-year, which was mainly due to the decrease in external investments during the Period as compared to the Previous Year.
- (4) Net cash flows from investing activities increased by 69.04% year-on-year, which was mainly due to the decrease in external investments during the Period as compared to the Previous Year.
- (5) Sub-total of cash inflows from financing activities decreased by 37.51% year-on-year, which was mainly due to the combined effects of the larger of the Company's loans on credit and the absorption of investment from a non-controlling shareholder during the Previous Period.
- (6) Sub-total of cash outflows from financing activities increased by 71.06% year-on-year, which was mainly due to the repayment of loans on credit during the Period.
- (7) Net cash flows from financing activities decreased by 237.75% year-on-year, which was mainly due to the repayment of loans on credit during the Period.
- (8) Effect of foreign exchange rate changes on cash and cash equivalents decreased by 65.12% year-on-year, which was mainly due to the decrease in foreign exchange gains from funds held in foreign currencies resulted from exchange rate changes.
- (9) Net increase in cash and cash equivalents decreased by 75.02% year-on-year, which was mainly due to the repayment of loans on credit during the Period.

Reasons for material differences between net cash flows from operating activities and net profit during the Year

☐ Applicable ☒ Not applicable

7. Material changes in the composition or source of profit of the Company for the Reporting Period

☐ Applicable ☒ Not applicable

There were no material changes in the composition or source of profit of the Company for the Reporting Period.

V. ANALYSIS OF FINANCIAL CONDITIONS *(continued)*

8. Liquidity and financial resources

As at 31 December 2019, the Group's cash at bank and on hand amounted to RMB8,855.41 million (31 December 2018: RMB8,587.93 million), which arose primarily from gains from operations and receipt of considerations for transfer of equity interest in a subsidiary in 2017 and was used primarily for daily operation and investment activities of the Company as well as dividends distribution. The Group has a comprehensive and prudent financial management system in place in order to guarantee the fund safety of the Company, provide support for production operation and business development and reasonably increase the return of the Group's funds.

During the Year, the credit facilities that may be applied for as approved by the Board and the general meeting of the Company amounted to RMB11,743.81 million and the actual amount that was applied to banks for use amounted to RMB1,907.23 million.

Unit: RMB

Item	End of the Year (31 December 2019)			End of the Previous Year (31 December 2018)		
	Amount in foreign currency	Translation rate	Amount in RMB	Amount in foreign currency	Translation rate	Amount in RMB
Cash on hand:	-	-	126,821.79	-	-	134,536.84
–RMB	-	-	109,590.98	-	-	117,334.89
–USD	700.00	6.9762	4,883.34	700.00	6.8632	4,804.24
–Euro	1,579.87	7.8155	12,347.47	1,579.87	7.8473	12,397.71
Bank deposits:	-	-	8,851,796,592.01	-	-	8,562,040,609.92
–RMB	-	-	7,903,329,660.13	-	-	7,819,701,378.53
–HKD	14,642,464.71	0.89578	13,116,427.05	678,362,414.67	0.8762	594,381,147.73
–USD	133,419,180.83	6.9762	930,758,889.31	20,803,732.35	6.8632	142,780,175.87
–Japanese Yen	11,650,001.00	0.064086	746,601.96	1.00	0.061887	0.06
–Euro	102,814.97	7.8155	803,550.41	26,433.60	7.8473	207,432.39
–MOP	3,494,729.58	0.8703	3,041,463.15	5,831,837.78	0.8523	4,970,475.34
Others:	-	-	3,484,988.98	-	-	25,752,125.65
RMB	-	-	1,601,286.68	-	-	13,968,683.03
HKD	1,334,878.88	0.89578	1,195,757.80	1,081,246.23	0.8762	947,387.95
USD	98,613.07	6.9762	687,944.50	1,578,863.31	6.8632	10,836,054.67
Total	-	-	8,855,408,402.78	-	-	8,587,927,272.41

As at 31 December 2019, the balance of the Group's borrowings amounted to RMB1,360.84 million (31 December 2018: RMB1,501.10 million), accounting for 7.57% of total assets (31 December 2018: 8.61%), of which the balance of short-term borrowings due within one year amounted to RMB1,360.84 million (31 December 2018: RMB1,500.40 million), accounting for 7.57% of the total assets (31 December 2018: 8.60%) and the balance of long-term borrowings due after one year amounted to RMB0.00 million (31 December 2018: RMB0.70 million), accounting for 0.00% of the total assets (31 December 2018: 0.004%). During the Year, the Group's repayment of bank borrowings due denominated in RMB amounted to RMB1,650.00 million and the Group disposed and transferred the outstanding long-term borrowings of RMB1.10 million for which no repayment is required into non-operating income. There was no distinct seasonal demand for each of the above borrowings.

V. ANALYSIS OF FINANCIAL CONDITIONS *(continued)*

9. Capital structure

The Group's capital comprises Shareholders' equity and liabilities. As at 31 December 2019, Shareholders' equity amounted to RMB12,275.24 million, total liabilities amounted to RMB5,701.22 million and total assets amounted to RMB17,976.46 million. In particular, the Group's current liabilities amounted to RMB5,293.65 million (31 December 2018: RMB5,369.58 million), a decrease of 1.41% from the End of the Previous Year; total non-current liabilities amounted to RMB407.57 million (31 December 2018: RMB317.89 million), an increase of 28.21% from the End of the Previous Year. During the Year, the Group's repayment of debt amounted to RMB1,650.00 million (31 December 2018: RMB300.00 million).

Equity attributable to Shareholders of the Company amounted to RMB11,166.75 million (31 December 2018: RMB10,651.98 million), an increase of 4.83% from the End of the Previous Year. Minority interests amounted to RMB1,108.49 million (31 December 2018: RMB1,097.90 million), an increase of 0.96% from the End of the Previous Year.

10. Capital commitments

Item	Balance at the End of the Year	Unit: RMB
		Balance at the Beginning of the Year
Contracted but not recognised in the financial statements –		
Commitments for purchase and construction of long-term assets	165,369,398.32	52,554,161.77
Total	165,369,398.32	52,554,161.77

11. Interest rate

As at 31 December 2019, the aggregate interest-bearing bank borrowings and other borrowings amounted to RMB1,359.29 million (31 December 2018: RMB1,500.00 million). The interest rate structure: RMB0.00 million bear interest at a floating rate and RMB1,359.29 million bear a fix interest rate of 4.03% per annum.

12. Ageing analysis of outstanding liabilities

	Unit: RMB in millions	
	31 December 2019	31 December 2018
Within one year	2,076.83	2,218.99
1-2 years	–	–
2-5 years	–	–
Over 5 years	–	0.70
Total	2,076.83	2,219.69

13. Capital commitments

As at 31 December 2019, the Group's capital commitments contracted in relation to the purchase of long-term assets amounted to RMB165.37 million (31 December 2018: RMB52.55 million).

14. Bank borrowings and other borrowings

Details of the bank borrowings and other borrowings of the Company and the Group as at 31 December 2019 are set out in "Note V.21 Short-term Loans" to the financial statements in the Report as prepared in accordance with the China Accounting Standards for Business Enterprises.

V. ANALYSIS OF FINANCIAL CONDITIONS *(continued)*

15. Gearing ratio

The gearing ratio as at 31 December 2019 and 31 December 2018 was calculated by dividing total debt by Shareholders' equity of the Group as at the respective dates. The gearing ratio of the Group decreased from 18.89% as at 31 December 2018 to 16.92% as at 31 December 2019.

16. Interest expenses and capitalisation

	2019	Unit: RMB 2018
Interest expenses <i>(Note)</i>	7,255,024.45	16,772,638.85
Capitalised interest	—	—
Total interest expenses	7,255,024.45	16,772,638.85

Note: Interest expenses are mainly due to corporate credit loans.

17. Foreign exchange risks

Details of foreign exchange risks of the Group are set out in "Note 8 Risk management of financial instruments" to the financial statements prepared in accordance with the China Accounting Standards for Business Enterprises as set out in the Report. As RMB is the major denominated currency of the Company, in case of sales, purchases and investment/financing businesses which are not settled in RMB, corresponding foreign exchange risk exposure is incurred. With "prevention and control of risk and locking in profit" as its management goal, the Company establishes the "Management System for Foreign Exchange Risk", requires a certain hedging ratio, and uses foreign exchange financial derivatives to monitor and control the foreign exchange risk, so as to minimize the impact arising from fluctuations of exchange rates on the business of the Company.

18. Contingent liabilities

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

19. Pledge of assets

As at 31 December 2019, the assets of the Company subject to pledge were as follows:

	31 December 2019 (RMB)	Reasons for being subject to restriction
Assets pledged:		
Bills receivable	212,142,008.83	Pledged bills for the bill pool business ^{note}
Other monetary funds	1,222,549.24	Deposits under guarantee
Total	213,364,558.07	

Note: On 23 April 2018, the thirteenth meeting of the ninth session of the Board of the Company reviewed and passed the "Resolution on Launching the Bill Pool Business", pursuant to which it was agreed that the Company and its subsidiaries should collectively share the cap for the bill pool business amount of not more than RMB1.4 billion. The said fund limit is of revolving basis. As at 31 December 2019, the amount of bills receivables pledged by the Company and Xinbeijiang Pharmaceutical to the banks amounted to RMB208.4107 million and RMB3.7313 million respectively.

V. ANALYSIS OF FINANCIAL CONDITIONS *(continued)***20. Investments****Overall relocation and expansion project of Sichuan Guangda**

On 6 March 2019, after review and approval by the Board of the Company, the Company entered into the "Investment Agreement for the Overall Relocation and Expansion Project of Sichuan Guangda Pharmaceutical Manufacturing" (《四川光大製藥整體搬遷調遷擴建項目投資協議書》) (the "Investment Agreement") and the Supplemental Agreement I with Sichuan Chengdu Pengzhou Municipal People's Government (四川省成都市彭州市人民政府). Pursuant to the Investment Agreement, the Company will inject capital of RMB646 million for investment in construction of the overall relocation and expansion project (the "Project") of Sichuan Guangda Pharmaceutical Manufacturing Co., Ltd.* (四川光大製藥有限公司), a wholly-owned subsidiary of the Company. Pursuant to the Supplemental Agreement I, Pengzhou Municipal People's Government has agreed to pay a compensation for demolition of RMB90 million and grant total incentive of not more than RMB125.8 million for the construction of new plant to the Company.

The Project is to be implemented by Sichuan Guangda and is planned to be implemented in phases according to the specific construction plan. The old plants of Sichuan Guangda can continue to be used until the new plants are completed and put into production, the impact on the production and operation of Sichuan Guangda is therefore remote, and it is expected that the Project will have no material impact on the financial conditions and operating results of the Company for the current year and in the future.

The investment in the Project is intended to adapt to and meet the urgent needs of the local government foreconomic development as well as adjustment to industry structure and development planning on the one hand, and serves the upgrading of technologies and products of the Company's production base for the solid traditional Chinese drug preparation products on the other hand. The Project has received strong support from the local government, and its successful implementation will not only be beneficial for driving the development of the local economy, but also provide reliable and favorable conditions for the business innovation, upgrading and development of the Company in the Chinese medicine field.

Establishment of the JV Company by Livzon Diagnostics

On 5 May 2019, after review and approval by the operation management of the Company, Livzon Diagnostics, a controlling subsidiary of the Company, the 51% equity interest of which is held by the Company, entered into the Joint Venture Agreement on Rapid PCR Products (《關於快速PCR產品之合資協議》) with Mr. Liu Jun (劉珺先生) and Mr. Chen Qiyue (陳啟躍先生) to establish a joint venture company (the "JV Company") in Zhuhai to jointly carry out the subsequent development and transformation of Livzon Diagnostics' patent, cartridge patent and PCR patent.

The registered capital of the JV Company is RMB16.666667 million, of which Livzon Diagnostics shall contribute RMB10 million in cash, representing 60% of the registered capital; Mr. Liu Jun shall make a contribution in technology of RMB3.3333335 million with the cartridge patent, representing 20% of the registered capital; and Mr. Chen Qiyue shall make a contribution in technology of RMB3.3333335 million with the cartridge patent, representing 20% of the registered capital.

The establishment of the JV Company is mainly for putting the advantages in the research and development, production and commercial operation of rapid diagnostic equipment and reagents sectors of the parties and for the joint development of a new generation of rapid molecular diagnostics equipment and reagents products, which is in line with the medium and long term strategic development objectives of the Company in the innovation and upgrade of In-Vitro diagnostics products.

The JV Company was registered and established on 27 June 2019 with company name of Zhuhai Qiao Biotechnology Co., Ltd.* (珠海啟奧生物技術有限公司), and will be included in the consolidated financial statements of the Company.

V. ANALYSIS OF FINANCIAL CONDITIONS *(continued)*20. Investments *(continued)***Establishment of a wholly-owned subsidiary, wholly-owned subsidiaries and a controlling subsidiary**

During the Year, after review and approval by the operation management of the Company, the Company established (i) Zhuhai Livzon Pharmaceutical Equity Investment Management Co., Ltd.* (珠海市麗珠醫藥股權投資管理有限公司) (a wholly-owned subsidiary) in Zhuhai, to which the Company made a capital contribution of RMB9 million with a shareholding of 90% and Pharmaceutical Factory, a wholly-owned subsidiary of the Company, made a capital contribution of RMB1 million with a shareholding of 10%; (ii) Livzon International Ventures, Livzon International Ventures I and Livzon International Ventures II (three wholly-owned subsidiaries) in the Cayman Islands, all funded by Lizhu HK, a wholly-owned subsidiary of the Company, with a shareholding of 100%; and (iii) Fuzhou City Fuxing Pharmaceutical Manufacturing Co., Ltd.* (福州市福興製藥有限公司) (a controlling subsidiary) in Fuzhou, to which Fuzhou Fuxing, a controlling subsidiary of the Company, made a capital contribution of RMB16.62 million with a shareholding of 90% and Gutian Fuxing Pharmaceutical Co., Ltd.* (古田福興醫藥有限公司), a controlling subsidiary of the Company, made a capital contribution of RMB1.8467 million with a shareholding of 10%.

The establishment of abovementioned wholly-owned investment subsidiaries aims to further expand the Company's external investment business and enhance the efficiency and professionalism of the Company's external equity investment. During the Year, Livzon International Ventures I made investment in the B series financing of ELICIO THERAPEUTICS, INC., a company engaged in the new generation tumor immunity technology in Cambridge, Massachusetts, U.S.A., at a contribution of approximately USD5.00 million.

The abovementioned wholly-owned subsidiary principally facilitates the Company's expansion in the industry through equity investment, accelerates the Company's international industrial planning and introduces new technologies, new products and new cooperative partners with the aim of enriching the Company's current R&D pipelines and creating synergistic integration effect between businesses. The establishment of abovementioned controlling subsidiary aims to further make rational allocation of the assets of the API segment, improve utilization of resources in the API segment and further advance the development of the Company's API segment.

Subscription for additional registered capital of Yizun Biopharmaceutics by Kadi

On 3 June 2019, after review and approval by the operation management of the Company, Zhuhai Kadi Medical Biotechnology Inc.* (珠海市卡迪生物醫藥有限公司) ("Kadi"), controlled via contractual arrangement by Biotechnology Company, a controlling subsidiary of the Company in which the Company held 55.13% indirect equity interest, entered into a capital contribution agreement (the "Capital Contribution Agreement") in relation to Yizun Biopharmaceutics (Shanghai) Co., Ltd.* (羿尊生物醫藥(上海)有限公司) ("Yizun Biopharmaceutics") with Mr. Liu Lingfeng (劉凌峰先生), Ningbo Meishan Bao Shui Port Area Yihe Asset Management Partnership (Limited Partnership)* (寧波梅山保稅港區羿合資產管理合夥企業(有限合夥)), Ningbo Meishan Bao Shui Port Area Jingyi Investment Partnership (Limited Partnership)* (寧波梅山保稅港區璟一投資合夥企業(有限合夥)) and Yizun Biotechnology (Shanghai) Co., Ltd.* (羿尊生物科技(上海)有限公司). Pursuant to the Capital Contribution Agreement, Kadi will contribute RMB30,000,000.00 to subscribe for an additional registered capital of RMB3,111,111.00 of Yizun Biopharmaceutics, accounting for 10% of the registered capital of Yizun Biopharmaceutics upon completion of the capital contribution. Meanwhile, Kadi will cooperate with Yizun Biopharmaceutics on related projects. As at 30 June 2019, the Company has completed its capital contribution of RMB30,000,000.00.

This foreign investment is to fully optimise the advantages of research and development, production and commercialization of all parties in the cell therapy business. Upon completion of the capital contribution, Kadi will cooperate with Yizun Biopharmaceutics on all of its current Vac-T and NK-T cell therapy product projects to carry out exclusive cooperation worldwide. This investment is in line with the Company's strategic layout of medium and long-term research and development pipelines in the field of biologics.

Save as disclosed above, during the Year, the Group did not make any equity acquisition and/or other significant investments, nor was there any significant change in the investments held by the Group as compared to the relevant information disclosed in the 2018 annual report of the Company.

VI. INVESTMENT

1. Overall particulars

✓Applicable ☐Not applicable

Amount of Investment during the Year (RMB)	Amount of Investment during the Same Period Last Year (RMB)	Change
107,141,207.05	12,506,875.00	756.66%

2. Material equity investment during the Year

✓Applicable ☐Not applicable

Unit: RMB

Name of investee	Principal business	Investment method	Investment amount	Percentage of shareholding	Source of funds	Partner(s)	Investment period	Type of products	Status as of the balance sheet date	Expected Return	Investment profit or loss in the Year	Litigation involved	Date of Disclosure (if any)	Index of Disclosure (if any)
Zhuhai Qiao Biotechnology Co., Ltd.* (珠海敬奧生物技術有限公司)	Developing the new generation of rapid molecular diagnostics equipment and reagent products	New establishment	10,000,000.00	23.655%	Self-funding	Liu Jun, Chen Qiye	Long-term	Diagnostic reagents and equipment	Contributed RMB6,000,000.00	-	-13,059.16	No	See Note 1 for details	See Note 1 for details
Yizun Biopharmaceuticals (Shanghai) Co., Ltd.* (羿尊生物藥業(上海)有限公司)	Developing the Vac-T and NK-T cell therapy project	Capital contribution	30,000,000.00	10.00%	Self-funding	Liu Lingfeng ^{Note 2}	Long-term	Biological products	Contributed RMB30,000,000.00	-	-	No	See Note 1 for details	See Note 1 for details
Total	-	-	40,000,000.00	-	-	-	-	-	-	-	-13,059.16	-	-	-

- Note:** 1. Date of disclosure and index of disclosure: details of the above equity investments were set out in the announcements of the Company including the "Announcement of Livzon Pharmaceutical Group Inc. in relation to establishment of a joint venture company through external investment (《麗珠醫藥集團股份有限公司關於對外投資設立合資公司的公告》)" (No. 2019-028) dated 7 May 2019, "Announcement of Livzon Pharmaceutical Group Inc. in relation to update announcement on establishment of a joint venture company through external investment (《麗珠醫藥集團股份有限公司關於對外投資設立合資公司的進展公告》)" (No. 2019-043) dated 29 June 2019 and "Announcement of Livzon Pharmaceutical Group Inc. in relation to foreign investment (《麗珠醫藥集團股份有限公司對外投資公告》)" (No. 2019-033) dated 5 June 2019.
2. Partners include Liu Lingfeng, Ningbo Meishan Bao Shui Port Area Yihe Asset Management Partnership (Limited Partnership)* (寧波梅山保稅港區羿合資產管理合夥企業(有限合夥)), Ningbo Meishan Bao Shui Port Area Jingyi Investment Partnership (Limited Partnership)* (寧波梅山保稅港區璟一投資合夥企業(有限合夥)) and Yizun Biotechnology (Shanghai) Co., Ltd.* (羿尊生物科技(上海)有限公司).

VI. INVESTMENT *(continued)***3. Ongoing material non-equity investments during the Year**

☐ Applicable ☒ Not applicable

4. Investment in securities

☒ Applicable ☐ Not applicable

Unit: RMB

Types of securities	Securities code	Securities abbreviation	Initial investment cost	Accounting measurement	Carrying Amount at the Beginning of the Year	Gains or losses on fair value change for the Year	Accumulated change in fair value included in equity during the Year	Amount of purchase during the Year	Amount of disposals during the Year	Profit or loss for the Year	Carrying amount at the End of the Year	Accounting item	Sources of fund
Share	00135	Kunlun Energy	4,243,647.64	Measured at fair value	7,272,460.00	-1,109,493.60	-	-	-	-881,351.18	6,162,966.40	Financial assets measured	Self-funding
Fund	206001	Penghua Fund	150,000.00	Measured at fair value	869,284.66	25,986.02	-	-	-	25,986.02	895,270.68	at fair value and whose	Self-funding
Share	000963	Huadong Medicine	39,851.86	Measured at fair value	7,267,953.42	767,987.14	-	-	-	858,630.55	8,035,940.56	changes are recorded in current profits or losses	Self-funding
Other securities investment held at the End of the Period			-	-	-	-	-	-	-	-	-	-	-
Total			4,433,499.50	-	15,409,698.08	-315,520.44	-	-	-	3,265.39	15,094,177.64	-	-
Disclosure date of the announcement in relation to the approval of securities investment by the Board			Not applicable										
Disclosure date of the announcement in relation to the approval of securities investment by the shareholders' meeting (if any)			Not applicable										

VI. INVESTMENT (continued)

5. Information on derivatives investment

✓Applicable □Not applicable

Unit: RMB

Investment													Percentage of investment amount at the End of the Year to the net assets of the Company at the End of the Year
Name of the operator of derivatives investment	Connected relationship	Connected Transaction	Type of derivatives investment	Initial amount of derivatives investment	Commencement date	Maturity date	Investment amount at the Beginning of the Year	Amount of purchase during the Year	Amount of disposal during the Year	Impairment provision (if any)	Investment amount at the End of the Year	assets of the Company at the End of the Year	Actual gains or losses during the Year
Financial institution	Non-related party	No	Forward foreign exchange contract (sell)	442.72	2018-3-20	2019-3-22	480.42	-	468.61	-	-	-	-19.00
Financial institution	Non-related party	No	Forward foreign exchange contract (sell)	348.59	2018-7-26	2019-1-10	353.59	-	351.16	-	-	-	-2.16
Financial institution	Non-related party	No	Forward foreign exchange contract (sell)	2,561.52	2018-8-2	2019-3-11	2,583.72	-	2,551.47	-	-	-	16.57
Financial institution	Non-related party	No	Forward foreign exchange contract (sell)	2,316.99	2018-9-10	2019-3-11	2,323.88	-	2,283.48	-	-	-	42.94
Financial institution	Non-related party	No	Forward foreign exchange contract (sell)	3,554.41	2018-10-9	2019-4-17	3,524.76	-	3,453.42	-	-	-	103.56
Financial institution	Non-related party	No	Forward foreign exchange contract (sell)	7,308.67	2018-11-2	2019-5-21	7,241.27	-	7,117.82	-	-	-	192.97
Financial institution	Non-related party	No	Forward foreign exchange contract (sell)	5,781.04	2018-12-3	2019-6-25	5,749.82	-	5,684.50	-	-	-	71.08
Financial institution	Non-related party	No	Forward foreign exchange contract (sell)	9,710.14	2019-1-2	2019-7-5	-	9,710.14	9,727.31	-	-	-	-30.44
Financial institution	Non-related party	No	Forward foreign exchange contract (sell)	7,178.86	2019-2-1	2019-8-26	-	7,178.86	7,313.23	-	-	-	-130.46
Financial institution	Non-related party	No	Forward foreign exchange contract (sell)	7,821.01	2019-3-5	2019-9-6	-	7,821.01	8,124.09	-	-	-	-308.44
Financial institution	Non-related party	No	Forward foreign exchange contract (sell)	10,975.99	2019-4-1	2019-9-25	-	10,975.99	11,363.26	-	-	-	-386.37
Financial institution	Non-related party	No	Forward foreign exchange contract (sell)	17,681.72	2019-5-6	2019-12-25	-	17,681.72	18,247.52	-	-	-	-512.18
Financial institution	Non-related party	No	Forward foreign exchange contract (sell)	8,406.92	2019-6-4	2019-12-25	-	8,406.92	8,585.79	-	-	-	-156.23
Financial institution	Non-related party	No	Forward foreign exchange contract (sell)	8,610.65	2019-7-1	2020-1-13	-	8,610.65	8,211.86	-	592.97	0.05%	-188.74
Financial institution	Non-related party	No	Forward foreign exchange contract (sell)	7,356.59	2019-8-1	2020-3-25	-	7,356.59	4,912.72	-	2,444.03	0.22%	16.76
Financial institution	Non-related party	No	Forward foreign exchange contract (sell)	10,804.10	2019-9-2	2020-6-24	-	10,804.10	5,810.50	-	4,865.65	0.44%	98.87
Financial institution	Non-related party	No	Forward foreign exchange contract (sell)	4,059.19	2019-10-11	2020-5-15	-	4,059.19	535.36	-	3,472.39	0.31%	6.40
Financial institution	Non-related party	No	Forward foreign exchange contract (sell)	9,426.83	2019-11-12	2020-6-24	-	9,426.83	576.99	-	8,796.97	0.79%	-0.85
Financial institution	Non-related party	No	Forward foreign exchange contract (sell)	4,139.89	2019-12-3	2020-7-10	-	4,139.89	-	-	4,122.12	0.37%	-
Total				128,485.83	-	-	22,257.46	106,171.89	105,319.89	-	24,294.13	2.19%	-1,185.72

Source of funds for derivatives investment

Self-financing

Litigation involved (if applicable)

Not applicable

Disclosure date of the announcement in relation to the approval of derivatives investment by the Board (if any)

18 June 2019

Disclosure date of the announcement in relation to the approval of derivatives investment by the shareholders' meeting (if any)

Not applicable

Risk analysis of derivatives position held during the Reporting Period and explanation of control measures (for including but not limited to market risk, liquidity risk, credit risk, operational risk, legal risk, etc.)

To effectively manage the uncertainty of exchange rate fluctuations on assets denominated in foreign currency of the Company, foreign exchange forward contracts and other financial derivatives are employed to lock relevant exchange rate for the purpose of hedging. The Company has formulated the "Foreign Exchange Risk Management Measures in relation to the operation and control of foreign exchange derivatives": 1. Market risk: the uncertainties of exchange rate fluctuations in the foreign exchange market has led to higher market risk in foreign exchange forward business. Control measures: the Company's foreign exchange forward business is entered into to hedge exchange rate risk associated with assets denominated in U.S. dollar and lock the future exchange settlement price of such assets. It is designed to be used as a hedging instrument. Such foreign exchange derivatives shall not be used for speculative trading. The principle of prudence and conservation shall be observed so as to effectively prevent market risk. 2. Operational risk: operational risk is arising from imperfect internal process, improper operation, system failure and other factors. Control measures: the Company has formulated the corresponding management methods, clearly defined the responsibilities of all parties, improved the review and approval process and established supervisory mechanism, so as to effectively reduce operational risk. 3. Legal risk: the Company's foreign exchange forward business is subject to applicable laws and regulations, and shall clearly stipulate the relationship of rights and obligations with financial institutions. Control measures: in addition to strengthening the knowledge of laws and regulations and market rules, the Company's responsible department also stipulates that the Company's legal department shall strictly review various contracts, agreements and other documents, clarify rights and obligations, and strengthen compliance inspection, so as to ensure that the Company's derivatives investment and operations meet the requirements of applicable laws and regulations as well as the Company's internal systems.

Change in market price or fair value of the derivatives invested during the Reporting Period (specific method, related assumptions and parameters used in the analysis of the fair value of derivatives shall be disclosed)

Gains and losses arising from change in fair value of the forward settlement contracts during the Reporting Period were RMB1.6440 million.

Explanation as to whether there has been a material change in the accounting policy and accounting measurement principles for the Company's derivatives during the Year as compared with those of the Same Period Last Year

No

Specific opinion of independent Directors on the derivative investment and risk control of the Company

Due to the growing import and export business of the Company, a large amount of foreign exchange transactions are required. To avoid and prevent foreign exchange risk, we are of the view that the forward foreign exchange derivatives trading business carried out by the Company and its subsidiaries were in line with the actual development needs of the Company. When the Board reviewed the above proposal, the relevant procedures were in compliance with the laws, regulations, regulatory documents and the relevant provisions in the Articles of Association of the Company. In summary, we concurred with the Company to conduct such business with its own funds within the limit approved by the Board.

VI. INVESTMENT (continued)**6. Utilization of raised funds**✓Applicable ☐Not applicable**(1) Overall use of proceeds**✓Applicable ☐Not applicable

Unit: RMB'0,000

Year of fundraising	Method of fundraising	Total proceeds	Total amount of proceeds used during the Period	Accumulated amount of proceeds used	Total amount of proceeds involved in change of use during the Reporting Period	Accumulated amount of proceeds involved in change of use	Proportion of accumulated amount of proceeds involved in change of use	Total amount of proceeds unused	Uses and whereabouts of unused proceeds	Amount of proceeds idle for more than 2 years
2016	Non-public issuance	142,030.04	11,493.56	71,679.86	3,038.58	33,638.58	23.68%	70,350.18	Unused proceeds are still deposited in the special account for raised funds or under cash management, and will continue to be used in projects invested with proceeds.	–

Note: Total amount of proceeds excluded underwriting and sponsorship fees and other related expenses; while funds deposited in the special account and interest income incurred from cash management have been excluded from the total amount of unused proceeds.

Explanation on overall use of proceeds

With the “Approval in relation to the Non-public Issuance of Shares by Livzon Pharmaceutical Group Inc.” (Zheng Jian Xu Ke [2016] No. 1524) issued by the China Securities Regulatory Commission, the Company made a non-public issuance of 29,098,203 RMB ordinary shares (A Shares) with a nominal value of RMB1 per share at an issuance price of RMB50.10 per share, raised proceeds amounted to RMB1,457.82 million, and RMB1,420.3004 million has transferred into the account of the Company on 2 September 2016 million after deduction of issuance expenses of RMB37.5196 million.

The proceeds are mainly used for the “Project for indepth development and industrialization upgrade of innovative Ilaprazole series (艾普拉唑系列創新產品深度開發及產業化升級項目)”, the “Construction project for research & development platform for prolonged-action microsphere technologies (長效微球技術研發平台建設項目)”, the “Relocation and expansion project of Livzon Group Xinbeijiang Pharmaceutical Manufacturing Inc. (first phase)(麗珠集團新北江製藥股份有限公司搬遷擴建項目(一期))”, the “Technological transformation project of bag infusion workshop for Livzon Group Limin Pharmaceutical Manufacturing Factory (麗珠集團利民製藥廠袋裝輸液車間技改項目)” as well as for replenishment of working capital and repayment of bank loans, which are consistent with the uses passed by the Board of the Company. As at 31 December 2019, unused proceeds were still deposited in the special account for raised funds or under cash management and will continue to be used in projects invested with proceeds.

VI. INVESTMENT (continued)

6. Utilization of raised funds (continued)

(2) Particulars of commitment projects of proceeds

✓Applicable □Not applicable

Unit: RMB'0,000

Committed investment projects and the use of excess funds	Change in project (including partial change)	Total amount of proceeds committed to investment	Total amount of investment after adjustment (1)	Invested Amount during the Reporting Period	Cumulative invested amount as at End of the Period (2)	Progress of investment as at End of the Period (3)=(2)/(1)	Date on which the project is ready for intended use	Benefits achieved during the Reporting Period	Expected benefits achieved	Material change in feasibility of the project
Committed investment projects										
1. Project for in-depth development and industrialization upgrade of innovative ilaprazole series (艾普拉唑系列創新產品深度開發及產業化升級項目)	No	45,000.00	45,000.00	1,911.03	8,734.82	19.41%	31 December 2025	-	-	No
2. Increased capital injections in Livzon MAB for the construction of "Project for research & development and industrialization of therapeutic antibody-based drugs" (對麗珠軍抗增資投資建設「治療用抗體藥物研發與產業化建設項目」)	Yes	30,600.00	-	-	-	-	-	-	-	-
3. Relocation and expansion project of Livzon Group Xinbeijiang Pharmaceutical Manufacturing Inc. (first phase) (麗珠集團新北江製藥股份有限公司搬遷擴建項目(一期))	Yes	-	14,328.94	953.97	953.97	6.66%	30 June 2021	-	-	No
4. Technology transformation project of bag infusion workshop for Livzon Group Limin Pharmaceutical Manufacturing Factory (麗珠集團利民製藥廠袋裝輸液車間技改項目)	Yes	-	5,311.73	520.86	5,311.73	100.00%	31 August 2018	54.41	No	No
5. Construction project for research & development platform for prolonged-action microsphere technologies (長效微球技術研發平台建設項目)	Yes	30,182.00	41,141.33	8,107.70	20,431.30	49.66%	31 December 2021	-	-	No
6. Replenishment of working capital and repayment of bank loans	No	36,248.04	36,248.04	-	36,248.04	100.00%	Not applicable	Not applicable	Not applicable	No
Sub-total of committed investment projects	-	142,030.04	142,030.04	11,493.56	71,679.86	-	-	54.41	-	-
Use of excess proceeds	Not applicable	-	-	-	-	-	-	-	-	-
Repayment of bank loans (if any)	-	-	-	-	-	-	-	-	-	-
Replenishment of working capital (if any)	-	-	-	-	-	-	-	-	-	-
Sub-total of the use of excess proceeds	-	-	-	-	-	-	-	-	-	-
Total	-	142,030.04	142,030.04	11,493.56	71,679.86	-	-	54.41	-	-

Particulars of and reasons for not meeting the schedule or estimated income (by specific projects)

On 21 May 2018, the 2017 annual general meeting of the Company considered and approved the "Resolution on the Adjustment to the Plan of Use of Proceeds for Projects Invested with Proceeds from the Non-public Issuance", and agreed to adjust the plans of use of proceeds for the "Project for in-depth development and industrialization upgrade of innovative ilaprazole series (艾普拉唑系列創新產品深度開發及產業化升級項目)" and the "Relocation and Expansion Project of Livzon Group Xinbeijiang Pharmaceutical Manufacturing Inc. (First Phase) (麗珠集團新北江製藥股份有限公司搬遷擴建項目(一期))"; on 17 August 2018, the eighteenth meeting of the ninth session of the Board considered and approved the "Resolution on the Reassessment and Continuation of the Projects Invested with Proceeds from the Non-public Issuance", and the "Relocation and Expansion Project of Livzon Group Xinbeijiang Pharmaceutical Manufacturing Inc. (First Phase) (麗珠集團新北江製藥股份有限公司搬遷擴建項目(一期))" was reassessed and approved to be continued after making adjustments to its construction period. Pursuant to the aforesaid resolution, the "Project for in-depth development and industrialization upgrade of innovative ilaprazole series (艾普拉唑系列創新產品深度開發及產業化升級項目)" shall be carried out in phases, and was expected to be available for intended use on 31 December 2025; the "Relocation and Expansion Project of Livzon Group Xinbeijiang Pharmaceutical Manufacturing Inc. (First Phase) (麗珠集團新北江製藥股份有限公司搬遷擴建項目(一期))" shall be carried out once the environment impact assessment is completed, and is expected to be available for intended use on 30 June 2021 with a construction period of approximately 2.5 years.

Project for in-depth development and industrialization upgrade of innovative ilaprazole series (艾普拉唑系列創新產品深度開發及產業化升級項目): as the approval for production was obtained at a time later than expected, the commencement and progress of the later stage clinical trials for new indications of Ilaprazole Sodium for Injection (注射用艾普拉唑鈉) and Ilaprazole Enteric-Coated Tablets (艾普拉唑腸溶片) were later than expected, the upgrade of solid drug preparation workshops was delayed correspondingly and the utilization of relevant proceeds failed to meet the expected schedule.

"Project for in-depth development and industrialization upgrade of innovative ilaprazole series (艾普拉唑系列創新產品深度開發及產業化升級項目)" was proposed to be invested with RMB48.90 million of the proceeds in 2019, and the actual investment amount was RMB19.1103 million, with a difference exceeding 30%. On 25 March 2020, the 37th meeting of the ninth session of the Board considered and approved the "Resolution on Alteration to Certain Projects Invested with Proceeds and Adjustment to Investment Plan and Utilisation of Part of Proceeds for Permanent Replenishment of Working Capital", and agreed that the Company may alter the investment in part of sub-projects under the "Project for in-depth development and industrialization upgrade of innovative ilaprazole series (艾普拉唑系列創新產品深度開發及產業化升級項目)" and adjust the investment plan. Upon completion of the alteration and adjustments, it is expected to invest RMB208.2790 million of the proceeds in this project, which is expected to be available for intended use by 31 December 2024. The annual investment amounts for the next five years are expected to be RMB101.9240 million, RMB46.6760 million, RMB19.00 million, RMB20.00 million and RMB20.6790 million, respectively. The resolution is subject to consideration and approval at the general meeting of the Company.

Project of relocation and expansion of Livzon Group Xinbeijiang Pharmaceutical Manufacturing Inc. (麗珠集團新北江製藥股份有限公司): as at 31 December 2019, relevant contracts have been executed and progress of the project met the expected schedule.

Technological transformation project of bag infusion workshop for Livzon Group Limin Pharmaceutical Manufacturing Factory (麗珠集團利民製藥廠袋裝輸液車間技改項目): as a result of the impact of adjustment of medical insurance catalogue, cost control and local adjuvant drugs and other policies, the sales generated from relevant products did not reach the expected level.

Not applicable

Particulars of significant change in feasibility of the project

VI. INVESTMENT (continued)

6. Utilization of raised funds (continued)

(2) Particulars of commitment projects of proceeds (continued)

Committed investment projects and the use of excess funds	Change in project (including partial change)	Total amount of proceeds committed to investment	Total amount of investment after adjustment (1)	Invested Amount during the Reporting Period	Cumulative invested amount as at End of the Period (2)	Progress of investment as at End of the Period (3)=(2)/(1)	Date on which the project is ready for intended use	Benefits achieved during the Reporting Period	Expected benefits achieved	Material change in feasibility of the project
Amount, application and progress of uses of the excess proceeds	Not applicable									
Particulars of change in implementation place of the projects invested with proceeds	For details, please refer to "Changes in projects funded with the proceeds"									
Particulars of adjustment to implementation method of the projects invested with proceeds	<p>1. Addition of an implementing entity to the projects invested with proceeds: The implementing entity of the project invested with proceeds, "Project for in-depth development and industrialization upgrade of innovative laprazole series (艾普拉唑系列創新產品深度開發及產業化升級項目)", was Livzon Pharmaceutical Group Inc. (麗珠醫藥集團股份有限公司), with an investment focus on the in-depth development and industrial upgrade of laprazole product series. In order to ensure the effective implementation of the project invested with proceeds, further increase production capacity, ensure the quality of products and continuously maintain the Company's technological and market advantages, the "Resolution on Addition of Implementing Entity for the Project Invested with Proceeds of the Company" was passed at the 2016 third extraordinary general meeting, pursuant to which Livzon Group Livzon Pharmaceutical Factory (麗珠集團麗珠製藥廠), a wholly-owned subsidiary of the Company, was added as an implementing entity of the project.</p> <p>On 19 September 2017, the "Resolution on Alteration to the Projects Invested with Proceeds from the Non-public Issuance of A Shares of the Company" was considered and approved at the 2017 first extraordinary general meeting, pursuant to which the following adjustments to the sub-project under the "Construction Project for Research & Development Platform for Prolonged-Action Microsphere Technologies (長效微球技術研發平台建設項目)" were approved: ① changing the original sub-project of "Renovation Project of Pilot Workshop (中試車間裝修項目)" to "Construction Project for Microsphere Workshop of Livzon Group Livzon Pharmaceutical Factory (麗珠集團麗珠製藥廠微球車間建設項目)", and additionally including Livzon Group Livzon Pharmaceutical Factory (麗珠集團麗珠製藥廠) as one of the implementing entities; and ② terminating preclinical project of "Risperidone Sustained-release Microspheres for Injection (1 month) (注射用利培酮緩釋微球(1個月))".</p> <p>The above-mentioned addition of an implementing entity to the project invested with proceeds will not lead to changes in the direction of investment of the Company's proceeds, nor affect the normal implementation of projects invested with proceeds, nor have an adverse impact on the financial position of the Company.</p> <p>2. Alteration to the sub-projects of the projects invested with proceeds: on 27 March 2019, the 2018 annual general meeting of the Company considered and approved the "Resolution on the Proposal on Transferring Assets Relating to Part of Projects Invested with the Proceeds and Change of Sub-projects under Projects Invested with the Proceeds ((關於轉讓涉及部分募集資金投資項目相關資產暨變更募集資金投資項目子項目的議案))", and given the Company has transferred the project "Leuporelin Acetate Sustained Release Microspheres for Injection (3 months) (注射用醋酸亮丙瑞林緩釋微球(3個月))" to Shanghai Livzon Pharmaceutical Manufacturing Co., Ltd. (上海麗珠製藥有限公司) and the latter would continue to carry out relevant work such as clinical trials and reporting production, agreed to alter the sub-project "Leuporelin Acetate Sustained Release Microspheres for Injection (3 months) (注射用醋酸亮丙瑞林緩釋微球(3個月))" under "Construction Project for Research & Development Platform for Prolonged-Action Microsphere Technologies (長效微球技術研發平台建設項目)" and to no longer invest the project by using the proceeds, with the balance of proceeds of RMB30.3858 million being transferred to "Construction Project for Microsphere Workshop of Livzon Group Livzon Pharmaceutical Factory (麗珠集團麗珠製藥廠微球車間建設項目)". After adjustment, an aggregate of RMB194.3191 million will be planned to invest in "Construction Project for Microsphere Workshop of Livzon Group Livzon Pharmaceutical Factory (麗珠集團麗珠製藥廠微球車間建設項目)". The balance of the investment amount would be supplemented by the self-raised funds of the Company.</p> <p>In addition to the alteration of investment amount for the sub-project under "Construction Project for Research & Development Platform for Prolonged-Action Microsphere Technologies (長效微球技術研發平台建設項目)", its implementing entities remain to be Livzon Pharmaceutical Group Inc. (麗珠醫藥集團股份有限公司) and Livzon Group Livzon Pharmaceutical Factory (麗珠集團麗珠製藥廠), and the total proceeds remain unchanged, which will be used in pre-clinical research, clinical trials, purchase of devices and equipment and construction of microsphere workshops. The alteration to the investment amount for the sub-project invested with proceeds will not have an effect on the overall implementation of the project invested with proceeds.</p>									
Particulars of early input and replacement of the projects invested with proceeds	On 28 December 2016, as the thirty-third meeting of the eighth session of the Board of the Company reviewed and approved "the Resolution on Replacement of Self-raised Funds Previously Invested to the Projects Invested with Proceeds by the Proceeds", the Company would replace the self-raised fund of RMB41.8571 million previously invested in the projects invested with proceeds by the proceeds. On 4 January 2017, the Company has transferred the funds from its special account for proceeds.									
Particulars of temporary replenishment of working capital by idle proceeds	Not applicable									
Amount and reason of the occurrence of proceeds balance during the implementation of the project	Not applicable									
Uses and whereabouts of unused proceeds	Unused proceeds are still deposited in the special account or under cash management, and will continue to be used in projects invested with proceeds.									
Issues and other particulars of use of and the disclosure of proceeds	Not applicable									

VI. INVESTMENT (continued)

6. Utilization of raised funds (continued)

(3) Changes in projects funded with the proceeds

✓Applicable □Not applicable

Unit: RMB'0,000

Project after change	Corresponding originally committed project	Total amount of proceeds intended to be invested in the project after change (1)	Actual investment amount for the Reporting Period	Actual accumulated investment amount as at End of the Period (2)	Investment progress as at End of the Period (3)=(2)/(1)	Date on which the project is ready for intended use	Benefits achieved during the Reporting Period	Expected benefits achieved	Material change in feasibility of the project after change
Relocation and expansion project of Livzon Group Xinbeijiang Pharmaceutical Manufacturing Inc. (first phase)(麗珠集團新北江製藥股份有限公司搬遷擴建項目(一期))	Increased capital injections in Livzon MAB for the construction of "Project for research & development and industrialization of therapeutic antibody-based drugs" (對麗珠軍抗增資投資建設「治療用抗體藥物研發與產業化建設項目」)	14,328.94	953.97	953.97	6.66%	30 June 2021	-	-	No
Technology update of bag infusion workshop project for Livzon Group Limin Pharmaceutical Manufacturing Factory (麗珠集團利民製藥廠袋裝輸液車間技改項目)	Increased capital injections in Livzon MAB for the construction of "Project for research & development and industrialization of therapeutic antibody-based drugs" (對麗珠軍抗增資投資建設「治療用抗體藥物研發與產業化建設項目」)	5,311.73	520.86	5,311.73	100.00%	31 August 2018	54.41	No	No
Construction project for research & development platform for prolonged-action microsphere technologies (長效微球技術研發平台建設項目)	Increased capital injections in Livzon MAB for the construction of "Project for research & development and industrialization of therapeutic antibody-based drugs" (對麗珠軍抗增資投資建設「治療用抗體藥物研發與產業化建設項目」)	41,141.33	8,107.70	20,431.30	49.66%	31 December 2021	-	-	No
Total	-	60,782.00	9,582.53	26,697.00	-	-	54.41	-	-
Description of reasons for the change, decision-making procedures		I. In order to better meet the needs of the Company's operations and development, taking into account the relatively long investment and construction cycle of the original project invested with proceeds, the "Increased Capital Injections in Livzon MAB for the Construction of 'Project for Research & Development and Industrialization of Therapeutic Antibody-based Drugs' (對麗珠軍抗增資投資建設「治療用抗體藥物研發與產業化建設項目」)", and the urgent needs to invest in construction for the "Relocation and Expansion Project of Livzon Group Xinbeijiang Pharmaceutical Manufacturing Inc. (First Phase) (麗珠集團新北江製藥股份有限公司搬遷擴建項目(一期))", "Technological Transformation Project of Bag Infusion Workshop for Livzon Group Limin Pharmaceutical Manufacturing Factory (麗珠集團利民製藥廠袋裝輸液車間技改項目)", and "Construction Project for Microsphere Workshop of Livzon Group Livzon Pharmaceutical Factory (麗珠集團麗珠製藥廠微球車間建設項目)", being the new projects invested with proceeds, for the purpose of enhancing the efficiency of the Company's funds and ensuring the smooth development of the projects, as considered and passed at the second meeting of the ninth session of the Board and the 2017 first extraordinary general meeting, changes were made to the original project invested with proceeds, the "Increased Capital Injections in Livzon MAB for the Construction of 'Project for Research & Development and Industrialization of Therapeutic Antibody-based Drugs' (對麗珠軍抗增資投資建設「治療用抗體藥物研發與產業化建設項目」)", and adjustments were made to relevant sub-project of "Construction Project for Research & Development Platform for Prolonged-Action Microsphere Technologies (長效微球技術研發平台建設項目)", with details set out as follows:							

VI. INVESTMENT (continued)

6. Utilization of raised funds (continued)

(3) Changes in projects funded with the proceeds (continued)

Project after change	Corresponding originally committed project	Total amount of proceeds intended to be invested in the project after change (1)	Actual investment amount for the Reporting Period	Actual accumulated investment amount as at End of the Period (2)	Investment progress as at End of the Period (3)=(2)/(1)	Date on which the project is ready for intended use	Benefits achieved during the Reporting Period	Expected benefits achieved	Material change in feasibility of the project after change
		<p>1. A change was made to the "Increased Capital Injections in Livzon MAB for the Construction of 'Project for Research & Development and Industrialization of Therapeutic Antibody-based Drugs' (對麗珠單抗增資投資建設'治療用抗體藥物研發與產業化建設項目') to the effect that the proceeds of RMB306,000,000.00 originally planned to be used in this project are to be utilized as follows: (1) RMB143,289,400.00 for the "Relocation and Expansion Project of Livzon Group Xinbeijiang Pharmaceutical Manufacturing Inc. (First Phase) (麗珠集團新北江製藥股份有限公司搬遷擴建項目(一期))"; (2) RMB53,117,300.00 for the "Technological Transformation Project of Bag Infusion Workshop for Livzon Group Limin Pharmaceutical Manufacturing Factory (麗珠集團利民製藥廠袋裝輸液車間技改項目)"; (3) RMB109,593,300.00 for the sub-project "Construction Project for Microsphere Workshop of Livzon Group Livzon Pharmaceutical Factory (麗珠集團麗珠製藥廠微球車間建設項目)" under "Construction Project for Research & Development Platform for Prolonged-Action Microsphere Technologies (長效微球技術研發平台建設項目)".</p> <p>Upon the completion of such change, the Company would use its own funds to invest the "Increased Capital Injections in Livzon MAB for the Construction of 'Project for Research & Development and Industrialization of Therapeutic Antibody-based Drugs' (對麗珠單抗增資投資建設'治療用抗體藥物研發與產業化建設項目')". The originally invested proceeds would be transferred back to the special fund-raising account for the construction of new projects invested with proceeds.</p> <p>2. Adjustments were made to the sub-project of "Construction Project for Research & Development Platform for Prolonged-Action Microsphere Technologies (長效微球技術研發平台建設項目)": (1) changing the original sub-project of "Renovation Project of Pilot Workshop (中試車間裝修項目)" to "Construction Project for Microsphere Workshop of Livzon Group Livzon Pharmaceutical Factory (麗珠集團麗珠製藥廠微球車間建設項目)", and additionally including Livzon Group Livzon Pharmaceutical Factory (麗珠集團麗珠製藥廠) as one of the implementing entities; and (2) terminating preclinical project of "Risperidone Sustained-release Microspheres for Injection (1 month) (注射用利培酮緩釋微球(1個月))". For details, please refer to the Company's announcement in the designated media (Announcement No. 2017-065 and 2017-083).</p> <p>II. Given that the Company has transferred the project "Leuporelin Acetate Sustained Release Microspheres for Injection (3 months) (注射用醋酸亮丙瑞林緩釋微球(3個月))" to Shanghai Livzon Pharmaceutical Manufacturing Co., Ltd. (上海麗珠製藥有限公司) and the latter would continue to carry out relevant work such as clinical trials and reporting production and the Company would no longer invest this project by using the proceeds, the 25th meeting of the ninth session of the Board and the 2018 annual general meeting of the Company considered and approved to alter the sub-project "Leuporelin Acetate Sustained Release Microspheres for Injection (3 months) (注射用醋酸亮丙瑞林緩釋微球(3個月))" under "Construction Project for Research & Development Platform for Prolonged-Action Microsphere Technologies (長效微球技術研發平台建設項目)" and to no longer invest the project by using the proceeds, with the balance of proceeds of RMB30.3858 million being transferred to "Construction Project for Microsphere Workshop of Livzon Group Livzon Pharmaceutical Factory (麗珠集團麗珠製藥廠微球車間建設項目)". After adjustment, an aggregate of RMB194.3191 million will be planned to invest in "Construction Project for Microsphere Workshop of Livzon Group Livzon Pharmaceutical Factory (麗珠集團麗珠製藥廠微球車間建設項目)". The balance of the investment amount would be supplemented by the self-raised funds of the Company</p> <p>For details, please refer to the Company's announcement in the designated media (Announcement No. 2019-020 and 2019-032).</p> <p>1. On 21 May 2018, the 2017 annual general meeting of the Company considered and approved the "Resolution on the Adjustment to the Plan of Use of Proceeds for Projects Invested with Proceeds from the Non-public Issuance", and agreed to adjust the plans of use of proceeds for the "Relocation and Expansion Project of Livzon Group Xinbeijiang Pharmaceutical Manufacturing Inc. (First Phase) (麗珠集團新北江製藥股份有限公司搬遷擴建項目(一期))"; on 17 August 2018, the eighteenth meeting of the ninth session of the Board considered and approved the "Resolution on the Reassessment and Continuation of the Projects Invested with Proceeds from the Non-public Issuance", and the "Relocation and Expansion Project of Livzon Group Xinbeijiang Pharmaceutical Manufacturing Inc. (First Phase) (麗珠集團新北江製藥股份有限公司搬遷擴建項目(一期))" was reassessed and approved to be continued after making adjustments to its construction period. Pursuant to the aforesaid resolution, the "Relocation and Expansion Project of Livzon Group Xinbeijiang Pharmaceutical Manufacturing Inc. (First Phase) (麗珠集團新北江製藥股份有限公司搬遷擴建項目(一期))" shall be carried out once the environment impact assessment is completed, and is expected to be available for intended use on 30 June 2021 with a construction period of approximately 2.5 years. As at 31 December 2019, the Relocation and Expansion Project of Livzon Group Xinbeijiang Pharmaceutical Manufacturing Inc. (麗珠集團新北江製藥股份有限公司搬遷擴建項目) has executed the contacts of the relevant project and its progress met the expected schedule.</p> <p>2. Technological Transformation Project of Bag Infusion workshop for Livzon Group Limin Pharmaceutical Manufacturing Factory (麗珠集團利民製藥廠袋裝輸液車間技改項目): as a result of the impact of adjustment of medical insurance catalogue, cost control and local adjuvant drugs and other policies, the sales generated from relevant products did not reach the expected level.</p>							
	Particulars of and reasons for not meeting schedule or estimated income (by specific projects)								
	Particulars of material change in feasibility of the projects after change								
		Not applicable							

VII. DISPOSAL OF MATERIAL ASSETS AND EQUITY

1. Disposal of material assets

☐ Applicable ☒ Not applicable

2. Disposal of material equity

☐ Applicable ☒ Not applicable

VIII. ANALYSIS OF MAJOR CONTROLLED AND INVESTED COMPANIES

☒ Applicable ☐ Not applicable

		Unit: RMB						
Company name	Type of company	Principal business	Registered capital	Total assets	Net assets	Operating income	Operating profit	Net profit
Livzon Group Livzon Pharmaceutical Factory (麗珠集團麗珠製藥廠)	Subsidiary	Principally engaged in production and sale of self-made chemical drugs, biochemical drugs, microbiological preparations, antibiotics, etc.	450,000,000.00	3,115,524,677.28	1,911,194,703.45	2,790,291,077.99	713,089,407.76	610,681,849.68
Sichuan Guangda Pharmaceutical Manufacturing Co., Ltd. (四川光大製藥有限公司)	Subsidiary	Principally engaged in R&D, production and sale of traditional Chinese medicine, major products include Anti-viral Granules, Dexaltin Oral Paste, etc.	149,000,000.00	1,249,226,260.63	943,281,357.45	343,355,524.09	69,142,730.57	53,831,110.93
Livzon Group Limin Pharmaceutical Manufacturing Factory (麗珠集團利民製藥廠)	Subsidiary	Principally engaged in production and operation of Chinese drug preparations and pharmaceutical raw materials, etc., major products include Shenqi Fuzheng Injection, Xueshuantong, etc.	61,561,014.73	1,186,683,117.44	696,133,209.10	518,343,264.36	166,724,887.10	141,461,411.09
Shanghai Livzon Pharmaceutical Manufacturing Co., Ltd. (上海麗珠製藥有限公司)	Subsidiary	Principally engaged in production of biochemical and polypeptide APIs, major products include biochemical APIs such as Menotrophin and Chorionic Gonadotropin.	87,328,900.00	883,326,881.32	579,291,707.36	1,155,889,086.55	368,097,424.93	308,174,250.12
Zhuhai FTZ Livzon Hecheng Pharmaceutical Manufacturing Co., Ltd. (珠海保稅區麗珠合成製藥有限公司)	Subsidiary	Principally engaged in production and operation of chemical APIs, major products include Cefuroxime Sodium, Cefodizime Sodium, Ceftriaxone Sodium, etc.	128,280,000.00	737,194,998.13	332,967,395.92	871,145,733.29	170,026,512.17	143,082,346.24
Livzon Group Xinbeijiang Pharmaceutical Manufacturing Inc. (麗珠集團新北江製藥股份有限公司)	Subsidiary	Principally engaged in export of APIs, intermediate products and related technologies, major products include Pravastatin, Mevastatin, Salinomycin, etc.	239,887,700.00	2,874,886,541.43	1,029,853,843.61	1,683,144,342.19	384,088,700.87	298,613,838.93
Livzon Group Fuzhou Fuxing Pharmaceutical Co., Ltd. (麗珠集團福州福興醫藥有限公司)	Subsidiary	Principally engaged in production of antibiotics APIs, intermediate and drug preparation products and chemical raw materials for pharmaceutical production, major products include Colistin, Vancomycin, Phenylalanine, etc.	USD 41,700,000	960,770,693.48	706,621,509.16	590,959,926.36	213,355,070.48	177,368,204.59
Zhuhai Livzon Diagnostics Inc. (珠海麗珠試劑股份有限公司)	Subsidiary	Principally engaged in production and sale of diagnostic reagents, major products include Diagnostic Kit for Chlamydia Trachomatis Antigen and Diagnostic Kit for Antibody to Human Immunodeficiency Virus (HIV) (ELISA).	92,876,771.00	745,611,736.85	190,192,407.59	755,378,137.63	117,370,533.68	105,063,208.70
Livzon MAB Pharm Inc. (珠海市麗珠單抗生物技術有限公司)	Subsidiary	Principally engaged in technological R&D for biologics and antibody drugs.	1,133,330,000.00	548,138,607.70	496,240,266.08	630,287.14	-210,145,732.25	-210,335,770.43

Note: The data of Xinbeijiang Pharmaceutical includes its subsidiaries, namely Ningxia Pharmaceutical, Fuzhou Fuxing, and Gutian Fuxing Pharmaceutical Co., Ltd. (古田福興醫藥有限公司). Livzon MAB is the key biologics R&D enterprise of the Group which currently has no products for sale in market. Its loss is mainly due to investment in R&D.

IX. SUBSIDIARIES ACQUIRED AND DISPOSED OF DURING THE YEAR✓Applicable ☐Not applicable

Company name	Method of acquirement and disposal of the subsidiary during the Reporting Period	Effect on the general production, operation and results
Zhuhai Livzon Pharmaceutical Equity Investment Management Co., Ltd.* (珠海市麗珠醫藥股權投資管理有限公司)	Establishment	No material impact
Livzon International Ventures	Establishment	No material impact
Livzon International Ventures I	Establishment	No material impact
Livzon International Ventures II	Establishment	No material impact
Zhuhai Qiao Biotechnology Co., Ltd. * (珠海啟奧生物技術有限公司)	Establishment	No material impact
Fuzhou City Fuxing Pharmaceutical Manufacturing Co., Ltd.* (福州市福興製藥有限公司)	Establishment	No material impact
Zhuhai Kadi Medical Biotechnology Inc. * (珠海市卡迪生物醫藥有限公司)	VIE	No material impact

X. EMPLOYEES OF THE COMPANY

For details of employees of the Company, please refer to “EMPLOYEES OF THE COMPANY” in Section IX of the Report.

XI. STRUCTURAL BODY CONTROLLED BY THE COMPANY☐Applicable ☒Not applicable**XII. DETAILS OF MATERIAL INVESTMENTS OR ACQUISITION PLAN OF CAPITAL ASSET**

Save as disclosed herein, the Group did not have any material investment or material acquisition of subsidiaries or associated companies or other disclosable major events during the Year, nor did the Group have any other future plans on material investments or capital assets.

XIII. DETAILS OF SUBSEQUENT EVENTS WITH MATERIAL IMPACT ON THE GROUP AFTER THE ACCOUNTING PERIOD

Since the end of the accounting period, save as disclosed herein, there has been no subsequent events with material impacts on the Group.

XIV. OTHER SIGNIFICANT EVENTS

Save as disclosed herein, the Company had no significant investment, material acquisition or disposal involving any subsidiary or associated company, nor other significant event which is required to be disclosed during the Year.

XV. PROSPECTS FOR FUTURE DEVELOPMENT

In 2020, in celebration of the 35th Anniversary of the Group, the management has come up with the idea of “back to square one and start all over again”, and will further implement the “Three Major Strategies” by turning strategies into reality: the Group should be aware of its disadvantages and weaknesses, improve its operating capabilities, focus on synergy and effective communication among all segments and strengthen its fundamental capabilities in accordance with highest standards within the industry. The Company will focus on the following aspects:

(1) Chemical and traditional Chinese drug preparation products

In 2020, the Group will adhere to its strategies in strengthening execution, placing emphasis on appraisal and improving its efforts to accumulate evidential data. The Group will focus on sales of core products, stabilize quality of high-yield products and increase production of low-yield products, and develop blank markets. The major plans are as follows: (i) strengthening efforts of development and expanding market coverage, using the coverage of core products and attainment rate of performance targets as the key basis in assessments, and pushing forward the development of medical institutions by leveraging on the advantages of core products such as Ilaprazole Sodium for Injection (注射用艾普拉唑钠) having been included in the negotiation catalogue of national medical insurance to develop the hospital network as soon as possible; (ii) retail drugs focusing on large pharmaceutical chain with online communication and offline promotion, strengthening the construction of promotion channel, and exploring innovative marketing model; (iii) deeply promoting the existing varieties in the overseas markets and further strengthening overseas accreditations for drug preparations while expanding the offerings for overseas sales; (iv) strengthening accumulation of medical and pharmaceutical evidential data, further tracking with dosage guidance and expert consensus, paying attention to DRG progress in pilot provinces and cities, and following the adjustments to the catalogue of national basic drugs; (v) integrating R&D and sales resources and assisting the R&D team to accelerate the pace of entering clinical phase.

In R&D of drug preparation products, the Group will continue strengthening target management and appraisal mechanism in 2020, and will request R&D institutions to drive progress of projects under research according to stages and plans. On the basis of the existing advantageous areas, such as assisted reproduction and gastroenterology, the Group will strengthen product layout in the areas of neurology, oncology and immunology; accelerate the R&D progress for high-end platforms such as microsphere technology platform and polypeptide drug preparation R&D platform; initiate R&D projects for the nano-preparation platform, accelerate the development of high-end liquid drug preparations, master the difficulties in industrialization, and enhance the comprehensive R&D strength. At the same time, the Group will integrate its resources and fully utilize the advantages of our own APIs to couple with the R&D of drug preparation products with the aim of forming an integrated industrial chain. In addition to continue strengthening our own R&D, the Group will optimize R&D platform through integration of its resources, strengthen external cooperation, and complete the building of product team through various forms including external introduction and joint development.

In 2020, the Group's overall objective in production is to “ensure safety and environment protection, improve quality and reduce costs”. Safety and quality are the lifelines of an enterprise, the Group will continue to increase investment in production quality, improve management mechanism, enhance risk control, and ensure safe production and product quality of medicines. The Group will reinforce product competitiveness through technical advancement, refined management, and the outstanding costs advantages of our products. Meanwhile, construction of new plants and new production lines will be proceeded as scheduled with construction of supporting facilities for preparation of the market launch for new products.

XV. PROSPECTS FOR FUTURE DEVELOPMENT *(continued)***(2) APIs and intermediates**

In 2020, the business segment of API will continue adhering to the guiding philosophy of “ensuring safe environment, improving quality and reducing costs” to further enhance the overall profitability level and industrial competitiveness of APIs. On the basis of providing APIs and intermediate products to customers, the Group will continue to put more efforts on R&D, proceed further in the business development of customized R&D and production services (CDMO) of APIs by relying on the technical advantages of high barriers and production capacities, and seize the opportunities of development in the API industry.

In respect of marketing, brand advantages of Livzon will be fully realized in the varieties of APIs, and long-term, stable and win-win partnership will be established with our strategic partners, and market strategies will be adjusted according to changes in prevailing market conditions. New markets will be developed by facilitating the registration of high-end antibiotics and high-end pet drugs for new clients in countries and regions such as the United States, Europe, Russia, South Korea and Japan. A platform for overseas markets will be established and the establishment of an office in Europe is under planning.

In 2020, while ensuring the stable R&D of new products, attention is also focused on the technical advancement in existing varieties of technology. The business segment of API will continue to increase efforts on R&D and innovation, with the focus on accelerating the development of polypeptide projects together with the construction of a polypeptide workshop in the new plant at Xinbeijiang Pharmaceutical. Meanwhile, the business segment of API will concentrate on resources with advantages, a technically advanced R&D team for online products will be established to guide and support the APIs manufacturers to achieve technical advancement in products, and to lower cost and increase efficiency in leading products, so that core competitiveness of products will be formed.

(3) Biologics

In 2020, R&D work will remain as the central core business of Livzon MAB, more focused and efficient research and development and clinical development of core products will be pursued to accelerate product launch. Progress will be focused on clinical trials of core products such as the Recombinant Humanized Anti-IL-6R Monoclonal Antibody for Injection (重組人源化抗IL-6R單克隆抗体注射液), the Recombinant Anti-HER2 Domain II Humanized Monoclonal Antibody for Injection (重組抗HER2結構域II人源化單克隆抗体注射液) and the Recombinant Humanized Anti-PD-1 Monoclonal Antibody for Injection (注射用重組人源化抗PD-1單克隆抗体). At the same time, research and development plans for targeted biopharmaceutical drugs and cell therapies will be further strengthened to accelerate the progress of 3 pre-clinical innovative projects. Besides, the Company will be continuously expanding pipelines by licensing external projects or by internal research and development. External cooperation will be actively developed and resources of all parties will be utilized to improve R&D capabilities and efficiency. More globally innovative projects will be evaluated and introduced. Patent applications and protections will be pursued to strengthen the patent network for global innovation projects.

The quality system and operation of the Company will be further improved and industrial capacity will be continuously enhanced. In 2020, the Company will reinforce self-inspection to prepare the Recombinant Human Chorionic Gonadotropin for Injection (注射用重組人絨促性素) and conduct manufacturing pre-approval inspection, while make advanced planning to prepare for market launch.

XV. PROSPECTS FOR FUTURE DEVELOPMENT *(continued)***(4) Diagnostic reagents and equipment**

In 2020, Livzon Diagnostics will continue to focus on several main areas, including respiratory tract, contagious diseases, drug concentration and blood transfusion safety, so as to create overall solutions to satisfy the needs for disease test by users. According to different target customers, such as clinical stage hospitals, disease control, blood intake and supply system and commercial laboratories, marketing plans for products are refined, market strategies are improved and marketing channels are developed. Market promotion and model customers acquisition of products such as x-ray irradiator, multiple autoimmune testing reagents, HIV RNA quantitative testing reagent and nucleic acid test will be conducted. For drug concentration test, new products including Levetiracetam (左乙拉西坦) and Oxcarbazepine (奥卡西平) are expected to obtain registration certificates in 2020 and generate new forces of growth in drug concentration test. Meanwhile, among existing products, the gold-brand respiratory tract products will be further promoted, striving to continue the high growth rate recorded in the past three years.

In respect of R&D and production, Livzon Diagnostics will continue to pursue self-innovation, pay attention to customer needs in the course of R&D, and improve existing pipeline products. Technical process stability of new products in mass production stage will be assured in order to safeguard production and market launch of new products. Meanwhile, Livzon Diagnostics will do a good job in patent application and intellectual property protection, establish and improve the production of the automated supporting equipment and quality control system, and ensure the stable quality and supply of new products after mass production.

In addition, the Company will also continue to enhance the standard of operational management, improve the control system for various segments such as R&D, production, quality and sales, ensure efficient management and compliant operation, and at the same time guarantee the supply of talents.

(5) Functions and strategies

In 2020, the Company will adhere to the guiding philosophy of “back to square one and start all over again” to improve the performance evaluation system that is based on result and quality, to enhance our execution ability. All departments will cooperate closely and provide full support to sales, production and R&D for the provision of strong services and protection. From the perspective of long-term strategic development, the Group will continue to increase its scale and strength by utilizing the capital market platform and innovation policies, proactively leverage on the advantages of resources of internal and external commercial cooperation to build investment network, and introduce innovative products and technologies.

XVI. RISKS AND RESPONSE MEASURES**1. Risk of changes in industrial policies**

The pharmaceutical manufacturing industry is significantly affected by changes in industrial policies. As China has been deepening reforms of the pharmaceutical and health systems, the relevant systems of policies and regulations are further amended and improved, factors such as the enforcement and adjustment of the medical insurance catalogue and the progress of minimum procurement commitment will have certain impact on the pharmaceutical industry, and promulgation of various policies may have different levels of impact on the Group’s research and development, production and sales. In order to further improve the utilization efficiency of the medical insurance funds, increase the pharmaceutical coverage in medical insurance, and effectively alleviate the problems of availability and affordability of pharmaceutical products, adjustments to the Catalogue of Drugs for National Basic Medical Insurance, Work Injury Insurance and Maternity Insurance (the “National Medical Insurance Catalogue”) were completed in 2019. The adjusted National Medical Insurance Catalogue increased 148 pharmaceutical products in the regular catalogue, which mainly covered national basic drugs, therapeutic drugs for major diseases such as cancers and rare disease, drugs for chronic diseases and medications for children. A total of 150 pharmaceutical products were involved in medical insurance negotiations, including the negotiations of 119 new additional drugs and 31 drugs for renewal. After the latest round of adjustments, a total of 2,709 drugs are included in the 2019 National Medical Insurance Catalogue, representing a net increase of 64 drugs when compared with the 2017 version after the addition of 218 drugs and removal of 154 drugs.

XVI. RISKS AND RESPONSE MEASURES *(continued)***1. Risk of changes in industrial policies** *(continued)*

Response measures: the Group actively participated in the admission and negotiation work of the medical insurance catalogue. After adjustments were made to the National Medical Insurance Catalogue in 2019, a total of 187 products of the Group were included, with 95 drugs in the class A list and 92 drugs in the class B list. Among which, Ilaprazole Enteric-Coated Tablet (艾普拉唑腸溶片) was added into the coverage of national medical insurance reimbursement for Gastroesophageal Reflux Disease, Perospirone Hydrochloride Tablets (鹽酸呱羅匹隆片) entered the regular catalogue of national medical insurance, and Ilaprazole Sodium for Injection (注射用艾普拉唑鈉) entered the negotiation catalogue of national medical insurance. Inclusion of these products in the National Medical Insurance Catalogue helped to enhance their promotion and sales and enabled these three products to achieve high growth rates, and would have positive impact on the future operating results of the Company. Furthermore, the Company will respond actively to changes in the industry, pay close attention and conduct studies on the relevant policies of the industry, and strengthen our innovative and R&D capabilities.

2. Risk of research and development for new drugs

In general, pharmaceutical products are required to go through many processes and stages from research and development to market launch, including pre-clinical research, application for clinical registration, approval for clinical trials, clinical trials, filing for production registration, on-site inspection, and approval for production, with a long cycle involving many segments, and the approval result is subject to uncertainty, hence risk of research and development exists. After the product is successfully researched and produced, the scale of market sales may also be affected by numerous factors.

Response measures: the Company will further improve the R&D and innovation systems, introduce and develop high-end talents, proactively carry out cooperation and introduction of overseas innovative drugs, strengthen market research and evaluation of varieties, reinforce the process regulation and risk management of the initiation of R&D projects, and concentrate efforts and make key breakthroughs in the R&D of core products. At the same time, the Group's advantages in APIs will be fully utilized to reinforce the integration of API and preparation drugs to ensure the long-term sustainable development of the Company.

3. Risk of decline in the prices of products

After pharmaceutical products are approved and launched in the market, in addition to market competition, they are also affected by many factors in various aspects, including medical insurance, tenders, in particular industry policy of minimum procurement commitment, which will make pharmaceutical enterprises face pressure of price decline. (i) Minimum procurement commitment refers to the process of tender or price negotiation in centralized purchase of drugs where the exact quantity to be purchased shall be specified, so that bidding price for specific amounts of drugs may be provided by enterprises. In 2019, with implementation of this policy, the regions of coverage for related categories are also increasing, from 11 pilot cities (Beijing, Tianjin, Shanghai, Chongqing, Shenyang, Dalian, Xiamen, Guangzhou, Shenzhen, Chengdu, and Xi'an) to nationwide. Participating enterprises include manufacturers that have passed the consistency evaluation of original R&D and generic drugs. (ii) Price reduction is also seen in the national insurance negotiations. Among the 150 drugs that entered into the negotiations, 70 out of 119 new drugs were successfully negotiated with average price reduced by 60.7%. The average price reduction level for tumor and diabetes drugs was around 65%. 27 out of 31 drugs for renewal were successfully negotiated with average price level reduced by 26.4%.

XVI. RISKS AND RESPONSE MEASURES *(continued)***3. Risk of decline in the prices of products** *(continued)*

Response measures: (i) For minimum procurement commitment, since most of the potential enterprises are willing to lower their prices in exchange for more quantity, therefore the price of drugs of the winning bidders may decrease significantly. However, since a certain procurement volume shall be specified to facilitate arrangements for production and sales, the unit production cost of drugs will be lowered through economies of scale, and less cross-regional marketing promotions will save selling expenses for enterprises. Therefore, if larger sales volume is awarded, the impact of lower price may be offset, which will have significant implications on strengthening the market position of the enterprise in the industry. Hospital is one of the major customers of the Company, the Company will pay close attention to the developments of policy of minimum procurement commitment. As at the End of the Year, key products of the Company are not on the pilot list for minimum procurement commitment, therefore the operations and sales of the Company were not affected. (ii) For adjustments made to the medical insurance catalogue, as Ilaprazole Sodium for Injection (注射用艾普拉唑钠), the patented new drug developed by our Company, is admitted to the National Medical Insurance Catalogue, its price drops from RMB256 per unit to RMB156 per unit, and nearly half of the therapeutic costs are saved when compared with the originally developed similar proton pump inhibitors (PPI). Although the price is lowered, its entry into the National Medical Insurance Catalogue will be more helpful in marketing and sales of the product. It is expected to replace some of the imported PPI injections market in terms of reimbursements in 2020 and continue to expand the market share with rapid growth of sales amounts, which will have positive effects on the operation results of the Company. As the new edition of the National Medical Insurance Catalogue will formally take effect from 1 January 2020, it will not have material effect on the operation results of the Company for the Year. Moreover, the Company will also continue to innovate, research and develop innovative new drugs and high-end generic drugs required urgently in clinical application and with a certain amount of high added-value. Deeper exploration will be made on existing products under production with market potential and technical barriers. Reassessment of key drugs after market launch and consistency evaluation of the relevant drugs will be promoted actively. Distribution of product portfolios will be continuously optimized.

4. Risk of fluctuations in the supply and prices of raw materials

Raw materials such as Chinese herbs, active pharmaceutical ingredients, supplementary materials, and packaging materials have been affected by a number of factors including macroeconomic factors, monetary policy, environmental protection management, natural disasters, etc. Instances of limited supply or volatile fluctuations in prices may be resulted, which may have certain impact on the profit level of the Company.

Response measures: firstly, the Company has already built its own GAP production base for some of the key categories of Chinese herbal raw materials. Secondly, the Company will strengthen market supervision and control and analysis, make rational arrangement for inventory and purchasing cycle to reduce risk. Furthermore, the Company will refine production subject to guarantee on quality and implement effective cost control measures.

5. Risk of environmental protection

During the production of APIs, a certain amount of waste water, waste gases and waste residue may be produced. As national and local environmental protection authorities step up their efforts in the supervision and control of environmental protection and increasing social awareness on environmental protection, the requirements on production enterprises of APIs on environmental protection are becoming more stringent, and expenses of environmental protection have been increasing. Some pharmaceutical enterprises are even faced with the troubles of production suspension and restricted production.

Response measures: the Company will strictly comply with the national environmental protection policies and legal requirements, further increase investments and efforts in environmental protection, and continue reforming and upgrading environmental equipment. Meanwhile, training and education on safety will be conducted in a timely manner, and strict enterprise internal control standards will be set up, surveillance on major waste discharge units will be stepped up to lower the risk of environmental hazards and attain the discharge and emission standards.

XVII. OTHER EVENTS**1. Reserves**

Details of the amounts and movements of reserves of the Group during the Year are set out in “Consolidated Statement of Changes in Shareholders’ Equity” and “Note V 37. Surplus reserves” to the financial statements in the Report.

2. Distributable reserves

As at 31 December 2019, the distributable reserves of the Company calculated in accordance with China Accounting Standards for Business Enterprises amounted to RMB3,937 million (31 December 2018: RMB4,477 million).

3. Fixed assets

Details of movements in fixed assets during the Year are set out in “Note V 13. Fixed Assets” to the financial statements in the Report.

4. Connected/related transactions

Details of connected/related transactions are set out in Section V of the Report.

5. Management contracts

No contract concerning the management or administration of the whole or any substantial part of the operation of the Company was entered into or existed during the Year.

6. Review by Audit Committee

The financial results for the year ended 31 December 2019 have been reviewed by the Audit Committee of the Company. For the details of “KEY AUDIT MATTERS”, please refer to “AUDITORS’ REPORT” in Section XII of the Report.

7. Relationship with employees, customers and suppliers

The Group’s success is also attributable to the supports from employees, customers, suppliers and shareholders. (1) Employees: the Group highly values our employees and persists in the people-oriented philosophy. The Group has established an effective award mechanism and improved the training system, aiming to enhance the employees’ comprehensive ability to facilitate their career development and promotion within the Group, which in turn enhances the performance of the Company and achieves a win-win situation. (2) Customers: the Group is committed to provide quality products and professional services for customers with the ultimate goal of satisfying customers’ needs. The Group has maintained a good relationship and enhanced communication with customers through various manners in order to strengthen their recognition and enlarge market shares. (3) Suppliers: the Group continues to maintain good relationship and communication with suppliers. A win-win cooperation strategy has been established between the Group and the suppliers for enhancing supply chain management and avoiding quality incidents while reducing production costs so as to improve long-term profit growth. (4) Shareholders: the Group takes active measures in enhancing corporate value for shareholders and continuously strengthens investor relations management. The Group will make the most of overseas and domestic financing platforms to improve the Company’s capital and debt structures. Shareholders will be rewarded with stable dividend payouts after taking into account the capital adequacy and business expansion needs.

XVII. OTHER EVENTS *(continued)***8. Permitted indemnity provision**

During the Year, the Company has taken out liability insurance coverage for its Directors, Supervisors and senior management against liabilities to third parties that may be incurred in the course of performing their duties.

9. Compliance with laws and regulations

As confirmed by the Group, during the Year, it has continuously complied with relevant laws and regulations that have material impact on the Company, and has maintained a good working relationship with regulatory authorities through efficient communication.

10. Environmental policies and performance

For details of the Group's environmental policies and performance during the Year, please refer to relevant contents in the paragraph headed "Safe production and environmental protection" under "SOCIAL RESPONSIBILITY" in Section V of the Report.

XVIII. REPURCHASE, SALE OR REDEMPTION OF SECURITIES

In view that 1 original incentive participant under the reserved grant of the Restricted A Shares Incentive Scheme received a grade of D in the individual appraisal for the year 2017, pursuant to the provisions of "CHAPTER XIII. HANDLING UNUSUAL CHANGES TO THE COMPANY AND INCENTIVE PARTICIPANTS" under the Restricted A Shares Incentive Scheme, the Company shall repurchase and cancel the 2,028 Restricted Shares granted but unlocked as held by the above-mentioned incentive participant at a repurchase price of RMB12.43 per share. The aggregate purchase price payable for the repurchase was RMB25,208.04. The Company has repurchased such 2,028 Restricted Shares (the "Repurchased A Shares") under the reserved grant at RMB12.43 per share on the Shenzhen Stock Exchange on 19 June 2019 (the "Repurchase"). The actual aggregate purchase price paid for the Repurchase was RMB25,208.04. Pursuant to the Repurchase, the Repurchased A Shares have been cancelled on 21 June 2019.

Save as disclosed above, throughout the period from 1 January 2019 to 31 December 2019, neither the Company nor any of its subsidiaries repurchased, sold or redeemed any of the listed securities of the Company.

For details of the Restricted A Shares Incentive Scheme, please refer to "THE RESTRICTED A SHARES INCENTIVE SCHEME" in Section IV of the Report.

XIX. THE RESTRICTED A SHARES INCENTIVE SCHEME

In order to further establish and improve the long-term incentive mechanism of the Company, attract and retain outstanding staff, maximize the motivation of core staff and effectively align the interests of all parties including Shareholders, the Company and operators, the Company has implemented the Restricted A Shares Incentive Scheme which was considered, approved and authorized at the 2015 first extraordinary general meeting, the 2015 first class meeting of H Shareholders and the 2015 first class meeting of A Shareholders held on 13 March 2015. The validity period of the Restricted A Shares Incentive Scheme shall have a maximum period of not more than 5 years commencing on the date of grant of the Restricted Shares and ending on the date on which all the Restricted Shares granted to the incentive participants have been unlocked or otherwise repurchased and cancelled.

Details of implementation of the Restricted A Shares Incentive Scheme during the Reporting Period are as follows:

On 21 June 2019, the Company completed the repurchase and cancellation of 2,028 Restricted Shares. For details of the repurchase and cancellation, please refer to the relevant contents of "REPURCHASE, SALE OR REDEMPTION OF SECURITIES" in Section IV of the Report.

As at the End of the Year, the Restricted A Shares Incentive Scheme implemented by the Company in 2015 has been completed.

XX. NON-PUBLIC ISSUANCE OF A SHARES

To achieve the long-term strategic development goals of the Company that adhere to innovative R&D and improved product layout, and to supplement liquidity, repay bank loans and optimize the asset and liability structure as well as financial status of the Company, the plan of non-public issuance of A Shares of the Company (the "Issuance") was considered and approved at the 2015 third extraordinary general meeting held on 21 December 2015, while the adjustments to the number of issuance, pricing methods and issue price for the Issuance were considered and approved at the 2016 second extraordinary general meeting held on 25 April 2016.

The Issuance was completed as approved by the CSRC on 19 September 2016. The number of shares under the Issuance was 29,098,203 A Shares. The gross proceeds from the Issuance amounted to RMB1,457,819,970.30, and after deducting issuance expenses of RMB37,519,603.53, the net proceeds were RMB1,420,300,366.77. On 20 September 2017, 37,827,664 restricted A Shares under the Issuance were issued and listed (after the 2016 profit distribution plan of the Company was completed, the number of restricted shares under the Issuance increased from 29,098,203 A Shares to 37,827,664 A Shares), and there were 19 Shareholders applied for unlocking restricted shares.

XX. NON-PUBLIC ISSUANCE OF A SHARES *(continued)***Historical events**

On 24 March 2017, the Company convened the thirty-fifth meeting of the eighth session of the Board and, after full inspection of the progress of projects invested with the proceeds from the Issuance in 2016, considered and approved the adjustments to projects invested with the proceeds of which the difference between the originally planned use of proceeds and the actual use of proceeds exceeds 30%. Adjusted projects include the major investment plan of the "Project for indepth development and industrialization upgrade of innovative Ilaprazole series (艾普拉唑系列創新產品深度開發及產業化升級項目)" and the major investment plan of increased capital injections in Livzon MAB for the construction of "Project for research & development and industrialization of therapeutic antibody-based drugs (治療用抗體藥物研發與產業化建設項目)" (the "Adjustments"). The Adjustments were made by the Company on the basis of the actual progress of the projects invested with the proceeds. Adjustments were made only to the plans for use of proceeds in each of the subsequent years of the relevant projects invested with the proceeds and the industrialization investment construction period of projects invested with the proceeds, without changing the investment directions with the proceeds. The Adjustments were considered and approved at the 2016 annual general meeting on 23 June 2017.

On 2 August 2017, to enhance the efficient use of raised funds and ensure the normal implementation of projects, the Company convened the second meeting of the ninth session of the Board to consider and approve the proposed changes of and adjustments to the projects invested with proceeds from the Issuance (the "Changes and Adjustments") as follows: (i) proposal to make changes to "Increased capital injections in Livzon MAB for the construction of 'Project for research & development and industrialization of therapeutic antibody-based drugs' (對麗珠單抗增資投資建設「治療用抗體藥物研發與產業化建設項目」)"; and (ii) proposal to make adjustments to the sub-project under the "Construction project for research & development platform for prolonged-action microsphere technologies (長效微球技術研發平台建設項目)". Upon completion of the Changes and Adjustments, the Company will use its own funds to invest in the "Construction project for research & development and industrialization of therapeutic antibody-based drugs (治療用抗體藥物研發與產業化建設項目)". The Changes and Adjustments were considered and approved at the 2017 first extraordinary general Meeting on 19 September 2017.

On 23 March 2018, the Company convened the eleventh meeting of the ninth session of the Board to consider and approve the adjustment to the plans for the use of proceeds of projects invested with proceeds from the Issuance, including the plan for the use of proceeds of "Project for indepth development and industrialisation upgrade of innovative Ilaprazole series (艾普拉唑系列創新產品深度開發及產業化升級項目)" and the plan for the use of proceeds of "Relocation and expansion project of Livzon Group Xinbeijiang Pharmaceutical Manufacturing Inc. (first phase)(麗珠集團新北江製藥股份有限公司搬遷擴建項目(一期))". The adjustments were made by the Company on the basis of the actual progress of the projects invested with the proceeds. The adjustments were made only to the plans for use of proceeds in each of the subsequent years of the projects invested with proceeds, without changing the investment directions with the proceeds. The adjustments were considered and approved at the 2017 annual general meeting on 21 May 2018.

On 17 August 2018, the Company convened the eighteenth meeting of the ninth session of the Board to consider and approve the "Proposal relating to reassessment and continuation of the project invested with the proceeds from non-public issuance (《關於重新論證並繼續實施非公開發行募集資金投資項目的議案》)" pursuant to which the "Relocation and expansion project of Livzon Group Xinbeijiang Pharmaceutical Manufacturing Inc. (first phase)(麗珠集團新北江製藥股份有限公司搬遷擴建項目(一期))", a project invested with the proceeds that was postponed for over one year, was reassessed and was determined to be continued after making adjustments to its construction period.

XX. NON-PUBLIC ISSUANCE OF A SHARES *(continued)***Transfer of assets relating to part of projects invested with the proceeds and change of sub-project under project invested with the proceeds**

On 27 March 2019, the Company held the twenty-fifth meeting of the ninth session of the Board to consider and approve the “Proposal on transferring assets relating to part of projects invested with the proceeds and change of sub-projects under projects invested with the proceeds (《關於轉讓涉及部分募集資金投資項目相關資產暨變更募集資金投資項目子項目的議案》)”. The proposal was considered and approved at the 2018 annual general meeting on 30 May 2019. Details of the proposal are as follows:

1. Transfer of assets relating to part of projects invested with the proceeds

Considering that Shanghai Livzon, a controlling subsidiary of the Company, has sophisticated clinical research experience and high-end industrialization level in the field of microsphere preparation together with a professional marketing team, the Company has entered into a cooperation framework agreement with Shanghai Lizhu. Pursuant to the cooperation framework agreement, the Company has transferred to Shanghai Lizhu the ownership of the products and technologies of “Leuprorelin Acetate Sustained Release Microspheres for Injection (3 months)(注射用醋酸亮丙瑞林緩釋微球(3個月))” for a transaction amount of RMB20 million. Meanwhile, Shanghai Livzon has undertaken to pay the Company 3% of the total annual sales price of products as a sales commission for a term of ten years from the date when the products are launched for sale.

2. Change of sub-project under project invested with the proceeds

In view that the Company has transferred the sub-project “Leuprorelin Acetate Sustained Release Microspheres for Injection (3 months)(注射用醋酸亮丙瑞林緩釋微球(3個月))” (the “Project”) under the “Construction project for research & development platform for prolonged-action microsphere technologies (長效微球技術研發平台建設項目)” to Shanghai Livzon and the latter would continue to carry out relevant work such as clinical trials and reporting production, the Company would subsequently no longer invest in the Project by using the proceeds from the Issuance. Proceeds used for investment in the Project was RMB9.6142 million and the balance was RMB30.3858 million (the “Balance of Proceeds”).

Given that the current stage of the “Construction project for research & development platform for prolonged-action microsphere technologies (長效微球技術研發平台建設項目)” involves the R&D progress of relevant product varieties and the needs for future layout of industrialization, the Company planned to adjust the total investment with the proceeds in the sub-project “Construction project for microsphere workshop of Livzon Group Livzon Pharmaceutical Factory (麗珠集團麗珠製藥廠微球車間建設項目) under the “Construction project for research & development platform for prolonged-action microsphere technologies (長效微球技術研發平台建設項目)” (the “Pharmaceutical Factory Project”) from RMB163.9333 million to RMB198.455 million, out of which it was proposed to transfer the Balance of Proceeds to the Pharmaceutical Factory Project, and the balance of RMB4.1359 million of the investment amount would be supplemented by the self-raised funds of the Group.

XXI. SHARE OPTIONS INCENTIVE SCHEMES**1. The 2018 Share Options Incentive Scheme**

On 17 July 2018, the Company convened the sixteenth meeting of the ninth session of the Board to consider and approve the “2018 Share Options Incentive Scheme of the Company (Draft) (《2018年股票期權激勵計劃(草案)》)” and its summary (the “2018 Share Options Incentive Scheme”) pursuant to which it was proposed to grant to incentive participants 19,500,000 share options which involved a total of 19,500,000 ordinary A Shares. In particular, there would be 17,550,000 shares options under the first grant (the “First Grant”), representing 90.00% of the total number under the 2018 Share Options Incentive Scheme, and 1,950,000 shares options under the reserved grant (the “Reserved Grant”), representing 10.00% of the total number under the 2018 Share Options Incentive Scheme.

Pursuant to Chapter 17 of the Hong Kong Listing Rules, the 2018 Share Options Incentive Scheme constitutes a share options scheme. On 26 July 2018, the Company was exempted from strict compliance with Note (1) to Rule 17.03(9) of the Hong Kong Listing Rules with respect to the exercise price of share options that may be granted under the 2018 Share Options Incentive Scheme.

Purpose of the scheme

The 2018 Share Options Incentive Scheme has been formulated to further establish and improve the Company’s long-term incentive mechanism, attract and retain outstanding talents, maximize the motivation of Directors, senior management, mid-level management and relevant core personnel of the Company and effectively align Shareholders’ interests, the Company’s interests and individual interests of the core team members so that the parties would make joint efforts for the Company’s long-term development.

Incentive participants, maximum entitlement, validity period of the scheme

The incentive participants of the 2018 Share Options Incentive Scheme include the Directors, senior management, mid-level management and relevant core personnel of the Company. The number of A Shares to be granted to any of the incentive participants under the fully effective 2018 Share Options Incentive Scheme shall not exceed 1% (i.e. 7,190,502.40 shares) of the total issued share capital of the Company as at the date of approval of the 2018 Share Options Incentive Scheme by the shareholders’ general meeting. The validity period of the 2018 Share Options Incentive Scheme shall not be longer than 60 months commencing on the registration date of grant of the share options and ending on the date on which all the share options granted to the incentive participants have been exercised or otherwise cancelled.

Vesting period, exercise period and exercise date

The vesting period of the share options to be granted under the 2018 Share Options Incentive Scheme is 12 months from the registration date of grant. The incentive participants shall exercise their share options granted under the First Grant by three tranches within the next 36 months following the expiry of the vesting period. The incentive participants shall exercise their share options granted under the Reserved Grant by two tranches within the next 24 months following the expiry of the vesting period.

XXI. SHARE OPTIONS INCENTIVE SCHEMES *(continued)***1. The 2018 Share Options Incentive Scheme** *(continued)***Vesting period, exercise period and exercise date** *(continued)*

The following table sets forth the exercise period under the First Grant and the exercise schedule for each tranche:

Exercise arrangement	Duration	Exercise proportion
First exercise period for share options under the First Grant	Commencing on the first trading day after expiry of the 12-month period from the registration completion date of the First Grant and ending on the last trading day of the 24-month period from the registration completion date of the First Grant	40%
Second exercise period for share options under the First Grant	Commencing on the first trading day after expiry of the 24-month period from the registration completion date of the First Grant and ending on the last trading day of the 36-month period from the registration completion date of the First Grant	30%
Third exercise period for share options under the First Grant	Commencing on the first trading day after expiry of the 36-month period from the registration completion date of the First Grant and ending on the last trading day of the 48-month period from the registration completion date of the First Grant	30%

The following table sets forth the exercise period for the Reserved Grant and the exercise schedule for each tranche:

Exercise arrangement	Duration	Exercise proportion
First exercise period for share options under the Reserved Grant	Commencing on the first trading day after expiry of the 12-month period from the registration completion date of the Reserved Grant and ending on the last trading day of the 24-month period from the registration completion date of the Reserved Grant	50%
Second exercise period for share options under the Reserved Grant	Commencing on the first trading day after expiry of the 24-month period from the registration completion date of the Reserved Grant and ending on the last trading day of the 36-month period from the registration completion date of the Reserved Grant	50%

Basis for determining exercise price

The exercise price of the share options under the First Grant shall not be lower than the par value of the A Shares, and shall be the higher of the following:

- (1) the average price of the A Shares of the Company for the last trading day preceding the date of announcement of the 2018 Share Options Incentive Scheme (i.e. 17 July 2018) (the total transaction value of the A Shares for the last trading day/the total trading volume of the A Shares for the last trading day), being RMB47.01 per share;
- (2) the average price of the A Shares of the Company for the last 20 trading days preceding the date of announcement of the 2018 Share Options Incentive Scheme (the total transaction value of the A Shares for the last 20 trading days/the total trading volume of the A Shares for the last 20 trading days), being RMB45.54 per share.

XXI. SHARE OPTIONS INCENTIVE SCHEMES *(continued)***1. The 2018 Share Options Incentive Scheme** *(continued)***Basis for determining exercise price** *(continued)*

The exercise price of the share options under the Reserved Grant shall not be lower than the par value of the A Shares, and shall be the higher of the following:

- (1) the average trading price of the A Shares of the Company for the last trading day preceding the date of announcement of the Board resolution on the grant of share options under the Reserved Grant (i.e. 28 August 2019) (the total transaction value of the the A Shares for the last trading day/the total trading volume of the A Shares for the last trading day), being RMB28.87 per share;
- (2) the average price of the A Shares of the Company for the last 20 trading days preceding the date of announcement of the Board resolution on the grant of the share options under the Reserved Grant (the total transaction value of the A Shares for the last 20 trading days/the total trading volume of the A Shares for the last 20 trading days), being RMB27.44 per share.

Fair Value and Accounting Policies of the share options

- (1) Fair value
 - (i) First Grant

The Company selected the Black-Scholes Model to calculate the fair value of share option under the First Grant, the specific calculating methods and results of fair value of each share option are as follows:

Parameters	Explanation for parameters
Price of subject share	RMB36.67 per share (the price on the date of grant)
Exercise price	RMB47.01 per share option
Validity period of share options	The three validity periods of share options are 1 year, 2 years and 3 years, respectively
Risk-free interest rate	Risk-free interest rates of the three exercise periods of share options are 1.50%, 2.10% and 2.75% (listed based on one-year, two-year, three-year deposit rate, respectively)
Volatility of underlying share	The volatility of the three exercise periods of share options are 19.85%, 17.40% and 24.84% (listed based on the historic volatility rate of the SSE Composite Index in the latest one year, two years and three years, respectively)
Dividend yield of underlying share	The dividend yield for the three exercise periods of share options are 3.0670%, 1.9084% and 1.6662% (listed based on the average of the dividend rate of the Company for the latest one year, two years and three years, respectively)

Note 1: the expected dividend is calculated according to the historic dividend distributions of the Company.

Note 2: risk-free interest rates are chosen based on fixed time deposit rates of the corresponding exercise period.

Note 3: the calculation results of the value of the share options are subject to a number of assumptions of the parameters used in the section and the limitation of the valuation model adopted and therefore, the estimated value of the share options may be subjective and uncertain.

XXI. SHARE OPTIONS INCENTIVE SCHEMES *(continued)***1. The 2018 Share Options Incentive Scheme** *(continued)***Fair Value and Accounting Policies of the share options** *(continued)*(1) Fair value *(continued)*(i) First Grant *(continued)*

The aforesaid parameters are substituted into the Black-Scholes model to calculate the fair value of each share option. The costs of the corresponding period are calculated by assumptions: exercise amount of each tranche = total amount granted × exercise percentage of the period (exercise in tranches with the exercise percentage of 40%, 30% and 30%).

	Tranche 1	Tranche 2	Tranche 3
Fair value of the share options (RMB/share option)	0.34	0.82	3.26
Exercise amount (0' 000 share options)	699.02	524.27	524.27
Total cost for the period (RMB0' 000)	237.67	429.90	1,709.10
Total cost (RMB0' 000)		2,376.67	

According to the aforesaid calculation, on 11 September 2018, the date of grant, the Group granted 17,475,500 share options to the incentive participants under the First Grant with the total fair value of RMB23.7667 million which will be recognised in phases during the implementation process of the 2018 Share Options Incentive Scheme as the incentive cost incurred thereunder.

(ii) Reserved Grant

The Company selected the Black-Scholes Model to calculate the fair value of the share options under the Reserved Grant, with specific calculating methods for fair value of each share option and the results as follows:

Parameters	Explanation for parameters
Price of subject share	RMB28.72 per share (the price on the date of grant)
Exercise price	RMB28.87 per share option
Validity period of share options	The validity periods for the the two exercise periods of share options are 1 year and 2 years respectively
Risk-free interest rate	Risk-free interest rates for the two exercise periods of share options are 1.50% and 2.10% respectively (listed based on one-year and two-year deposit rate, respectively)
Volatility of underlying share	The volatility for the two exercise periods of share options are 25.90% and 22.99% respectively (listed based on the historic volatility rate of the SSE Composite Index in the latest one year and two years respectively)
Dividend yield from underlying share	The dividend yield for the two exercise periods of share options are 3.4642% and 3.2656% respectively (listed based on the average of the dividend rate of the Company for the latest one year and two years respectively)

Note 1: the expected dividend is calculated according to the historic dividend distributions of the Company.

Note 2: risk-free interest rates are listed based on fixed time deposit rates of the corresponding exercise period.

Note 3: the calculation results of the value of the share options are subject to a number of assumptions of the parameters used in this section and the limitation of the valuation model adopted and therefore, the estimated value of the share options may be subjective and uncertain.

XXI. SHARE OPTIONS INCENTIVE SCHEMES *(continued)***1. The 2018 Share Options Incentive Scheme** *(continued)***Fair Value and Accounting Policies of the share options** *(continued)*

- (1) Fair value *(continued)*
- (ii) Reserved Grant *(continued)*

The aforesaid parameters are substituted into the Black-Scholes Model to calculate the fair value of each share option. The costs for the corresponding period are calculated by assumptions: exercise amount of each tranche = total amount granted × exercise percentage of the period (exercise in tranches with the exercise percentage of 50% and 50%).

	Tranche 1	Tranche 2
Fair value of the share options (RMB/share option)	2.5585	3.1490
Exercise amount (0' 000 share options)	126.225	126.225
Total cost for the period (RMB0' 000)	322.95	397.48
Total cost (RMB0' 000)	720.43	

According to the aforesaid calculation, on 28 August 2018, the date of grant, the Group granted 2,524,500 share options to the incentive participants under the Reserved Grant with the total fair value of RMB7.2043 million which would be recognised by phrases during the implementation process of the 2018 Share Options Incentive Scheme as the incentive cost incurred thereunder.

- (2) Accounting Policies

Pursuant to the relevant requirements of "Enterprise Accounting Standard No. 11-Share-based Payments", the Company will update the expected amount of share options exercisable on each balance sheet date during the vesting period based on latest available subsequent information such as the change of number of incentive participants who are entitled to exercise and the completion status of performance targets. Services received during the period will be accounted in relevant costs or fees and capital reserve based on the fair value of the share options on the date of grant.

Revision of the scheme

On 17 August 2018, the Company convened the eighteenth meeting of the ninth session of the Board to consider and approve, pursuant to the communication between the Company and the Hong Kong Stock Exchange, amendment of the terms of the 2018 Share Options Incentive Scheme to the effect that there shall be no adjustment to the exercise price of the share options in the event of declaration of dividend (apart from this, the rest of the 2018 Share Options Incentive Scheme remains unchanged), and considered and approved the 2018 Share Options Incentive Scheme (Revised Draft) and its summary (the "2018 Share Options Incentive Scheme (Revised)").

On 5 September 2018, the 2018 Share Options Incentive Scheme (Revised) was considered and approved at the 2018 third extraordinary general Meeting, the 2018 third class meeting of A Shareholders and the 2018 third class meeting of H Shareholders.

XXI. SHARE OPTIONS INCENTIVE SCHEMES *(continued)***1. The 2018 Share Options Incentive Scheme** *(continued)***First Grant**

- (1) On 11 September 2018, the Company convened the nineteenth meeting of the ninth session of the Board to consider and approve:
 - (i) the adjustment to the list of incentive participants and number of share options under the First Grant of the 2018 Share Options Incentive Scheme (Revised): the adjustment to the number of incentive participants from 1,116 to 1,050 and adjustment to the number of share options under the First Grant from 17,550,000 to 17,475,500. Incentive participants under the First Grant included the Directors and the President of the Company and their close associates;
 - (ii) with 11 September 2018 as the date of the First Grant, granting 17,475,500 share options to 1,050 incentive participants (incentive participants were not required to pay any consideration to the Company when accepting the share options) with the exercise price of RMB47.01 per A Share. Registration of the First Grant was completed on 28 September 2018. The abbreviation of the share options: Livzon JLC1. The code of the share options: 037067.
- (2) On 28 August 2019, the Company convened the thirty-first meeting of the ninth session of the Board, which reviewed and approved that the exercise price of the stock option under the First Grant was adjusted from RMB47.01/A share to RMB36.16/A share and the number of share options granted under the First Grant was adjusted from 17.4755 million to 22.71815 million given that the Company has completed the issuance of 3 bonus shares for every 10 shares to shareholders by conversion of capital reserve into share capital on 26 July 2019.
- (3) On 18 September 2019, the Company convened the thirty-second meeting of the ninth session of the Board to consider and approve:
 - (i) cancellation of 254,995 share options held by 17 incentive participants which have been granted but not yet exercised (the cancellation was completed on 16 October 2019, and the exercise price of the cancelled share options is RMB36.16/A share), given that the 17 incentive participants under the First Grant have resigned due to personal reasons and thus did not meet the incentive criteria. After the cancellation, the number of incentive recipients under the First Grant was adjusted from 1,050 to 1,033, and the number of share options under the First Grant was adjusted from 22,718,150 to 22,463,155.
 - (ii) that the 1,033 incentive participants who meet the exercise criteria could exercise 8,985,262 share options in the first exercise period at an exercise price of RMB36.16/A share, given that the exercise criteria for the first exercise period under the First Grant has been fulfilled.

XXI. SHARE OPTIONS INCENTIVE SCHEMES (continued)**1. The 2018 Share Options Incentive Scheme** (continued)**First Grant** (continued)

- (4) On 20 November 2019, after examination by Shenzhen Stock Exchange and Shenzhen Branch of China Securities Depository and Clearing Corporation Limited, the first exercise period of share options granted under the First Grant was set as from 22 November 2019 to 27 September 2020. The incentive participants are required to exercise their rights within this exercise period. The granted but outstanding share options shall not be exercised after the conclusion of the exercise period. The exercisable share options shall be exercised by incentive participants on voluntary basis.

Details of the allocation and exercise of the First Grant are shown in the following table:

Incentive participant(s)	Position(s)	Number of share options held as at 1 January 2019 (0,000 share options)	Number of share options held as at 28 August 2019 (0,000 share options)	Number of share options held as at 16 October 2019 (0,000 share options)	Number of share options held as at 31 December 2019 (0,000 share options)	Number of share options exercisable in the first exercise period (0,000 share options)
Mr. Tang Yanggang	Executive Director and President	15.60	20.28	20.28	20.28	8.1120
Mr. Tao Desheng	Vice Chairman and Non-executive Director	19.50	25.35	25.35	25.35	10.1400
Mr. Xu Guoxiang	Executive Director and Vice President	19.50	25.35	25.35	25.35	10.1400
Mr. Fu Daotian*	Executive Director and Vice President	15.60	20.28	20.28	20.28	8.1120
Mr. Yang Daihong	Vice President	15.60	20.28	20.28	20.28	8.1120
Ms. Si Yanxia	Vice President	15.60	20.28	20.28	20.28	8.1120
Mr. Zhou Peng	Vice President	10.40	13.52	13.52	13.52	5.4080
Ms. Huang Yuxuan	Vice President	9.10	11.83	11.83	11.83	4.7320
Mr. Yang Liang	Secretary to the Board and Company Secretary	9.10	11.83	11.83	11.83	4.7320
Ms. Hou Xuemei*	Mid-level management	7.80	10.14	10.14	10.14	4.0560
Mid-level management and relevant core personnel of the Company (1,024 people)		1,617.55	2,102.815	2,077.3155	2,077.3155	830.9262

Notes:

- (1) the grant date of the aforesaid share options is 11 September 2018 (as at 31 December 2019, the aforesaid share options have not been exercised), and the exercise price is RMB47.01 (the exercise price was adjusted to RMB36.16 on 28 August 2019). For details of the validity period and exercise period of the aforesaid share options, please refer to "Incentive participants, maximum entitlement, validity period of the scheme" and "Vesting period, exercise period and exercise date" set out above.
- (2) on 10 September 2018 (one day before the grant date), the closing price of the A Shares of the Company was RMB36.66.
- (3) on 28 August 2019, the number of share options granted under the First Grant was adjusted from 17.4755 million to 22.71815 million given that the Company has completed the issuance of 3 bonus shares for every 10 shares to shareholders by conversion of capital reserve into share capital on 26 July 2019.
- (4) on 16 October 2019, given that the 17 incentive participants under the First Grant no longer met the incentive criteria, the 254,995 share options under the First Grant were cancelled, and the exercise price of these cancelled share options was RMB36.16 per A share.
- * Ms. Hou Xuemei is the spouse of Mr. Tao Desheng, a Director of the Company, and is a close associate of Mr. Tao Desheng according to the Hong Kong Listing Rules.
- * Mr. Fu Daotian resigned as Executive Director and vice president of the Company on 27 September 2019. The 121,680 share options held by him that have not yet fulfilled the exercise criteria will be cancelled pursuant to relevant regulations (as at the disclosure date of the Report, the aforesaid 121,680 share options have not been cancelled).

XXI. SHARE OPTIONS INCENTIVE SCHEMES *(continued)***1. The 2018 Share Options Incentive Scheme** *(continued)***Reserved Grant**

- (1) On 28 August 2019, the Company convened the thirty-first meeting of the ninth session of the Board to consider and approve:
- (i) the adjustment of the number of share options under the Reserved Grant from 1.95 million to 2.535 million, given that the Company has completed the issuance of 3 bonus shares for every 10 shares to shareholders by way of conversion of capital reserve into share capital on 26 July 2019;
 - (ii) with 28 August 2019 as the grant date of the Reserved Grant, granting 145 incentive participants a total of 2.535 million share options (incentive participants are not required to pay any consideration to the Company when accepting the share options) with the exercise price of RMB28.87 per A share.
- (2) On 18 September 2019, the Company convened the thirty-second meeting of the ninth session of the Board to consider and approve the adjustment to the list of incentive participants under the Reserved Grant. The number of incentive participants under the Reserved Grant shall be adjusted from 145 to 170, with the total number of share options under the Reserved Grant unchanged, and a total of 2.535 million share options shall be granted to 170 incentive participants.
- (3) on 28 October 2019, registration of the Reserved Grant was completed. The abbreviation of the share option: Lizon JLC2. The code of the share option: 037083. During the registration process of share options, one incentive participant no longer has the incentive qualification due to resignation, and two incentive participants voluntarily gave up the share options to be granted by the Company due to personal reasons. Therefore, the actual number of incentive participants under the Reserved Grant was adjusted from 170 to 167, and the actual number of share options under the Reserved Grant was adjusted from 2.535 million to 2.5245 million. The details are as follows:

Incentive participant(s)	Position	Number of share options held as at 1 January 2019 (0,000 share options)	Number of share options held as at 28 August 2019 (0,000 share options)	Number of share options held as at 31 December 2019 (0,000 share options)
Dai Weiguo	Vice President	0.00	13.00	13.00
Mid-level management and core personnel of the Company (166 people)		0.00	239.45	239.45
Total 167 people		0.00	252.45	252.45

Note: the grant date of the aforesaid share options is 28 August 2019 (as at 31 December 2019, the aforesaid share options have not been exercised), and the exercise price is RMB28.87. For details of the validity period and exercise period of the aforesaid share options, please refer to "Incentive participants, maximum entitlement, validity period of the scheme" and "Vesting period, exercise period and exercise date" set out above. On 27 August 2019 (the day before the grant date), the closing price of A shares of the Company was RMB29.39.

As at the date of the Report, the total number of ordinary A shares of the Company that can be issued under the 2018 Share Options Incentive Scheme (Revised) is 24,987,655, of which 22,463,155 are under the First Grant and 2,524,500 are under the Reserved Grant, totally accounting for 2.67% of the total issued share capital of the Company.

As at 31 December 2019, save as disclosed above, all share options granted under the First Grant and Reserved Grant have not been exercised, cancelled or lapsed.

XXI. SHARE OPTIONS INCENTIVE SCHEMES *(continued)***2. The Subsidiary Share Option Scheme****Purpose of the scheme and the vetting**

In order to fully motivate the core personnel and safeguard the stable and long-term dedication to work of the research and development core personnel of Livzon Biologics (a holding subsidiary of the Company in which the Company indirectly holds 51% issued share capital), particularly that of Livzon MAB, its wholly-owned subsidiary, and to facilitate the implementation of the Company's strategic objective in relation to its biopharmaceutical development, the Company convened the Sixteenth Meeting of the Ninth Session of the Board on 17 July 2018 to consider and approve (i) the Livzon Biologics Share Options Scheme (the "Subsidiary Share Option Scheme"), and the proposal for the general meeting of the Company to authorise the board of directors of the Company and/or Livzon Biologics to take steps or action as they may consider necessary or expedient to implement or give effect to the Subsidiary Share Option Scheme; and (ii) the proposed grant of 1,666,666 subsidiary share options to Mr. Fu Daotian (the director of Livzon MAB and the Director and Vice President of the Company) to subscribe for 1,666,666 ordinary shares of Livzon Biologics (representing approximately 1.34% of the number of issued ordinary shares of Livzon Biologics as at the date of the Report), to reward and encourage his continuous contributions towards Livzon Biologics and Livzon MAB.

Pursuant to the Chapter 17 of the Hong Kong Listing Rules, the Subsidiary Share Option Scheme constitutes a share options scheme, and shall be subject to approval by shareholders' general meeting. On 5 September 2018, the two resolutions in relation to the Subsidiary Share Option Scheme and the proposed grant of subsidiary share options under the Subsidiary Share Option Scheme to Mr. Fu Daotian were considered and approved at the 2018 third extraordinary general meeting.

Total number of shares issuable and the incentive participants

Pursuant to the Subsidiary Share Option Scheme, the maximum number of ordinary shares of Livzon Biologics in respect of which the share options of Livzon Biologics (the "Subsidiary Share Options") may be granted under the Subsidiary Share Option Scheme shall be 11,111,111 (representing approximately 8.919% of the number of issued ordinary shares of Livzon Biologics as at the date of the Report), and the incentive participants include the directors, employees and professional consultants of Livzon Biologics or any of its subsidiaries.

Maximum number of share options to be granted to incentive participants and the relevant vetting requirements

The total number of ordinary shares of Livzon Biologics issued and to be issued upon the exercise of share options granted under the Subsidiary Share Option Scheme (including exercised, cancelled and outstanding Subsidiary Share Options) to each incentive participant in any 12-month period up to the date of grant shall not exceed 1% of the issued ordinary shares of Livzon Biologics as at the date of grant. Any further grant of Subsidiary Share Options in excess of this limit is subject to shareholders' approval in a general meeting of Livzon Biologics and shareholders' approval in a general meeting of the Company respectively. In addition, any Subsidiary Share Options granted to a substantial shareholder or an independent non-executive Director of the Company, or to any of their associates, in excess of in aggregate 0.1% of the ordinary shares of Livzon Biologics in issue (based on the date of grant) and an aggregate value of HK\$5,000,000 (based on the closing price of Livzon Biologics's shares as at the date of each grant, and only applicable for the ordinary shares of Livzon Biologics listed on the Hong Kong Stock Exchange or any other stock exchange) within any 12-month period are subject to shareholders' approval in advance in a general meeting of Livzon Biologics and Shareholders' approval in advance in a general meeting of the Company respectively. Any grant of Subsidiary Share Options to a Director, chief executive or substantial Shareholder of the Company, or to any of their associates, are subject to approval in advance by independent non-executive Directors of the Company.

XXI. SHARE OPTIONS INCENTIVE SCHEMES *(continued)***2. The Subsidiary Share Option Scheme** *(continued)***Basis for determination of exercise price and the consideration for acceptance of share options**

The exercise price of the share options under the Subsidiary Share Options Scheme is determined at the sole discretion of the board of directors of Livzon Biologics. References may include the business performance and value of Livzon Biologics and the individual performance of the relevant incentive participants. Incentive participants who accept the Subsidiary Share Options shall pay an amount of HK\$0.10 or its equivalent in RMB.

Validity period of the Subsidiary Share Option Scheme

The Subsidiary Share Option Scheme shall be valid and effective for the period commencing on the Subsidiary Share Option Scheme Adoption Date (i.e. 5 September 2018) and ending on the date immediately before the Livzon Biologics Listing Date (both dates inclusive) or 10 years from the Subsidiary Share Option Scheme Adoption Date (both dates inclusive), whichever is earlier.

Duration of the Subsidiary Share Options and the vesting period

The exercisable period of the Subsidiary Share Options is determined by the board of directors of Livzon Biologics, and the period shall not exceed 10 years from Subsidiary Share Option Offer Date (the date on which such subsidiary share option is offered to an eligible participant).

Unless otherwise provided in the respective grantee's offer document, a grantee's Subsidiary Share Options shall become vested to him in the following manners:

- (a) up to 25% of the ordinary shares of Livzon Biologics that are subject to the Subsidiary Share Options so granted to him (rounded down to the nearest whole number) at any time during the period commencing from the first anniversary of the Subsidiary Share Option Commencement Date and ending on the expiry of the Subsidiary Share Option Period;
- (b) up to 50% of the ordinary shares of Livzon Biologics that are subject to the Subsidiary Share Options so granted to him (rounded down to the nearest whole number) at any time during the period commencing from the second anniversary of the Subsidiary Share Option Commencement Date and ending on the expiry of the Subsidiary Share Option Period;
- (c) up to 75% of the ordinary shares of Livzon Biologics that are subject to the Subsidiary Share Options so granted to him (rounded down to the nearest whole number) at any time during the period commencing from the third anniversary of the Subsidiary Share Option Commencement Date and ending on the expiry of the Subsidiary Share Option Period; and
- (d) up to 100% of the ordinary shares of Livzon Biologics that are subject to the Subsidiary Share Options so granted to him at any time during the period commencing from the fourth anniversary of the Subsidiary Share Option Commencement Date and ending on the expiry of the Subsidiary Share Option Period.

Only the vested percentage of the Subsidiary Share Option shall be exercisable by the respective grantee during the Subsidiary Share Option Period provided that no Subsidiary Share Option shall be exercisable until the Livzon Biologics Listing Date.

XXI. SHARE OPTIONS INCENTIVE SCHEMES *(continued)***2. The Subsidiary Share Option Scheme** *(continued)*

Furthermore, unless otherwise approved by the board of directors of Livzon Biologics in writing, the vesting schedule requires continued employment of or service by the respective grantee through each applicable vesting date as a condition to the vesting of the applicable percentage of the Subsidiary Share Options and the rights and benefits under Subsidiary Share Option Scheme and the respective grantee's offer document, and employment or service for only a portion of the respective vesting period, even if a substantial portion, will not entitle the respective grantee to any proportionate vesting of the Subsidiary Share Options.

As at 31 December 2019, the Subsidiary Share Option Scheme has not been implemented and therefore no Subsidiary Share Options were granted.

XXII. MEDIUM TO LONG-TERM BUSINESS PARTNER SHARE OWNERSHIP SCHEME

On 23 December 2019, the Company convened the thirty-fifth meeting of the ninth session of the Board to consider and approve the medium to long-term business partner share ownership scheme (draft) and its summary (the "Ownership Scheme"). The business partner Ownership Scheme was approved by the 2020 first extraordinary general meeting on 11 February 2020.

Purpose of the Ownership Scheme

The Ownership Scheme has been formulated to establish an innovative long-term incentive stock ownership mechanism for senior management and core technical teams. By attaching rights and obligations to the holders and establishing the business partnership mechanism of "enjoying the benefits and assuming the risk together", it is expected to effectively advance and promote the change from "managers" to "partners" in the Company. The Ownership Scheme will help to optimise the compensation structure of the Company, promote the long-term stable development of the Company and enhance the overall value of the Company.

Implementation of the Ownership Scheme

Upon review and approval by the general meeting, the Ownership Scheme shall be implemented in ten phases. The Board shall be subsequently authorised to take charge of the extraction of the special fund and the implementation of the Ownership Scheme.

Participation principles and target participants

The Ownership Scheme follows the principles of independent decision by the Company and voluntary participation of employees. There will not be any such situation of forcing employees to participate in the Ownership Scheme by way of apportionment or forced distribution. Target participants are the core management personnel who play an important role in the overall performance and medium to long-term development of the Company. Target participants for the respective phases of the Ownership Scheme shall be drawn up by the Board according to staff changes and appraisals, and shall be reviewed and determined by the general meeting. Shareholders holding more than 5% of the shares of the Company and actual controllers shall not participate in the Ownership Scheme.

XXII. MEDIUM TO LONG-TERM BUSINESS PARTNER SHARE OWNERSHIP SCHEME *(continued)***Source of funds**

Funds for the Ownership Scheme may come from the special fund set aside by the Company, employees' legal compensation or employees' self-raised funds by means permitted by the laws and regulations. The special fund system of the Ownership Scheme shall be valid for ten years, with 2019 to 2028 as the years of assessment. During the years of assessment, the Board shall be responsible for extracting the special fund according to the special fund extracting principles. Where the conditions for extracting the special fund are not met in a relevant year, the special fund shall not be extracted, which, however, shall have no impact on the implementation of the Ownership Scheme.

The special fund shall be extracted with net profit attributable to the Shareholders of the Company after deducting the extraordinary gains or loss in 2018 as the base. During the period of assessment (2019-2028), the Company will use the compound growth rate of net profit achieved in each year as the assessment indicator to calculate and set aside a progressive special fund for each period. The ratios are set out in details as below:

Compound growth rate of net profit achieved in each year of assessment (X)	Percentage of progressive special funds with a compound growth rate of over 15%
$X \leq 15\%$	0
$15\% < X \leq 20\%$	25%
$20\% < X$	35%

Sources and number of shares

Sources of shares in the Ownership Scheme: underlying shares purchased through means as permitted by the laws and regulations (including the Hong Kong Listing Rules), including purchases through the secondary market (including but not limited to auction transactions and block trades), repurchases of treasury shares by the Company (only applicable to A Shares), and participation in the subscription for the Company's non-public issuance of shares. Where the underlying shares are purchased through the secondary market, it shall be completed within six months after the respective phases of the Ownership Scheme are reviewed and approved by the general meeting. Where the shares are obtained by way of participating in the subscription for the Company's non-public issuance of shares, it shall be implemented in accordance with relevant provisions on non-public issuance (including the Hong Kong Listing Rules).

The aggregate number of shares to be held in the respective phases of the Ownership Scheme that will be established and continued in the Ownership Scheme shall not exceed 10% of the total share capital of the Company, and the aggregate number of shares corresponding to the share of the Ownership Scheme (including all respective phases) to be held by a single employee shall not exceed 1% of the total share capital of the Company. The aggregate number of the underlying shares shall not include shares obtained by the holders prior to the initial public offering of shares by the Company, shares purchased through the secondary market and shares obtained through equity incentives.

Duration

The Ownership Scheme shall be implemented in ten phases. Within the ten years from 2019 to 2028, the ten independently existing phases of the Ownership Scheme shall be implemented on a rolling basis and, in principle, once a year, after determining whether the special fund for the previous year shall be extracted or not. The duration of the respective phases of the Ownership Scheme shall be 48 months, which is calculated from the time when the Company makes an announcement on the transfer of the last tranche of the underlying shares in each phase to the account in the name of the Ownership Scheme for the current phase.

XXII. MEDIUM TO LONG-TERM BUSINESS PARTNER SHARE OWNERSHIP SCHEME *(continued)***Lock-up period**

- (1) the lock-up period of the underlying shares purchased by way of employees' legal compensation and employees' self-raised funds shall be 12 months, which is calculated from the time when the Company makes an announcement on the transfer of the last tranche of the underlying shares in each phase to the account in the name of the Ownership Scheme for the current phase;
- (2) the lock-up period of the underlying shares purchased by way of the special fund set aside by the Company shall be 36 months, which is calculated from the time when the Company makes an announcement on the transfer of the last tranche of the underlying shares in each phase to the account in the name of the Ownership Scheme for the current phase.

Where the underlying shares of the Ownership Scheme is obtained by way of participating in the subscription for the Company's non-public issuance of shares, the lock-up period shall be 36 months, which is calculated from the time when the Company makes an announcement on the deposit of shares obtained by way of non-public issuance to the account in the name of the Ownership Scheme for the current phase.

Management model

The highest organ of authority responsible for the internal management of the respective phases under the Ownership Scheme shall be the holders' meeting. The holders' meeting in the respective phases of the Ownership Scheme shall elect a management committee, which shall perform the daily management of the Ownership Scheme. It shall be determined by the general meeting whether the management of the respective phases under the Ownership Scheme will be taken charge of by the Company itself or will be commissioned to agencies with asset management qualifications.

Disposal of interests

- (1) After the expiration of the duration of the respective phases of the Ownership Scheme, (i) the holders' meetings of the respective phases of the Ownership Scheme shall authorise the management committee to complete clearance within 15 working days from the expiration of the duration or termination of the Ownership Scheme. After deducting relevant taxes and fees according to law, the allocation of interests shall be carried out in accordance with relevant regulations under the administrative measures for the respective phases of the Ownership Scheme; (ii) if any of the underlying shares is still included in the assets which are held by the respective phases of the Ownership Scheme, the management committee of the respective phases of the Ownership Scheme shall determine a specific way of disposal.
- (2) After the lock-up period of the respective phases of the Ownership Scheme expires, interests may be disposed of according to one of the following ways:
 - (i) to continue to hold the underlying shares during the duration of the Ownership Scheme;
 - (ii) to sell the underlying shares that are purchased by the Ownership Scheme within the duration of the Ownership Scheme;
 - (iii) to transfer the ownership of the underlying shares to the personal accounts of holders of the Ownership Scheme;
 - (iv) other ways as permitted by the laws, administrative regulations, rules or normative documents.

Where there is distributable income after the lock-up period of the respective phases of the Ownership Scheme expires, the management committee of the respective phases shall allocate the distributable income. The management committee shall, after deducting relevant taxes and fees according to law, allocate the aforementioned distributable income according to the number of shares that are held by the holders.

XXIII. PROFIT DISTRIBUTION PLAN

For 2019 profit distribution plan, please refer to “PROFIT DISTRIBUTION OF ORDINARY SHARES AND CONVERSION OF CAPITAL RESERVE INTO SHARE CAPITAL OF THE COMPANY” and “PROPOSALS ON PROFIT DISTRIBUTION AND CONVERSION OF CAPITAL RESERVES INTO SHARE CAPITAL DURING THE YEAR” in Section V of the Report.

XXIV. AUDITORS

During the Year, the financial statements of the Company were audited by Grant Thornton (Special General Partnership), which issued a standard unqualified audit report.

For explanation of changes in accounting policies, accounting estimates and accounting methods as compared with the financial report of the Previous Year, please refer to related contents in Section II “CHANGES IN SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND ACCOUNTING METHOD AND CORRECTION OF ACCOUNTING ERRORS” of the Report.

The auditors of the Company for 2017 and 2018 were Ruihua Certified Public Accountants (LLP).

On 9 December 2019, the 2019 fourth extraordinary general meeting of the Company approved the termination of Ruihua Certified Public Accountants (LLP) as the Company’s auditor for the year 2019 and the appointment of Grant Thornton (Special General Partnership) as the Company’s auditor for the year 2019.

XXV. TAXATION AND TAX RELIEF

Shareholders of the Company are taxed in accordance with the following tax regulations and the amendments thereof from time to time. They shall enjoy possible tax relief according to the actual situation. The following cited laws, regulations and stipulations are all relevant provisions which were in issue during the year ended 31 December 2019. Shareholders, if necessary, shall seek professional advice from their tax and legal advisors for advices relating to tax payment or its impacts:

A Shareholders

Pursuant to the requirements of “Notice on Issues concerning the Differential Individual Income Tax Policies on Dividends and Bonuses of Listed Companies (Caishui [2015] No. 101) (《關於上市公司股息紅利差別化個人所得稅政策有關問題的通知》(財稅[2015]101號))” (hereinafter as the “2015 Notice No.101”), where an individual acquires the stocks of a listed company from public offering or the transfer stock market, if the stock holding period is over 1 year, income from dividends and bonuses are temporarily exempted from individual income tax; where an individual acquires the stocks of a listed company from public offering or the transfer stock market, if the stock holding period is 1 month or less (one month inclusive), income from dividends and bonuses shall be included into the taxable incomes in full amount; if the stock holding period is more than 1 month up to 1 year (1 year inclusive), incomes from dividends and bonuses shall be included into the taxable incomes at the reduced rate of 50% temporarily; Individual income taxes on the aforesaid income shall be collected at the uniform rate of 20%. In respect of the issues concerning the implementation of differential individual income tax policies on dividends and bonuses of listed companies, the “Notice on Issues concerning the Implementation of Differential Individual Income Tax Policies on Dividends and Bonuses of Listed Companies (Caishui [2012] No. 85) (《關於實施上市公司股息紅利差別化個人所得稅政策有關問題的通知》(財稅[2012]85號))” shall apply. 2015 Notice No. 101 has been implemented since 8 September 2015. For dividends and bonuses distributed by listed companies for which the registration date of shareholding falls after 8 September 2015, such income from dividends and bonuses shall be treated according to the 2015 Notice No. 101. For shares of the listed companies held by individual investors through his/her securities account as at the implementation date of 2015 Notice No. 101, the stock holding period shall be calculated from the date of acquisition of such shares.

XXV. TAXATION AND TAX RELIEF *(continued)***A Shareholders** *(continued)*

Listed companies are required to withhold and pay enterprise income tax at a rate of 10% pursuant to the requirements of the “Notice Concerning the Relevant Questions on the Withholding and Payment of Enterprise Income Tax Relating to the Payment of Dividends, Bonus and Interest by PRC Resident Enterprises to QFII” (Guo Shui Han [2009] No. 47) (《國家稅務總局關於中國居民企業向QFII支付股息、紅利、利息代扣代繳企業所得稅有關問題的通知》(國稅函[2009]47號))” issued by the State Administration of Taxation for shareholders who are Qualified Foreign Institutional Investor. Shareholders who are Qualified Foreign Institutional Investor and who wish to enjoy tax concessions under tax treaties (arrangements) shall apply to the competent taxation authority for tax rebates according to the relevant rules and regulations after they received the dividends and bonuses.

In accordance with the “Notice of the Ministry of Finance, the State Administration of Taxation, and the China Securities Regulatory Commission on Taxation Policies concerning the Pilot Program of an Interconnection Mechanism for Transactions in the Shenzhen and Hong Kong Stock Markets (Cai Shui [2016] No. 127) (《財政部、國家稅務總局、證監會關於深港股票市場交易互聯互通機制試點有關稅收政策的通知》(財稅[2016]127號))”, for dividends received by investors (including enterprise and individual investors) in the Hong Kong market from investing in A shares listed on the Shenzhen Stock Exchange, and before Hong Kong Securities Clearing Company Limited is able to furnish China Securities Depository and Clearing Co., Ltd. with the identity, holding period and other detailed data of the investors in the Hong Kong market, the differentiated tax treatment based on the holding period of shares will not be implemented temporarily. The Company shall withhold income tax at the rate of 10% and make withholding filings with the relevant tax authorities. For those investors who are tax residents of other countries and the tax rate applicable to dividends is lower than 10% under the tax treaty between China and the relevant countries, such investors may, by themselves or request the withholding agent to act on their behalf to, apply to the relevant tax authorities in respect of the listed company for the preferential relevant treatment under the relevant treaties. Once verified by the relevant tax authorities, the amount being the difference between the tax withheld and the tax calculated at the rate as prescribed under the corresponding tax treaty shall be refunded.

H Shareholders

In accordance with the “Enterprise Income Tax Law of the People’s Republic of China (《中華人民共和國企業所得稅法》)” (the “CIT Law”) and the “Rules for the Implementation of the Enterprise Income Tax Law of the People’s Republic of China (《中華人民共和國企業所得稅法實施條例》)” (the “Implementation Rules of CIT Law”), both effective on 1 January 2008, and the “Notice of the State Administration of Taxation on Issues Relevant to the Withholding of Enterprise Income Tax on Dividends Paid by PRC Resident Enterprises to Offshore Non-resident Enterprise Holders of H Shares (Guo Shui Han [2008] No. 897) (《關於中國居民企業向境外H股非居民企業股東派發股息代扣代繳企業所得稅有關問題的通知》(國稅函[2008]897號))” promulgated by the State Administration of Taxation on 6 November 2008, the Company is obliged to withhold and pay the PRC enterprise income tax on behalf of non-resident enterprise(s) at a tax rate of 10% when the Company distributes any dividends to non-resident enterprise shareholder(s) whose names appear on the register of members for H Shares of the Company. Accordingly, any H Shares which are not registered under the name(s) of individual(s) (which, for this purpose, include H Shares registered under the name of HKSCC Nominees Limited, other nominees, trustees, or other organisations or groups) shall be deemed to be H Shares held by non-resident enterprise shareholder(s), and the PRC enterprise income tax shall be withheld from dividends payable thereon. Non-resident enterprise shareholders may apply for a tax refund for the difference (if any) in accordance to relevant tax laws such as tax treaty (arrangement).

In accordance with the “Circular on Certain Issues Concerning the Policies of Individual Income Tax (Cai Shui Zi [1994] No. 020) (《關於個人所得稅若干政策問題的通知》(財稅字[1994]020號))” promulgated by the Ministry of Finance and the State Administration of Taxation on 13 May 1994, overseas individuals are temporarily exempted from the PRC individual income tax for dividends or bonuses received from foreign-invested enterprises. As the Company is a foreign-invested enterprise, the Company will not withhold and pay the individual income tax on behalf of overseas individual shareholders whose names appear on the register of members for H Shares of the Company when the Company distributes dividends to those shareholders.

XXV. TAXATION AND TAX RELIEF *(continued)***H Shareholders** *(continued)*

In accordance with the "Notice of the Ministry of Finance, the State Administration of Taxation, and the China Securities Regulatory Commission on Taxation Policies concerning the Pilot Program of an Interconnection Mechanism for Transactions in the Shenzhen and Hong Kong Stock Markets (Cai Shui [2016] No. 127) (《財政部、國家稅務總局、證監會關於深港股票市場交易互聯互通機制試點有關稅收政策的通知》(財稅[2016]127號))", (i) for dividends received by domestic individual investor from investing in the Company's H shares listed on the Hong Kong Stock Exchange through Shenzhen-Hong Kong Stock Connect, the Company is obliged to withhold personal income tax at a tax rate of 20% when the Company shall apply to China Securities Depository and Clearing Corporation Limited ("CSDCC") for the registrar of domestic individual investors. The Company will not withhold the income tax on dividend for the domestic enterprise investors, and the tax payable shall be declared and paid by the domestic enterprise investors. For dividends of the shares listed on the Hong Kong Stock Exchange received by mainland securities investment funds through the Shenzhen-Hong Kong Stock Connect, individual income tax shall be calculated in accordance with the above requirements; (ii) for dividends received by domestic enterprise investors from investing in Shares listed on the Hong Kong Stock Exchange through Shenzhen-Hong Kong Stock Connect, such amount shall be reckoned in their gross revenue and subject to corporate income tax pursuant to laws. In particular, for the dividends obtained by mainland resident enterprises from holding relevant H Shares for consecutive 12 months, the corporate income taxes shall be exempted pursuant to laws. The Company shall apply to CSDCC for the registrar of domestic individual investors. The Company will not withhold the income tax on dividend for the domestic enterprise investors, and the tax payable shall be declared and paid by the domestic enterprise investors.

XXVI. SERVICE CONTRACTS OF DIRECTORS AND SUPERVISORS AND THEIR INTERESTS IN THE CONTRACTS

Each of the Directors and Supervisors has entered into a respective Director and Supervisor service contract with the Company. Contents of such contracts are the same in all material respects. The service contracts of the Directors and Supervisors will expire upon the expiry of the term of the current Board in place (i.e. 30 June 2020). Save as the aforesaid service contracts, no service contract that cannot be terminated within one year without payment of compensation (other than statutory compensation) has been or proposed to be entered into between the Company and the Directors or the Supervisors.

Save for the aforesaid service contracts, the disposal of 9.50% equity interest in Livzon Diagnostics and matters disclosed in the Report, none of the Directors or Supervisors (or any entities connected with them) of the Company had a material interest, whether direct or indirect, in any other transactions, arrangements or contacts of significance which had been entered into by the Company, any of its subsidiaries, or its holding company or the holding company's subsidiaries for the year ended 31 December 2019. Please refer to "1. One-Off Connected Transactions" contained in Section V of the Report for details of the disposal of 9.50% equity interest in Livzon Diagnostics.

XXVII. ARRANGEMENT OF PURCHASING SHARES OR BONDS BY DIRECTORS

Save as the Restricted A Shares Incentive Scheme, the 2018 Share Options Incentive Scheme and the Subsidiary Share Option Scheme, the Company or its subsidiaries or the holding company of the Company or its subsidiaries did not enter into any arrangement at any time during the Year that enabled the Directors, Supervisors and senior management of the Company to acquire benefits by means of purchasing shares or bonds of the Company or any other corporation.

XXVIII. PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Articles of Association of the Company and the laws applicable in China where the Company was incorporated.

XXIX. CHARITABLE DONATION

During the Year, the expenditure of charitable donation of the Group amounted to RMB3.74551 million (2018: RMB3.92565 million).

XXX. HOSTING RESEARCHES, COMMUNICATIONS AND INTERVIEWS DURING THE YEAR

✓Applicable ☐Not applicable

Date of reception	Type of reception	Type of guests	Index of basic information of research
7 January 2019	On-site investigation	Institution	Please refer to the Investor Relationship Event Record Form on 7 January 2019 which the Company posted on the Cninfo website on 9 January 2019 for detail of said research
9 January 2019	On-site investigation	Institution	Please refer to the Investor Relationship Event Record Form on 9 January 2019 which the Company posted on the Cninfo website on 9 January 2019 for detail of said research
15 January 2019	On-site investigation	Institution	Please refer to the Investor Relationship Event Record Form on 15 January 2019 which the Company posted on the Cninfo website on 17 January 2019 for detail of said research
21 January 2019	On-site investigation	Institution	Please refer to the Investor Relationship Event Record Form on 21 January 2019 which the Company posted on the Cninfo website on 21 January 2019 for detail of said research
30 April 2019	On-site investigation	Institution	Please refer to the Investor Relationship Event Record Form on 30 April 2019 which the Company posted on the Cninfo website on 30 April 2019 for detail of said research
30 April 2019	On-site investigation	Institution	Please refer to the Investor Relationship Event Record Form on 30 April 2019 which the Company posted on the Cninfo website on 30 April 2019 for detail of said research
13 May 2019	On-site investigation	Institution	Please refer to the Investor Relationship Event Record Form on 13 May 2019 which the Company posted on the Cninfo website on 13 May 2019 for detail of said research
30 May 2019	On-site investigation	Institution	Please refer to the Investor Relationship Event Record Form (I) on 30 May 2019 which the Company posted on the Cninfo website on 31 May 2019 for detail of said research
30 May 2019	On-site investigation	Institution	Please refer to the Investor Relationship Event Record Form (II) on 30 May 2019 which the Company posted on the Cninfo website on 31 May 2019 for detail of said research
30 May 2019	On-site investigation	Institution	Please refer to the Investor Relationship Event Record Form (III) on 30 May 2019 which the Company posted on the Cninfo website on 3 June 2019 for detail of said research
4 June 2019	On-site investigation	Institution	Please refer to the Investor Relationship Event Record Form on 4 June 2019 which the Company posted on the Cninfo website on 4 June 2019 for detail of said research
16 July 2019	On-site investigation	Institution	Please refer to the Investor Relationship Event Record Form on 16 July 2019 which the Company posted on the Cninfo website on 16 July 2019 for detail of said research
22 August 2019	On-site investigation	Institution	Please refer to the Investor Relationship Event Record Form on 22 August 2019 which the Company posted on the Cninfo website on 22 August 2019 for detail of said research
4 September 2019	On-site investigation	Institution	Please refer to the Investor Relationship Event Record Form on 4 September 2019 which the Company posted on the Cninfo website on 4 September 2019 for detail of said research
20 September 2019	On-site investigation	Institution	Please refer to the Investor Relationship Event Record Form on 20 September 2019 which the Company posted on the Cninfo website on 20 September 2019 for detail of said research
24 October 2019	On-site investigation	Institution	Please refer to the Investor Relationship Event Record Form on 24 October 2019 which the Company posted on the Cninfo website on 24 October 2019 for detail of said research
31 October 2019	On-site investigation	Institution	Please refer to the Investor Relationship Event Record Form on 31 October 2019 which the Company posted on the Cninfo website on 31 October 2019 for detail of said research

XXX. HOSTING RESEARCHES, COMMUNICATIONS AND INTERVIEWS DURING THE YEAR

(continued)

Date of reception	Type of reception	Type of guests	Index of basic information of research
1 November 2019	On-site investigation	Institution	Please refer to the Investor Relationship Event Record Form on 1 November 2019 which the Company posted on the Cninfo website on 1 November 2019 for detail of said research
8 November 2019	On-site investigation	Institution	Please refer to the Investor Relationship Event Record Form on 8 November 2019 which the Company posted on the Cninfo website on 11 November 2019 for detail of said research
14 November 2019	On-site investigation	Institution	Please refer to the Investor Relationship Event Record Form on 14 November 2019 which the Company posted on the Cninfo website on 14 November 2019 for detail of said research
19 November 2019	On-site investigation	Institution	Please refer to the Investor Relationship Event Record Form on 19 November 2019 which the Company posted on the Cninfo website on 20 November 2019 for detail of said research
26 November 2019	On-site investigation	Institution	Please refer to the Investor Relationship Event Record Form on 26 November 2019 which the Company posted on the Cninfo website on 26 November 2019 for detail of said research
23 December 2019	On-site investigation	Institution	Please refer to the Investor Relationship Event Record Form on 23 December 2019 which the Company posted on the Cninfo website on 23 December 2019 for detail of said research
30 December 2019	On-site investigation	Institution	Please refer to the Investor Relationship Event Record Form on 30 December 2019 which the Company posted on the Cninfo website on 30 December 2019 for detail of said research
31 December 2019	On-site investigation	Institution	Please refer to the Investor Relationship Event Record Form on 31 December 2019 which the Company posted on the Cninfo website on 31 December 2019 for detail of said research
Number of receptions			25
Number of receptions for institutions			95
Number of receptions for individual			7
Number of receptions for others			0
Whether disclose, reveal or leak undisclosed information			No

XXXI. LIST OF DIRECTORS AND SUPERVISORS OF THE COMPANY DURING THE YEAR AND UP TO THE DATE OF THE REPORT

The Board of the Company consists of ten Directors, including two executive Directors, three non-executive Directors and five independent non-executive Directors.

Executive Directors

Mr. Tang Yanggang (唐陽剛先生)(President) (appointed as an Executive Director on 14 February 2019)

Mr. Xu Guoxiang (徐國祥先生)(Vice Chairman and Vice President) (appointed as a Vice Chairman of the Company on 11 April 2019)

Non-Executive Directors

Mr. Zhu Baoguo (朱保國先生)(Chairman)

Mr. Tao Desheng (陶德勝先生)(Vice Chairman)

Mr. Qiu Qingfeng (邱慶豐先生)

Independent Non-Executive Directors

Mr. Xu Yanjun (徐焱軍先生)

Mr. Zheng Zhihua (鄭志華先生)

Mr. Xie Yun (謝耘先生)

Mr. Tian Qiusheng (田秋生先生) (appointed as an Independent Non-executive Director on 15 October 2019)

Mr. Wong Kam Wa (黃錦華先生) (appointed as an Independent Non-executive Director on 15 October 2019)

Supervisory Committee of the Company consists three Supervisors. As at the date of the Report, the Supervisors of the Company are as follows:

Mr. Wang Maolin (汪卯林先生)(Chief Supervisor)

Mr. Huang Huamin (黃華敏先生)

Mr. Tang Yin (湯胤先生)

By order of the Board

Zhu Baoguo

Chairman

25 March 2020

I. PROFIT DISTRIBUTION OF ORDINARY SHARES AND CONVERSION OF CAPITAL RESERVE INTO SHARE CAPITAL OF THE COMPANY

Profit Distribution Policy for Ordinary Shares and in particular, the Formulation, Implementation or Adjustment of Cash Dividends Policy during the Year

☒Applicable ☐Not applicable

During the Reporting Period, the Company implemented such policy in strict accordance with the dividend policy set out in the Articles of Association. Details of the distribution plan are set out below.

Special Description of Cash Dividends Policy

Whether the policy complied with the provisions of the Articles of Association or the requirements of the resolutions of the general meeting:	Yes
Whether the standard and proportion of dividends distribution were definite and clear:	Yes
Whether the relevant decision-making process and mechanisms were well-established:	Yes
Whether the independent Directors performed their duties and carried out their responsibilities:	Yes
Whether the minority shareholders had sufficient opportunities to express their opinions and appeals and whether their legitimate rights and interests were fully protected:	Yes
Whether the conditions and procedures were transparent and in compliance with relevant requirements, if the cash dividends policy was adjusted and changed:	Yes

During the Reporting Period, the 35th meeting of the ninth session of the Board considered and approved the Company's Shareholders' Return Plan for the Three Years (2019-2021) of the Company. During the term of the plan, in the case where the conditions for paying out cash dividends and the capital requirements for its normal production and operation are met, the Company shall actively distribute profits in the form of cash, and the profits to be distributed in cash each year shall not be less than 80% of the distributable profit achieved in the current year. The Shareholders' Return Plan for the Three Years has been approved at the 2020 first extraordinary general meeting of the Company held on 11 February 2020.

(Proposed) Profit Distribution Plan for Ordinary Shares in the Latest Three Years (Including this Year) and (Proposed) Conversion Plan of Capital Reserves into Share Capital of the Company

The proposed 2019 annual profit distribution plan of the Company is as follows: it is expected to distribute cash dividend of RMB11.50 (tax inclusive) for every 10 shares in a total amount of RMB1,074,977,076.25 (tax inclusive), based on the Company's total share capital of 934,762,675 shares as at the end of 2019. There will be no bonus shares, nor will the capital reserves be capitalized. If there is any change in the total issued share capital of the Company as a result of issue of new shares, option exercise of share incentive and repurchase of shares before implementing the distribution plan, the proportion of allocation will be adjusted in accordance with the principle of "the total amount of cash distribution remains unchanged". The above proposed distribution plan is subject to approval at the annual general meeting. A circular of H Shares containing, among other things, further information in relation to the AGM and the cash dividend will be dispatched to the shareholders of the Company as soon as practicable.

The 2018 annual profit distribution plan of the Company was as follows: to distribute cash dividend of RMB12.00 (tax inclusive) for every 10 shares to all Shareholders and to issue 3 bonus shares for every 10 shares to all Shareholders by way of conversion of capital reserve, based on the total share capital of the Company of 719,050,240 shares as at 31 December 2018. If the total share capital of the Company changes during the period from the promulgation to implementation of the 2018 annual profit distribution plan, the aggregate distribution would be adjusted based on the total share capital as at the registration date of shareholding as determined by implementation of the 2018 annual profit distribution plan, with the distribution ratio unchanged.

I. PROFIT DISTRIBUTION OF ORDINARY SHARES AND CONVERSION OF CAPITAL RESERVE INTO SHARE CAPITAL OF THE COMPANY *(continued)*

(Proposed) Profit Distribution Plan for Ordinary Shares in the Latest Three Years (Including this Year) and (Proposed) Conversion Plan of Capital Reserves into Share Capital of the Company *(continued)*

The 2017 annual profit distribution plan of the Company was as follows: based on the Company's total share capital of 553,115,570 shares as at the registration date of shareholding as determined by implementation of the 2017 annual profit distribution plan, to distribute cash dividend of RMB20.00 (tax inclusive) for every 10 shares to all Shareholders and to issue 3 bonus shares for every 10 shares to all Shareholders by way of conversion of capital reserve.

Cash Dividend Distribution for Ordinary Shares of the Company in the Latest Three Years (including the Year)

Unit: RMB

Distribution years	Cash dividend amount (before tax)	Net profit attributable to shareholders of the Company as stated in the consolidated financial statements for the Year	Percentage of cash dividend amount to net profit attributable to shareholders of the Company as stated in the consolidated financial statements	Cash dividend amount distributed by other means (including repurchase of shares)	Percentage of cash dividend amount distributed by other means to net profit attributable to the shareholders of the Company as stated in the consolidated financial statements	Total amount of cash dividends (including those distributed by other means)	Percentage of total amount of cash dividends (including those distributed by other means) to net profit attributable to the ordinary shareholders of the Company as stated in the consolidated financial statements
2019 (Proposed)	1,074,977,076.25	1,302,875,440.93	82.51%	–	–	1,074,977,076.25	82.51%
2018	862,857,854.40	1,082,174,905.98	79.73%	–	–	862,857,854.40	79.73%
2017	1,106,231,140.00	4,428,684,564.57	24.98%	–	–	1,106,231,140.00	24.98%

Note: the amount of 2019 cash dividend (tax inclusive) in the above table is based on the total share capital of the Company of 934,762,675 shares as at 31 December 2019.

Earnings of the Company and profits available for distribution to ordinary shareholders of the parent Company during the Year are positive, but no cash dividend distribution plan for ordinary shares is proposed

☐ Applicable ☒ Not applicable

II. PROPOSALS ON PROFIT DISTRIBUTION AND CONVERSION OF CAPITAL RESERVES INTO SHARE CAPITAL DURING THE YEAR

✓Applicable ☐Not applicable

Bonus shares for every 10 shares (shares)	0
Dividends for every 10 shares (RMB) (tax inclusive)	11.50
Conversion shares for every 10 shares (shares)	0
Share capital basis for proposed distribution (shares)	934,762,675
Total amount of cash dividends (RMB) (tax inclusive)	1,074,977,076.25
Cash dividend amount distributed by other means (such as repurchase of shares) (RMB)	0
Total amount of cash dividends (including those distributed by other means) (RMB)	1,074,977,076.25
Distributable Profit (RMB)	1,302,875,440.93
Percentage of total amount of cash dividends (including those distributed by other means) to the total amount of profit distribution	100%

Cash Dividends

The annual profit distribution plan of the Company for this Year: it is expected to distribute cash dividend of RMB11.50 (tax inclusive) for every 10 shares in a total amount of RMB1,074,977,076.25 (tax inclusive), based on the Company's total share capital of 934,762,675 shares as at the end of 2019. There will be no bonus shares, nor will the capital reserves be capitalized. If there is any change in the total issued share capital of the Company as a result of issue of new shares, option exercise of share incentive and repurchase of shares before implementing the distribution plan, the proportion of allocation will be adjusted in accordance with the principle of "the total amount of cash distribution remains unchanged". The profit distribution is in accordance with the requirement of "If the Company is at the mature stage of development and has no significant capital expenditure plan, the proportion of cash dividends shall be at least 80% in the profit distribution" under the Articles of Association.

Particulars of Proposal on Profit Distribution or Conversion of Capital Reserves

If there is any change in the total issued share capital of the Company as a result of issue of new shares, option exercise of share incentive and repurchase of shares before implementing the distribution plan, the proportion of allocation will be adjusted in accordance with the principle of "the total amount of cash distribution remains unchanged".

III. FULFILLMENT OF UNDERTAKINGS

Undertakings Fulfilled during the Year or Not Yet Fulfilled as at the End of the Year by the Company, Shareholders, the de facto Controller, Purchaser, Directors, Supervisors, Senior Management or Other Related Parties

✓Applicable ☐Not applicable

Subject of undertaking	Covenantor	Type of undertaking	Details of undertaking	Date of Undertaking	Period of undertaking	Status
Undertaking for share restructuring	-	-	-	-	-	-
Undertakings in acquisition reports or changes in equity reports	-	-	-	-	-	-
Undertaking during asset reorganizations	-	-	-	-	-	-

III. FULFILLMENT OF UNDERTAKINGS *(continued)***Undertakings Fulfilled during the Year or Not Yet Fulfilled as at the End of the Year by the Company, Shareholders, the de facto Controller, Purchaser, Directors, Supervisors, Senior Management or Other Related Parties** *(continued)*

Subject of undertaking	Covenantor	Type of undertaking	Details of undertaking	Date of Undertaking	Period of undertaking	Status
Undertakings during B-to-H Share Conversion of the Company	Baiyeyuan, Joicare and Mr. Zhu Baoguo and Ms. Liu Guangxia (person acting-in-concert) (collectively referred to as the "Covenantors" hereinafter)	Other undertakings	<p>Regarding the change of listing place of the Company's domestically listed foreign shares and the listing and trading of such shares on the Main Board of the Hong Kong Stock Exchange by way of introduction (hereinafter referred to as the "B-to-H Share Conversion"), the Covenantors made the non-competition undertakings as follows:</p> <ol style="list-style-type: none"> 1. Subject to Articles 2 and 3 below, the Covenantors together with the companies and individuals controlled by them will not, at present or in the future, engage in businesses in any form which may, directly or indirectly, constitute competition or potential competition with the pharmaceutical research, development, production and sale businesses of Livzon Group from time to time (hereinafter referred to as the "Restricted Businesses"). 2. Upon discovering any new business opportunities which constitute competition with the Restricted Businesses, the Covenantors together with the companies and individuals controlled by them shall immediately notify the Company in writing and offer such business opportunities to Livzon Group in first priority on reasonable and fair terms and conditions. If Livzon Group waives such business opportunities, the Covenantors together with the companies and individuals controlled by them may accept such business opportunities on terms and conditions no more favourable than those made available to Livzon Group. 	10 January 2014	Long-term	In the process of fulfillment

III. FULFILLMENT OF UNDERTAKINGS *(continued)*

Undertakings Fulfilled during the Year or Not Yet Fulfilled as at the End of the Year by the Company, Shareholders, the de facto Controller, Purchaser, Directors, Supervisors, Senior Management or Other Related Parties *(continued)*

Subject of undertaking	Covenantor	Type of undertaking	Details of undertaking	Date of Undertaking	Period of undertaking	Status
			<p>3. As long as the Covenantors together with the companies and individuals controlled by them intend to transfer, dispose of, lease, license, or otherwise transfer or license such assets and businesses which may, directly or indirectly, constitute competition or potential competition with the Restricted Businesses (hereinafter referred to as the "Disposals and Transfers"), the Covenantors together with the companies and individuals controlled by them shall provide pre-emptive rights to Livzon Group on equivalent terms. If Livzon Group waives such pre-emptive rights, major terms of the Disposals and Transfers offered by the Covenantors together with the companies and individuals controlled by them to other third parties shall not be more favourable than those made available to Livzon Group.</p> <p>4. The Covenantors together with the companies and individuals controlled by them will not engage in or take part in any business which may harm the interests of Livzon Group and other shareholders by utilizing their relationship with the shareholders of Livzon Group or their capacity as shareholders of Livzon Group.</p>			

III. FULFILLMENT OF UNDERTAKINGS *(continued)***Undertakings Fulfilled during the Year or Not Yet Fulfilled as at the End of the Year by the Company, Shareholders, the de facto Controller, Purchaser, Directors, Supervisors, Senior Management or Other Related Parties** *(continued)*

Subject of undertaking	Covenantor	Type of undertaking	Details of undertaking	Date of Undertaking	Period of undertaking	Status
			5. The Covenantors together with the companies and individuals controlled by them will not, directly or indirectly, a) at any time induce or attempt to induce any directors, senior management or consultants of any members of Livzon Group to cease to be employed by Livzon Group or cease to be employees or consultants of Livzon Group (as appropriate), irrespective of whether such persons' act would breach his employment contract or consultancy contract (as appropriate); or b) employ any person within three years after he/she ceases to be a director, senior management or consultant of any member of Livzon Group (other than those who serve as the directors, senior management or consultants of the Company and/or its subsidiaries (excluding Livzon Group) on the date of issuing this letter of undertaking), as such person has or may have any confidential information or trade secrets relating to the Restricted Businesses; or c) alone or jointly with any other persons, through or as a manager, adviser, consultant, employee or agent or shareholder of any person, firm or company that competes with any member of Livzon Group, canvass, or solicit or accept orders from or do business with any persons with whom any member of Livzon Group has done business or solicit or persuade any person who has dealt with Livzon Group or is in the process of negotiating with Livzon Group in relation to the Restricted Businesses to cease to deal with Livzon Group or reduce the amount of business which the person would normally do with Livzon Group or seek more favorable trade terms from any member of Livzon Group.			

III. FULFILLMENT OF UNDERTAKINGS *(continued)*

Undertakings Fulfilled during the Year or Not Yet Fulfilled as at the End of the Year by the Company, Shareholders, the de facto Controller, Purchaser, Directors, Supervisors, Senior Management or Other Related Parties *(continued)*

Subject of undertaking	Covenantor	Type of undertaking	Details of undertaking	Date of Undertaking	Period of undertaking	Status
			<p>6. The Covenantors and their subsidiaries further undertake: a) the Covenantors and their subsidiaries (excluding Livzon Group) allow and procure relevant associates (excluding Livzon Group) to allow the independent directors of Livzon Group to review at least once each year the compliance of this letter of undertaking by the Covenantors and their subsidiaries (excluding the Group); b) the Covenantors and their subsidiaries (excluding Livzon Group) shall provide all necessary data for the independent directors of Livzon Group to conduct the annual review of the execution of this letter of undertaking; c) Livzon Group is allowed to disclose in its annual reports or announcements of the decisions concerning the compliance and execution of this letter of undertaking by the Covenantors and their subsidiaries (excluding Livzon Group), when reviewed by independent directors of the Company; d) the Covenantors (and on behalf of their subsidiaries excluding the Group) shall provide annual confirmation in respect of the compliance of the terms of this letter of undertaking for inclusion into annual reports of Livzon Group.</p> <p>7. Commencing from the date of issuing the relevant letter of undertaking, the Covenantors undertake that they shall bear related legal responsibilities and consequences arising from the breach of any terms in the relevant letter of undertaking by the Covenantors (or their subsidiaries excluding Livzon Group, or their associate(s)).</p>			

III. FULFILLMENT OF UNDERTAKINGS *(continued)***Undertakings Fulfilled during the Year or Not Yet Fulfilled as at the End of the Year by the Company, Shareholders, the de facto Controller, Purchaser, Directors, Supervisors, Senior Management or Other Related Parties** *(continued)*

Subject of undertaking	Covenantor	Type of undertaking	Details of undertaking	Date of Undertaking	Period of undertaking	Status
			8. The above undertakings shall terminate upon occurrence of the following events (whichever is the earliest): a) the Covenantors and any of their subsidiaries cease to be controlling shareholders of Livzon Group; b) The shares of the Company are no longer listed on the Hong Kong Stock Exchange and other stock exchange overseas (save as suspension of trading of the shares of Livzon Group due to any reason(s)).			
Undertakings made during the implementation of the non-public issuance of A Shares	Joicare and Mr. Zhu Baoguo	Other undertaking	The Covenantors undertake not to intervene in the Company's business management activities and not to infringe upon the Company's interest.	8 March 2016	Up to the completion date of the execution of the remedial measures of this non-public issuance	In the process of fulfillment
	Zhu Baoguo, Tao Desheng, Yang Daihong, Fu Daotian, Qiu Qingfeng, Zhong Shan, Xu Yanjun, Guo Guoqing, Wang Xiaojun, Zheng Zhihua, Xie Yun, Xu Guoxiang, Lu Wenqi, Si Yanxia and Yang Liang	Other undertaking	<ol style="list-style-type: none"> 1. Undertake not to transfer benefits to other units or individuals at nil consideration or on unfair conditions, nor to damage the interests of the Company by other means. 2. Undertake to impose restrictions on the spending of directors and senior management in performing their duties. 3. Undertake not to apply any assets of the Company for investments and consumption activities that are irrelevant to the performance of their duties. 	8 March 2016	Up to the completion date of the execution of the remedial measures of this non-public issuance	In the process of fulfillment

III. FULFILLMENT OF UNDERTAKINGS *(continued)*

Undertakings Fulfilled during the Year or Not Yet Fulfilled as at the End of the Year by the Company, Shareholders, the de facto Controller, Purchaser, Directors, Supervisors, Senior Management or Other Related Parties *(continued)*

Subject of undertaking	Covenantor	Type of undertaking	Details of undertaking	Date of Undertaking	Period of undertaking	Status
			<ol style="list-style-type: none"> 4. Undertake that the remuneration system set up by the Board or the remuneration committee will be linked with the implementation of the remedial measures for returns of the Company. 5. Undertake that, if the Company subsequently launches a share incentive scheme, the conditions for exercising the right in respect of the prospective share incentive scheme will be linked with the implementation of the remedial measures for returns of the Company. 			
	the Company	Other undertaking	<p>The Company will strictly comply with laws and regulations, such as the Company Law, the Securities Law and the Administrative Measures on the Issuance of Securities of Listed Companies, and the requirements of the CSRC. The Company also undertakes that, from the listing date of the new shares under the non-public issuance:</p> <ol style="list-style-type: none"> 1. The Company shall publish periodic reports and disclose all information having material impact on investors in a true, accurate, complete, fair and timely manner, and be monitored and administered by the CSRC and the Shenzhen Stock Exchange; 2. The Company shall make public clarification on a timely basis once noticing any news that may have misleading impact on the share price from mass media; 3. The directors, supervisors and senior management of the Company shall take full consideration of opinions and recommendations from the public, and shall not be directly or indirectly engaged in the trading of the Company's shares by taking advantage of inside information and by other inappropriate means. The Company guarantees that there is no false statement or any material omission in the documents submitted to the Shenzhen Stock Exchange, and shall not disclose relevant information without permission of the Shenzhen Stock Exchange during the period of listing application. 	19 September 2016	Long-term	In the process of fulfillment

III. FULFILLMENT OF UNDERTAKINGS *(continued)*

Undertakings Fulfilled during the Year or Not Yet Fulfilled as at the End of the Year by the Company, Shareholders, the de facto Controller, Purchaser, Directors, Supervisors, Senior Management or Other Related Parties *(continued)*

Subject of undertaking	Covenantor	Type of undertaking	Details of undertaking	Date of Undertaking	Period of undertaking	Status
Equity incentive undertaking	-	-	-	-	-	-
Other undertakings to minority Shareholders of the Company	Joincare	Undertaking for decrease in shareholding	Joincare, the Company's controlling shareholder, has made undertakings during the elimination of selling restrictions of shares subject to selling restrictions. Details are as follows: 1. Joincare shall strictly follow relevant provisions of the Guiding Opinions on Transfer of Shares subject to Selling Restrictions by Listed Companies (2008 No. 15 notice) issued by the China Securities Regulatory Commission when transferring Livzon Group's shares subject to selling restrictions held by it. 2. If Joincare plans to dispose the released tradable shares held by it through the bidding system of stock exchanges and its reduced shareholding amounts to 5% and more within 6 months from its first reduction date, it will make an indicative announcement through Livzon Group within two trading days prior to the first reduction of shareholding.	17 December 2008	Long-term	During the Year, the Covenanters fulfilled their undertakings in good faith.
Fulfillment of undertaking on time	Yes					
If undertakings are not fulfilled within the stated timeframe, reasons for not fulfilling the undertakings and future plans (if any) should be explained in detail	Not applicable					

If the Company has made profit forecast on its assets or projects and the Year is still within the profit forecast period, the Company shall give an explanation on why its assets or projects reached its profit forecast

☐ Applicable ☒ Not applicable

IV. MATERIAL LITIGATION AND ARBITRATION

☐ Applicable ☒ Not applicable

During the Year, the Company has no material litigation and arbitration.

V. QUESTIONING FROM MEDIA

☐ Applicable ☒ Not applicable

VI. MATTERS RELATED TO BANKRUPTCY REORGANISATION

☐ Applicable ☒ Not applicable

During the Year, the Company has no matters related to bankruptcy reorganisation.

VII. INFORMATION ON NON-OPERATING USE OF FUNDS OF THE LISTED COMPANY BY CONTROLLING SHAREHOLDERS AND THEIR RELATED PARTIES

☐ Applicable ☒ Not applicable

During the Year, there is no non-operating use of funds of the listed company by controlling shareholders of the Company and their related parties.

VIII. EXPLANATIONS GIVEN BY THE BOARD OF DIRECTORS, THE SUPERVISORY COMMITTEE AND INDEPENDENT DIRECTORS (IF ANY) ON THE ISSUANCE OF A “NONSTANDARD AUDITORS’ REPORT” BY THE ACCOUNTING FIRM

☐Applicable ☒Not applicable

During the Year, no explanations shall be given by the supervisory committee and independent directors as no “Non-standard Auditors’ Report” was issued by the accounting firm.

IX. EXPLANATIONS ON CORRECTION OF MATERIAL ACCOUNTING ERRORS THAT REQUIRES RETROSPECTIVE ADJUSTMENTS DURING THE YEAR

☐Applicable ☒Not applicable

X. EXPLANATION ON CHANGES IN SCOPE OF CONSOLIDATION IN COMPARISON WITH FINANCIAL STATEMENTS FOR THE PREVIOUS YEAR

☒Applicable ☐Not applicable

During the Year, in comparison with financial statements for the Previous Year, the scope of consolidated financial statements of the Company increased by seven wholly-owned or controlling subsidiaries, details of which are as follows:

On 29 April 2019, Zhuhai Livzon Biotechnology Co., Ltd. (珠海市麗珠生物醫藥科技有限公司) entered into a Shareholder Voting Right Entrustment Agreement with Zhuhai Kadi Medical Biotechnology Inc. (珠海市卡迪生物醫藥有限公司) (established on 16 April 2019, with no capital contribution) and all of its shareholders, pursuant to which Zhuhai Livzon Biotechnology Co., Ltd. has the control via variable interest over Zhuhai Kadi Medical Biotechnology Inc. and is interested in 100% of its voting right. According to the Shareholder Voting Right Entrustment Agreement, Zhuhai Livzon Biotechnology Co., Ltd. shall be entitled to all the shareholders’ rights and voting rights of Zhuhai Kadi Medical Biotechnology Inc., including but not limited to its dividend rights, the right of sale or transfer or pledge or disposal of part or all of its shareholding, as well as the distribution rights to the residual assets upon its bankruptcy, liquidation, dissolution or termination.

On 30 April 2019 and 21 May 2019, Lizhu (Hong Kong) Co., Limited, a wholly-owned subsidiary of the Company, established three wholly-owned subsidiaries, namely, Livzon International Ventures, Livzon International Ventures I and Livzon International Ventures II, holding their 100% registered capital, respectively.

On 17 May 2019, the Company and Livzon Group Livzon Pharmaceutical Factory* (麗珠集團麗珠制藥廠) established Zhuhai Livzon Pharmaceutical Equity Investment Management Co., Ltd.* (珠海市麗珠醫藥股權投資管理有限公司), holding its 100% registered capital in aggregate.

On 27 June 2019, Zhuhai Livzon Diagnostics Inc.* (珠海麗珠試劑股份有限公司), a controlling subsidiary of the Company, established Zhuhai Qiao Biotechnology Co., Ltd.* (珠海啟奧生物技術有限公司), holding its 60% registered capital.

Livzon Group Fuzhou Fuxing Pharmaceutical Co., Ltd. (麗珠集團福州福興醫藥有限公司) and Gutian Fuxing Pharmaceutical Co., Ltd. (古田福興醫藥有限公司) established Fuzhou Fuxing Pharmaceutical Co. Ltd. (福州市福興製藥有限公司) on 1 November 2019 and jointly owned 100% of its registered capital.

XI. APPOINTMENT AND DISMISSAL OF THE ACCOUNTING FIRM

Accounting firm (auditors) currently appointed and their remunerations

On 30 May 2019, upon consideration and approval at the 2018 annual general meeting of the Company, the re-appointment of Ruihua Certified Public Accountants (LLP) as the auditor of the Company for the year 2019 was approved. As at the end of the Year, remunerations paid to Ruihua Certified Public Accountants (LLP) for its non-annual audit services to the Group for the year 2019 amounted to RMB0.7 million (tax inclusive). The non-annual audit services included review of half-year financial statements and capital verification reports, etc.

On 9 December 2019, upon consideration and approval at the 2019 fourth extraordinary general meeting of the Company, the termination of Ruihua Certified Public Accountants (LLP) as the auditor of the Company for the year 2019 and the appointment of Grant Thornton (Special General Partnership) as the auditor of the Company for the year 2019 were approved. As at the end of the Year, remunerations paid to Grant Thornton (Special General Partnership) for its annual audit services to the Group for the year 2019 amounted to RMB2.00 million (tax inclusive) (including 2019 annual remunerations for financial statements audit and internal control audit).

Name of domestic accounting firm	Grant Thornton (Special General Partnership)
Remuneration for domestic accounting firm (RMB0'000)	2019 annual remunerations for financial statements audit and internal control audit are RMB1.64 million (tax inclusive) and RMB0.36 million (tax inclusive), respectively
Continuous years during which domestic accounting firm have provided audit service	1 year
Names of certified public accountants of domestic accounting firm	Li Encheng, Zhang Fang
Continuous years during which certified public accountants of domestic accounting firm have provided audit service	1 year, 3 year
Name of overseas accounting firm (if any)	Not applicable
Remuneration for overseas accounting firm (RMB0'000) (if any)	Not applicable
Continuous years during which overseas accounting firm have provided audit service (if any)	Not applicable
Names of certified public accountants of overseas accounting firm (if any)	Not applicable
Continuous years during which certified public accountants of overseas accounting firm have provided audit service (if any)	Not applicable

Declaration of responsibilities borne by Grant Thornton (Special General Partnership) for the financial report of the Company is set out in the "Auditors' Report" in Section XII of the Report.

Whether there is a change of the accounting firm during the Year

☒ Yes ☐ No

Whether there is a change of the accounting firm during the auditing period

☐ Yes ☒ No

XI. APPOINTMENT AND DISMISSAL OF THE ACCOUNTING FIRM *(continued)***Whether approval procedures concerning the change of the accounting firm are completed**✓Yes ☐No

Explanation on the change of the accounting firm

On 9 December 2019, the Company held the 2019 fourth extraordinary general meeting, at which the “Resolution on Change of the Auditor of the Company for the year 2019” was considered and approved. In view of the need of the Company for development and after careful consideration, the Company terminated its cooperation with the original auditor, and engaged Grant Thornton (Special General Partnership) as the auditor to audit the financial statements and internal control of the Company for the year 2019.

Appointment of the accounting firm responsible for internal control audit, financial advisor or sponsor✓Applicable ☐Not applicable

During the Year, the Company appointed Grant Thornton (Special General Partnership) as the internal control auditor of the Company with remuneration for audit services amounting to RMB0.36 million (before tax).

XII. PUNISHMENT AND RECTIFICATION☐Applicable ✓Not applicable

During the Year, the Company was not subject to significant punishment or rectification.

XIII. SUSPENSION AND TERMINATION OF LISTING AFTER THE ISSUANCE OF THE ANNUAL REPORT☐Applicable ✓Not applicable**XIV. INTEGRITY OF THE COMPANY AND ITS CONTROLLING SHAREHOLDERS AND ULTIMATE BENEFICIAL OWNERS**☐Applicable ✓Not applicable

Neither the Company nor its controlling shareholders and ultimate beneficial owners has/have failed to comply with effective court rulings or have any outstanding debt of large value past due.

XV. SUBSTANTIAL CONNECTED TRANSACTION DISCLOSED PURSUANT TO THE SHENZHEN LISTING RULES

1. Connected Transactions in the Ordinary Course of Business

✓Applicable □Not applicable

Connected party	Relationship with connected party	Type of connected transaction	Description of connected transaction	Pricing principle of connected transaction	Amount of connected transaction (RMB'000)	Proportion to transaction amount of the same category	Settlement method of connected transaction	Date of disclosure	Index of disclosure
Shenzhen Haibin Pharmaceutical Co., Ltd. (深圳市海濱製藥有限公司)	Subsidiary of the controlling shareholder	Procurement of goods	Procurement of raw materials	Determined by negotiation based on market price	3,381.26	1.55%	Settled through banks	26 October 2016 and 24 December 2016	"Announcement on a three-year continuing connected transactions framework agreement for 2017-2019 entered into between the Company and Joincare" (Announcement No.: 2016-91) and "Announcement on the resolution of the 2016 third extraordinary general meeting" (Announcement No.: 2016-118)
Jiaozuo Joincare Pharmaceutical Industry Co., Ltd. (焦作健康元生物製品有限公司)	Subsidiary of the controlling shareholder	Procurement of goods	Procurement of raw materials	Determined by negotiation based on market price	28,801.78	13.23%	Settled through banks		
Guangdong Blue Treasure Pharmaceutical Co., Ltd. (廣東藍寶製藥有限公司)	Associate	Procurement of goods	Procurement of raw materials	Determined by negotiation based on market price	317.71	0.15%	Settled through banks	28 March 2019 and 18 June 2019	"Announcement of Livzon Pharmaceutical Group Inc. on execution of connected transactions in the ordinary course of business for 2018 and expected connected transactions in the ordinary course of business for 2019" (Announcement No.: 2019-016) and "Announcement of Livzon Pharmaceutical Group Inc. on adjustment to expected connected transactions in the ordinary course of business for 2019" (Announcement No.: 2019-037)
Joincare Pharmaceutical Industry Group Co., Ltd. (健康元藥業集團股份有限公司)	Controlling shareholder	Procurement of goods	Procurement of finished products	Determined by negotiation based on market price	34.15	0.02%	Settled through banks		
Shenzhen Taitai Pharmaceutical Co., Ltd. (深圳太太藥業有限公司)	Subsidiary of the controlling shareholder	Procurement of goods	Procurement of raw materials	Determined by negotiation based on market price	0.14	0.00%	Settled through banks		
Shenzhen Taitai Biotechnology Co., Ltd. (深圳太太生物科技股份有限公司)	Subsidiary of the controlling shareholder	Procurement of goods	Procurement of raw materials	Determined by negotiation based on market price	2.64	0.00%	Settled through banks		
Zhuhai Sanmed Biotech Inc. (珠海聖美生物診斷技術有限公司)	Associate	Procurement of goods	Procurement of finished products	Determined by negotiation based on market price	72.89	0.03%	Settled through banks		
LUNGLIFE AI, INC. (formerly known as CYNVENIO BIOSYSTEMS, INC.)	A company in which a Director is holding position	Procurement of goods	Procurement of raw materials	Determined by negotiation based on market price	4.03	0.00%	Settled through banks		

XV. SUBSTANTIAL CONNECTED TRANSACTION DISCLOSED PURSUANT TO THE SHENZHEN LISTING RULES *(continued)*

1. Connected Transactions in the Ordinary Course of Business *(continued)*

Connected party	Relationship with connected party	Type of connected transaction	Description of connected transaction	Pricing principle of connected transaction	Amount of connected transaction (RMB'000)	Proportion to transaction amount of the same category	Settlement method of connected transaction	Date of disclosure	Index of disclosure
Jiaozuo Joicare Pharmaceutical Industry Co., Ltd. (焦作健康元生物製品有限公司)	Subsidiary of the controlling shareholder	Receipt of services	Water, electricity and power	Determined by negotiation based on market price	1,634.72	6.30%	Settled through banks		
Zhuhai Sanmed Biotech Inc. (珠海聖美生物診斷技術有限公司)	Associate	Receipt of services	Testing	Determined by negotiation based on market price	1.60	0.01%	Settled through banks		
Guangdong Blue Treasure Pharmaceutical Co., Ltd. (廣東藍寶製藥有限公司)	Associate	Sale of goods	Sale of finished products	Determined by negotiation based on market price	3,564.68	0.38%	Settled through banks		
Jiaozuo Joicare Pharmaceutical Industry Co., Ltd. (焦作健康元生物製品有限公司)	Subsidiary of the controlling shareholder	Sale of goods	Sale of raw materials	Determined by negotiation based on market price	874.76	0.09%	Settled through banks		
Shenzhen Haibin Pharmaceutical Co., Ltd. (深圳市海濱製藥有限公司)	Subsidiary of the controlling shareholder	Sale of goods	Sale of finished products	Determined by negotiation based on market price	63.73	0.01%	Settled through banks		
Shenzhen Taitai Pharmaceutical Co., Ltd. (深圳太太藥業有限公司)	Subsidiary of the controlling shareholder	Sale of goods	Sale of finished products	Determined by negotiation based on market price	47.79	0.01%	Settled through banks		
Zhuhai Sanmed Biotech Inc. (珠海聖美生物診斷技術有限公司)	Associate	Sale of goods	Sale of finished products and raw materials	Determined by negotiation based on market price	101.60	0.01%	Settled through banks		
Zhuhai Medpha Biotechnology Co., Ltd. (珠海麥得發生物科技股份有限公司)	A company in which a senior management of the Company is holding position	Sale of goods	Sale of macromolecule materials	Determined by negotiation based on market price	19.42	0.00%	Settled through banks		
Guangdong Blue Treasure Pharmaceutical Co., Ltd. (廣東藍寶製藥有限公司)	Associate	Provision of services	Water, electricity and power	Determined by negotiation based on market price	575.78	42.53%	Settled through banks		
Shenzhen Haibin Pharmaceutical Co., Ltd. (深圳市海濱製藥有限公司)	Subsidiary of the controlling shareholder	Provision of services	Processing fee, testing	Determined by negotiation based on market price	18.54	1.37%	Settled through banks		

XV. SUBSTANTIAL CONNECTED TRANSACTION DISCLOSED PURSUANT TO THE SHENZHEN LISTING RULES *(continued)*

1. Connected Transactions in the Ordinary Course of Business *(continued)*

Connected party	Relationship with connected party	Type of connected transaction	Description of connected transaction	Pricing principle of connected transaction	Amount of connected transaction (RMB'000)	Proportion to transaction amount of the same category	Settlement method of connected transaction	Date of disclosure	Index of disclosure
Zhuhai Sanmed Biotech Inc. (珠海聖美生物診斷技術有限公司)	Associate	Provision of services	Water, electricity and power	Determined by negotiation based on market price	53.01	3.92%	Settled through banks		
Zhuhai Sanmed Biotech Inc. (珠海聖美生物診斷技術有限公司)	Associate	Provision of services	Processing fee, testing	Determined by negotiation based on market price	0.11	0.01%	Settled through banks		
Joincare Pharmaceutical Industry Group Co., Ltd. (健康元藥業集團股份有限公司)	Controlling shareholder	Provision of services	Processing fee, testing	Determined by negotiation based on market price	68.66	5.07%	Settled through banks		
Shenzhen Taitai Pharmaceutical Co., Ltd. (深圳太太藥業有限公司)	Subsidiary of the controlling shareholder	Provision of services	Processing fee, testing	Determined by negotiation based on market price	14.61	1.08%	Settled through banks		
Jiaozuo Joincare Pharmaceutical Industry Co., Ltd. (焦作健康元生物製品有限公司)	Subsidiary of the controlling shareholder	Provision of services	Processing fee, testing	Determined by negotiation based on market price	14.12	1.04%	Settled through banks		
Health Pharmaceutical (China) Co., Ltd. (健康藥業(中國)有限公司)	Subsidiary of the controlling shareholder	Leasing of assets as a lessor	Leasing of office premise as a lessor	Determined by negotiation based on market price	9.15	0.94%	Settled through banks		
Zhuhai Sanmed Biotech Inc. (珠海聖美生物診斷技術有限公司)	Associate	Leasing of assets as a lessor	Leasing of office premise as a lessor	Determined by negotiation based on market price	319.42	32.90%	Settled through banks		
Joincare Pharmaceutical Industry Group Co., Ltd. (健康元藥業集團股份有限公司)	Controlling shareholder	Leasing of assets as a lessee	Leasing of office premise as a lessee	Determined by negotiation based on market price	77.94	5.50%	Settled through banks		
Jiaozuo Joincare Pharmaceutical Industry Co., Ltd. (焦作健康元生物製品有限公司)	Subsidiary of the controlling shareholder	Leasing of assets as a lessee	Leasing of office premise and equipment as a lessee	Determined by negotiation based on market price	177.98	12.57%	Settled through banks		
Total					40,252.22				
Substantial amount of returned products (if any)			Not applicable						

XV. SUBSTANTIAL CONNECTED TRANSACTION DISCLOSED PURSUANT TO THE SHENZHEN LISTING RULES (continued)

1. Connected Transactions in the Ordinary Course of Business (continued)

Connected party	Relationship with connected party	Type of connected transaction	Description of connected transaction	Pricing principle of connected transaction	Amount of connected transaction (RMB'000)	Proportion to transaction amount of the same category	Settlement method of connected transaction	Date of disclosure	Index of disclosure
Projected total amount of connected transactions in the ordinary course of business during the current period by type and actual performance during the Reporting Period (if any)			During the Year, the total amount of the connected transactions actually conducted by the Group in the ordinary course of business was RMB402.5222 million. Among which, the connected transactions actually conducted in the ordinary course of business between the Group and the controlling shareholder (Joincare) and its subsidiaries amounted to approximately RMB352.2197 million, representing 66.03% of the projected amount (RMB533.4161 million) approved by the general meetings of the Company and the Board; the connected transactions actually conducted in the ordinary course of business between the Group and Blue Treasure Pharma amounted to approximately RMB44.5817 million, representing 85.25% of the projected amount (RMB52.2958 million) approved by the Board and the operating management of the Company; the connected transactions conducted in the ordinary course of business between the Group and LUNGLIFE AI, INC. (formerly known as Cynvenio Biosystems, Inc.) amounted to RMB0.0403 million, representing 33.58% of the projected amount (RMB0.12 million) approved by the operating management of the Company; and the connected transactions conducted in the ordinary course of business between the Group and Zhuhai Sanmed Biotech Inc. (珠海聖美生物診斷技術有限公司) amounted to RMB5.4863 million, representing 50.41% of the projected amount (RMB10.8833 million) approved by the Board; the connected transactions conducted in the ordinary course of business between the Group and Zhuhai Medpha Biotechnology Co., Ltd. (珠海麥得發生物科技股份有限公司) amounted to RMB0.1942 million, representing 38.84% of the projected amount (RMB0.5 million) approved by the operating management of the Company. The above connected transactions have not exceeded the projected amount approved.						
Reason for the significant difference between the transaction price and the reference market price (if applicable)			Not applicable						

2. Connected Transactions relating to Acquisition and Disposal of Assets or Equity

✓Applicable ☐Not applicable

Connected party	Relationship with connected party	Type of connected transaction	Description of connected transaction	Pricing principle of connected transaction	Carrying value of transferred assets (RMB'000)	Evaluation value of asset transfer (RMB'000)	Consideration of transfer (RMB'000)	Settlement method of connected transaction	Profit or loss of the transaction (RMB'000)	Date of disclosure	Index of disclosure
Xinxiang Haibin Pharmaceutical Co., Ltd. (新鄉海濱藥業有限公司)	Subsidiary of the controlling shareholder	Asset transfer	Sale of equipment	Determined by negotiation based on market price	60.15	-	69.57	Settled through banks	9.42	Not applicable	Not applicable
Jiaozuo Joincare Pharmaceutical Industry Co., Ltd. (焦作健康元生物製品有限公司)	Subsidiary of the controlling shareholder	Asset transfer	Sale of equipment	Determined by negotiation based on market price	39.32	-	45.61	Settled through banks	6.29	Not applicable	Not applicable
L&L Biopharma, Co. Ltd. (上海健信生物醫藥科技有限公司)	Associate	Asset transfer	Purchase of technical knowhow	Determined by negotiation based on market price	188.68	-	188.68	Settled through banks	-	Not applicable	Not applicable
AbCyte Therapeutics Inc.	Associate	Asset transfer	Purchase of technical knowhow	Determined by negotiation based on market price	70.21	-	70.21	Settled through banks	-	Not applicable	Not applicable
Reason for the significant difference between the transfer consideration and carrying value or evaluation value (if any)			Not applicable								
Effect on the operating results and financial position of the Company			There is no significant effect on the operating results and financial position of the Company								

XV. SUBSTANTIAL CONNECTED TRANSACTION DISCLOSED PURSUANT TO THE SHENZHEN LISTING RULES (continued)

3. Connected Transactions on Joint External Investment

☐ Applicable ☒ Not applicable

4. Credits and Debts with Connected Persons

☐ Applicable ☒ Not applicable

Non-operating credits and debts with connected persons

☒ Yes ☐ No

Credits due from connected persons

Connected party	Relationships with connected party	Reason for occurrence	Non-operating use of fund	Balance at the Beginning of the Year (RMB'000)	Amount increased for the Year (RMB'000)	Amount recovered for the Year (RMB'000)	Interests rate	Interests for the Year (RMB'000)	Balance at the End of the Year (RMB'000)
Guangdong Blue Treasure Pharmaceutical Co., Ltd. (廣東藍寶製藥有限公司)	Associate	Sale of finished products, provision of services	No	53.09	4,612.64	3,166.68	-	-	1,499.05
Jiaozuo Joicare Pharmaceutical Industry Co., Ltd. (焦作健康元生物製品有限公司)	Subsidiary of the controlling shareholder	Sale of raw materials and transfer of assets	No	-	1,077.73	1,077.73	-	-	-
Shenzhen Taitai Pharmaceutical Co., Ltd. (深圳太太藥業有限公司)	Subsidiary of the controlling shareholder	Sale of finished products	No	25.07	85.52	69.00	-	-	41.59
Zhuhai Medpha Biotechnology Co., Ltd. (珠海麥得發生物科技股份有限公司)	A company in which a senior management of the Company is holding position	Sale of macromolecule materials	No	-	21.95	21.95	-	-	-
Joicare Pharmaceutical Industry Group Co., Ltd. (健康元藥業集團股份有限公司)	Controlling shareholder	Prepayments for procurement of finished products	No	2.62	48.41	38.35	-	-	12.68
LUNGLIFE AI, INC. (formerly known as CYNVENIO BIOSYSTEMS, INC.)	A company in which a Director is holding position	Prepayments for equipment and transferring technical knowhow	No	105.38	4.03	109.41	-	-	-
Zhuhai Sanmed Biotech Inc. (珠海聖美生物診斷技術有限公司)	Associate	Sale of finished products, prepayments for equipment	No	157.46	543.99	534.91	-	-	166.54
AbCyte Therapeutics Inc.	Associate	Prepayments for transferring technical knowhow	No	1,358.58	70.21	-	-	-	1,428.79
L&L Biopharma, Co. Ltd. (上海健信生物醫藥科技有限公司)	Associate	Prepayments for transferring technical knowhow	No	188.68	188.68	377.36	-	-	-
Shenzhen Haibin Pharmaceutical Co., Ltd. (深圳市海濱製藥有限公司)	Subsidiary of the controlling shareholder	Sale of finished products, provision of services	No	-	89.80	43.67	-	-	46.13
Xinxiang Haibin Pharmaceutical Co., Ltd. (新鄉海濱藥業有限公司)	Subsidiary of the controlling shareholder	Transfer of assets	No	-	60.00	-	-	-	60.00
Zhuhai Zhong Hui Yuan Investment Partnership (Limited Partnership) (珠海中匯源投資合夥企業(有限合夥))	An enterprise controlled by a Director	Transfer of equity interest	No	3,116.86	-	985.41	-	-	2,131.45

XV. SUBSTANTIAL CONNECTED TRANSACTION DISCLOSED PURSUANT TO THE SHENZHEN LISTING RULES *(continued)*

4. Credits and Debts with Connected Persons *(continued)*

Credits due from connected persons *(continued)*

Connected party	Relationships with connected party	Reason for occurrence	Non-operating use of fund	Balance at the Beginning of the Year (RMB'000)	Amount increased for the Year (RMB'000)	Amount recovered for the Year (RMB'000)	Interests rate	Interests for the Year (RMB'000)	Balance at the End of the Year (RMB'000)
Zuhai Lying Investment Management Partnership (Limited Partnership) (珠海麗英投資管理合夥企業(有限合夥))	An enterprise controlled by a Director	Transfer of equity interest	No	-	2,112.29	1,411.20	-	-	701.09
Joincare Pharmaceutical Industry Group Co., Ltd. (健康元藥業集團股份有限公司)	Controlling shareholder	Provision of services	No	-	76.34	61.72	-	-	14.62

Effect of credits due from connected parties on the operating results and financial position of the Company These credits mainly arose from the ordinary course of business of the Company. There is no significant effect on the operating results and financial position of the Company.

Debts payable to connected persons

Connected parties	Relationships with connected parties	Reason for occurrence	Balance at the Beginning of the Year (RMB'000)	Amount increased for the Year (RMB'000)	Amount recovered for the Year (RMB'000)	Interest rates	Interests for the Year (RMB'000)	Balance at the End of the Year (RMB'000)
Guangdong Blue Treasure Pharmaceutical Co., Ltd. (廣東藍寶製藥有限公司)	Associate	Procurement of raw materials	59.71	362.38	411.23	-	-	10.86
Shenzhen Haibin Pharmaceutical Co., Ltd. (深圳市海濱製藥有限公司)	Subsidiary of the controlling shareholder	Procurement of raw materials	970.20	3,850.51	2,192.59	-	-	2,628.12
Jiaozuo Joincare Pharmaceutical Industry Co., Ltd. (焦作健康元生物製品有限公司)	Subsidiary of the controlling shareholder	Procurement of raw materials	25,046.13	33,007.69	37,782.27	-	-	20,271.55
Joincare Pharmaceutical Industry Group Co., Ltd. (健康元藥業集團股份有限公司)	Controlling shareholder	Procurement of goods, leasing of assets as a lessee	1.30	85.04	86.34	-	-	-
Jiaozuo Joincare Pharmaceutical Industry Co., Ltd. (焦作健康元生物製品有限公司)	Subsidiary of the controlling shareholder	Water, electricity and power	578.71	2,054.60	1,922.64	-	-	710.67
Zuhai Sanmed Biotech Inc. (珠海聖美生物診斷技術有限公司)	Associate	Procurement of equipment	611.39	56.62	576.01	-	-	92.00
Zuhai Zhenghe Co., Ltd. (珠海正禾企業有限公司)	An enterprise controlled by a director of the subsidiary of the Company	Dividends payable	9,000.43	7,505.66	8,330.00	-	-	8,176.09
Zuhai Zhong Hui Yuan Investment Partnership (Limited Partnership) (珠海中匯源投資合夥企業(有限合夥))	An enterprise controlled by a Director	Dividends payable	-	146.66	-	-	-	146.66

Effect of debts payable to connected parties on the operating results and financial position of the Company These debts mainly arose from the ordinary course of business of the Company. There is no significant effect on the operating results and financial position of the Company.

XV. SUBSTANTIAL CONNECTED TRANSACTION DISCLOSED PURSUANT TO THE SHENZHEN LISTING RULES *(continued)***5. Other Major Connected Transactions**✓Applicable ☐Not applicable

For details of other major connected transactions, please refer to “Connected Transactions Defined Pursuant to Hong Kong Listing Rules” in the Section V of the Report. Save for the above, the Group had no other major connected transactions during the Year.

XVI. CONNECTED TRANSACTIONS DEFINED PURSUANT TO HONG KONG LISTING RULES**1. One-Off Connected Transactions****Provision of Guarantees for Livzon MAB**

The Company convened a Board meeting on 11 April 2019 to consider and approve the provision of joint liability guarantees to seven banks by the Company for Livzon MAB (in which the Company indirectly holds 55.13% equity interests) in its applications for facility financing of up to a total of RMB770,000,000 or equivalent foreign currencies (the “Livzon MAB Guarantees”).

To ensure the fairness and equivalence of the Livzon MAB Guarantees, Joincare (which indirectly holds 35.75% equity interests of Livzon MAB), upon its shareholders’ approval, provided the Company with a “Letter of Undertaking for Counter Guarantee” pursuant to which it has undertaken to provide a counter guarantee in proportion to its shareholdings in Livzon MAB and the guarantee period will expire on the expiry date of the Company’s obligation under the Livzon MAB Guarantees.

As at 6 May 2019, Joincare directly and indirectly held approximately 44.81% of the total issued share capital of the Company, and Livzon MAB is indirectly held as to 35.75% by Joincare. Therefore, Livzon MAB, an associate of Joincare, is a connected person of the Company under Chapter 14A of the Hong Kong Listing Rules. As such, the Livzon MAB Guarantees constitute connected transactions of the Company under Chapter 14A of the Hong Kong Listing Rules. As the highest applicable percentage ratios in respect of the Livzon MAB Guarantees exceed 0.1% but are less than 5%, the Livzon MAB Guarantees are subject to the reporting and announcement requirements, but are exempt from the independent shareholders’ approval requirement under Chapter 14A of the Hong Kong Listing Rules.

Pursuant to the Shenzhen Listing Rules and the Articles of Association, since the total amount of the Livzon MAB Guarantees represents approximately 7.23% of the Company’s latest audited net assets attributable to the parent company (RMB10,651.98 million), the Livzon MAB Guarantees are therefore subject to consideration and approval at the shareholders’ general meeting of the Company. The Livzon MAB Guarantees were considered and approved by the 2018 annual general meeting on 30 May 2019.

The provision of the Livzon MAB Guarantees will facilitate the daily operation and business of Livzon MAB, alleviate the requirement for the Company to contribute capital in Livzon MAB and optimize its allocation of funds to other profitable business segments, which will benefit the Company and in turn promote the overall business development and consolidate the financial position of the Group.

During the Year, the Company has not signed any relevant agreement on the Livzon MAB Guarantees.

On 20 March 2020, the Company signed a guarantee contract with Bank of Communications Co., Ltd. Zhuhai Branch (“Bank of Communications”) to provide a credit guarantee of up to RMB50 million or equivalent foreign currency in favor of Bank of Communications to secure the credit facility granted to Livzon MAB by Bank of Communications.

XVI. CONNECTED TRANSACTIONS DEFINED PURSUANT TO HONG KONG LISTING RULES

*(continued)*1. One-Off Connected Transactions *(continued)***Disposal of 9.50% Equity Interest in Livzon Diagnostics**

On 8 November 2019, upon consideration and approval by the Board, the Company entered into an equity transfer agreement in relation to Zhuhai Livzon Diagnostics Inc. (珠海麗珠試劑股份有限公司) (the “Equity Transfer Agreement”) with Zhuhai Liying Investment Management Partnership (Limited Partnership) (珠海麗英投資管理合夥企業(有限合夥)) (“Lying”, Mr. Tang Yanggang, an Executive Director of the Company, is a general partner of Lying and has 19.9234% equity interest in Lying; The remaining 80.0766% equity interest of Lying was held by relevant Directors (excluding independent Directors) and senior management of the Company as well as core management of the Company and its controlling subsidiaries). Pursuant to which, the Company agreed to sell and Lying agreed to acquire 9.50% equity interest (i.e. 8,382,100 shares of Livzon Diagnostics) in Livzon Diagnostics (the “Disposal”) at a consideration of RMB21,122,892 (the “Consideration”). Upon completion of the Disposal, the equity interest of the Company in Livzon Diagnostics will decrease from 51.00% to 41.50%, and Livzon Diagnostics will continue to be a subsidiary of the Company. The Company intends to use all the net proceeds from the Disposal for general working capital purpose.

The Disposal could form a direct interest relationship between the core management of the Group and the business development of Livzon Diagnostics, which will fully mobilise the enthusiasm of the management and core employees of the Group, as well as stabilise and attract core talents, thereby effectively facilitate the operating business development of Livzon Diagnostics and promote the realisation of the future development strategy of the Group.

The parties determined that the Consideration after arm’s length negotiation with reference to the audited net asset value of Livzon Diagnostics as at 30 June 2019. The Consideration represented a premium of 37.16% over the audited net asset value of Livzon Diagnostics as at 30 June 2019. Each partner of Lying has earned his/her interests for being a partner of Lying by virtue of his/her service of 5 years or more in the Company and its controlling subsidiaries.

As at the date of the Equity Transfer Agreement, as Mr. Tang Yanggang, an Executive Director of the Company, is a general partner of Lying and has sole discretion to decide all matters of Lying, Lying is therefore a connected person of the Company by virtue of being an associate of Mr. Tang Yanggang. Accordingly, the Disposal under the Equity Transfer Agreement constitutes a connected transaction of the Company under Chapter 14A of the Hong Kong Listing Rules. As the applicable percentage ratios (as defined in the Hong Kong Listing Rules) in respect of the Disposal under the Equity Transfer Agreement exceed 0.1% but are less than 5% and the Consideration for the Disposal exceeds HK\$3,000,000, the Disposal under the Equity Transfer Agreement is subject to the reporting and announcement requirements, but is exempt from the independent shareholders’ approval requirement under Chapter 14A of the Hong Kong Listing Rules.

As at 16 December 2019, the Company has received a consideration of RMB14,112,000.00 and Livzon Diagnostics has completed the business registration formalities for the equity transfer and obtained a new business license. The remaining consideration of RMB7,010,892.00 will be paid to the Company in a lump sum by 31 December 2020 in accordance with the terms of the Equity Transfer Agreement.

XVI. CONNECTED TRANSACTIONS DEFINED PURSUANT TO HONG KONG LISTING RULES

*(continued)***2. Continuing Connected Transactions****Entering into the 2019 Second Sales Framework Agreement and the 2019 Second Labour Services Framework Agreement**

On 27 March 2019, with the consideration and approval of the Board, the Company and Joincare entered into (i) the 2019 First Sales Framework Agreement in relation to the continuing connected transactions of products sales from the Group to Joincare Group during the period from 1 January 2019 to 31 December 2019 with a maximum amount of RMB8.7054 million (the "Initial Sales Cap"), and (ii) the 2019 First Labour Services Framework Agreement in relation to the continuing connected transactions between the Group and Joincare Group on provision and receipt of labour services during the period from 1 January 2019 to 31 December 2019 with a maximum amount of RMB16.9451 million (the "Initial Labour Services Cap").

(1) Entering into the 2019 Second Sales Framework Agreement

On 17 June 2019, the Company and Joincare entered into the 2019 Second Sales Framework Agreement in relation to the continuing connected transactions of additional products sales from the Group to Joincare Group during the period from 17 June 2019 to 31 December 2019 with a maximum amount of RMB9.4515 million (the "Additional Sales Cap").

The entering into of the 2019 Second Sales Framework Agreement could fully utilise and leverage the Group's experience and technology in the production and research and development of APIs, help reduce risks in market price volatility and sustainable supply, utilise certain idle capacity of the Group, and provide stable income to the Group.

As at 17 June 2019, Joincare directly and indirectly owns approximately 44.81% of the equity interest of the Company and is therefore a controlling shareholder of the Company. As such, Joincare and its associates are connected persons of the Company and the transactions contemplated under the 2019 Second Sales Framework Agreement constitute continuing connected transactions of the Company under Chapter 14A of the Hong Kong Listing Rules. Since the 2019 First Sales Framework Agreement was entered into within a 12-month period prior to and inclusive of the date of the 2019 Second Sales Framework Agreement, the transaction amounts of the Initial Sales Cap and the Additional Sales Cap should be aggregated. As the highest applicable percentage ratios of the aggregation of the Initial Sales Cap and the Additional Sales Cap are higher than 0.1% but lower than 5%, the transactions contemplated under the 2019 Second Sales Framework Agreement are subject to the reporting and announcement requirements, but are exempted from the independent shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules.

XVI. CONNECTED TRANSACTIONS DEFINED PURSUANT TO HONG KONG LISTING RULES*(continued)***2. Continuing Connected Transactions** *(continued)***Entering into the 2019 Second Sales Framework Agreement and the 2019 Second Labour Services Framework Agreement** *(continued)***(2) Entering into the 2019 Second Labour Services Framework Agreement**

On 17 June 2019, Jiaozuo Hecheng and Jiaozuo Joincare entered into the 2019 Second Labour Services Framework Agreement in relation to the continuing connected transaction in respect of the addition of receipt of labour services from Jiaozuo Joincare by Jiaozuo Hecheng during the period from 17 June 2019 to 31 December 2019 with a maximum amount of RMB13.80 million (the "Additional Labour Services Cap").

Jiaozuo Hecheng is located inside the production site of Jiaozuo Joincare and requires the labour services from Jiaozuo Joincare including provision of water, electricity, steam and sewage treatment. If Jiaozuo Hecheng purchases such labour services from independent third parties, it will take time for Jiaozuo Hecheng to complete various procedures and formalities, which may affect its production and operation, and Jiaozuo Hecheng will have to pay for activation fees and bear the additional administrative costs incurred. Therefore, the receipt by Jiaozuo Hecheng of labour services from Jiaozuo Joincare may minimise the potential impact to production and operation of Jiaozuo Hecheng and save costs.

Jiaozuo Joincare is a subsidiary of Joincare and is therefore a connected person of the Company and the transactions contemplated under the 2019 Second Labour Services Framework Agreement constitute continuing connected transactions of the Company under Chapter 14A of the Hong Kong Listing Rules. Since the 2019 First Labour Services Framework Agreement was entered into within a 12-month period prior to and inclusive of the date of the 2019 Second Labour Services Framework Agreement, the transaction amounts of the Initial Labour Services Cap and the Additional Labour Services Cap should be aggregated. As the highest applicable percentage ratios of the aggregation of the Initial Labour Services Cap and the Additional Labour Services Cap are higher than 0.1% but lower than 5%, the transactions contemplated under the 2019 Second Labour Services Framework Agreement are subject to the reporting and announcement requirements, but are exempted from the independent shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules.

XVI. CONNECTED TRANSACTIONS DEFINED PURSUANT TO HONG KONG LISTING RULES*(continued)***2. Continuing Connected Transactions** *(continued)***Renewal of Continuing Connected Transactions for 2020 to 2022**

As the Group continues to expand its business, it was expected that more raw materials were required for manufacturing the Group's products in order to cope with its future business growth. Therefore, on 5 September 2014, 24 September 2015 and 25 October 2016, the Company and Joincare entered into the 2014 Joincare Purchases Framework Agreement, Supplementary Agreement, 2017 Joincare Purchases Framework Agreement respectively, pursuant to which, the Company obtained the annual caps of the continuing connected transactions with Joincare Group for the three years ended 31 December 2017, 2018 and 2019. As Joincare is the controlling shareholder of the Company, Joincare is a connected person of the Company under the Hong Kong Listing Rules. Companies in which Joincare held, directly or indirectly, 30% shareholdings or above are associates of Joincare and, therefore, are connected persons of the Company under the Hong Kong Listing Rules.

In order to renew the 2017 Joincare Purchases Framework Agreement (which would expire on 31 December 2019) and in view of the continuous development of the Group's business, upon consideration and approval by the Board, the Company and Joincare entered into the 2020 Joincare Purchases Framework Agreement on 16 August 2019 and the annual caps for the three years ending 31 December 2020, 2021 and 2022 were fixed at RMB445 million, RMB456 million and RMB467 million respectively.

As at the date of the 2020 Joincare Purchases Framework Agreement, Joincare directly or indirectly held approximately 44.81% of the total issued share capital of the Company, therefore Joincare and its associates are connected persons of the Company and the transactions contemplated under the 2020 Joincare Purchases Framework Agreement constitute continuing connected transactions of the Company under Chapter 14A of the Hong Kong Listing Rules. As the highest applicable percentage ratio for the proposed annual caps under the 2020 Joincare Purchases Framework Agreement exceeds 5% on an annual basis, the transactions contemplated thereunder are therefore subject to the reporting, announcement and independent Shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules. For details of the above transaction, please refer to the announcement of the Company dated 16 August 2019 and the circular of the Company dated 5 September 2019.

The 2020 Joincare Purchases Framework Agreement and the transactions contemplated thereunder and the relevant annual caps have been approved at the 2019 third extraordinary general meeting of the Company and came into effect on 15 October 2019.

The annual cap of products to be procured from Joincare Group by the Group for the year ended 31 December 2019 is RMB473 million, while the aggregate amount of actual purchase for the Year arising from the transactions between the Group and Joincare (the controlling shareholder of the Company) together with Joincare's subsidiaries constituting "continuing connected transactions" under Chapter 14A of the Hong Kong Listing Rules was RMB322.20 million. During the Year, both parties complied with the pricing principles and transaction terms as set out in 2014 Joincare Purchases Framework Agreement, Supplementary Agreement and 2017 Joincare Purchases Framework Agreement when undergoing the above continuing connected transactions.

XVI. CONNECTED TRANSACTIONS DEFINED PURSUANT TO HONG KONG LISTING RULES

(continued)

2. Continuing Connected Transactions (continued)

List of continuing connected transactions for the year 2019

Connected Parties	Relationships	Type of connected transactions	Pricing principle of connected transactions	Amounts of connected transactions in 2019 (RMB'000)	Proportion to transaction amounts of the same category
Shenzhen Haibin Pharmaceutical Co., Ltd. (深圳市海濱製藥有限公司)	Subsidiary of the controlling shareholder	Procurement of goods	Determined by negotiation based on market price	3,381.26	1.55%
Joincare Pharmaceutical Industry Group Co., Ltd. (健康元藥業集團股份有限公司)	Controlling shareholder	Procurement of goods	Determined by negotiation based on market price	34.15	0.02%
Shenzhen Taitai Pharmaceutical Co., Ltd. (深圳太太藥業有限公司)	Subsidiary of the controlling shareholder	Procurement of goods	Determined by negotiation based on market price	0.14	0.00%
Shenzhen Taitai Biotechnology Co., Ltd. (深圳太太生物科技股份有限公司)	Subsidiary of the controlling shareholder	Procurement of goods	Determined by negotiation based on market price	2.64	0.00%
Jiaozuo Joincare Pharmaceutical Industry Co., Ltd. (焦作健康元生物製品有限公司)	Subsidiary of the controlling shareholder	Procurement of goods	Determined by negotiation based on market price	28,801.78	13.23%
Jiaozuo Joincare Pharmaceutical Industry Co., Ltd. (焦作健康元生物製品有限公司)	Subsidiary of the controlling shareholder	Acceptance of services	Determined by negotiation based on market price	1,634.72	6.30%
Jiaozuo Joincare Pharmaceutical Industry Co., Ltd. (焦作健康元生物製品有限公司)	Subsidiary of the controlling shareholder	Sale of goods	Determined by negotiation based on market price	874.76	0.09%
Shenzhen Haibin Pharmaceutical Co., Ltd. (深圳市海濱製藥有限公司)	Subsidiary of the controlling shareholder	Sale of goods	Determined by negotiation based on market price	63.73	0.01%
Shenzhen Taitai Pharmaceutical Co., Ltd. (深圳太太藥業有限公司)	Subsidiary of the controlling shareholder	Sale of goods	Determined by negotiation based on market price	47.79	0.01%
Shenzhen Haibin Pharmaceutical Co., Ltd. (深圳市海濱製藥有限公司)	Subsidiary of the controlling shareholder	Provision of services	Determined by negotiation based on market price	18.54	1.37%
Jiaozuo Joincare Pharmaceutical Industry Co., Ltd. (焦作健康元生物製品有限公司)	Subsidiary of the controlling shareholder	Provision of services	Determined by negotiation based on market price	14.12	1.04%
Joincare Pharmaceutical Industry Group Co., Ltd. (健康元藥業集團股份有限公司)	Controlling shareholder	Provision of services	Determined by negotiation based on market price	68.66	5.07%
Shenzhen Taitai Pharmaceutical Co., Ltd. (深圳太太藥業有限公司)	Subsidiary of the controlling shareholder	Provision of services	Determined by negotiation based on market price	14.61	1.08%
Health Pharmaceutical (China) Co., Ltd. (健康藥業(中國)有限公司)	Subsidiary of the controlling shareholder	Leasing of assets as a lessor	Determined by negotiation based on market price	9.15	0.94%
Joincare Pharmaceutical Industry Group Co., Ltd. (健康元藥業集團股份有限公司)	Controlling shareholder	Leasing of assets as a lessee	Determined by negotiation based on market price	77.94	5.50%
Jiaozuo Joincare Pharmaceutical Industry Co., Ltd. (焦作健康元生物製品有限公司)	Subsidiary of the controlling shareholder	Leasing of assets as a lessee	Determined by negotiation based on market price	177.98	12.57%
Zhuhai Sanmed Biotech Inc. (珠海聖美生物診斷技術有限公司)	Associate	Procurement of goods	Determined by negotiation based on market price	72.89	0.03%
Zhuhai Sanmed Biotech Inc. (珠海聖美生物診斷技術有限公司)	Associate	Acceptance of services	Determined by negotiation based on market price	1.60	0.01%
Zhuhai Sanmed Biotech Inc. (珠海聖美生物診斷技術有限公司)	Associate	Sale of goods	Determined by negotiation based on market price	101.60	0.01%
Zhuhai Sanmed Biotech Inc. (珠海聖美生物診斷技術有限公司)	Associate	Provision of services	Determined by negotiation based on market price	53.12	3.92%
Zhuhai Sanmed Biotech Inc. (珠海聖美生物診斷技術有限公司)	Associate	Leasing of assets as a lessor	Determined by negotiation based on market price	319.42	32.90%
Total	-	-	-	35,770.60	-

XVI. CONNECTED TRANSACTIONS DEFINED PURSUANT TO HONG KONG LISTING RULES*(continued)***2. Continuing Connected Transactions** *(continued)***Confirmation from independent non-executive Directors in respect of the above connected transactions**

In respect of the abovementioned continuing connected transactions, the independent non-executive Directors of the Company have reviewed and confirmed under Rule 14A.55 of the Hong Kong Listing Rules that:

- such transactions were entered into in the Group's ordinary and usual course of business;
- such transactions were conducted on normal commercial terms; and
- such transactions were conducted in accordance with the agreements governing such transactions, and the terms of such transactions are fair and reasonable and in the interests of the shareholders of the Company as a whole.

Confirmation from the auditor in respect of the above connected transactions

The auditor of the Company have examined the above continuing connected transactions, and provided a letter to the Board under Rule 14A.56 of the Hong Kong Listing Rules stating that:

- Nothing has come to the auditor's attention that causes them to believe that the above transactions had not been approved by the Board of the Company;
- In respect of transactions for provision of goods or services by the Group, nothing has come to the auditor's attention that causes them to believe that the above transactions had not been conducted in accordance with the pricing policies of the Group;
- Nothing has come to the auditor's attention that causes them to believe that the above transactions had not been conducted in accordance with the relevant agreements governing such transactions; and
- Nothing has come to the auditor's attention that causes them to believe that the amounts of such transactions had exceeded the Group's annual cap of transactions for the year ended 31 December 2019.

3. Connected Transactions and Related Party Transactions

Details of the connected transactions and related party transactions of the Group during the Year are set out in "Note X 5. Related Transactions" of the financial statements of this annual report prepared in accordance with the China Accounting Standards for Business Enterprises. Save the connected transactions as disclosed in this chapter, none of other related party transactions are required to be included under the definition of "Connected Transactions" or "Continuing Connected Transactions" pursuant to Chapter 14A of the Hong Kong Listing Rules for disclosure according to its requirements. The Company confirmed that these connected transactions have complied with the disclosure requirements under Chapter 14A of the Hong Kong Listing Rules.

XVII. MATERIAL CONTRACTS AND THEIR ENFORCEMENT

1. Custody, Hiring and Leasing

Custody

☐Applicable ☒Not applicable

During the Year, the Company had no custody items generating gain or loss amounting to 10% or above of total profit of the Company.

Hiring

☐Applicable ☒Not applicable

During the Year, the Company had no hiring items generating gain or loss amounting to 10% or above of total profit of the Company.

Leasing

☐Applicable ☒Not applicable

During the Year, the Company had no leasing items generating gain or loss amounting to 10% or above of total profit of the Company.

2. Major Guarantees

☒Applicable ☐Not applicable

During the Year, the Company had no guarantees other than those to its subsidiaries.

(1) Guarantees

Credit Facilities Guarantees

Unit: RMB0'000

External guarantees of the Company and its subsidiaries (excluding guarantees to its subsidiaries)								
Name of guaranteed party	Disclosure date of the announcements relating to guaranteed amount	Guaranteed amount	Actual date of event (signing date of the agreement)	Actual guarantee amount	Type of guarantee	Period of guarantee	Performance completed or not	Related party guarantee
-	-	-	-	-	-	-	-	-
Total of external guaranteed amount approved during the Reporting Period (A1)				- Total of actual external guaranteed amount occurred during the Reporting Period (A2)				-
Total of external guaranteed amount approved at the End of the Reporting Period (A3)				- Total of actual external guaranteed amount occurred at the End of the Reporting Period (A4)				-

XVII. MATERIAL CONTRACTS AND THEIR ENFORCEMENT (continued)

2. Major Guarantees (continued)

(1) Guarantees (continued)

Credit Facilities Guarantees (continued)

Guarantees between the Company and its subsidiaries								
Name of guaranteed party	Disclosure date of the announcements relating to guaranteed amount	Guaranteed amount	Actual date of event (signing date of the agreement)	Actual guarantee amount	Type of guarantee	Period of guarantee	Performance completed or not	Related party guarantee
Livzon Group Livzon Pharmaceutical Factory (麗珠集團麗珠製藥廠)	2019.3.28	17,000.00	2016.11.30	2,322.32	joint liability guarantee	2016.11.30-2019.11.30	No	No
Livzon Group Livzon Pharmaceutical Factory (麗珠集團麗珠製藥廠)	2019.3.28	20,000.00	2018.05.07	6,340.17	joint liability guarantee	2018.4.8-2020.4.8	No	No
Zhuhai Livzon Diagnostics Inc. (珠海麗珠試劑股份有限公司)	2019.3.28	10,000.00	2017.10.09	3,582.82	joint liability guarantee	2017.08.22-2022.08.21	No	No
Zhuhai Livzon Diagnostics Inc. (珠海麗珠試劑股份有限公司)	2019.3.28	4,000.00	2019.10.16	314.14	joint liability guarantee	2019.10.16-2022.7.17	No	No
Livzon MABPharm Inc. (珠海市麗珠單抗生物技術有限公司)	2019.4.12	5,000.00	2016.06.22	1,864.31	joint liability guarantee	2016.6.22-2019.12.26	No	No
Zhuhai FTZ Livzon Hecheng Pharmaceutical Manufacturing Co., Ltd. (珠海保稅區麗珠合成製藥有限公司)	2019.3.28	20,000.00	2016.12.26	175.00	joint liability guarantee	2016.12.26-2019.12.26	No	No
Zhuhai FTZ Livzon Hecheng Pharmaceutical Manufacturing Co., Ltd. (珠海保稅區麗珠合成製藥有限公司)	2019.3.28	12,000.00	2017.10.09	7,129.29	joint liability guarantee	2017.08.22-2022.08.21	No	No
Livzon Group Fuzhou Fuxing Pharmaceutical Co., Ltd. (麗珠集團福州福興醫藥有限公司)	2019.3.28	10,000.00	2018.08.07	3,608.51	joint liability guarantee	2018.7.20-2023.7.19	No	No
Sichuan Guangda Pharmaceutical Manufacturing Co., Ltd. (四川光大製藥有限公司)	2019.3.28	5,000.00	2018.08.07	3,012.63	joint liability guarantee	2018.7.20-2023.7.19	No	No
Livzon Group (Ningxia) Pharmaceutical Manufacturing Co., Ltd. (麗珠集團(寧夏)製藥有限公司)	2019.3.28	14,000.00	2018.08.07	11,804.26	joint liability guarantee	2018.7.20-2023.7.19	No	No
Jiaozuo Livzon Hecheng Pharmaceutical Manufacturing Co., Ltd. (焦作麗珠合成製藥有限公司)	2019.3.28	5,000.00	2018.08.07	4,551.70	joint liability guarantee	2018.7.20-2023.7.19	No	No
Livzon Group Xinbeijiang Pharmaceutical Manufacturing Inc. (麗珠集團新北江製藥股份有限公司)	2019.3.28	8,100.00	2018.08.07	1,927.30	joint liability guarantee	2018.7.20-2023.7.19	No	No
Zhuhai Livzon Pharmaceutical Trading Co., Ltd. (珠海市麗珠醫藥貿易有限公司)	2019.3.28	8,000.00	2019.07.10	6,886.23	joint liability guarantee	2019.7.10-2020.7.10	No	No
Total of guaranteed amount to its subsidiaries approved during the Reporting Period (B1)			805,200.00	Total of actual guaranteed amount to its subsidiaries occurred during the Reporting Period (B2)				118,302.41
Total of guaranteed amount to its subsidiaries approved at the End of the Reporting Period (B3)			805,200.00	Total of actual guaranteed amount to its subsidiaries occurred at the End of the Reporting Period (B4)				53,518.69

XVII. MATERIAL CONTRACTS AND THEIR ENFORCEMENT *(continued)*2. Major Guarantees *(continued)*(1) Guarantees *(continued)*Credit Facilities Guarantees *(continued)*

Subsidiaries' guarantees to subsidiaries								
Name of guaranteed party	Disclosure date of the announcements relating to guaranteed amount	Guaranteed amount	Actual date of event (signing date of the agreement)	Actual guarantee amount	Type of guarantee	Period of guarantee	Performance completed	Related party guarantee
Ando Development Limited	N/A	34,881.00	2019.03.13	20,928.60	joint liability guarantee	2019.02.20- 2020.12.05	No	No
Total of guaranteed amount to the subsidiaries approved during the Reporting Period (C1)			34,881.00	Total of actual guaranteed amount to the subsidiaries occurred during the Reporting Period (C2)			20,928.60	
Total of guaranteed amount to the subsidiaries approved at the End of the Reporting Period (C3)			34,881.00	Total of actual guaranteed amount to the subsidiaries occurred at the End of the Reporting Period (C4)			20,928.60	
Total guaranteed amount of the Company (total of the above three items)								
Total of guaranteed amount approved during the Reporting Period (A1+B1+C1)			840,081.00	Total of actual guaranteed amount occurred during the Reporting Period (A2+B2+C2)			139,231.01	
Total of guaranteed amount approved at the End of the Reporting Period (A3+B3+C3)			840,081.00	Total of actual guaranteed amount occurred at the End of the Reporting Period (A4+B4+C4)			74,447.29	
Total of actual guaranteed amount (A4+B4+C4) as a percentage to the net assets of the Company						6.67%		
Including:								
Guarantee amount provided to Shareholders, the ultimate beneficial owner and their related parties (D)						-		
Debt guarantee amount directly or indirectly provided to guaranteed party with a gearing ratio exceeding 70% (E)						-		
The amount exceeding 50% of net assets in total guarantee amount (F)						-		
Total guarantee amount of the above three items (D+E+F)						-		
Statement on the contingent joint liability in connection with outstanding guarantees (if any)						Not applicable		
Statement on illegal external guarantees (if any)						Not applicable		

XVII. MATERIAL CONTRACTS AND THEIR ENFORCEMENT (continued)

2. Major Guarantees (continued)

(1) Guarantees (continued)

Pledge and guarantee of bills

The thirteenth meeting of the ninth session of the Board of the Company reviewed and approved "the Resolution on Conducting Notes Pool Business" and agreed that an amount of up to RMB1.4 billion for conducting notes pool business is to be shared by the Company and its subsidiaries. The amount of funds may be re-utilized. As at 31 December 2019, the pledge and guarantee of bills was as follows:

Unit: RMB0'000

Guarantor	Pledgee	Pledged amount of bills receivable	Name of guaranteed party	Description of guarantee	Guaranteed amount	Period of guarantee
Livzon Pharmaceutical Group Inc. (麗珠醫藥集團股份有限公司)	Industrial and Commercial Bank of China, Zhuhai Branch (工商銀行珠海分行)	1,152.75	Livzon Group Limin Pharmaceutical Manufacturing Factory (麗珠集團利民製藥廠)	Opening bank acceptance bills, joint liability guarantee	212.08	Till 24 May 2020
			Livzon Group Livzon Pharmaceutical Factory (麗珠集團麗珠製藥廠)	Opening bank acceptance bills, joint liability guarantee	736.78	Till 21 May 2020
	China Merchants Bank, Zhuhai Branch (招商銀行珠海分行)	19,688.32	Zhuhai FTZ Livzon Hecheng Pharmaceutical Manufacturing Co., Ltd. (珠海保稅區麗珠合成製藥有限公司)	Opening bank acceptance bills, joint liability guarantee	679.11	Till 15 July 2020
			Livzon Group Livzon Pharmaceutical Factory (麗珠集團麗珠製藥廠)	Opening bank acceptance bills, joint liability guarantee	3,973.42	Till 24 June 2020
			Jiaozuo Livzon Hecheng Pharmaceutical Manufacturing Co., Ltd. (焦作麗珠合成製藥有限公司)	Opening bank acceptance bills, joint liability guarantee	6,038.46	Till 18 June 2020
			Livzon Group Fuzhou Fuxing Pharmaceutical Co., Ltd. (麗珠集團福州福興醫藥有限公司)	Opening bank acceptance bills, joint liability guarantee	840.74	Till 19 June 2020
			Sichuan Guangda Pharmaceutical Manufacturing Co., Ltd. (四川光大製藥有限公司)	Opening bank acceptance bills, joint liability guarantee	1,255.16	Till 16 June 2020
			Livzon Group (Ningxia) Pharmaceutical Manufacturing Co., Ltd. (麗珠集團(寧夏)製藥有限公司)	Opening bank acceptance bills, joint liability guarantee	6,283.22	Till 24 June 2020
			Livzon Group Limin Pharmaceutical Manufacturing Factory (麗珠集團利民製藥廠)	Opening bank acceptance bills, joint liability guarantee	176.64	Till 11 April 2020
Total balance of actual quaranteed amount for subsidiaries at the End of the Reporting Period					20,195.61	

XVII. MATERIAL CONTRACTS AND THEIR ENFORCEMENT *(continued)***2. Major Guarantees** *(continued)***(1) Guarantees** *(continued)***Subsidiaries' guarantees to subsidiaries**

Lizhu (Hong Kong) Co., Limited (麗珠(香港)有限公司) provided guarantee for Ando Development Limited (安滔發展有限公司) in respect of the borrowings of USD30 million granted by Hongkong and Shanghai Banking Corporation Limited with a guarantee period from 20 February 2019 to 5 December 2020.

Guarantee provided to the Company by related parties

Joincare, the other shareholder of Livzon MAB, has provided a "Letter of Undertaking for Counter Guarantee", pursuant to which it has undertaken to provide a joint liability guarantee for 35.75% of the obligation of the Company under the guarantee granted to Livzon MAB and the guarantee period of which will be expired on the expiry date of the Company's obligation thereunder.

Zhuhai Zhenghe Co., Ltd. (珠海正禾企業有限公司), the other shareholder of Livzon Diagnostics, has provided a "Letter of Undertaking for Counter Guarantee", pursuant to which it has undertaken to provide a joint liability guarantee for 49% of the obligation of the Company under the guarantee granted to Livzon Diagnostics and the guarantee period of which will be expired on the expiry date of the Company's obligation thereunder.

Zhuhai Zhong Hui Yuan Investment Partnership (Limited Partnership) (珠海中匯源投資合夥企業(有限合夥)), the other shareholder of Xinbeijiang Pharmaceutical, has provided a "Letter of Undertaking for Counter Guarantee", pursuant to which it has undertaken to provide a joint liability guarantee for 8.44% of the obligation of the Company under the guarantee granted to Xinbeijiang Pharmaceutical and the guarantee period of which will be expired on the expiry date of the Company's obligation thereunder.

(2) Information on illegal external guarantees

☐ Applicable ☒ Not applicable

During the Reporting Period, the Company had no illegal external guarantee.

3. Entrusted cash assets management**Entrusted wealth management**

☐ Applicable ☒ Not applicable

During the Year, the Company had no entrusted wealth management.

Entrusted loans

☐ Applicable ☒ Not applicable

During the Year, the Company had no entrusted loans.

XVII. MATERIAL CONTRACTS AND THEIR ENFORCEMENT *(continued)*

4. Other Material Contracts

✓Applicable ☐Not applicable

Name of the contracted company	Name of the contracted counter party	Contract subject	Date of the contract	Pricing principle	Consideration of Transaction (RMB'000)	Connected Transaction	Connected relationship	Execution as at the End of the Reporting Period	Date of disclosure	Index of disclosure
Livzon Group Xinbeijiang Pharmaceutical Manufacturing Inc. (麗珠集團新北江製藥股份有限公司)	Hangzhou Zhongmei Huadong Pharmaceutical Co., Ltd. (杭州中美華東製藥有限公司)	Acarbose APIs (阿卡波糖原料藥)	31 May 2017	Determined by negotiation based on the market price	48,060.00	No	Nil	As at the End of the Reporting Period, an aggregate of RMB480.60 million transaction amount (tax inclusive) has been recorded, representing 100% of the contracted amount	2 June 2017	"Announcement of Livzon Pharmaceutical Group Inc. on entering into material contracts for daily operation by its subsidiaries" (No.2017-046)
Livzon Group Xinbeijiang Pharmaceutical Manufacturing Inc. (麗珠集團新北江製藥股份有限公司)	Hangzhou Zhongmei Huadong Pharmaceutical Co., Ltd. (杭州中美華東製藥有限公司)	Acarbose APIs (阿卡波糖原料藥)	13 February 2019	Determined by negotiation based on the market price	53,970.00	No	Nil	As at the End of the Reporting Period, an aggregate of RMB197.6087 million transaction amount (tax inclusive) has been recorded, representing 36.61% of the contracted amount	Not applicable	Not applicable

Save for such contracts as disclosed herein, the Company did not enter into any other material contracts during the Year.

5. Other Material Transactions

Save for transactions as disclosed in the Report, the Company did not enter into any other material transactions during the Year.

XVIII. SIGNIFICANT EVENTS OF SUBSIDIARIES OF THE COMPANY✓Applicable ☐Not applicable**Establishment of the JV Company by Livzon Diagnostics**

For details on the establishment of the JV Company by Livzon Diagnostics, please refer to “V. Analysis of Financial Conditions – 20. Investments” in Section IV of the Report.

Subscription for additional registered capital of Yizun Biopharmaceutics by Kadi

For details of subscription for additional registered capital of Yizun Biopharmaceutics by Kadi, please refer to “V. Analysis of Financial Conditions – 20. Investments” in Section IV of the Report.

Implementation of employee share incentive plan and capital increase of Livzon Diagnostics

On 8 November 2019, in order to further establish and improve Livzon Diagnostics’ long-term incentive mechanism, the Company held the 34th meeting of the 9th Session of the Board, which considered and approved the Implementation of the Employee Share Incentive Scheme of by a Controlling Subsidiary and, agreed that Livzon Diagnostics can implement the employee share incentive in compliance with relevant laws and regulations as well as the basic framework of the employee share incentive as determined by the Board of the Company. The general meeting of Livzon Diagnostics shall consider and approve the employee share incentive scheme and authorize the board of directors of Livzon Diagnostics to stipulate the details and the management measures of the scheme, including but not limited to related matters such as the incentive participants, the performance indicators, the operating mechanism of the shareholding platform and the execution of the agreement, according to the requirements of relevant laws, regulations and the articles of associations of Livzon Diagnostics.

On 13 November 2019, Livzon Diagnostics convened a board meeting to consider and approve the Formulation of Employee Incentive Plan of Livzon Diagnostics, the Formulation of Management Measures on Employee Share Incentive of Livzon Diagnostics and Capital Increase of Livzon Diagnostics. On 28 November 2019, Livzon Diagnostics held a general meeting to consider and approve the above proposals, which agreed to increase the total shares of Livzon Diagnostics from 88,232,932 shares to 92,876,771 shares, and to increase the registered capital of Livzon Diagnostics from RMB88,232,932 to RMB92,876,771 (the “Capital Increase”). On the same day, Livzon Diagnostics entered into a capital increase agreement with its former shareholders and investors, pursuant to which the investors agreed to invest RMB11,702,474, of which RMB4,643,839 was used to subscribe for 4,643,839 new shares mentioned above, and the remaining RMB7,058,635 was used to increase the capital reserve of the target company.

The shares of the employee incentive scheme of Livzon Diagnostics (the “Incentive Scheme”) come from the above-mentioned Capital Increase, through which Livzon Diagnostics issued its shares to the individual incentive participants or the shareholding platforms held by these individuals. A total of 4,643,839 shares were granted to the incentive participants under the Incentive Scheme, representing approximately 5% of the total share capital of Livzon Diagnostics after the issuance of the Incentive Plan.

As at 16 December 2019, relevant business registration procedures for the Incentive Plan and Capital Increase have been completed. After completion of the Capital Increase, the Company’s equity interest in Livzon Diagnostics will be reduced from 41.50% to 39.425% and Livzon Diagnostics will continue to be a subsidiary of the Company.

XIX. PLEDGE OF SHARES BY CONTROLLING SHAREHOLDERS

☐ Applicable ☒ Not applicable

XX. SOCIAL RESPONSIBILITY

1. Performance of Social Responsibility of Targeted Poverty Alleviation

(1) Targeted poverty alleviation plan

① Industry-based poverty alleviation

Basic strategy:

Under the guidance of the spirit of the Eighteenth National Congress of the Communist Party of China together with the Third, Fourth and Fifth Plenary Session of the Eighteenth National Congress, the Company fully implements the important instructions put forward by General Secretary Xi Jinping on strengthening poverty alleviation work. In accordance with the requirement of "Five Groups" supporting program, we establish the concept of "Targeted Poverty Alleviation + Huangqi (黄芪) Industry", promote the integration of poverty alleviation policy, industry development projects and occupational skills training, and implement poverty alleviation model of "Company + Base + Poor households", encouraging the poor households to cultivate and process Huangqi and develop a Huangqi industry with reference to the local conditions to make it a pillar industry for poverty relief in the long-term. The Company will explore the development of the Huangqi Industry based on local resources characteristics to achieve poverty elimination and construction of the "Chinese Medicine Ecological Base".

General objective:

To achieve full-scale and stable poverty elimination through industry for 150 people in three counties, namely Hunyuan, Tianzhen in Shanxi (山西) Province and Zizhou in Shanxi (陕西) Province from 2018 to 2020.

Major tasks in 2019:

- (i) Completing the training on standardized Huangqi (黄芪) plantation and processing technology for 50 people and enhancing the occupational skills of poor farmers;
- (ii) Adopting the poverty alleviation models of "Company + Base + Poor households" and "Company + Specialised farmers' cooperatives + Poor households" to achieve poverty elimination for 10 poor households through Huangqi industry, establishing demonstration base of standard production, incorporating poor households into the scope of base construction and improving the Huangqi production condition in poverty-stricken areas;

Protection measures: signing purchase orders of Huangqi with poor households and their products will be preferentially purchased subject to the fulfilment of enterprises' requirement under standardized production.

② Health-based poverty alleviation

To proactively follow the national policies and play a helpful role in health-based poverty alleviation, the Company conducts a health-based poverty alleviation project for chronic diseases by virtue of its own strengths in pharmaceutical industry. The project mainly involves donating drugs for chronic diseases such as hypertension, hyperlipidemia and cardiovascular diseases to targeted national poverty-stricken regions, providing timely assistance for low-income people, creating convenience for patients to take drugs nearby and relieving financial burden on healthcare of patients' families in financial difficulties, in order to make contribution to improving healthcare services for people in poverty-stricken regions.

XX. SOCIAL RESPONSIBILITY *(continued)***1. Performance of Social Responsibility of Targeted Poverty Alleviation** *(continued)***(2) Summary of targeted poverty alleviation during the Year**

① Industry-based poverty alleviation

During the Year, Datong Livzon Qiyuan Medicine Co., Ltd. (大同麗珠芪源藥材有限公司) ("Datong Livzon"), a subsidiary of the Company, has employed approximately 45 workers for its self-built base and jointly-constructed base, including 30 impoverished people (including workers at the base and processing staff at the workshop). Datong Livzon conducted 10 trainings on Huangqi planting, processing and storage for plant workers, growers, processing workers and Huangqi planting cooperatives in Shanxi (山西) and Shaanxi (陝西) self-built base and jointly-constructed base with 55 trainees. Datong Livzon docked with the Huangqi Industry Poverty Alleviation Project in Zizhou County, Yulin City, Shaanxi (陝西) Province. Datong Livzon entered into Huangqi purchase agreements with Shaanxi (陝西) Zizhou Fufa Cooperative and other cooperatives, pursuant to which it acquired 74 tons of finished Huangqi and helped 25 poor growers. In 2019, Datong Livzon acquired 74 tons of finished Huangqi from Zizhou with an output value of RMB6.217 million, and 29 tons of fresh Huangqi with an output value of RMB0.63 million.

② Health-based poverty alleviation

During the Year, the Company launched chronic disease poverty alleviation projects in poor counties/townships including Hunyuan County, Guangling County and Lingqiu County of Datong City in Shanxi (山西) Province, Dongxiang County and Tianzhu County in Gansu Province and Xianghai State Nature Reserve in Jilin Province, helping more than 2,000 local people, including 500 registered poor people. The Company will donate drugs valued at RMB6 million to Guangling County and Hunyuan County, Datong, Shanxi (山西) Province in the future.

(3) Effectiveness of targeted poverty alleviation

Indicators	Unit	Quantity/Progress
I. Overall situation	—	—
Including: 1. Funds	RMB0'000	698.91
2. Value of resources donated	RMB0'000	600.00
3. Number of registered poor people lifted out of poverty	Person	30
II. Investment breakdown	—	—
1. Industrial development for poverty alleviation	—	—
Including: 1.1 Type of industrial poverty alleviation projects	—	Poverty alleviation project through forestry and agriculture
1.2 Number of industrial poverty alleviation projects	Project	1
1.3 Amount invested in industrial poverty alleviation projects	RMB0'000	698.91
1.4 Number of registered poor people lifted out of poverty	Person	30
2. Health-based poverty alleviation	—	—
Including: 2.1 Amount invested in medical and healthcare resources for poverty-stricken regions	RMB0'000	600.00

XX. SOCIAL RESPONSIBILITY *(continued)***1. Performance of Social Responsibility of Targeted Poverty Alleviation** *(continued)***(4) Subsequent targeted poverty alleviation plans**

① Industry-based poverty alleviation

Adhering to the work guideline of “remaining practical and realistic, acting according to circumstances, giving different guidance to different categories of enterprises, and performing targeted poverty alleviation (實事求是、因地制宜、分類指導、精準扶貧)”, poverty alleviation measures and effectiveness for poverty households and poverty population are ensured with emphasis placed on “people” and “money”. According to the general objectives and requirements of poverty alleviation of the Group and Datong Livzon, Datong Livzon will implement the targeted poverty alleviation for 2020 is as follows:

- (i) Datong Livzon will employ approximately 50 local workers for its self-built base and jointly-constructed base, including approximately 20 impoverished people (including workers at the base and processing staff at the workshop).
- (ii) Datong Livzon will organize technicians to solve the insect pest problems in Huangqi plantation process for 10 poor households.
- (iii) Datong Livzon will sign purchase orders of Huangqi with poor households and their products will be preferentially purchased subject to the fulfilment of enterprises’ requirement under standardized production.

② Health-based poverty alleviation

Targeted poverty alleviation is the essence and highlight of the poverty alleviation work of the Party and the State in the new era, and it is also an important safeguard for building a well-off society in an all-round way and realizing the great “Chinese dream” of the Chinese nation. Targeted poverty alleviation requires that poverty alleviation work shall be focused on every poor household, adapting to local conditions and taking various forms to achieve poverty alleviation goals.

Joincare and the Group have launched the “Poverty Alleviation against Chronic Diseases (慢病扶貧)” program by virtue of their own advantages. This form of targeted poverty alleviation is the first of its kind in the domestic enterprises, and it is also the only form of public welfare poverty alleviation with a certain scale. The project accurately targets hypertension, hyperlipidemia, and cardiovascular and cerebrovascular diseases. As such, donations to poor counties include Pravastatin Capsules (普伐他汀膠囊), Amlodipine Besylate Capsules (苯磺酸氨氯地平膠囊), Irbesartan Tablets (厄貝沙坦片), Valsartan Capsules (纈沙坦膠囊), and Isosorbide Bononitrate Tablets (單硝酸異山梨酯片) and other drugs for treatment of chronic diseases, which could be worth millions of RMB. These drugs can really help families with financial difficulties, make it convenient for patients in the regions to take drugs nearby, and provide timely assistance to low-income people. Based on actual conditions, the project regularly makes continuous drug donations to poverty-stricken regions and helps to implement poverty alleviation work in such regions.

XX. SOCIAL RESPONSIBILITY *(continued)***1. Performance of Social Responsibility of Targeted Poverty Alleviation** *(continued)***(4) Subsequent targeted poverty alleviation plans** *(continued)*② Health-based poverty alleviation *(continued)*

In respond to the Targeted Poverty Alleviation Strategy of the PRC, Joincare and the Group, which take social welwares as their long term undertaking, aim to alleviate poverty among the elder patient group with chronic diseases, who often suffer illness and get into poverty due to medicine expenditures because of the prevalence of chronic diseases such as hypertension, hyperlipemia and cardio-cerebro vascular diseases. Therefore, Joincare and the Group sponsored the “Poverty Alleviation against Chronic Diseases” program for the underprivileged group in poverty. From late 2018 onwards, the “Poverty Alleviation against Chronic Diseases” program was carried out subsequently at poverty counties/countrysides including Chaotian District of Guangyuan City in Sichuan Province, Songpan County of the Autonomous Prefecture of Aba Zangs and Qiangs in Sichuan Province, Hunyuan County, Guangling County and Lingqiu County of Datong City in Shanxi (山西) Province, Dongxiang County and Tianzhu County in Gansu Province and Jilin Xianghai national nature reserve, in which some of the middle-aged and elder patients with chronic diseases gained benefits.

As at 31 December 2019, there were total of 9 contracted poverty counties, among which 8 were counties and one was natural nature reserve at state level, and there were registered poor people of not less than 500 who received our aids, which is expected to be not less than 2000 by 2020. By showing documentary film, we called for more efforts to take participation in the implementation of the great state policy of targeted poverty alleviation. We were invited to attend 2019 Beijing International Public Service Advertisement Conference and won 2019 Golden Flag Award, an award renowned as OSCAR in marketing industry.

Except for Jiange County in Sichuan Province, all the drugs are ready for access. The drugs donated will be distributed by local people’s hospitals or health centers after assessing patients’ status based on the list of patients with chronic diseases from poor households across the region or county as confirmed by local healthcare bureaus.

2. Performance of Other Social Responsibilities

During the Year, the Group actively performed social responsibility, fulfilled the information disclosure obligations and effectively protected the legitimate interests of the shareholders, creditors and all employees of the Group in strict accordance with the relevant provisions of laws and regulations such as the Company Law, the Securities Law, the Shenzhen Listing Rules and the Hong Kong Listing Rules, departmental rules and regulations, normative documents and the Articles of Association. Through continuously improving the Group’s overall strength and strengthening the management of environmental protection, the Company has achieved harmonious development between the Company and its shareholders, creditors and consumers.

(1) Protection of shareholders’ and creditors’ rights and interests

In strict accordance with the relevant provisions of the Company Law, the Securities Law and the Guidelines of Standardized Operation for Companies Listed on the Shenzhen Stock Exchange (《深圳證券交易所上市公司規範運作指引》), the Group fulfilled the information disclosure obligation, and disclosed the Group’s periodic report and interim announcement realistically, accurately, completely, fairly and promptly with no selective disclosure, ensuring the right of all shareholders to be notified of important matters and operating performance of the Group. At the same time, in order to further strengthen the management of investor relations, the Group adequately communicated and exchanged with investors through multiple means including telephone, internet, reception of visits from investment research organizations.

XX. SOCIAL RESPONSIBILITY *(continued)***2. Performance of Other Social Responsibilities** *(continued)***(1) Protection of shareholders' and creditors' rights and interests** *(continued)*

During the Year, the Group paid attention to safeguarding the interests of shareholders and creditors of the Company, conscientiously fulfilled the relevant commitments as scheduled, and promptly informed the creditors of material information related to their interests and actively cooperated with and lent support to the creditors to understand the finance and operation management of the Group in accordance with the law.

During the Year, the Group attached great importance to the investment return of our investors and, in strict compliance with the relevant provisions of the Articles of Association, proposed the 2019 dividend plan. For details, please refer to "PROFIT DISTRIBUTION OF ORDINARY SHARES AND CONVERSION OF CAPITAL RESERVE INTO SHARE CAPITAL OF THE COMPANY" and "PROPOSALS ON PROFIT DISTRIBUTION AND CONVERSION OF CAPITAL RESERVES INTO SHARE CAPITAL DURING THE YEAR" of Section V in the Report.

(2) Protection of workers' rights and interests

The Group strictly follows the relevant laws and regulations such as the Labor Law and the Labor Contract Law. Since its establishment, the Company has adhered to the employment guidelines of "Learning virtues from others, keeping harmony despite differences (見賢思齊·和而不同)", fully respected the career development of its staff, protected their legitimate rights and interests, continuously improved their working environment and effectively protected the production safety of its staff. During the Year, the Group maintained harmonious relationship with its employees.

In order to further implement the protection of workers' rights and interests, the Group has formulated and improved remuneration system and welfare mechanism, including salary system, employee incentive mechanism and other system and mechanism. During the Year, the Group fully completed the Restricted A Shares Incentive Scheme and successfully completed the registration of the reserved grant and the exercise in the first exercise period of the first grant under the 2018 Share Options Incentive Scheme. During the year, in order to further establish and improve the Company's long-term incentive mechanism, attract and retain outstanding employees, fully motivate the Directors, senior management, mid-level management and relevant core personnel of the Company and effectively integrate shareholders' interests, the Company's interests and individual interests of the core team members, the Group introduced the Medium to Long-term Business Partner Share Ownership Scheme (Draft) in December 2019, which has been approved by the general meeting in February 2020.

During the Year, in order to enhance the cohesion and sense of belonging among staff members, the Group held a number of sports competitions and carried out a series of large-scale outdoor activities such as climbing mountains, visiting parks and fun games, which effectively relieved the stress of staff, enriched their life outside work, facilitated the bonds among staff members and created a harmonious working atmosphere.

(3) Safe production and environmental protection

During the Year, the Group strictly implemented and complied with various laws and regulations on production safety and environmental protection, such as the Environmental Protection Law of the People's Republic of China and the Production Safety Law of the People's Republic of China, operated in accordance with the various requirements of environmental management system and occupational health and safety management system, and constantly improved the systematic environmental protection and safety risk controls. In order to ensure that each production enterprise operates in line with the national standards in terms of the waste water discharge, emission, noise control, hazardous waste disposal and other environmental protection aspects, the Group constantly increased the capital investment in environmental protection, which effectively guaranteed the smooth implementation of safety and environmental protection work. In addition, the Group regularly publicized the safety and environmental information as required by the regulations and actively improved the public participation in various types of information.

XX. SOCIAL RESPONSIBILITY *(continued)***2. Performance of Other Social Responsibilities** *(continued)***(3) Safe production and environmental protection** *(continued)*

The production enterprises under the Group are equipped with sewage treatment facilities, waste gas treatment facilities, noise pollution control facilities and RTO incinerator in VOCs treatment of APIs enterprises. In order to further strengthen various aspects of the environmental protection, the Group actively updated and transformed various environmental protection facilities, promoted clean production, and implemented "recycling, reduction and harmless" treatment for hazardous waste, thus improving the utilization rate of resources and reducing the pollutant concentration and total emission. Through energy saving and emission reduction, the Group strived to realize the coordinated development among economic benefit, social benefit and environmental protection benefit.

The production enterprises of the Group set up special environmental protection management department and deployed environmental protection management personnel, formulated various safety and environmental management regulations and filed the same with the local environmental protection authorities. The production enterprises of the Group prepared plans for environmental emergencies, set up emergency leadership groups and working groups to learn the emergency management measures, and organized professional training and emergency plan drills for employees on a regular basis. During the Year, the production enterprises of the Group had no major environmental accidents and safety production accidents, and the annual safety and environmental protection objectives and plans of the production enterprises were effectively implemented.

(4) The listed company and its subsidiaries belonging to key pollutant discharging units as announced by the environmental protection department

✓Yes ☐No ☐Not applicable

(i) Livzon Group Fuzhou Fuxing Pharmaceutical Co., Ltd. (麗珠集團福州福興醫藥有限公司)

Name of company or subsidiary	Name of major pollutants and specific pollutants	Mode of discharge	Number of discharge outlets	Distribution of discharge outlets	Discharge concentration (mg/L)	Pollutant discharge standards implemented	Total amount of discharge (t)	Total amount of discharge approved (t/a)	Excessive discharge
						(mg/L)			
Livzon Group Fuzhou Fuxing Pharmaceutical Co., Ltd. (麗珠集團福州福興醫藥有限公司)	Chemical oxygen demand	Intermittent	1	The northwest side of the factory	58.5	100	56.56	124.5	Nil
	Ammonia nitrogen				0.73	15	0.703	18.7	Nil

Note: The discharge concentration represents the actual discharge concentration, and the standards implemented represent the standards for discharge to the environment by Jiangyin sewage plant (江陰污水處理廠) (i.e. COD ≤ 100 mg/L, ammonia nitrogen ≤ 15 mg/L), and the agreed standard for discharge of COD and ammonia nitrogen from the company to Jiangyin sewage plant shall be ≤ 500 mg/L and ≤ 60 mg/L respectively. The data was obtained from Fuqing Environmental Protection Bureau.

XX. SOCIAL RESPONSIBILITY *(continued)***2. Performance of Other Social Responsibilities** *(continued)***(4) The listed company and its subsidiaries belonging to key pollutant discharging units as announced by the environmental protection department** *(continued)***(i) Livzon Group Fuzhou Fuxing Pharmaceutical Co., Ltd. (麗珠集團福州福興醫藥有限公司)** *(continued)*

Construction and operation of pollution prevention & treatment facilities:

The company strictly complies with the “Three Simultaneous” system of environmental protection by collecting and treating “Three Wastes” according to requirements, and employs an advanced sewage treatment process known as “Regulating pool + Hydrolysis acidification tank + SBR + Air float”. After the sewage has gone through the above treatment process, all indicators are stable and satisfy the discharge standard. After meeting the discharge standards, the sewage is discharged to the sewage plant in Jiangyin operated by Fujian Huadong Water Treatment Co., Ltd. (福建華東水務有限公司) via sewage pipe network at the industrial park area for further treatment. A newly constructed RTO waste gas treatment facility can treat organic waste gas through high-temperature incineration which will be emitted after meeting emission standards.

Environmental Impact Assessment of Construction Projects and Other Environmental Protection Administrative Licensing:

The “Environmental Impact Report on Product Upgrading Project of Livzon Group Fuzhou Fuxing Pharmaceutical Co., Ltd. (《麗珠集團福州福興醫藥有限公司產品升級改造項目環境影響報告書》)” was approved on 7 March 2017; and environmental protection inspection and acceptance upon completion of construction was passed on 25 November 2017. The “Environmental Impact Report on the Expansion Project for Production of 20 Tonnes of Paromomycin, 2 Tonnes of Telavancin, 1.8 Tonnes of Pentostatin, 3 Tonnes of Daptomycin, 3 Tonnes of Teicoplanin, 0.3 Million and 1 Billion of Kanamycin Monosulfate and 2 Tonnes of Milbemycin Oxime per Year (《年產巴龍黴素20噸、特拉萬星2噸、噴司他汀1.8噸、達托黴素3噸、替考拉寧3噸、單硫酸卡那黴素30萬十億、米爾貝肅2噸擴建項目環境影響報告書》)” of the company was approved on 24 July 2018; and the phased inspection and acceptance was passed for production of 3 tonnes of Teicoplanin and 2 tonnes of Telavancin on 12 October 2019. The “Environmental Impact Report on the Project for Annual Production of 1,000 Tonnes of Colistin Premix (《年產黏桿菌素預混劑1,000噸項目環境影響報告表》)” of the company was approved on 27 November 2018; and the inspection and acceptance was passed on 9 May 2019. The company strictly implements the “Three Simultaneous” system and take environmental protection measures required for environmental assessment, with the environmental protection facilities under normal operation. After obtaining a new national pollutant discharge license on 27 December 2017, the company has been discharging pollutants in strict compliance with the licensing requirements and various administrative requirements.

Environmental Emergency Contingency Plan:

Pursuant to relevant regulations and requirements, the “Environmental Emergency Contingency Plan of Livzon Group Fuzhou Fuxing Pharmaceutical Co., Ltd. (《麗珠集團福州福興醫藥有限公司突發環境事件應急預案》)” was prepared based on the principles of “Focus on Prevention, Aim at Self-help, Centralized Command, Division of Responsibility (預防為主、自救為主、統一指揮、分工負責)”, which was approved on 1 November 2019 with the file reference number 350181-2019-039-M.

After environmental emergency incidents occur, immediate, quick, effective and orderly emergency rescue actions will be taken to control and prevent accidents and the spread of contamination, protect the surrounding environment effectively and ensure the personal life and property safety of all employees, the company and the nearby communities. In accordance with the contents and requirements of such plan, the company provides trainings and drills for its employees to get them well-prepared for environmental emergency incidents, so that rescue actions could be taken in a timely manner and incidents could be controlled effectively in a short period of time in case of any environmental emergency incidents.

XX. SOCIAL RESPONSIBILITY *(continued)***2. Performance of Other Social Responsibilities** *(continued)***(4) The listed company and its subsidiaries belonging to key pollutant discharging units as announced by the environmental protection department** *(continued)***(i) Livzon Group Fuzhou Fuxing Pharmaceutical Co., Ltd.** (麗珠集團福州福興醫藥有限公司) *(continued)*

Environmental Self-monitoring Program:

According to the relevant requirements of the “Measures for Self-Monitoring and Information Disclosure by Enterprises subject to Intensive Monitoring and Control of the State (Trial Implementation)” (《國家重點監控企業自行監測及信息公開辦法(試行)》) and the “Technical Guidelines for Self-Monitoring by Pollution Discharge Enterprises in the Fermentation Pharmaceutical Industry (HJ882-2017)” (《排污單位自行監測技術指南發酵類製藥工業(HJ882-2017)》), the company has completed the establishment of the self-monitoring program based on its own situation in a timely manner and made the program available to the public after being examined by and filed with Fuzhou Environment Protection Bureau and Fuzhou Environment Protection Bureau. The analysis methods of the monitoring program comply with the national environmental monitoring technical standards and methods; the monitoring and analysis instruments have been examined and calibrated in strict compliance with the relevant national requirements; the automated monitoring equipment has been installed in accordance with the requirement of environmental assessment technical standards, which are connected to relevant environmental protection authorities and have passed the inspection and acceptance of the relevant environmental protection authorities. The automated monitoring equipment has been functioning properly and the monitoring information is accurate, valid and authentic. Information publicity website: <http://wryfb.fjemc.org.cn>

(ii) Livzon Group Xinbeijiang Pharmaceutical Manufacturing Inc. (麗珠集團新北江製藥股份有限公司)

Name of company or subsidiary	Name of major pollutants and specific pollutants	Mode of discharge	Number of discharge outlet(s)	Distribution of discharge outlet(s)	Discharge concentration (mg/L)	Standard adopted for pollutant discharge (mg/L)	Total amount of discharge (t)	Approved total amount of discharge (t/a)	Excessive discharge
Livzon Group Xinbeijiang Pharmaceutical Manufacturing Inc. (麗珠集團新北江製藥股份有限公司)	Chemical oxygen demand	Intermittent	1	Sewage treatment workshop	102.42	240	104.95	162.46	Nil
	Ammonia nitrogen				8.94	70	9.16	24.5	Nil

Note: The discharge concentration represents the concentration of discharge into Qingyuan Henghe Sewage Treatment Plant (清遠橫荷污水處理廠), while the standard adopted for discharge represents the standard stipulated in the pollutant discharge license of the company, i.e. COD ≤ 240 mg/L, ammonia nitrogen ≤ 70 mg/L. The data was obtained from Qingyuan Environmental Protection Bureau.

XX. SOCIAL RESPONSIBILITY *(continued)***2. Performance of Other Social Responsibilities** *(continued)***(4) The listed company and its subsidiaries belonging to key pollutant discharging units as announced by the environmental protection department** *(continued)***(ii) Livzon Group Xinbeijiang Pharmaceutical Manufacturing Inc. (麗珠集團新北江製藥股份有限公司)** *(continued)*

Construction and Operation of Pollution Preventive Facilities:

The “Three Wastes” were collected and treated effectively in strict compliance with the “Three Simultaneous” system. The sewage treatment facilities with an investment amount of over RMB30 million have a designed processing capacity of 3,000 t/d and adopt the treatment process of “Pre-treatment + Aerobic pool + Hydrolysis acidification tank + SBR + Catalytic oxidation + Air float”. The treated waste water was discharged through the municipal pipeline network into Qingyuan Henghe Sewage Treatment Plant.

Environmental Impact Assessment of Construction Projects and Status of Other Environmental Protection Administrative Licensing:

The “Environmental Impact Report on Current Status of Projects of Livzon Group Xinbeijiang Pharmaceutical Manufacturing Inc. (《麗珠集團新北江製藥股份有限公司項目現狀環境影響報告書》)” was approved and filed on 6 December 2016; with strict enforcement of the “Three Simultaneous” system and implementation of the environmental protection measures required under the environmental impact assessment, the environmental protection facilities have been functioning properly. On 29 December 2017, approval was granted for the application of a new national pollutant discharge license and the procedure for replacing the pollutant discharge license was completed. Various environment protection policies were strictly enforced.

Environmental Emergency Contingency Plan:

Pursuant to relevant regulations and requirements, the “Environmental Emergency Contingency Plan of Livzon Group Xinbeijiang Pharmaceutical Manufacturing Inc. (《麗珠集團新北江製藥股份有限公司突發環境事件應急預案》)” was prepared based on the principles of “Focus on Prevention, On-alert all the time; Management by Classification, Response by Tiers; Cooperation among Departments, Responsibility by Levels; Scientific Prevention and Efficient Disposal (預防為主，常備不懈；分類管理，分級回應；部門合作，分級負責；科學預防，高效處置)”, which has been approved for filing approval and announced. The company conducted internal exercises regularly to identify environmental factors and sources of hazards, as well as drills on the emergency contingency plan to improve the operability thereof, enhance the performance level of the emergency rescue staff, responsiveness of the rescue team as well as coordination and collaboration of different tasks.

Environmental Self-monitoring Program:

According to the relevant requirements of the “Measures for Self-Monitoring and Information Disclosure by Enterprises subject to Intensive Monitoring and Control of the State (Trial Implementation) (《國家重點監控企業自行監測及信息公開辦法(試行)》)”, the company has completed the establishment of the self-monitoring program based on its own situation in a timely manner and made the program available to the public after being examined by and filed with Qingyuan Environment Protection Bureau. The analysis methods of the monitoring program comply with the national environmental monitoring technical standards and methods; the monitoring and analysis instruments have been examined and calibrated in strict compliance with the relevant national requirements; the automated monitoring equipment has been installed in accordance with the requirement of environmental assessment technical standards, while online monitoring equipment has passed the inspection and acceptance of the relevant environmental protection authorities and the connection between online information and national development platform and Qingyuan municipal platform has been completed. The automated monitoring equipment has been functioning properly and the monitoring information is accurate, valid and authentic. Information publicity website: www.livzon-nnr.com

XX. SOCIAL RESPONSIBILITY (continued)

2. Performance of Other Social Responsibilities (continued)

(4) The listed company and its subsidiaries belonging to key pollutant discharging units as announced by the environmental protection department (continued)

(iii) Zhuhai FTZ Livzon Hecheng Pharmaceutical Manufacturing Co., Ltd. (珠海保稅區麗珠合成製藥有限公司)

Name of company or subsidiary	Name of major pollutants and specific pollutants	Mode of discharge	Number of discharge outlet(s)	Distribution of discharge outlet(s)	Discharge concentration (mg/L)	Standard adopted for pollutant discharge (mg/L)	Total amount of discharge (t)	Approved total amount of discharge (t/a)	Excessive discharge
Zhuhai FTZ Livzon Hecheng Pharmaceutical Manufacturing Co., Ltd. (珠海保稅區麗珠合成製藥有限公司)	Chemical oxygen demand	Indirect	1	Wastewater treatment station	57.11	192	12.1245	42.05	Nil
	Ammonia nitrogen (NH ₃ -N)				9.63	40	2.045	8.76	Nil
	Name of major pollutants and specific pollutants	Mode of discharge	Number of discharge outlet(s)	Distribution of discharge outlet(s)	Discharge concentration (mg/m ³)	Standard adopted for pollutant discharge (mg/m ³)	Total amount of discharge (t)	Approved total amount of discharge (t/a)	Excessive discharge
	Sulphur dioxide	Organized continuous emission	3	Boiler room	9.99	50	0.524	/	Nil
	Nitrogen oxide	Organized continuous emission	3	Boiler room	82.31	150	3.891	/	Nil
	Particulate matter	Organized continuous emission	3	Boiler room	10	20	0.5422	/	Nil
	Hydrogen chloride	Organized continuous emission	7	Workshop	2.44	100	0.745	/	Nil
	Non-methane hydrocarbons	Organized continuous emission	7	Workshop	9.33	120	6.068	/	Nil
	Non-methane hydrocarbons	Organized continuous emission	1	RTO	1.56	120	0.194	/	Nil
	Nitrogen oxide	Organized continuous emission	1	RTO	11.30	120	1.382	/	Nil
	Sulphur dioxide	Organized continuous emission	1	RTO	19.50	500	2.376	/	Nil

Note: the discharge concentration represents the concentration of discharge by the company into South District Sewage Treatment Plant, while the standard adopted for discharge represents the standard stipulated in the pollutant discharge license of the company, i.e. COD ≤ 192 mg/L, ammonia nitrogen ≤ 40 mg/L.

XX. SOCIAL RESPONSIBILITY *(continued)***2. Performance of Other Social Responsibilities** *(continued)***(4) The listed company and its subsidiaries belonging to key pollutant discharging units as announced by the environmental protection department** *(continued)***(iii) Zhuhai FTZ Livzon Hecheng Pharmaceutical Manufacturing Co., Ltd. (珠海保稅區麗珠合成製藥有限公司)** *(continued)*

Construction and Operation of Pollution Preventive Facilities:

The “Three Wastes” were treated in a centralized and effective manner in strict compliance with the “Three Simultaneous” system and the maintenance and management of pollution preventive facilities were enhanced to ensure that emission of pollutants was stable and in compliance with the required standard. The treatment process of “pre-treatment of drainage from the production process + hydrolytic acidification + upflow anaerobic sludge blanket (UASB) + advanced oxidation + CASS process + ozonation” was adopted. Treated sewage was discharged through the municipal sewage pipeline network into Zhuhai Leaguer Environmental Protection Co., Ltd. (珠海力合環保有限公司) (water purification plant in the South District). In 2018, new investment in environmental protection projects amounted to RMB4.48 million, of which RMB3.20 million was invested in exhaust gas RTO incineration treatment. Cover and sealing were added to the anaerobic tower, CASS tower and other facilities at the environmental protection centre. In 2019, new investment of RMB0.45 million in additional air floatation device was made for water outflow from CASS to remove particulates and colour, further reducing emission of pollutants. The hazardous wastes of the company were properly disposed of in compliance with regulations by qualified companies engaged according to environmental assessment and acceptance inspection opinion.

Environmental Impact Assessment of Construction Projects and Other Environmental Protection Administrative Licensing:

The Environmental Impact Assessment Report on Current Status of the Product Structure and Production Capacity Adjustment Project of Zhuhai FTZ Livzon Hecheng Pharmaceutical Manufacturing Co., Ltd. (《珠海保稅區麗珠合成製藥有限公司產品結構及產能調整項目現狀環境影響評價報告》) was approved in December 2016. The company strictly enforced the “Three Simultaneous” system and implemented environmental protection measures as required under environmental impact assessment with normal operation of the environmental protection facilities. After being approved of the application for a new national pollutant discharge license on 8 December 2017, the company strictly followed the licensing requirements for pollutant emission and strictly complied with various administrative requirements. The project of integrated control on VOCs completed filing on 26 October 2018 and passed the inspection and acceptance for clean production on 21 December 2018. Change of pollutant discharge license was completed in December 2019, with an additional outlet for emission from RTO equipment, increase in discharge volume of total nitrogen and VOCs in waste water and adoption of amendment to the Emission Standard for Boiler Atmospheric Pollutants in Guangdong Province (《廣東省鍋爐大氣污染物排放標準》) (DB 44/765-2019), which has strictly followed the licensing requirements for pollutant emission and strictly complied with various administrative requirements.

XX. SOCIAL RESPONSIBILITY *(continued)***2. Performance of Other Social Responsibilities** *(continued)***(4) The listed company and its subsidiaries belonging to key pollutant discharging units as announced by the environmental protection department** *(continued)***(iii) Zhuhai FTZ Livzon Hecheng Pharmaceutical Manufacturing Co., Ltd. (珠海保稅區麗珠合成製藥有限公司)** *(continued)*

Environmental Emergency Contingency Plan:

Pursuant to relevant provisions and requirements, the Environmental Emergency Contingency Plan of Zhuhai FTZ Livzon Hecheng Pharmaceutical Manufacturing Co., Ltd. (《珠海保稅區麗珠合成製藥有限公司突發環境事件應急預案》) was prepared based on the principles of "Focus on Prevention, Aim at Self-rescue, Centralized Command, and Division of Responsibility (預防為主、自救為主、統一指揮、分工負責)", which has been approved for filing and formally announced with file reference number 440462-2019-001-M. Trainings on emergency events and disposal measures were held regularly for employees to enable implementation of safety measures in a timely, fast, effective and orderly manner to control and prevent the worsening of condition and pollution when encountering any occurrence of environmental emergency cases, so as to alleviate or eliminate the consequences effectively and resume orderly production as soon as possible.

Environmental Self-monitoring Program:

Through self-monitoring, the requirements under the Technical Standards for Application and Issuance of Pollutant Discharge Licence for the Pharmaceutical Industry – Active Pharmaceutical Ingredient Manufacturing (HJ858.1-2017) (《排污許可證申請與核發技術規範製藥工業–原料藥製造(HJ858.1-2017)》) were strictly implemented, and the verification and calibration of monitoring analyzing devices were carried out in strict compliance with relevant provisions. Automated monitoring equipment was installed according to the requirements of technical standards for environmental detection, while online monitoring equipment for COD, ammonia nitrogen and PH level were installed and connected with the national development platform as required.

(iv) Gutian Fuxing Pharmaceutical Co., Ltd. (古田福興醫藥有限公司)

Name of company or subsidiary	Name of major pollutants and specific pollutants	Mode of discharge	Number of discharge outlet(s)	Distribution of discharge outlet(s)	Discharge concentration (mg/L)	Standard adopted for pollutant discharge (mg/L)	Total amount of discharge (t)	Approved total amount of discharge (t/a)	Excessive discharge
Gutian Fuxing Pharmaceutical Co., Ltd. (古田福興醫藥有限公司)	Chemical oxygen demand	Continuous	1	Southeastern part of the factory zone	49.813	120	15.124	108	Nil
	Ammonia nitrogen				10.831	35	3.165	31.5	Nil

Note: The discharge concentration represents the concentration of ultimate discharge into the environment, while the standard adopted for discharge represents the standard stipulated in the pollutant discharge license of the company, i.e. COD ≤ 120 mg/L, ammonia nitrogen ≤ 35 mg/L.

XX. SOCIAL RESPONSIBILITY *(continued)***2. Performance of Other Social Responsibilities** *(continued)***(4) The listed company and its subsidiaries belonging to key pollutant discharging units as announced by the environmental protection department** *(continued)***(iv) Gutian Fuxing Pharmaceutical Co., Ltd. (古田福興醫藥有限公司)** *(continued)*

Construction and Operation of Pollution Preventive Facilities:

At the same time when the enterprise started production, the “Three Wastes” were collected and treated effectively in accordance with the requirements of the “Three Simultaneous” system of environmental protection. This involves a designed sewage treatment capacity of 1,200 t/d, initial investment of more than RMB3.00 million, adoption of the advanced “A/O + SBR + Fenton decolorizing + air flotation” sewage treatment process, 6,000 m³ of effective reservoir capacity of the treatment system and more than 20 sets of treatment equipment with 350 KW installed capacity. So far, a further investment of nearly RMB1.00 million has been made successively to improve the water treatment process, thus ensuring that all wastewater treatment indicators are stable and satisfy the discharge standard. Treated sewage that reaches the grade-II discharge standard is directly discharged into Minjiang River. The hazardous wastes of the company are entrusted to qualified companies for compliant disposal according to environmental impact assessment and acceptance inspection opinions.

Environmental Impact Assessment of Construction Projects and Other Environmental Protection Administrative Licensing:

The company passed the environmental impact assessment on 30 June 1999 and the inspection and acceptance upon completion of construction carried out by Environmental Protection Bureau of Fujian Province on 5 June 2000. The company re-prepared its post-environmental impact assessment report in 2019 and passed the inspection and acceptance carried out by experts on 11 June 2019. The company strictly enforced the “Three Simultaneous” system and implemented the environmental protection measures as required under environmental impact assessment, with normal operation of the environmental protection facilities. After passing the application for a new pollutant discharge license from State authorities on 29 December 2017, the company strictly followed the licensing requirements for emissions of pollutants and strictly complied with various administrative requirements.

Environmental Emergency Contingency Plan:

Pursuant to relevant provisions and requirements, the Environmental Emergency Contingency Plan of Gutian Fuxing Pharmaceutical Co., Ltd. (《古田福興醫藥有限公司突發環境事件應急預案》) was prepared based on the principles of “Focus on Prevention, Aim at Self-rescue, Centralised Command and Division of Responsibility (預防為主、自救為主、統一指揮、分工負責)”. The contingency plan was approved in May 2017 with the file reference number 352200-2017-005-L.

According to the plan, after environmental emergency incidents occur, immediate, quick, effective and orderly emergency rescue actions will be taken to control and prevent accidents and the spread of contamination, protect the surrounding environment effectively and ensure the personal life and property safety of all employees, the company and the nearby communities. In accordance with the contents and requirements of the plan, the company provides trainings and drills for its employees to get them well-prepared for environmental emergency incidents, so that rescue actions could be taken in a timely manner and incidents could be controlled effectively in a short period of time in case of any environmental emergency incidents.

XX. SOCIAL RESPONSIBILITY *(continued)***2. Performance of Other Social Responsibilities** *(continued)***(4) The listed company and its subsidiaries belonging to key pollutant discharging units as announced by the environmental protection department** *(continued)***(iv) Gutian Fuxing Pharmaceutical Co., Ltd. (古田福興醫藥有限公司)** *(continued)*

Environmental Self-monitoring Program:

According to the relevant requirements of the “Measures for Self-Monitoring and Information Disclosure by Enterprises subject to Intensive Monitoring and Control of the State (Trial Implementation)” (《國家重點監控企業自行監測及信息公開辦法(試行)》), the company has completed the establishment of the self-monitoring program based on its own situation in a timely manner and made the program available to the public after being examined by and filed with Ningde Environment Protection Bureau and Gutian County Environmental Protection Bureau. The analysis methods of the monitoring program comply with the national environmental monitoring technical standards and methods; the monitoring and analysis instruments have been examined and calibrated in strict compliance with the relevant national requirements; the automated monitoring equipment has been installed in accordance with the requirements of environmental assessment technical standards, connected to the network of competent environmental protection authorities and passed the acceptance inspection conducted by the competent environmental protection authorities. The automated monitoring equipment was sound, and the monitoring information was accurate, valid and authentic. Information publicity website: <http://wryfb.fjemc.org.cn>.

(v) Livzon Group Limin Pharmaceutical Manufacturing Factory (麗珠集團利民製藥廠)

Name of company or subsidiary	Name of major pollutants and specific pollutants	Mode of discharge	Number of discharge outlet(s)	Distribution of discharge outlet(s)	Discharge concentration (mg/L)	Standard adopted for pollutant discharge (mg/L)	Total amount of discharge (t)	Approved total amount of discharge (t/a)	Excessive discharge
Livzon Group Limin Pharmaceutical Manufacturing Factory (麗珠集團利民製藥廠)	Chemical oxygen demand	Intermittent	1	Wastewater treatment station	23	110	5.98	Nil	Nil
	Ammonia nitrogen				2.28	15	0.59	Nil	Nil

Note: the wastewater of Livzon Group Limin Pharmaceutical Manufacturing Factory (麗珠集團利民製藥廠) was discharged into Shaoguan Second Sewage Treatment Plant (韶關市第二污水處理廠) and the standard adopted for pollutant discharge represented the standard stipulated in the pollutant discharge license of the company, i.e. COD ≤ 110mg/L, ammonia nitrogen ≤ 15mg/L, while the data detected by third party inspection firm was adopted as the discharge concentration.

XX. SOCIAL RESPONSIBILITY *(continued)***2. Performance of Other Social Responsibilities** *(continued)***(4) The listed company and its subsidiaries belonging to key pollutant discharging units as announced by the environmental protection department** *(continued)***(v) Livzon Group Limin Pharmaceutical Manufacturing Factory (麗珠集團利民製藥廠)** *(continued)*

Construction and Operation of Pollution Preventive Facilities:

The “Three Simultaneous” system was strictly implemented by the company for the treatment of “Three Wastes” by collecting and treating the “Three Wastes” effectively. The investment for sewage treatment facilities was over RMB13 million with designed processing capacity of 1,500t/d and adopted the treatment process of “Pre-treatment + Hydrolysis acidification tank + Facultative tank + Aerobic pool + Secondary Sedimentation”, and the wastewater after treatment was discharged through the municipal pipeline network into Shaoguan Second Sewage Treatment Plant (韶關市第二污水處理廠). In respect of exhaust gas treatment, biomass boilers were all replaced by gas boilers. In respect of control of noise pollution, RMB100,000 was invested to construct noise segregation wall to reduce noise pollution.

Environmental Impact Assessment of Construction Projects and Other Environmental Protection Administrative Licensing:

The Environmental Impact Report on the Technological Reform Project for the Research and Development Center of Livzon Group Limin Pharmaceutical Manufacturing Factory (《麗珠集團利民製藥廠研發中心技改項目環境影響報告書》) was approved on 6 December 2019, and the “Three Simultaneous” system was strictly enforced to implement the environmental protection measures required under the environmental impact assessment, with normal operation of the environmental protection facilities. A new national pollutant discharge license was obtained on 10 December 2019.

Environmental Emergency Contingency Plan:

The principles of occupational health and safe environment administrative system were followed, including occupational protection to ensure health, risk control to ensure safety, prevention and control of pollution to protect the environment, and compliance with discipline and law for continuous improvement. Identification of environmental factors was performed seriously and preventive measures were adopted for significant environmental factors, while the governance of the “Three Wastes” was strengthened to enhance the ability of control over the “Three Wastes” and ensure that the discharge of the “Three Wastes” had reached the discharge standards. The Emergency Contingency Plan for Occupational Health and Safety/Environmental Administration System of Livzon Group Limin Pharmaceutical Manufacturing Factory (《麗珠集團利民製藥廠職業健康安全/環境管理體系事故專項應急處置方案》) was prepared in accordance with the criteria of both systems. The plan was issued in December 2018 with file reference number LZLMZY-02. According to the contingency plan of both systems, identification of environmental factors and sources of hazards and drills for emergency were conducted internally in the company on regular basis to improve the operability of the contingency plan, enhance the performance level of the emergency rescue staff, responsiveness of the rescue team as well as coordination and collaboration of different tasks.

XX. SOCIAL RESPONSIBILITY (continued)**2. Performance of Other Social Responsibilities** (continued)

(4) The listed company and its subsidiaries belonging to key pollutant discharging units as announced by the environmental protection department (continued)

(v) Livzon Group Limin Pharmaceutical Manufacturing Factory (麗珠集團利民製藥廠) (continued)

Environmental Self-monitoring Program:

Shaoguan Zhongyu Kecheng Inspection Technology Co., Ltd. (韶關市中譽科誠檢測技術有限公司) with national qualification on environmental protection inspection was engaged to conduct monitoring strictly in compliance with the relevant national laws and regulations and standards. By considering its own specific conditions, the company appointed the inspection party to carry put ordinary monitoring of the environment for the year, and compiles manual monitoring plan four times in the year, that is, once every quarter, each time the monitoring would be conducted strictly in compliance with the relevant national requirements to ensure the accuracy, validity and authenticity of the monitoring data. Online data should be completed and filed to the Shaoguan Environmental Protection Bureau on a timely basis, and the relevant data would be announced to the public after being reviewed by and filing with the Shaoguan Environmental Protection Bureau.

(vi) Livzon Group (Ningxia) Pharmaceutical Manufacturing Co., Ltd. (麗珠集團(寧夏)製藥有限公司)

Name of company or subsidiary	Name of major pollutants and specific pollutants	Mode of discharge	Number of discharge outlet(s)	Distribution of discharge outlet(s)	Discharge concentration (mg/L)	Standard adopted for pollutant discharge (mg/L)	Total amount of discharge (t)	Approved total amount of discharge (t/a)	Excessive discharge
Livzon Group (Ningxia) Pharmaceutical Manufacturing Co., Ltd. (麗珠集團(寧夏)製藥有限公司)	Chemical oxygen demand	Continuous	1	Sewage treatment workshop on north side of factory zone	108.63	200	115	247.71	Nil
	Ammonia nitrogen				0.86	25	0.9	61.93	Nil
	Name of major pollutants and specific pollutants	Mode of discharge	Number of discharge outlet(s)	Distribution of discharge outlet(s)	Discharge concentration (mg/m ³)	Standard adopted for pollutant discharge (mg/m ³)	Total amount of discharge (t)	Approved total amount of discharge (t/a)	Excessive discharge
	Sulphur dioxide	Continuous	1	Boiler workshop on north side of factory zone	12	200	61.3	156.816	Nil
	Nitrogen oxide	Continuous			133	200	99.6	156.816	Nil
	Particulate matter	Continuous			10	30	12.7	23.522	Nil
	Volatile organic compounds	Continuous	5	Fermentation	14.5	120	31.33	78.81	Nil

Note: The discharge concentration of wastewater represents the concentration of ultimate discharge to the environmental protection control center of Ningxia Xin'an Technology Co., Ltd. (寧夏新安科技有限公司) ("Xin'an Company"), the standard adopted for pollutant discharge was the standard stipulated on the pollutant discharge license of the company and the amount of discharge was calculated by the amount received by Xin'an Company. The concentration of boiler exhaust gas emission represents the self-monitoring concentration in the fourth quarter (tested on 22 November 2019), the standard adopted for discharge was the standard stipulated on the pollutant discharge license of the company and the amount of discharge was calculated by the amount indicated by online monitoring. The concentration of volatile organic compounds (VOCs) represents the concentration of ultimate discharge to the environment (self-monitoring concentration), the implemented standard was the standard stipulated on the pollutant discharge license of the company and the amount of discharge was calculated by the amount of exhaust gas emissions and the discharge concentration recorded by the monitoring report.

XX. SOCIAL RESPONSIBILITY *(continued)***2. Performance of Other Social Responsibilities** *(continued)*

(4) The listed company and its subsidiaries belonging to key pollutant discharging units as announced by the environmental protection department *(continued)*

(vi) Livzon Group (Ningxia) Pharmaceutical Manufacturing Co., Ltd. (麗珠集團(寧夏)製藥有限公司) *(continued)*

Construction and Operation of Pollution Preventive Facilities:

Through strict enforcement of the “Three Simultaneous” system, the “Three Wastes” were collected and treated effectively. The designed total processing capacity of sewage treatment was 7,500m³/d (including one plant with capacity of 5,000m³/d and one plant with capacity of 2,500m³/d), and the actual total treatment amount was 3,500m³/d. After the wastewater had reached the standard stipulated on the pollutant discharge license, it would be discharged through the sewage pipeline network in the industrial park to Xin’an Company. The current treatment process for boiler flue gas adopted the technical processes of “Furnace combustion blended with limestone powder + bag filter + water film scrubber + alkali solution desulphurization + spray defogging”. With effect from January 2018, the standard of special emission limit under the Emission Standard for Boiler Atmospheric Pollutants (《鍋爐大氣污染物排放標準》) (GB13271-2014) was implemented. In July 2019, the upgrading and transformation work for boiler exhaust gas treatment facilities was completed, which further stabilized the treatment effects of particulate matter. Between May and November 2019, five new exhaust gas treatment facilities were constructed, including two exhaust gas treatment facilities for sewage workshops, two exhaust gas treatment facilities for 203 refinery workshops and one RTO exhaust gas treatment facility. One pipeline for emergency drainage of approximately 1,000 metres and one dust collection and treatment facility in coal yard were newly constructed.

XX. SOCIAL RESPONSIBILITY *(continued)***2. Performance of Other Social Responsibilities** *(continued)*

- (4) The listed company and its subsidiaries belonging to key pollutant discharging units as announced by the environmental protection department** *(continued)*
- (vi) Livzon Group (Ningxia) Pharmaceutical Manufacturing Co., Ltd. (麗珠集團(寧夏)製藥有限公司)** *(continued)*

Environmental Impact Assessment of Construction Projects and Other Environmental Protection Administrative Licensing:

The Environmental Impact Report on the Construction Project for Production of Biopharmaceuticals by Livzon Group Ningxia Fuxing Pharmaceutical Manufacturing Co., Ltd. (《麗珠集團寧夏福興製藥有限公司生物醫藥生產建設項目環境影響報告書》) was approved by the Environmental Protection Department of the Autonomous Region on 5 July 2012 and the environmental protection inspection for completion conducted by the Environmental Protection Department was passed on 8 May 2015. In April 2016, approval was obtained from Pingluo County for expansion and reconstruction of the production line with annual production capacity of 120 tonnes for Coenzyme Q10 products, and environmental protection inspection for completion conducted by Pingluo County was passed in March 2017. The Environmental Impact Report on the Construction Project for Production of Biopharmaceuticals by Livzon Group Ningxia Xinbeijiang Pharmaceutical Manufacturing Co., Ltd. (《麗珠集團寧夏新北江製藥有限公司生物醫藥生產建設項目環境影響報告書》) was approved on 5 July 2012 and the environmental protection inspection for completion was passed on 30 November 2015. In April 2016, approval was granted by the Environmental Protection Bureau of Pingluo County for expansion and reconstruction of the production line with annual production capacity of 360 tonnes of lincomycin hydrochloride products, and completion inspection conducted by the Environmental Protection Bureau of Pingluo County was passed in March 2017. In December 2018, approval was granted by the Environmental Protection Bureau of Pingluo County for the construction project of extraction workshop with annual production capacity of 210 tonnes of mycophenolic acid and 3 tonnes of doramectin, the environmental protection inspection for completion was passed in May 2019. On 30 December 2019, approval in respect of the environmental impact assessment for the construction of the project with additional annual production capacity of 160 tonnes of Mevastatin (美伐他汀) and 120 tonnes of Lovastatin (洛伐他汀) was granted by Ningxia Pingluo Industrial Park Management Committee. The demolition and inspection and acceptance of a 20t/h circulating fluidized bed coal-fired boiler of Livzon Group Ningxia Xinbeijiang Pharmaceutical Manufacturing Co., Ltd. (麗珠集團寧夏新北江製藥有限公司) was completed. The expert review for the environmental improvement project plan for 2019 of Livzon Group (Ningxia) Pharmaceutical Manufacturing Co., Ltd. (麗珠集團(寧夏)製藥有限公司) and the inspection and acceptance for the implementation thereof (including self-inspection and acceptance and inspection and acceptance by government authorities) were also completed. The company strictly enforced the "Three Simultaneous" system to implement the environmental protection measures as required by environmental assessment, and the environmental protection facilities were in normal operation.

XX. SOCIAL RESPONSIBILITY *(continued)***2. Performance of Other Social Responsibilities** *(continued)*

- (4) The listed company and its subsidiaries belonging to key pollutant discharging units as announced by the environmental protection department** *(continued)*
- (vi) Livzon Group (Ningxia) Pharmaceutical Manufacturing Co., Ltd. (麗珠集團(寧夏)製藥有限公司)** *(continued)*

Environmental Emergency Contingency Plan:

Due to corporate merger, the Environmental Emergency Contingency Plan of Livzon Group Ningxia Fuxing Pharmaceutical Manufacturing Co., Ltd. (《麗珠集團寧夏福興製藥有限公司突發環境事件應急預案》) and the Environmental Emergency Contingency Plan of Livzon Group Ningxia Xinbeijiang Pharmaceutical Manufacturing Co., Ltd. (《麗珠集團寧夏新北江製藥有限公司突發環境事件應急預案》) were revised and recompiled, the contingency plans of these two companies were combined and amended to become the Environmental Emergency Contingency Plan of Livzon Group (Ningxia) Pharmaceutical Manufacturing Co., Ltd. (《麗珠集團(寧夏)製藥有限公司突發環境事件應急預案》) which was issued after review and filing in May 2019 (filing reference number: 640221-2019-005-II). Identification of environmental factors and sources of hazards and drills for emergency were conducted internally in the company on regular basis to improve the operability of the contingency plan, enhance the performance level of the emergency rescue staff, and enhance the responsiveness and coordination of the rescue team in terms of integrated coordination and collaboration capabilities.

Environmental Self-monitoring Program:

The company formulated the self-monitoring program for 2019, which was reviewed by and filed with the Ecological Environment Bureau of Shizuishan City. Monthly and quarterly monitoring was carried out strictly in accordance with the requirements of the program, which focused primarily on organized exhaust gas emission, exhaust gas emission from boiler, waste water discharge, underground water, soil, plant boundary unorganized environmental air, noise and recycled water TOC, and volatile organic matter leak detection and repair (LDAR) work was carried out. The monitoring results would be announced to the public through the System of National Pollution Sources Monitoring Information Management and Sharing Platform (《全國污染源監測信息管理與共享平台系統》) and the System of Self-monitoring Information Open Platform for Enterprises in Shizuishan (《石嘴山市企業自行監測信息公開平台系統》). The automated monitoring equipment was connected to the network of the competent environmental protection authority and passed the inspection conducted by the competent environmental protection authority. The automated monitoring equipment was sound, and the monitoring information was accurate, valid and authentic.

XX. SOCIAL RESPONSIBILITY *(continued)***2. Performance of Other Social Responsibilities** *(continued)***(4) The listed company and its subsidiaries belonging to key pollutant discharging units as announced by the environmental protection department** *(continued)***(vii) Jiaozuo Livzon Hecheng Pharmaceutical Manufacturing Co., Ltd. (焦作麗珠合成製藥有限公司)**

Name of company or subsidiary	Name of major pollutants and specific pollutants	Mode of discharge	Number of discharge outlet(s)	Distribution of discharge outlet(s)	Discharge concentration (mg/L)	Standard adopted for pollutant discharge (mg/L)	Total amount of discharge (t)	Approved total amount of discharge (t/a)	Excessive discharge
Jiaozuo Livzon Hecheng Pharmaceutical Manufacturing Co., Ltd. (焦作麗珠合成製藥有限公司)	Chemical oxygen demand	Continuous	1	Master outlet in industrial wastewater workshop	106.96	220	10.56	60.8	Nil
	Ammonia-nitrogen				7.20	35	0.75	8.8	Nil

Note: the discharge concentration and the total amount of discharge represent the concentration and total amount of ultimate discharge into the downstream sewage treatment plant, and the data are online monitoring data.

Construction and Operation of Pollution Preventive Facilities:

The “Three Wastes” were collected and treated effectively in strict compliance with the “Three Simultaneous” system. The designed sewage treatment capacity was 3,000t/d, the treatment process of “hydrolytic acidification tank + anaerobic UASB + aerobic pool + materialized treatment” was adopted, the treated wastewater would be discharged through the municipal pipeline network into the sewage treatment plant of Xiuwu Branch of Kangda Water Co., Ltd. (康達水務有限公司修武分公司). The sewage treatment facilities were under normal operation with compliant discharge. For exhaust gas: exhaust gases generated from technical process in the production zone would be collected and treated by adopting the process of “water spray + active carbon” and then discharged after reaching the required standard. For solid waste: hazardous solid wastes would be stored in the hazardous waste station constructed in compliance with the requirements of “Three Preventions” according to the requirements under the (Pilot) Guidelines for Standardized Management of Hazardous Waste in Henan Province (《河南省危險廢物規範化管理工作指南(試行)》) for hazardous wastes. The company entered into a hazardous waste disposal agreement with Henan Zhonghuanxin Environmental Technology Co., Ltd. (河南中環信環保科技有限公司) for disposal of hazardous wastes on regular basis. Other general wastes would be disposed of in compliance with the relevant requirements.

Environmental Impact Assessment of Construction Projects and Other Environmental Protection Administrative Licensing:

The Environmental Impact Assessment Report on Current Status of Jiaozuo Livzon Hecheng Pharmaceutical Manufacturing Co., Ltd. (《焦作麗珠合成製藥有限公司現狀環境影響評估報告》) was approved and filed on 15 December 2016, the “Three Simultaneous” system was strictly enforced, the environmental protection measures as required by environmental assessment were implemented and the environmental protection facilities were in normal operation. The application and review of the new national pollutant discharge license was approved on 20 December 2017, after completing the collection of pollutant discharge license, various environmental protection policies were strictly enforced. Various management measures were implemented as required by the pollutant discharge license in 2019.

XX. SOCIAL RESPONSIBILITY *(continued)***2. Performance of Other Social Responsibilities** *(continued)***(4) The listed company and its subsidiaries belonging to key pollutant discharging units as announced by the environmental protection department** *(continued)***(vii) Jiaozuo Livzon Hecheng Pharmaceutical Manufacturing Co., Ltd.** (焦作麗珠合成製藥有限公司) *(continued)*

Environmental Emergency Contingency Plan:

The Environmental Emergency Contingency Plan of Jiaozuo Livzon Hecheng Pharmaceutical Manufacturing Co., Ltd. (《焦作麗珠合成製藥有限公司突發環境事件應急預案》) was prepared in accordance with the relevant provisions and requirements and based on the principles of "Focus on Prevention, On-alert all the time, Management by Classification, Response by Tiers, Cooperation among Departments, Responsibility by Levels, Scientific Prevention and Efficient Disposal (預防為主，常備不懈；分類管理，分級回應；部門合作，分級負責)". The contingency plan was approved for announcement and filing in February 2018 (filing reference number: 4108042018005L). The Hazardous Waste Environmental Pollution Emergency Contingency Plan of Jiaozuo Livzon Hecheng Pharmaceutical Manufacturing Co., Ltd. (《焦作麗珠合成製藥有限公司危險廢物環境污染事故應急預案》) was compiled and was approved for filing in January 2018. Identification of environmental factors and sources of hazards and drills for emergency were conducted internally in the company on regular basis to improve the operability of the contingency plan, enhance the performance level of the emergency rescue staff, and enhance the responsiveness and coordination of the rescue team in terms of integrated coordination and collaboration capabilities. The company carried out emergency drills in respect of distillation residue leak and waste activated carbon leak according to the requirements of the Hazardous Waste Environmental Pollution Emergency Contingency Plan of Jiaozuo Livzon Hecheng Pharmaceutical Manufacturing Co., Ltd. (《焦作麗珠合成製藥有限公司危險廢物環境污染事故應急預案》) on 21 June and 26 September 2019, respectively, both of which complied with the procedures as required in the emergency plan.

Environmental Self-monitoring Program:

According to the relevant requirements of the "Measures for Self-Monitoring and Information Disclosure by the Enterprises subject to Intensive Monitoring and Control of the State (Trial Implementation)" (《國家重點監控企業自行監測及信息公開辦法(試行)》), the company implemented and completed the self-monitoring program based on its own situation in a timely manner and made the program available to the public after being examined by and filed with relevant competent environmental protection authorities. The analysis methods of the monitoring program comply with the national environmental monitoring technical standards and methods; the monitoring and analysis instruments have been examined and calibrated in strict compliance with the relevant national requirements; the automated monitoring equipment has been installed in accordance with the requirement of environmental assessment technical standards. In 2018, the online water quality monitoring equipment had passed the inspection and acceptance conducted by the competent environmental protection authorities and the connection between the online data and the municipal platform of Jiaozuo City was completed; the automated monitoring equipment was under normal operation in the first half of 2019 and the data was accurate, valid and authentic.

Whether a social responsibility report has been published

☐ Yes ☒ Not

The Company will publish the "Environmental, Social and Governance Report" within three months after the publication of the Report under the requirement of Appendix 27 of the Hong Kong Listing Rules.

XXI. OTHER SIGNIFICANT EVENTS

Save as disclosed herein, the Company had no significant investment, material acquisition or disposal involving any subsidiary or associated company, nor other significant event which is required to be disclosed during the Year.

I. CHANGES IN SHARES

1. Changes in Shares

As at 31 December 2019, the share capital structure of the Company was as follows:

Unit: Share(s)

	Before the current change		Increase/Decrease (+,-) due to the current change			After the current change	
	Number	Percentage	Reserve fund capitalised	Others	Sub-total	Number	Percentage
I. Shares subject to selling restrictions	14,780,758	2.05%	+4,455,997	+164,371	+4,620,368	19,401,126	2.07%
1. Shares held by State Government							
2. Shares held by State-owned entities	13,312,561	1.85%	+3,993,768	–	+3,993,768	17,306,329	1.85%
3. Shares held by other domestic holders	1,468,197	0.20%	+462,229	+164,371	+626,600	2,094,797	0.22%
Including: Shares held by domestic entities							
Shares held by domestic natural persons	1,468,197	0.20%	+462,229	+164,371	+626,600	2,094,797	0.22%
4. Shares held by foreign holders							
Including: Shares held by foreign entities							
Shares held by foreign natural persons							
II. Shares not subject to selling restrictions	704,269,482	97.95%	+211,258,466	-166,399	+211,092,067	915,361,549	97.93%
1. Ordinary Shares denominated in RMB	458,220,084	63.73%	+137,443,647	-166,399	+137,277,248	595,497,332	63.71%
2. Domestically listed foreign Shares							
3. Overseas listed foreign Shares	246,049,398	34.22%	+73,814,819	–	+73,814,819	319,864,217	34.22%
4. Others							
III. Total number of Shares	719,050,240	100.00%	+215,714,463	-2,028	+215,712,435	934,762,675	100.00%

Note: The number of Shares subject to selling restrictions are listed in accordance with the data in the “Detailed Data Sheet of Restricted Shares (Information Disclosure Statement) (《限售股份明細數據表(信息披露報表)》)” provided by the Shenzhen Branch of China Securities Depository and Clearing Corporation Limited.

Reasons for changes in Shares

✓ Applicable ☐ Not applicable

In June 2019, the Company repurchased and cancelled 2,028 Restricted Shares held by one incentive participant who was not eligible for unlock conditions, and the number of Shares subject to selling restrictions decreased by 2,028 shares accordingly.

In July 2019, the Company completed the issuance of 3 Shares for every 10 Shares to all Shareholders by way of conversion of capital reserve. After the conversion of capital reserve, the number of A Shares and H Shares of the Company increased by 141,899,644 Shares and 73,814,819 Shares, respectively.

In October 2019, certain Directors and senior management of the Company purchased a total of 251,700 A Shares of the Company through centralized price bidding, and the number of Shares subject to selling restrictions increased by 188,775 Shares accordingly.

Mr. Lu Wenqi resigned as vice president of the Company in July 2018 and all the Shares held by him shall be locked within six months from the date of his resignation. Mr. Lu Wenqi shall continue to comply with relevant disposal restriction (i.e. disposing of no more than 25% of all the Shares held by him each year) within his defined term of office and within six months after the expiry of his term of office and all the Shares held by him will be unlocked upon the expiry of six months after the expiry of his term of office. Since the Company completed the issuance of 3 Shares for every 10 Shares to all Shareholders by way of conversion of capital reserve during the period when all the Shares held by him shall be locked, the actual increase in the number of Shares not subject to selling restrictions is 22,376 Shares, while the Shares subject to selling restrictions decreased accordingly.

I. CHANGES IN SHARES *(continued)***1. Changes in Shares** *(continued)***Approval of changes in Shares**

☒ Applicable ☐ Not applicable

On 18 December 2018, the Resolution on Repurchase and Cancellation of Certain Restricted Shares was passed at the twenty-second meeting of the ninth session of the Board and at the seventeenth meeting of the ninth session of the Supervisory Committee of the Company.

On 30 May 2019, the Company held the 2018 annual general meeting, the 2019 second class meeting of A Shareholders and the 2019 second class meeting of H Shareholders, which considered and approved the 2018 Annual Profit Distribution Plan.

Transfer of changes in Shares

☐ Applicable ☒ Not applicable

Impact of changes in Shares on the financial indicators of the latest year and the latest period, such as basic and diluted earnings per share, net asset value per share attributable to the ordinary Shareholders of the Company

☐ Applicable ☒ Not applicable

Other information considered necessary by the Company or required by securities regulators to be disclosed

☐ Applicable ☒ Not applicable

I. CHANGES IN SHARES (continued)

2. Changes in Shares with Selling Restrictions

✓ Applicable ☐ Not applicable

Unit: Share (s)

Name of Shareholder	Number of Shares with selling restrictions at the Beginning of the Period	Number of Shares released from selling restrictions during the Period	Increase in the number of Shares with selling restrictions during the Period	Number of Shares with selling restrictions at the End of the Period	Reasons for selling restrictions	Date of release from selling restrictions
Guangzhou Begol Trading Holdings Limited (廣州市保科力貿易公司)	13,312,561	–	3,993,768	17,306,329	Shares pledged, Shares locked up and Shares subject to selling restriction before initial offering	Not confirmed
Tao Desheng (陶德勝)	349,817	–	104,945	454,762	Locked Shares held by the senior management	N/A
Xu Guoxiang (徐國祥)	349,817	–	104,945	454,762	Locked Shares held by the senior management	N/A
Tang Yanggang (唐陽剛)	1,732	–	150,520	152,252	Locked Shares held by the senior management	N/A
Yang Daihong (楊代宏)	223,765	–	67,130	290,895	Locked Shares held by the senior management	N/A
Si Yanxia (司燕霞)	139,894	–	56,969	196,863	Locked Shares held by the senior management	N/A
Zhou Peng (周鵬)	80,518	–	44,405	124,923	Locked Shares held by the senior management	N/A
Huang Yuxuan (黃瑜璇)	30,293	–	9,088	39,381	Locked Shares held by the senior management	N/A
Yang Liang (楊亮)	66,569	–	23,496	90,065	Locked Shares held by the senior management	N/A
Lu Wenqi (陸文岐)	223,764	29,835	96,965	290,894	Locked Shares held by the senior management	See note 2
Incentive participants (non-senior management)	2,028	2,028	–	–	Restricted Shares under the Restricted A Shares Incentive Scheme	N/A
Total	14,780,758	31,863	4,652,231	19,401,126	–	–

Notes: 1. Locked Shares held by the senior management are to be released by a certain percentage in each year pursuant to the requirements of the Securities Law of the PRC and other relevant laws and regulations. The number of Shares with selling restrictions in this table is listed according to the data in the “Detailed Data Sheet of Shares with Selling Restrictions (Information Disclosure Statement) (《限售股份明細數據表(信息披露報表)》)” provided by the Shenzhen Branch of China Securities Depository and Clearing Corporation Limited.

2. Mr. Lu Wenqi resigned as vice president of the Company in July 2018 and all the Shares of the Company held by him shall be locked within six months from the date of his resignation. Mr. Lu Wenqi shall continue to comply with relevant disposal restriction (i.e. disposing of no more than 25% of all the Shares held by him each year) within his defined term of office and within six months after the expiry of his term of office and all the Shares held by him will be unlocked upon the expiry of six months after the expiry of his term of office.

I. CHANGES IN SHARES *(continued)***3. Sufficient Public Float**

Based on the information publicly available to the Company and within the knowledge of the Directors of the Company, the Company has maintained a sufficient public float as required by the Hong Kong Listing Rules as at the latest practicable date preceding the publication date of the Report.

II. ISSUE AND LISTING OF SECURITIES**Issue of securities (excluding preferred shares) during the Year**

☐ Applicable ☒ Not applicable

Changes in the total number of Shares, the shareholdings and the asset and liability structure of the Company

☒ Applicable ☐ Not applicable

Please see section VI “Changes in Shares” of the Report for details.

Existing Staff Shares

☐ Applicable ☒ Not applicable

III. SHAREHOLDERS AND ULTIMATE BENEFICIAL OWNER**1 Number of Shareholders of the Company**

As at the End of the Year, the Company had a total of 49,642 Shareholders which included 24 H Shareholders (Note 1) and 49,618 A Shareholders.

<i>Unit: Share(s)</i>					
Total number of ordinary Shareholders as at the End of the Year	49,642, including 49,618 A Shareholders	Total number of ordinary Shareholders as at the end of the month prior to the disclosure date of the annual report	51,673, including 51,650 A Shareholders	Total number of preferential shareholders with voting rights resumed at the End of the Year (if any)	0
				Total number of preferential Shareholders with voting rights resumed as at the end of the month prior to the disclosure date of the annual report (if any)	0

III. SHAREHOLDERS AND ULTIMATE BENEFICIAL OWNER (continued)

2. Shareholders holding more than 5% shares or Shareholdings of the Top 10 Shareholders

Name of Shareholder (full name)	Nature of Shareholder	Class of Shares	Shareholding percentage	Number of Shares held at the End of the Period (Shares)	Change during the Reporting Period (Shares)	Number of Shares with selling restrictions (Shares)	Number of Shares without selling restrictions (Shares)	Pledge or lock-up Share status	Number
HKSCC Nominees Limited (Note 2)	Foreign entity	H Share	34.20%	319,734,817	+73,761,965	–	319,734,817	–	–
Joincare Pharmaceutical Industry Group Co., Ltd. (健康元藥業集團股份有限公司)	Domestic non-State owned entity	A Share	23.68%	221,376,789	+51,086,951	–	221,376,789	–	–
Perseverance Asset Management L.L.P. (Limited Partnership) – Gaoyi Linshan No. 1 Foresight Fund (上海高毅資產管理合夥企業(有 限合夥) – 高毅鄰山1號遠望基金)	Others	A Share	3.37%	31,500,000	+30,000,000	–	31,500,000	–	–
Hong Kong Securities Clearing Company Limited	Foreign entity	A Share	2.06%	19,265,216	+15,078,706	–	19,265,216	–	–
Guangzhou Begol Trading Holdings Limited (廣州市保科力貿易公司)	State-owned entity	A Share	1.85%	17,306,329	+3,993,768	17,306,329	–	Pledged and locked up	17,306,329
Shenzhen Haibin Pharmaceutical Co., Ltd. (深圳市海濱製藥有限公 司)	Domestic non-State owned entity	A Share	1.80%	16,830,835	+3,884,039	–	16,830,835	–	–
Central Huijin Investment Company Limited (中央匯金資產管理有限 責任公司)	State-owned entity	A Share	1.29%	12,056,741	+2,782,325	–	12,056,741	–	–
China Construction Bank Corporation-Anxin Value Select Stock Securities Investment Fund (中國建設銀行股份有限公司 – 安 信價值精選股票型證券投資基金)	Others	A Share	0.85%	7,958,821	+7,958,821	–	7,958,821	–	–
National Social Security Fund 108 (全國社保基金一零八組合)	Others	A Share	0.78%	7,320,391	+7,320,391	–	7,320,391	–	–
China Huarong Asset Management Co., Ltd. (中國華融資產管理股份 有限公司)	State-owned entity	A Share	0.77%	7,223,060	+1,327,560	–	7,223,060	–	–
Description of strategic investors or general legal persons who became Top 10 Shareholders through placement of new shares (if any)	Not applicable								

Description of connection or acting-in-concert relationship of the above Shareholders (1) On 2 January 2004, Joincare and Begol entered into a Share Transfer and Custody Agreement and a Share Pledge Agreement, pursuant to which the 6,059,428 Shares of the Company held by Begol as domestic entity (the number of shares was increased to 7,877,256 Shares after the Company's implementation of 2014 Equity Distribution, the number of shares was increased to 10,240,432 Shares after the Company's implementation of 2016 Equity Distribution, the number of shares was increased to 13,312,561 Shares after the Company's implementation of 2017 Equity Distribution and the number of shares was increased to 17,306,329 Shares after the Company's implementation of 2018 Equity Distribution) were directly transferred, entrusted and pledged to Joincare; (2) Haibin Pharma was a subsidiary directly and indirectly owned by Joincare as to 100% equity interest; (3) the Company was not aware whether the other Shareholders mentioned above are related parties or persons acting-in-concert as defined in the Administrative Measures the Takeover of Listed Companies (《上市公司收購管理辦法》).

- Notes: 1. The shareholdings of the above top 10 Shareholders were based on the register of Shareholders as at 31 December 2019, provided by Shenzhen Branch of China Securities Depository and Clearing Corporation Limited and Tricor Investors Services Limited in Hong Kong.
2. HKSCC Nominees Limited is a nominee holder of H Shares of the Company, and the Company cannot ascertain whether such H Shares are subject to any pledge or lock-up, and such shareholdings held by HKSCC Nominees Limited on behalf of others included 163,364,672 H Shares held by Topsino, which was a wholly-owned subsidiary of Joincare, the controlling Shareholder of the Company.

III. SHAREHOLDERS AND ULTIMATE BENEFICIAL OWNER (continued)

3. Shareholdings of Top 10 Shareholders Not Subject to Selling Restrictions

Name of Shareholder	Number of Shares not subject to selling restrictions at the End of the Year (Shares)	Shares	
		Class	Number (Shares)
HKSCC Nominees Limited	319,734,817	Overseas listed foreign shares	319,734,817
Joincare Pharmaceutical Industry Group Co., Ltd. (健康元藥業集團股份有限公司)	221,376,789	Ordinary shares denominated in RMB	221,376,789
Perseverance Asset Management L.L.P (Limited Partnership) – Gaoyi Linshan No.1 Foresight Fund (上海高毅資產管理合夥企業(有限合 夥) – 高毅鄰山1號遠望基金)	31,500,000	Ordinary shares denominated in RMB	31,500,000
Hong Kong Securities Clearing Company Limited	19,265,216	Ordinary shares denominated in RMB	19,265,216
Shenzhen Haibin Pharmaceutical Co., Ltd. (深圳市海濱製藥有限公司)	16,830,835	Ordinary shares denominated in RMB	16,830,835
Central Huijin Investment Company Limited (中央匯金資產管理有限責任公司)	12,056,741	Ordinary shares denominated in RMB	12,056,741
China Construction Bank Corporation-Anxin Value Select Stock Securities Investment Fund (中國建設銀行股份有限公司 – 安信價值精選股 票型證券投資基金)	7,958,821	Ordinary shares denominated in RMB	7,958,821
National Social Security Fund 108 (全國社保基金 – 零八組合)	7,320,391	Ordinary shares denominated in RMB	7,320,391
China Huarong Asset Management Co., Ltd. (中國華融資產管理股份有限公司)	7,223,060	Ordinary shares denominated in RMB	7,223,060
Bosera Asset Management Co., Ltd. – National Social Security Fund Portfolio 419 (博時基金管 理有限公司 – 社保基金四一九組合)	5,500,874	Ordinary shares denominated in RMB	5,500,874

III. SHAREHOLDERS AND ULTIMATE BENEFICIAL OWNER *(continued)*3. Shareholdings of Top 10 Shareholders Not Subject to Selling Restrictions *(continued)*

Description of connection or acting-in-concert relationship among the top 10 Shareholders not subject to selling restrictions themselves and between the top 10 Shareholders not subject to selling restrictions and the top 10 Shareholders

(1) On 2 January 2004, Joincare and Begol entered into a Share Transfer and Custody Agreement and a Share Pledge Agreement, pursuant to which the 6,059,428 Shares of the Company held by Begol as domestic entity (the number of shares was increased to 7,877,256 Shares after the Company's implementation of 2014 Equity Distribution, the number of shares was increased to 10,240,432 Shares after the Company's implementation of 2016 Equity Distribution, the number of shares was increased to 13,312,561 Shares after the Company's implementation of 2017 Equity Distribution and the number of shares was increased to 17,306,329 Shares after the Company's implementation of 2018 Equity Distribution) were directly transferred, entrusted and pledged to Joincare; (2) Haibin Pharma was a subsidiary directly and indirectly owned by Joincare as to 100% equity interest; (3) both National Social Security Fund 108 (全國社保基金一零八組合) and Bosera Asset Management Co., Ltd. – National Social Security Fund Portfolio 419 (博時基金管理有限公司－社保基金四一九組合) belong to National Social Security Fund; (4) the Company was not aware whether the other Shareholders mentioned above are related parties or persons acting-in-concert as defined in the Administrative Measures the Takeover of Listed Companies (《上市公司收購管理辦法》).

Description of the top 10 ordinary Shareholders involved in the margin financing and securities lending business (if any)

Not Applicable

Whether any of the top 10 ordinary Shareholders and the top 10 ordinary Shareholders not subject to selling restrictions of the Company conducted any transactions on agreed repurchases during the Reporting Period

☐ Yes ☒ Not

The top 10 ordinary Shareholders and the top 10 ordinary Shareholders not subject to selling restrictions of the Company did not conduct any transactions on agreed repurchases during the Reporting Period.

III. SHAREHOLDERS AND ULTIMATE BENEFICIAL OWNER (continued)

4. Controlling Shareholder of the Company

Name of Controlling Shareholder	Legal representative/responsible person	Date of establishment	Unified social credit code	Registered capital	Principal activities
Joincare Pharmaceutical Industry Group Co., Ltd. (健康元藥業集團股份有限公司)	Zhu Baoguo (朱保國)	18 December 1992	91440300618874367T	RMB1,938,033,338	Research and development of medicines, Chinese medicines, chemical APIs, chemical drug preparation products, antibiotics APIs and their preparations (exclusive of research and development of state protected resources for Chinese herbal medicines, secret recipe of Chinese medicines), wholesale, import and export and related supplementary businesses (except the commodities not involved in the management of state-owned trade, and goods that are subject to quota, license management and other special regulations, applications should be processed in accordance with relevant national regulations), research and development of food, health food and cosmetics; sales of pre-packaged food (excluding frozen food), sales of special food (sales of health food, sales of special medical formula food), research & development and sales of class I and II medical devices.

Controlling Shareholders' equity interests in other controlled and invested companies whose shares are listed domestic or overseas during the Reporting Period

Joincare (Stock Abbreviation: Joincare and Stock Code: 600380) is listed on the Shanghai Stock Exchange and please see the full text of annual report for 2019 of Joincare as disclosed in the website of the Shanghai Stock Exchange (<http://www.sse.com.cn>) for more details about its operating results, financial position, cash flow and future development strategy.

Change in controlling Shareholder during the Year

☐ Applicable ☒ Not applicable

There was no change in the controlling shareholder of the Company during the year.

5. Ultimate Beneficial Owner of the Company

Name of the ultimate beneficial owner	Nationality	Whether obtaining any right of residence of other countries or regions
Zhu Baoguo (朱保國)	Hong Kong, China	No
Careers and duties	Please refer to Section IX "Directors, Supervisors and Senior Management" of this Report for details.	
Domestic and overseas listed companies controlled over the past ten years	Joincare (健康元)	

Change in the ultimate beneficial owner during the year

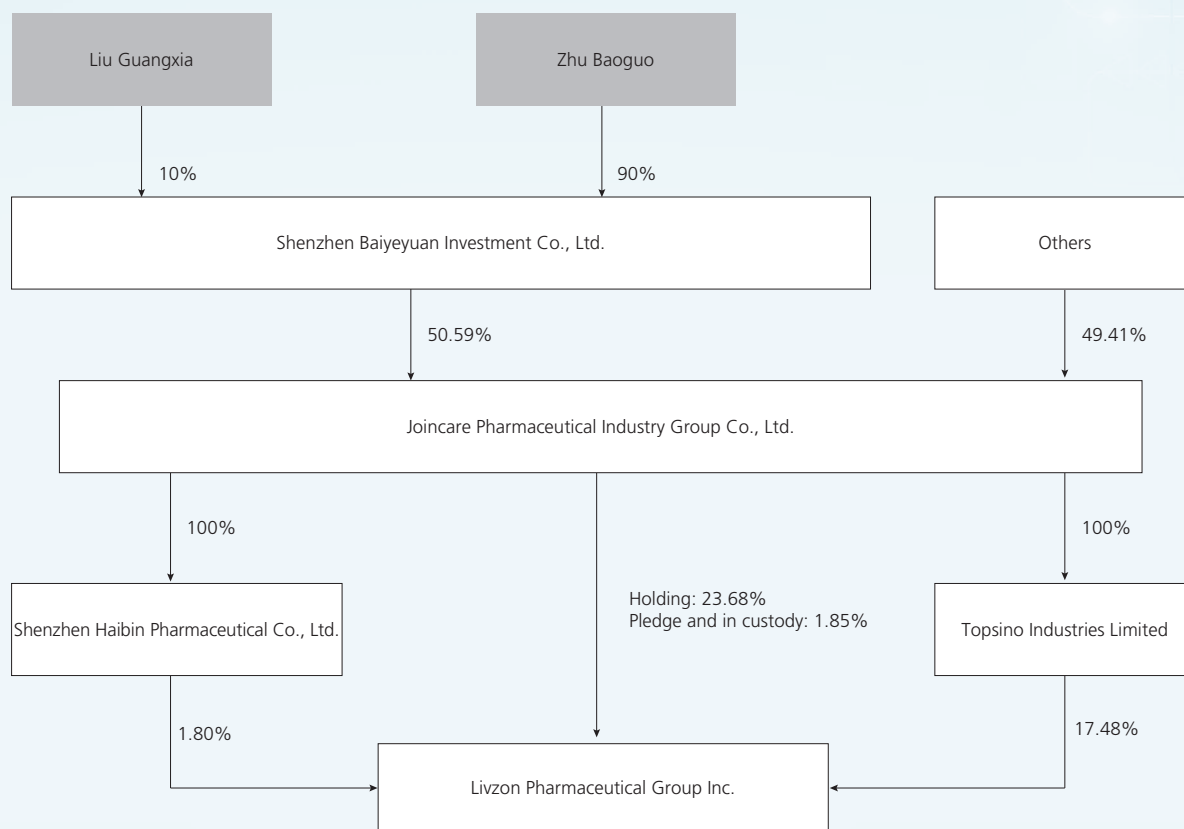
☐ Applicable ☒ Not applicable

There was no change in the ultimate beneficial owner of the Company during the Year.

III. SHAREHOLDERS AND ULTIMATE BENEFICIAL OWNER (continued)

5. Ultimate Beneficial Owner of the Company (continued)

Structure chart on ownership and controlling relationship between the Company and its ultimate beneficial owner as at the end of the year



Notes: 1. Zhu Baoguo (朱保國) is the spouse of Liu Guangxia (劉廣霞).

2. On 1 July 2019, 59,863,537 shares of Joicare held by Mr. Zhu Baoguo through targeted asset management plans were transferred to Baiyeyuan. Upon completion of such transfer, the number of shares of Joicare held by Baiyeyuan increased from 920,595,245 shares to 980,458,782 shares. As such, the shareholding of Baiyeyuan in Joicare increased from 47.50% to 50.59%.

Companies controlled by the ultimate beneficial owner via trust or through other asset management methods

☐ Applicable ☒ Not applicable

III. SHAREHOLDERS AND ULTIMATE BENEFICIAL OWNER *(continued)*

6. Other legal shareholders with a shareholding of more than 10%

☐ Applicable ☒ Not applicable

7. Restrictions to reduction in shareholdings for controlling shareholders, ultimate beneficial owners, re-organization parties and other commitment bodies

☐ Applicable ☒ Not applicable

IV. AS AT 31 DECEMBER 2019, THE FOLLOWING MAJOR SHAREHOLDERS AND OTHER PERSONS, OTHER THAN THE DIRECTORS, SUPERVISORS OR CHIEF EXECUTIVES (AS DEFINED IN THE SFO), HAD INTERESTS AND SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY WHICH WERE REQUIRED TO BE RECORDED IN THE REGISTER REQUIRED TO BE KEPT BY THE COMPANY UNDER SECTION 336 OF THE SFO:

Name of Shareholder	Capacity	Number of Shares interested/subject to the short position	Position	As a percentage of the specific class of issued Shares of the Company	As a percentage of the total issued Shares of the Company
Major Shareholders					
Baiyeyuan	Interest of controlled corporations	255,513,953 A Shares ⁽¹⁾	Long position	41.55%	27.33%
	Interest of controlled corporations	163,364,672 H Shares ⁽²⁾	Long position	51.07%	17.48%
Ms. Liu Guangxia (劉廣霞女士)	Interest of Spouse	255,513,953 A Shares ⁽³⁾	Long position	41.55%	27.33%
		163,364,672 H Shares ⁽³⁾	Long position	51.07%	17.48%
Joincare	Beneficial owner	221,376,789 A Shares	Long position		
	Interest of controlled corporations	16,830,835 A Shares ⁽⁴⁾	Long position		
	Holder of security interest in Shares	17,306,329 A Shares ⁽⁵⁾	Long position		
		255,513,953 A Shares		41.55%	27.33%
	Interest of controlled corporations	163,364,672 H Shares ⁽²⁾	Long position	51.07%	17.48%
Topsino	Beneficial owner	163,364,672 H Shares	Long position	51.07%	17.48%

Notes:

- (1) Among these shares, 238,683,118 Shares and 16,830,835 Shares are held directly by Joincare and its wholly-owned subsidiary, Haibin Pharma.
- (2) These shares are held directly by Topsino, a wholly-owned subsidiary of Joincare.
- (3) As Ms. Liu Guangxia is the spouse of Mr. Zhu Baoguo, she is deemed to be interested in the shares in which Mr. Zhu Baoguo is deemed to be interested.
- (4) These shares are held directly by Haibin Pharma, a wholly-owned subsidiary of Joincare.
- (5) These shares were directly transferred, entrusted and pledged by Begol in favor of Joincare in accordance with the Share Transfer, Custody and Pledge Agreement entered into among three parties, namely Begol, Joincare and Zhuhai Lishi Investment Co., Ltd. (珠海市麗士投資有限公司), on 2 January 2004 and the Share Transfer and Custody Agreement and the Share Pledge Agreement entered into between Begol and Joincare.

152 VII. PREFERRED SHARES

☐ Applicable ☒ Not applicable

The Company had no preferred shares during the Year.

☐ Applicable ☒ Not applicable

The Company had no convertible bonds during the Year.

I. CHANGES IN SHAREHOLDINGS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

✓Applicable □Not applicable

Name	Position	Status of office	Sex	Age	Start date of the term of office	End date of the term of office	Number of Shares held at the Beginning of the Period (shares)	Increase in shareholdings for the Year (shares)	Decrease in shareholdings for the Year (shares)	Other changes (shares)	Number of Shares held at the End of the Year (shares)
Tao Desheng (陶德勝)	Vice Chairman Non-executive Director	Current	Male	55	August 2014	-	466,423	-	-	139,927	606,350
Xu Guoxiang (徐國祥)	Vice Chairman, Executive Director, Vice President	Current	Male	57	December 2007	-	466,423	-	-	139,927	606,350
Tang Yanggang (唐陽剛)	Executive Director, President	Current	Male	50	December 2018	-	2,310	200,000	-	693	203,003
Yang Daihong (楊代宏)	Vice President	Current	Male	53	May 2006	-	298,353	-	-	89,506	387,859
Si Yanxia (司燕霞)	Vice President	Current	Female	51	June 2014	-	186,525	20,000	-	55,958	262,483
Zhou Peng (周鵬)	Vice President	Current	Male	56	November 2016	-	107,357	27,000	-	32,207	166,564
Huang Yuxuan (黃喻璇)	Vice President	Current	Female	53	October 2018	-	40,391	-	-	12,117	52,508
Dai Weiguo (戴衛國)	Vice President	Current	Male	56	April 2019	-	-	-	-	-	-
Yang Liang (楊亮)	Secretary to the Board	Current	Male	36	June 2014	-	88,759	4,700	-	26,628	120,087
Total							1,656,541	251,700	-	496,963	2,405,204

Note: The term of office starts from the date of first appointment. The increase in shareholdings for the Year is the additional A Shares of the Company purchased by certain Directors and senior management in the secondary market through centralized bidding; Other changes are due to the completion of the issuance of 3 bonus Shares for every 10 Shares to all Shareholders by the Company by way of conversion of capital reserve in July 2019, and the Directors and senior management held the A Shares of the Company through the Restricted A Shares Incentive Scheme, leading to an increase in the number of shares held by them.

I. CHANGES IN SHAREHOLDINGS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT *(continued)*

1. As at 31 December 2019, the interests or short positions of the Directors, Supervisors and chief executives of the Company in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of SFO) as recorded in the register required to be kept under Section 352 of the SFO, or as otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code, were as follows:

Interest in Shares/underlying Shares of the Company

Name of Director	Capacity	Number of Shares/underlying Shares interested <i>(Long position)</i>	As a percentage of the specific class of issued Shares of the Company	As a percentage of the total issued Shares of the Company
Mr. Zhu Baoguo (朱保國先生)	Interest of controlled corporations	255,513,953 A Shares ^{(1) (2)} 163,364,672 H Shares ^{(1) (3)}	41.55% 51.07%	27.33% 17.48%
Mr. Tao Desheng (陶德勝先生)	Beneficial owner Interest of spouse	859,850 A Shares ^{(4) (17)} 207,646 A Shares ^{(5) (6) (17)} 1,067,496 A Shares	0.17%	0.11%
Mr. Xu Guoxiang (徐國祥先生)	Beneficial owner	859,850 A Shares ^{(7) (17)}	0.14%	0.09%
Mr. Tang Yanggang (唐陽剛先生)	Beneficial owner	405,803 A Shares ^{(8) (17)}	0.07%	0.04%

Interest in shares of associated corporations of the Company

Name of Director	Name of associated corporation	Capacity	Equity interest/ number of shares <i>(Long position)</i>	As a percentage of the equity interest of associated corporation
Mr. Zhu Baoguo (朱保國先生)	Baiyeyuan	Beneficial owner	72,000,000 (RMB)	90.00%
	Joincare	Interest of controlled corporations	980,458,782 shares ⁽⁹⁾	50.59%
	Livzon Biologics ⁽¹⁰⁾	Interest of controlled corporations	49,000,000 shares ^{(1) (11)}	39.33% ⁽¹⁴⁾
	Biologics Limited ⁽¹⁰⁾	Interest of controlled corporations	4,000 shares ^{(1) (12)}	100.00% ⁽¹⁰⁾
	Biotechnology Company ⁽¹⁰⁾	Interest of controlled corporations	250,000,000 (RMB) ^{(1) (13)}	100.00% ⁽¹⁰⁾
	Livzon MAB ⁽¹⁰⁾	Interest of controlled corporations	1,413,330,000 (RMB) ^{(1) (13)}	100.00% ⁽¹⁰⁾
Mr. Tang Yanggang (唐陽剛先生)	Xinbeijiang Pharmaceutical ⁽¹⁵⁾	Interest of controlled corporations	20,238,780 shares ⁽¹⁵⁾	8.44%
	Livzon Diagnostics ⁽¹⁶⁾	Interest of controlled corporations	8,382,100 shares ⁽¹⁶⁾	9.03%
Mr. Qiu Qingfeng (邱慶豐先生)	Joincare	Beneficial owner	117,409 shares	0.01%
Mr. Xu Guoxiang (徐國祥先生)	Livzon Diagnostics ⁽¹⁷⁾	Others	500,000 shares ⁽¹⁷⁾	0.54%

I. CHANGES IN SHAREHOLDINGS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT *(continued)*

1. As at 31 December 2019, the interests or short positions of the Directors, Supervisors and chief executives of the Company in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of SFO) as recorded in the register required to be kept under Section 352 of the SFO, or as otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code, were as follows: *(continued)*

Notes:

- (1) Joincare is 50.59% held by Baiyeyuan which is in turn 90% held by Mr. Zhu Baoguo. Mr. Zhu Baoguo is deemed to be interested in the Shares of the Company and the equity interest of its associated corporations in which Joincare is or is deemed to be interested by virtue of the SFO.
- (2) Among these shares, 238,683,118 shares (in which 17,306,329 shares were directly transferred, entrusted and pledged by Begol in favor of Joincare in accordance with the Share Transfer, Custody and Pledge Agreement entered into among three parties, namely Begol, Joincare and Zhuhai Lishi Investment Co., Ltd., on 2 January 2004, and the Share transfer and Custody Agreement and the Share Pledge Agreement entered into between Begol and Joincare) and 16,830,835 shares are held directly by Joincare and its wholly-owned subsidiary, Haibin Pharma, respectively.
- (3) These shares are held directly by Topsino, a wholly-owned subsidiary of Joincare.
- (4) These shares include 253,500 share options, which are able to subscribe for 253,500 A Shares of the Company pursuant to the 2018 Share Options Incentive Scheme of the Company.
- (5) These shares include 101,400 share options, which are able to subscribe for 101,400 A Shares of the Company pursuant to the 2018 Share Options Incentive Scheme of the Company.
- (6) As these shares and underlying shares are held directly by Ms. Hou Xuemei, the spouse of Mr. Tao Desheng, Mr. Tao Desheng is deemed to be interested in these shares and underlying shares.
- (7) These shares include 253,500 share options, which are able to subscribe for 253,500 A Shares of the Company pursuant to the 2018 Share Options Incentive Scheme of the Company.
- (8) These shares include 202,800 share options, which are able to subscribe for 202,800 A Shares of the Company pursuant to the 2018 Share Options Incentive Scheme of the Company.
- (9) On 1 July 2019, 59,863,537 shares of Joincare held by Mr. Zhu Baoguo in the form of targeted asset management plans were fully transferred to Baiyeyuan. Upon completion of the transfer, shares of Joincare held by Baiyeyuan changed from 920,595,245 shares to 980,458,782 shares. As such, the shareholding in Joincare held by Baiyeyuan increased from 47.50% to 50.59%.
- (10) Joincare BVI is indirectly held as to 100% by Joincare. Livzon Biologics is directly held as to 35.75% by Joincare BVI; Biologics Limited is directly held as to 100% by Livzon Biologics; Biotechnology Company and Livzon MAB are directly held as to 100% by Biologics Limited.
- (11) These shares are held by Joincare BVI.
- (12) These shares are held by Livzon Biologics.
- (13) These equity interests are held by Biologics Limited.
- (14) Joincare BVI holds 49,000,000 ordinary shares of Livzon Biologics, which is 39.33% of all the issued ordinary shares and 35.75% of all the issued shares (including ordinary shares and series A preferred shares) of Livzon Biologics.
- (15) Xinbeijiang Pharmaceutical is directly held as to 87.14% by the Company, and directly held as to 8.44% (i.e. 20,238,780 shares) by Zhuhai Zhong Hui Yuan Investment Partnership (Limited Partnership) (珠海中匯源投資合夥企業(有限合夥)), which is in turn directly held as to 45.50% by Mr. Tang Yanggang.
- (16) Livzon Diagnostics is directly held as to 39.425% by the Company, and as to 9.025% (i.e. 8,382,100 shares) by Zhuhai Liying Investment Management Partnership (Limited Partnership) (珠海麗英投資管理合夥企業(有限合夥)) ("Liying"), and Mr. Tang Yanggang is a general partner of Liying and has sole discretion to decide all matters of Liying.
- (17) Mr. Xu Guoxiang directly holds 5.9651% equity interest in Liying, and therefore Livzon Diagnostics is indirectly held as to 0.54% by Mr. Xu Guoxiang.
- (18) For details of the aforesaid 2018 Share Options Incentive Scheme, please refer to the relevant information of the "Share Options Incentive Scheme" in Section IV of the Report.

II. CHANGES IN DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT OF THE COMPANY

Name	Position	Type	Date	Reason
Tang Yanggang (唐陽剛)	Executive Director	Appointed	14 February 2019	Appointed as an executive Director of the Company with approval at the 2019 second extraordinary general meeting of the Company.
Xu Guoxiang (徐國祥)	Vice Chairman	Appointed	11 April 2019	Appointed as the vice chairman of the Company with approval of the Board with effect from 11 April 2019.
Dai Weiguo (戴衛國)	Vice President	Appointed	11 April 2019	Appointed as a vice president of the Company with the approval of the Board with effect from 11 April 2019.
Guo Guoqing (郭國慶)	Independent Non-Executive Director	Retired	19 July 2019	Retired as an independent non-executive Director of the Company due to the expiration of his 6-year term of office as a Director.
Tang Yanggang (唐陽剛)	Member of the Strategy Committee, Authorised Representative	Appointed	16 August 2019	Appointed as a member of the Strategy Committee and the authorised representative of the Company under Rule 3.05 of the Hong Kong Listing Rules with the approval of the Board.
Tao Desheng (陶德勝)	Authorised Representative	Resigned	16 August 2019	Resigned as the authorised representative of the Company under Rule 3.05 of the Hong Kong Listing Rules.
Zheng Zhihua (鄭志華)	Member of the Audit Committee, the chairman of the Remuneration and Assessment Committee, and member of the Nomination Committee	Appointed	16 August 2019	Appointed as a member of the Audit Committee, the chairman of the Remuneration and Assessment Committee, and a member of the Nomination Committee of the Company with the approval of the Board.
Wang Xiaojun (王小軍)	Independent Non-Executive Director	Retired	16 September 2019	Retired as an independent non-executive Director of the Company due to the expiration of his 6-year term of office as a Director
Fu Daotian (傅道田)	Executive Director and Vice President	Resigned	27 September 2019	Resigned as an executive Director and a vice president of the Company due to personal family and development reasons.
Tian Qiusheng (田秋生)	Independent Non-Executive Director	Appointed	15 October 2019	Appointed as an independent non-executive Director of the Company with approval at the 2019 third extraordinary general meeting of the Company.
Wong Kam Wa (黃錦華)	Independent Non-Executive Director	Appointed	15 October 2019	Appointed as an independent non-executive Director of the Company with approval at the 2019 third extraordinary general meeting of the Company.

III. POSITIONS HELD

Professional background, main working experience and current position in the Company of the current Directors, Supervisors and senior management of the Company are summarised as follows:

1. Brief Biographies of Executive Directors

Mr. Tang Yanggang (唐陽剛), aged 50, is currently our executive Director, the president, a member of the Strategy Committee and the authorised representative of the Company under Rule 3.05 of the Hong Kong Listing Rules and also serves as a director in other subsidiaries of the Group. Mr. Tang graduated from Sichuan University (四川大學) with a bachelor degree in microbiology in 1992 and is a senior pharmaceutical engineer. In 2008, he joined Xinbeijiang Pharmaceutical, where he served as technical director, general manager, chairman of the board and secretary to the party committee. Since July 2015, he has been the general manager of the API business division of the Company and the chairman of the board of Xinbeijiang Pharmaceutical. He is also a vice president of Qingyuan Federation of Industry and Commerce, a member of the Qingyuan Municipal Political Consultative Conference, vice chairman of Qingyuan Entrepreneur Association, vice chairman of Guangdong Pharmaceutical Association and vice chairman of China Association of Traditional Chinese Medicine. Mr. Tang was the executive vice president of the Company from July to December 2018, and has been the president of the Company since December 2018. Mr. Tang has been the executive Director of the Company since February 2019.

Mr. Xu Guoxiang (徐國祥), aged 57, is currently our executive Director, vice chairman and vice president. From November 2010 to November 2011, Mr. Xu attended an advanced EMBA course in the PRC's pharmaceutical industry organised by the Medical School of Peking University (北京大學醫學部) and obtained a completion certificate. From 2000 to 2005, Mr. Xu was a director of Yangtze River Pharmaceutical Co., Ltd. (揚子江製藥股份有限公司). In March 2007, he was the chief sale supervisor of the Company and the general manager of our branch company in Henan Province. Mr. Xu has been the vice president of the Company since December 2007. He is currently the vice president of China Association of Pharmaceutical Commerce, the standing council member of the Chinese Hospital Association and the council member of the Bethune Charitable Foundation. Since June 2017, he has been the executive Director of the Company.

2. Brief Biographies of Non-Executive Directors

Mr. Zhu Baoguo (朱保國), aged 57, is currently the chairman, non-executive Director and the chairman of the Strategic Committee of the Company, and also serves as a director in other subsidiaries of the Group. Mr. Zhu obtained his bachelor's degree from the school of chemistry of Henan Normal University (河南師範大學) in 1985. Since 2002, Mr. Zhu has been the chairman of the Board and from April 2006 to September 2013, he also served as the president of the Company. Mr. Zhu Baoguo is the founder of Joincare, and is currently the chairman of Joincare. Since November 2014, he has been honorary vice president of Shenzhen General Chamber of Commerce (深圳市工商聯(總商會)). Mr. Zhu Baoguo is the spouse of Ms. Liu Guangxia (劉廣霞女士), one of our controlling shareholders.

Mr. Tao Desheng (陶德勝), aged 55, joined the Company in 1985 and is currently the non-executive Director, vice chairman and a member of the Strategic Committee, the Nomination Committee and the Remuneration and Assessment Committee of the Company, and also serves as a director in other subsidiaries of the Group. Mr. Tao graduated from the school of pharmaceutical chemistry of China Pharmaceutical University (南京藥學院) with a bachelor's degree in science. From 2000 to 2002, Mr. Tao attended a graduate course in enterprise management organised by Sun Yat-Sen Business School (中山大學管理學院). Mr. Tao obtained his license in pharmacist qualification in October 2002 and the title of senior engineer in pharmaceutical manufacturing (professor) in 2013. Mr. Tao was the vice president and president of the Company from June 2005 to March 2014 and from March 2014 to December 2018, respectively. He was our executive Director from July 2009 to December 2018. Mr. Tao has been the vice chairman of the Company since August 2014.

Mr. Qiu Qingfeng (邱慶豐), aged 48, is currently the non-executive Director of the Company. Mr. Qiu obtained his EMBA from China Europe International Business School (中歐國際工商學院) in September 2007. He is a non-practicing member of the Chinese Institute of Certified Public Accountants. Mr. Qiu joined Shenzhen Taitai Pharmaceutical Co., Ltd. (深圳太太藥業有限公司) in 1996 and is currently a director and the president of Joincare. Mr. Qiu was the Supervisor and the chief Supervisor of the Company from June 2005 to April 2007. Mr. Qiu has been the non-executive Director of the Company since April 2007.

III. POSITIONS HELD *(continued)***3. Brief Biographies of Independent Non-executive Directors**

Mr. Xu Yanjun (徐焱軍), aged 47, is currently the independent non-executive Director, the chairman of the Audit Committee, and a member of the Remuneration and Assessment Committee of the Company. He is an associate professor and a postgraduate tutor at the International Business School of Jinan University (暨南大學), and is a Chinese Certified Public Accountant. He is also a member of China Association Promoting Democracy and a member of Zhuhai Municipal Political Consultative Conference. Mr. Xu graduated from Wuhan University (武漢大學) with a bachelor degree of science in 1995, graduated from Zhongnan University of Economics and Law (中南財經政法大學) with a master degree in accounting in 2003, and graduated from Jinan University with a doctorate degree in management (accounting) in 2010. He had served as a quality controller at Wuhan Research Institute of Biological Products of Sinopharm Group (國藥集團武漢生物製品研究所), a project manager of Hubei An Yong Xin Accounting Firm (湖北安永信會計師事務所) and a project manager at Guangdong Branch of Zhongxingcai Guanghua Certified Public Accountants LLP (中興財光華會計師事務所廣東分所) (formerly Zhuhai Yoanda Certified Public Accountants LLP (珠海永安達會計師事務所)). He was an independent director of Zhuhai Hokai Medical Equipment Co., Ltd. (珠海和佳醫療設備股份有限公司) (300273.SZ) from April 2013 to September 2019. He has been the independent non-executive Director of the Company since June 2014.

Mr. Zheng Zhihua (鄭志華), aged 49, is currently our independent non-executive Director, a member of the Audit Committee, a member of the Nomination Committee and the chairman of the Remuneration and Assessment Committee. He graduated from China Pharmaceutical University (中國藥科大學) with a bachelor degree in medical enterprise management in July 1992 and obtained a master degree in biochemistry (pharmacy direction) from Sun Yat-sen University (中山大學) in July 2002. Since 1992, Mr. Zheng has worked in Guangdong Pharmaceutical Association, and served as a committee member, deputy head of the Information Division, head of the Academic Division and the deputy secretary-general, and is currently the vice chairman and the secretary-general. He was qualified as a director pharmacist by the Department of Personnel of Guangdong Province in 2007. Mr. Zheng has been the independent non-executive Director of the Company since June 2015.

Mr. Xie Yun (謝耘), aged 49, is currently our independent non-executive Director, the chairman of the Nomination Committee and a member of the Audit Committee. Mr. Xie Yun obtained a bachelor degree in finance from Shanghai University of Finance and Economics (上海財經大學) in 1993, and a master of business administration degree from the International East-West University in the United States in 2000. From 1993 to 2011, he worked as an office director and financial manager in Zhuhai Airport Power Station Limited Company (珠海機場電廠有限公司), as a business department manager, assistant to general manager and vice general manager in Zhuhai Huidafeng Electric Power Development (Group) Co., Ltd. of Zhuhai Electrical Bureau (珠海電力局珠海匯達豐電力發展(集團)有限公司), as the managing director of Southern Zhuhai Hua Litong Special Transformer Limited Company (珠海南方華力通特種變壓器有限公司), as the director of human resources department and the director of business development department in Zhuhai Water Affairs Group Limited (珠海水務集團有限公司). Mr. Xie was an independent director of Shenzhen Click Technology Co., Ltd. (深圳可立克科技股份有限公司) (002782.SZ) from May 2016 to May 2018. He is currently the vice president of Zhuhai Huajin Capital Co., Ltd. (珠海華金資本股份有限公司) (000532.SZ). Mr. Xie has been the independent non-executive Director, the chairman of the Nomination Committee and a member of the Audit Committee of the Company since June 2015.

III. POSITIONS HELD *(continued)***3. Brief Biographies of Independent Non-executive Directors** *(continued)*

Mr. Tian Qiusheng (田秋生), aged 64, is currently our independent non-executive Director. Mr. Tian is a doctor of economics, professor and doctoral tutor. He had studied at Lanzhou University (蘭州大學), Nankai University (南開大學) and Northwest University (西北大學). From July 1982 to July 2005, he taught at Lanzhou University and served as deputy director of the Department of Economics and deputy head of the School of Economics and Management of Lanzhou University. Since July 2005, he has taught at South China University of Technology (華南理工大學). From October 2005 to June 2017, he served as deputy head of the School of Economics and Trade of South China University of Technology. He is currently a member of the China International Finance Society, a guest economist of China Economic Monitoring Center of National Bureau of Statistics of China, a member of the Academic Committee under the Guangdong Financial Institute, a financial consultant of Guangdong Financial Supervisory Authority, the vice president of the Guangdong Financial Think-tank Federation and a counselor of the Advisory Office of the Guangdong People's Government. He has been an independent director of Zhuhai Port Co., Ltd. (珠海港股份有限公司) (000507.SZ) since December 2014, an independent director of Guangzhou Lingnan Group Holdings Company Limited (廣州嶺南集團控股股份有限公司) (000524.SZ) since August 2017, and an independent non-executive director of Fineland Real Estate Services Group Limited (方圓房地產服務集團有限公司) (08376.HK) since October 2017. Mr. Tian has been the independent non-executive Director of the Company since October 2019.

Mr. Wong Kam Wa (黃錦華), aged 48, is currently our independent non-executive Director. Mr. Wong is a lawyer who graduated from the University of Hong Kong with a bachelor degree in engineering and a certificate in law. From May 2011 to March 2016, he worked for Loeb & Loeb LLP. From April 2016 to July 2019, he worked for Anthony Siu & Co.. Since July 2019, he has been a partner of TW Partners. Mr. Wong has been the independent non-executive Director of the Company since October 2019.

4. Brief Biographies of Supervisors of the Company

Mr. Wang Maolin (汪卯林), aged 54, graduated from the Law School of Anhui University (安徽大學) and obtained a bachelor's degree in law. Since January 2001, Mr. Wang has been the general manager of the legal and compliance head department of the Company. Mr. Wang has been the chairman of the labour union of the Company and the employee representative supervisor of the Supervisory Committee since January 2010. In January 2012, Mr. Wang was elected as a representative of the 8th Zhuhai People's Congress (珠海市第八屆人民代表大會). Mr. Wang has served as the deputy chairman of the Zhuhai Committee of Jiusan Society since July 2016 and a representative of the 9th Zhuhai People's Congress (珠海市第九屆人民代表大會) since January 2017. He has been the chief Supervisor of the Supervisory Committee of the Company since June 2014.

Mr. Huang Huamin (黃華敏), aged 48, an accountant, is currently a Supervisor of the Company and graduated from Shanghai University of Finance and Economics (上海財經大學) with a bachelor's degree in economics in 1993. Mr. Huang has been the chief financial officer and assistant to the general manager of Livzon Group Lixin Co. Ltd. (麗珠集團麗新公司), the manager of the finance department and business department of Livzon Group Liwei Co., Ltd. (麗珠集團麗威公司) as well as the manager of the finance settlement center of the Company. From September 2008 to May 2009, Mr. Huang was employed by Zhuhai Gree Real Estate Co., Ltd. (珠海格力房產有限公司). Mr. Huang was the chief financial officer, the secretary to the board of directors and vice president of Gree Real Estate Co., Ltd. (格力地產股份有限公司) from May 2009 to March 2017, from October 2009 to March 2017 and from March 2016 to March 2017, respectively. Mr. Huang served as deputy general manager of Guangzhou Golden Eagle Asset Management Co., Ltd. (廣州金鷹資產管理有限公司) and chief financial officer of Golden Eagle Fund Management Co., Ltd. (金鷹基金管理有限公司) from August 2017 to March 2019, and has served as assistant to the chairman of the board of directors of China Agriculture Industrial Development Group Co., Ltd. (中農華鑫實業發展集團有限公司) since March 2019. Mr. Huang has been a Supervisor of the Supervisory Committee of the Company since June 2013.

III. POSITIONS HELD *(continued)***4. Brief Biographies of Supervisors of the Company** *(continued)*

Mr. Tang Yin (湯胤), aged 45, is currently a Supervisor of the Company. He graduated from the South China University of Technology (華南理工大學) with a double degree in mechanics and mathematics in 1996, a master degree of science in applied mathematics in 1999, and a doctor degree from the Intelligent Calculation Team of the School of Computer Science in 2004. Since 2004, he has been a deputy professor of School of Management, a master tutor, an assistant to the dean of School of Entrepreneurship and the president of Internet Innovation Institute at Jinan University (暨南大學). From 2013 to 2015, he was the consultant in information technology and e-commerce of Guangdong Wellfull Holding Group (廣東匯富控股集團). He is also the deputy secretary-general of Guangzhou Internet Association, a member of the Expert Committee of Guangdong Electronic Commerce Association, vice president of Guangzhou Electronic Commerce and Internet Economy Association and a council member of Guangdong Mobile Economy Association. He has been a Supervisor of the Supervisory Committee of the Company since February 2016.

5. Brief Biographies of Other Senior Management of the Company

Mr. Yang Daihong (楊代宏), aged 53, joined the Company in 1997 and is currently the vice president of the Company, has a title of senior engineer and is a licensed pharmacist. He studied at China Pharmaceutical University (中國藥科大學) from 1984 to 1988 and obtained a bachelor's degree of science. From 2000 to 2002, Mr. Yang attended a course in enterprise management organised by Business School of Sun Yat-Sen University (中山大學). From 1999 to 2009, Mr. Yang was the deputy factory manager and factory manager of Livzon Group Livzon Pharmaceutical Factory (麗珠集團麗珠製藥廠). Mr. Yang was an executive Director of the Company from October 2014 to June 2017, and he has been the vice president of the Company since May 2006.

Ms. Si Yanxia (司燕霞), aged 51, is currently the vice president and chief financial officer of the Company. She graduated from the Department of Accounting at Shanxi University of Finance and Economics (山西財經學院) with a bachelor degree in July 1990. She is an accountant. Ms. Si finished part-time CFO study at China Europe International Business School (中歐國際工商學院) from July 2005 to November 2005. She joined the Company in April 1993 and was the manager of the capital settlement center and the manager of the accounting center of the accounting head department of the Group. She was the director of the accounting head department of the Company from April 2004 to June 2014 and has been the vice president and chief financial officer of the Company since June 2014.

Mr. Zhou Peng (周鵬), aged 56, is currently the vice president of the Company. He graduated from the Hubei University of Medicine (湖北醫學院) with a bachelor degree in medicine in 1985. He obtained attending physician title in 1994. He completed the course of postgraduate course training class of enterprise management at Management School of Sun Yat-Sen University (中山大學) from 2000 to 2002. He joined the Group in 1999 and served as an assistant to the director of the general department of the Group, general manager of Livzon Chain Drugstore Co., Ltd. (麗珠藥房連鎖有限公司), director of the human resources head department of the Group, vice general manager of Livzon Group Marketing Co. Ltd. (麗珠集團營銷公司), vice general manager of OTC drug business division of the Group and director of the administration head department of the Group. Since March 2014, he has been an assistant to the president of the Group, the general manager of the administration head department and human resources head department of the Group, and deputy secretary of Party Committee at the Group and executive deputy general manager of Livzon Pharmaceutical Industrial Co., Ltd. (麗珠醫藥工業有限公司). He is also the vice president of Zhuhai Medical Association, visiting professor of Beijing Normal University Zhuhai Campus (北京師範大學珠海分校), a member of Zhuhai Jinwan District Standing Committee of the National People's Congress (珠海市金灣區人大常委會) and chairman of Zhuhai Jinwan District Industry Development Association (珠海市金灣區產業發展協會), etc. Mr. Zhou has been the vice president of the Company since November 2016.

III. POSITIONS HELD *(continued)*5. Brief Biographies of Other Senior Management of the Company *(continued)*

Ms. Huang Yuxuan (黃瑜璇), aged 53, is currently the vice president of the Company. Ms. Huang graduated from Fujian Agricultural and Forestry University (福建農林大學) with a bachelor degree in 1989. From 2000 to 2002, she studied a program of post-graduate course in business administration at the University of International Business and Economics (對外經濟貿易大學). In 2004, she was qualified as a senior economist. In 2005, she joined the Group and was the deputy general manager of Fuzhou Fuxing. Since July 2015 and June 2016, she has been the deputy general manager of APIs business division of the Group and the general manager of Zhuhai Livzon Pharmaceutical Trading Co., Ltd. (珠海市麗珠醫藥貿易有限公司) respectively. She has been assistant to the president of the Group since December 2016 and the vice president of the Company since October 2018.

Mr. Dai Weiguo (戴衛國), aged 56, is currently the vice president of the Company. He graduated from the Johns Hopkins University in America with a PhD in chemical engineering in 1996. Mr. Dai has engaged in R&D of new medicines for more than two decades in American companies including Amgen Inc. and Johnson & Johnson Services, Inc.. He was the chief science officer of the bio-macromolecule medical product development division of Johnson & Johnson Services, Inc. and a Janssen Fellow (the first batch). He was elected as a Fellow of American Association of Pharmaceutical Scientists (AAPS) in 2012. He is currently the head of the Fellow Committee of AAPS, a guest professor of University of Missouri in the United States, Nanjing Medical University (南京醫科大學) and Sichuan University (四川大學), and the consultant of the Pharmacy School of Sun Yat-sen University (中山大學). He has been the vice president of the Company since April 2019.

Mr. Yang Liang (楊亮), aged 36, is currently the secretary to the Board, company secretary and authorised representative of the Company. In 2006, he graduated from Jinan University (暨南大學) with a bachelor degree in management. In 2008, he graduated from the School of Business Administration, South China University of Technology (華南理工大學) with a master degree in management. He obtained the Fund Qualification Certificate, and is eligible to be an independent director. From May 2008 to June 2010, Mr. Yang worked successively as strategic development director and investment and acquisition manager in Zhuhai Wiseman Co., Ltd (珠海威絲曼服飾股份有限公司). From July 2010 to July 2011, he served as the strategic performance director in the department of enterprises management of China International Marine Containers (Group) Ltd. (中國國際海運集裝箱(集團)股份有限公司) (CIMC, 000039.SZ, 02039.HK). He joined the Secretariat of the Board of the Company as senior investment project manager in August 2011. He obtained the Certificate of Secretary to the Board issued by Shenzhen Stock Exchange in December 2012 and the Certificate of Affiliated Person of the Hong Kong Institute of Chartered Secretaries in December 2014. He is currently a member of the Pharmaceutical Innovation Investment Specialty Committee of China Pharmaceutical Innovation and Research Development Association (PhIRDA). He has been the secretary to the Board, the company secretary and authorised representative of the Company since June 2014.

III. POSITIONS HELD (continued)

6. Positions Held in Shareholders' Company

✓Applicable ☐ Not applicable

Name	Name of shareholders' company	Position	Commencement of term of office	Expiration of term of office	Receive compensation and allowance from shareholders' company
Zhu Baoguo	Joincare	Chairman of the board of directors	August 2018	August 2021	Yes
Qiu Qingfeng	Joincare	Director, president	August 2018	August 2021	Yes
Note to the position held in shareholder's company	The above terms of office are tenures of the directors or senior management who are appointed at the seventh session of the board of directors of Joincare.				

7. Positions Held in Other Entities

✓Applicable ☐ Not applicable

Name	Name of entity	Position	Commencement of term of office	Expiration of term of office	Receive compensation and allowance from entity
Zhu Baoguo	Shenzhen General Chamber of Commerce (深圳市工商聯(總商會))	Honorary vice president	November 2014		No
Tang Yanggang	Qingyuan Entrepreneur Association (清遠企業家協會)	Vice chairman	August 2012		No
	Qingyuan Federation of Industry and Commerce (清遠市工商業聯合會)	Vice president	November 2016		No
	Qingyuan Municipal Political Consultative Conference (清遠市政)	Member	January 2017		No
	Guangdong Pharmaceutical Association (廣東省藥學會)	Vice chairman	August 2019		No
	China Association of Traditional Chinese Medicine (中國中藥協會)	Vice chairman	November 2019		No
Xu Guoxiang	Chinese Hospital Association (中國醫院協會)	Standing council member	January 2012		No
	China Association of Pharmaceutical Commerce (中國醫藥商業協會)	Vice chairman	November 2012		No
	Bethune Charitable Foundation (白求恩公益基金會)	Council member	October 2016		No
Xu Yanjun	Zhuhai Hokai Medical Equipment Co., Ltd. (珠海和佳醫療設備股份有限公司) (300273.SZ)	Independent director	April 2013	September 2019	Yes
Zheng Zhihua	Guangdong Pharmaceutical Association (廣東省藥學會)	Secretary-general	May 2014		Yes
		Vice chairman	August 2019		

III. POSITIONS HELD *(continued)*7. Positions Held in Other Entities *(continued)*

Name	Name of entity	Position	Commencement of term of office	Expiration of term of office	Receive compensation and allowance from entity
Xie Yun	Zhuhai Huajin Capital Co., Ltd. (珠海華金資本股份有限公司) (000532.SZ)	Vice president	May 2011		Yes
	Shenzhen Click Technology Co., Ltd (深圳可立克科技股份有限公司) (002782.SZ)	Independent director	May 2016	May 2018	Yes
Tian Qiusheng	China International Finance Society (中國國際金融學會)	Member	June 2001		No
	China Economic Monitoring Center of National Bureau of Statistics of China (國家統計局中國經濟景氣中心)	Guest economist	October 2002		No
	Advisory Office of the Guangdong People's Government (廣東省人民政府參事室)	Counselor	February 2014		No
	Academic Committee under the Guangdong Financial Institute (廣東省金融學會學術委員會)	Member	September 2016		No
	Guangdong Financial Supervisory Authority (廣東省地方金融監督局)	Financial consultant	January 2017		No
	Guangdong Financial Think-tank Federation (廣東省金融智庫聯合會)	Vice president	February 2018		No
Wang Maolin	Zhuhai Committee of Jiusan Society (九三學社珠海市委員會)	Deputy chairman	July 2016		No
Huang Huamin	Gree Real Estate Co., Ltd. (格力地產股份有限公司)	Chief financial officer	May 2009	March 2017	Yes
		Secretary to the board of directors	October 2009	March 2017	Yes
		Vice president	March 2016	March 2017	Yes
	Guangzhou Golden Eagle Asset Management Co., Ltd. (廣州金鷹資產 管理有限公司) (former name: Shenzhen Qianhai Golden Eagle Asset Management Co., Ltd. (深圳前海金鷹資產管理有限公司)	Deputy general manager	August 2017	March 2019	Yes
	Golden Eagle Fund Management Co., Ltd. (金鷹基金管理有限公司)	Chief financial officer	August 2017	March 2019	Yes
	China Agriculture Industrial Development Group Co., Ltd. (中農華鑫實業發展集團有限公司)	Assistant to the chairman of the board of directors	March 2019		Yes

III. POSITIONS HELD (continued)

7. Positions Held in Other Entities (continued)

Name	Name of entity	Position	Commencement of term of office	Expiration of term of office	Receive compensation and allowance from entity
Tang Yin	School of Management, Jinan University (暨南大學管理學院)	Deputy professor, master tutor	September 2004		Yes
	School of Entrepreneurship, Jinan University (暨南大學創業學院)	Assistant to the dean	January 2012		Yes
	Internet Innovation Institute of Jinan University (互聯網創新研究所)	President	January 2012		No
	Guangdong Electronic Commerce Association (廣東省電子商務協會)	Member of Expert Committee	December 2012		No
	Guangdong Mobile Economy Association (廣東省移動經濟協會)	Council member	December 2012		No
	Guangzhou Internet Association (廣州互聯網協會)	Deputy secretary-general	September 2013		No
	Guangzhou Electronic Commerce and Internet Economy Association (廣州市電子商務與網絡經濟學會)	Vice president	September 2013		No
Zhou Peng	Beijing Normal University Zhuhai Campus (北京師範大學珠海分校)	Visiting professor	September 2015		No
	Zhuhai Medical Association (珠海市藥學會)	Vice president	March 2016		No
	Zhuhai Jinwan District Standing Committee of the National People's Congress (珠海市金灣區人大常委會)	Member	November 2016		No
	Zhuhai Jinwan District Industry Development Association (珠海市金灣區產業發展協會)	Chairman	September 2018		No
Note to the position held in other entities	Not applicable				

III. POSITIONS HELD *(continued)*

8. Punishment of Current and Resigned Directors, Supervisors and Senior Management during the Year from Securities Regulatory Institution in Recent Three Years

☐ Applicable ☒ Not applicable

IV. REMUNERATION OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

1. Procedures for Determining the Remuneration of Directors, Supervisors and Senior Management

The remuneration of Directors and Supervisors of the Company must be considered and approved by the general meetings of the Company. As for the remunerations of senior management, the Remuneration and Assessment Committee of the Board formulates corresponding remuneration standards in accordance with the remuneration management system of the Company, coupled with the operating results, and submit to the Board of Directors for approval.

2. Basis for Determining the Remuneration of Directors, Supervisors and Senior Management

The Company determines the annual remuneration of Directors, Supervisors and senior management with reference to industry and regional income levels while taking into consideration factors such as the operating results of the Company and their contributions. Meanwhile, the Company implements corporate performance appraisal and individual performance appraisal system for senior management, and determines performance bonus and year end double pay based on the appraisal results. Furthermore, with the authorisation of the Board and the approval of the chairman, the Company may pay additional special rewards based on the growth of the annual operating results of the Company.

Information on the remuneration of each Director, Supervisor and senior management and the top five highest paid individuals is set out in "Note X – 5. Related Transactions" of the financial statements in this Report.

3. Appraisal and Incentive for Senior Management

During the Year, the Company conducted an appraisal system that combines the corporate performance appraisal and individual performance appraisal for its senior management, in which the personal annual remuneration is linked to the Company's performance. Meanwhile, the Restricted A Shares Incentive Scheme and 2018 Share Options Incentive Scheme have been adopted by the Company to align the interests of the senior management with the Shareholders of the Company so as to achieve medium to long-term incentive effect. In December 2019, the Board of Company considered and approved the Medium to Long-term Business Partner Share Ownership Scheme (Draft), which has been considered and approved on a general meeting dated 11 February 2020, to establish an innovative long-term incentive stock ownership mechanism for senior management and core technical teams, therefore further motivating the senior management, facilitating the long-run and sustainable development of the Company, and realising the alignment of interests among shareholders.

IV. REMUNERATION OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

(continued)

4. Remuneration of Directors, Supervisors and Senior Management of the Company during the Year

Unit: RMB0'000

Name	Position	Gender	Age	Status	Total remuneration before tax from the Company	Receive remuneration from any related party of the Company
Zhu Baoguo	Chairman, Non-executive Director	Male	57	Current	325.00	Yes
Tao Desheng	Vice Chairman, Non-executive Director	Male	55	Current	300.00	Yes
Xu Guoxiang	Vice Chairman,, Executive Director, Vice President	Male	57	Current	428.03	No
Tang Yanggang	Executive Director, President	Male	50	Current	341.62	No
Fu Daotian	Executive Director, Vice President	Male	57	Resigned	137.63	No
Qiu Qingfeng	Non-executive Director	Male	48	Current	7.20	Yes
Xu Yanjun	Independent Non-executive Director	Male	47	Current	9.60	No
Guo Guoqing	Independent Non-executive Director	Male	57	Retired	5.60	No
Wang Xiaojun	Independent Non-executive Director	Male	65	Retired	7.20	No
Zheng Zhihua	Independent Non-executive Director	Male	49	Current	9.60	No
Xie Yun	Independent Non-executive Director	Male	49	Current	9.60	No
Tian Qiusheng	Independent Non-executive Director	Male	64	Current	2.40	No
Wong Kam Wa	Independent Non-executive Director	Male	48	Current	2.40	No
Wang Maolin	Chief Supervisor	Male	54	Current	124.59	No
Huang Huamin	Supervisor	Male	48	Current	3.60	No
Tang Yin	Supervisor	Male	45	Current	3.60	No
Yang Daihong	Vice President	Male	53	Current	219.71	No
Si Yanxia	Vice President	Female	51	Current	159.92	No
Zhou Peng	Vice President	Male	56	Current	325.91	No
Huang Yuxuan	Vice President	Female	53	Current	260.00	No
Dai Weiguo	Vice President	Male	56	Current	111.98	No
Yang Liang	Secretary to the Board	Male	36	Current	119.37	Yes
Total	–	–	–	–	2,914.56	–

Note: Mr. Tang Yanggang was appointed as an executive Director of the Company on 14 February 2019. Mr. Dai Weiguo was appointed as a vice president of the Company on 11 April 2019. Mr. Guo Guoqing retired as an independent non-executive Director of the Company due to the expiration of his 6-year term of office as a Director, with effect from 19 July 2019. Mr. Wang Xiaojun retired as an independent non-executive Director of the Company due to the expiration of his 6-year term of office as a Director, with effect from 16 September 2019. Mr. Fu Daotian has resigned as an executive Director and a vice president of the Company, with effect from 27 September 2019, due to personal family and development reasons. Mr. Tian Qiusheng and Mr. Wong Kam Wa were appointed as independent non-executive Directors on 15 October 2019.

IV. REMUNERATION OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

(continued)

4. Remuneration of Directors, Supervisors and Senior Management of the Company during the Year (continued)

Share options incentive granted to Directors, Supervisors and senior management of the Company during the Year

✓Applicable ☐Not applicable

Unit: 0'000 shares

Name	Position	Number shares that can be exercised during the Reporting Period	Number of shares exercised during the Reporting Period	Exercise price during the Reporting Period (RMB/share)	Market price as at the End of the Reporting Period (RMB/share)	Number of restricted shares held at the Beginning of the Reporting Period	Number of unlocked shares during the Reporting Period	Number of new restricted shares granted during the Reporting Period	Grant price of restricted shares (RMB/share)	Number of restricted shares held at the End of the Reporting Period
Tang Yanggang	Executive Director, President	8.112	-	-	-	-	-	-	-	-
Tao Desheng	Vice Chairman, Non-executive Director	10.14	-	-	-	-	-	-	-	-
Xu Guoxiang	Vice Chairman,, Executive Director, Vice President	10.14	-	-	-	-	-	-	-	-
Fu Daotian ^{note}	Executive Director, Vice President	8.112	-	-	-	-	-	-	-	-
Yang Daihong	Vice President	8.112	-	-	-	-	-	-	-	-
Si Yanxia	Vice President	8.112	-	-	-	-	-	-	-	-
Zhou Peng	Vice President	5.408	-	-	-	-	-	-	-	-
Huang Yuxuan	Vice President	4.732	-	-	-	-	-	-	-	-
Dai Weiguo	Vice President	-	-	-	-	-	-	-	-	-
Yang Liang	Secretary to the Board	4.732	-	-	-	-	-	-	-	-
Total	-	67.60	-	-	-	-	-	-	-	-
Remark (if any)	N/A									

Note: Mr Fu Daotian resigned as the executive director and vice president of the Company on 27 September 2019. For details of the Share Options Incentive Scheme of the Company, please refer to "XXI. SHARE OPTIONS INCENTIVE SCHEMES" in "SECTION III. SUMMARY OF ACTIVITIES" of this Report.

V. EMPLOYEES OF THE COMPANY

As at the End of the Year, the Company and its wholly-owned subsidiaries and controlling subsidiaries had a total of 9,019 existing employees (31 December 2018: 7,671).

1. Number, Speciality Composition and Education Level of Employees

Number of existing employees of the parent company	1,855
Number of existing employees of principal subsidiaries	7,164
Total number of existing employees	9,019
Total number of employees receiving remuneration during the Year	9,019
Total number of retired employees to whom the parent company and its principal subsidiaries should pay pension	646

Type of speciality composition	Speciality composition	
	Staff number of speciality composition	
Production staff		3,659
Sales staff		2,609
Technical staff		1,422
Financial staff		186
Administrative staff		1,143
Total		9,019

Type of education level	Education level	
	Number	
Below post-secondary		3,579
Post-secondary		2,699
Undergraduate		2,290
Postgraduate		397
Doctor		54
Total		9,019

V. EMPLOYEES OF THE COMPANY *(continued)***2. Employees' Remuneration Policies**

The Group mainly determined the remuneration of its employees according to the laws and regulations of the People's Republic of China and the Company's economic performance with reference to the general remuneration level in the society. During the Year, the Company's remuneration policies were in line with the provisions of relevant national laws and regulations, and the Company determined the remuneration of its employees after referring to the remuneration level in the industry and the region, considering the Company's internal fairness and depending on the duty value, work performance and individual ability of its employees. The formulation and revision of the remuneration system of the Company's employees should seek the views of the majority of its employees. In order to reflect the incentives of remuneration, the remuneration of the employees was composed of two portions: fixed income and variable income. The variable income was subject to the Company's performance and the individual performance, so as to fully stimulate the enthusiasm and initiative of the employees and achieve the goal of promoting the sustainable development of the Company. In 2019, the Company fully completed the Restricted A Shares Incentive Scheme, and completed the registration of the reserved grant and the exercise in the first exercise period of the first grant under the 2018 Share Options Incentive Scheme, and issued the Medium to Long-term Business Partner Share Ownership Scheme (Draft) in December 2019, which has been approved by the general meeting in February 2020. Please refer to "The Restricted A Shares Incentive Scheme", "Share Options Incentive Schemes" and "Medium to Long-term Business Partner Share Ownership Scheme" in Section IV of this Report for further details.

During the Year, the total wages, bonuses, allowances, compensation, welfare, housing funds and social insurance paid to the employees by the Group amounted to RMB964.29 million (31 December 2018: RMB876.88 million).

3. Pension Scheme

During the Year, there was no change in the Group's employee remuneration policy. The employees of the Group participated in the social basic pension insurance scheme organised and implemented by the local labor and social security departments. Upon retirement of the employees, the local labor and social security departments are obligated to pay social basic pension to the retired employees. The Group is required to contribute to the social basic pension insurance scheme at a certain rate of the employees' salaries to fund the employee retirement benefits. The sole obligation of the Group with respect to the social basic pension insurance scheme is to make the required contributions under the scheme. There was no change in the details of the retirement benefits.

V. EMPLOYEES OF THE COMPANY *(continued)***4. Employees' Training Plan**

In 2019, the Company continued to attach importance to the development and cultivation of talents and developed a diversified and comprehensive staff training system with business schools as the core platform. According to the Group's strategic needs and talent classification, the Company conducted trainings by a combination of online and offline diversified learning methods: eight business school branches were established in the subsidiaries; trainings on new business model and leadership were organised for management members; further study for on-job postgraduate (doctorate) degree was organised; professional continuing education and postgraduate programmes were organised in cooperation with relevant universities; staff level intelligent office software application and induction trainings for new employees were organized; online courses for improvement of management skills for management members of great potential were provided with by introducing external training platform, with diverse contents for improving learning efficiency and effectiveness.

Meanwhile, the Company has compiled a new set of employment guidelines for new employees to ensure that they can have a preliminary understanding of the Company upon entering the Company. The Company comprehensively upgraded the trainings for new employees. Through the classification of target trainees, enriched training courses, invited internal and external high-quality lecturers and experts in various fields cultivating new employees on the Group' strengths on quality control, production control, safety and environmental protection, financial system, human resource system, administrative system and information system, the Company enabled new employees to have a comprehensive understanding of the corporate culture of the Group, learn professional technical knowledge and develop teamwork spirit.

5. Labour Outsourcing

☐ Applicable ☒ Not applicable

I. BASIC CORPORATE GOVERNANCE

During the year ended 31 December 2019, in strict accordance with the Company Law, the Securities Law, the Guidelines for Corporate Governance of Listed Companies, the Shenzhen Listing Rules, the Guidelines for Standardised Operation of Companies Listed on the Shenzhen Stock Exchange, and other requirements of normative documents relating to the governance of listed companies announced by the CSRC, the Shenzhen Stock Exchange and the Hong Kong Stock Exchange, the Company constantly enhances the corporate governance structure and strengthens the internal control systems of the Company to achieve higher corporate governance standards. The Board believed that the actual conditions of corporate governance of the Company are compliant with the rules and requirements of normative documents including the Guidelines for Corporate Governance of Listed Companies without deviation.

During the Year, the decision-making and supervisory organs of the Company including the general meetings, the Board, the Supervisory Committee, etc., all carried out management, decision-making and supervision strictly pursuant to the requirements of normative operation rules and internal control. The special committees of the Board all performed their corresponding duties.

Any significant difference between the corporate governance of the Company and the standards of normative documents regarding corporate governance of listed companies issued by CSRC

☐ Yes ☒ No

II. INDEPENDENCE OF THE COMPANY FROM ITS CONTROLLING SHAREHOLDERS IN RESPECT OF BUSINESS, PERSONNEL, ASSET, ORGANISATION AND FINANCE

The Company is completely independent from its controlling shareholders in respect of business, personnel, asset, organisational structure and finance.

1. In respect of business, the Company has independent and complete business and self-management ability, and owns independent production, procurement and sales system, which is strictly separated from its controlling shareholders;
2. In respect of personnel, the Company's labour, personnel and salary management are completely separated from its controlling shareholders;
3. In respect of asset, the ownership of property between the Company and controlling shareholders is clear. The Company has the ownership of property completely and independently;
4. In respect of institution, the Company has independent and complete organisation, which is strictly separated from controlling shareholders;
5. In respect of finance, the Company has independent financial management department and financial accounting system, which are strictly separated from controlling shareholders.

III. COMPETING BUSINESS

✓ Applicable ☐ Not applicable

On 10 January 2014, for the purposes of advancing the implementation of the Company's B-to-H Share Conversion, Mr. Zhu Baoguo (the ultimate beneficial owner of the Company), Ms. Liu Guangxia and Joincare (the controlling shareholder of the Company) and its controlling shareholder, namely Baiyeyuan (collectively the "Covenantors") entered into the non-competition undertakings letter, the details of which are as set out in the section headed "FULFILLMENT OF UNDERTAKINGS" of this Report. The Covenantors have provided confirmations concerning their compliance with the terms of the non-competition undertaking letter, details are as follows:

Each of the Covenantors hereby confirmed that since the date of the non-competition undertaking letter (i.e. 10 January 2014) and up to 31 December 2019, the Covenantor and the companies under his/her/its control (other than the Company and its subsidiaries) have strictly complied with and enforced the terms of the non-competition undertaking without breaching any terms of the non-competition undertaking letter under any circumstances.

Independent Directors of the Company also conducted review on the performance of the non-competition undertaking by the Covenantors, and believed that the Covenantors had complied with the non-competition undertaking letter. Save as disclosed in this Report, none of the Directors has interests in any business which competes or is likely to compete, either directly or indirectly, with the business of the Group.

IV. GENERAL MEETINGS CONVENED DURING THE YEAR

1. General Meetings during the Year

Meeting	Type of meeting	Participation Percentage of Investors	Date of meeting	Disclosure date of A Shares	Disclosure index
2019 First Extraordinary General Meeting	Extraordinary General Meeting	51.5611%	7 January 2019	8 January 2019	Announcement on Resolutions of the 2019 First Extraordinary General Meeting, the 2019 First Class Meeting of A Shareholders and the 2019 First Class Meeting of H Shareholders (Announcement No.: 2019-003), published on the website of Cninfo (www.cninfo.com.cn)
2019 First Class Meeting of A Shareholders	Class Meeting	43.6482%			
2019 First Class Meeting of H Shareholders	Class Meeting	66.7727%			
2019 Second Extraordinary General Meeting	Extraordinary General Meeting	49.8820%	14 February 2019	15 February 2019	Announcement on Resolutions of the 2019 Second Extraordinary General Meeting (Announcement No.: 2019-008), published on the website of Cninfo (www.cninfo.com.cn)
2018 Annual General Meeting	Annual General Meeting	50.6840%	30 May 2019	31 May 2019	Announcement on Resolutions of 2018 Annual General Meeting, the 2019 Second Class Meeting of A Shareholders and the 2019 Second Class Meeting of H Shareholders (Announcement No.: 2019-032), published on the website of Cninfo (www.cninfo.com.cn)
2019 Second Class Meeting of A Shareholders	Class Meeting	42.1810%			
2019 Second Class Meeting of H Shareholders	Class Meeting	66.8483%			
2019 Third Extraordinary General Meeting	Extraordinary General Meeting	57.3322%	15 October 2019	16 October 2019	Announcement on Resolutions of the 2019 Third Extraordinary General Meeting (Announcement No.: 2019-073), published on the website of Cninfo (www.cninfo.com.cn)
2019 Fourth Extraordinary General Meeting	Extraordinary General Meeting	49.7997%	9 December 2019	10 December 2019	Announcement on Resolutions of the 2019 Fourth Extraordinary General Meeting (Announcement No.: 2019-089), published on the website of Cninfo (www.cninfo.com.cn)

2 Holders of Preference Shares with Resumed Voting Rights Requesting to Hold Extraordinary General Meeting

☐ Applicable ☒ Not applicable

V. PERFORMANCE OF DUTIES BY INDEPENDENT DIRECTORS

1. Independent Directors' Attendance to Board Meetings and General Meetings

Name of Independent Director	Number of Board Meetings required to be attended during the Year	Attendance of Board meetings and general meetings during their term of office				Unable to attend in person for two consecutive meetings	Attendance of general meeting(s)/ Number of general meetings convened
		Attendance in person	Attendance by telecommunication	Attendance by proxy	Absence		
Xu Yanjun	12	1	11	0	0	No	9/9
Zheng Zhihua	12	0	12	0	0	No	3/9
Xie Yun	12	1	11	0	0	No	4/9
Guo Guoqing	6	1	5	0	0	No	7/7
Wang Xiaojun	8	0	8	0	0	No	0/7
Tian Qiusheng	3	0	3	0	0	No	1/1
Wong Kam Wa	3	0	3	0	0	No	0/1

Notes: The above table is compiled in accordance with the relevant requirements of the CSRC and the Shenzhen Stock Exchange. Mr. Guo Guoqing retired as an independent non-executive Director of the Company with effect from 19 July 2019 due to the expiration of his 6-year term of office as a Director. Mr. Wang Xiaojun has retired as an independent non-executive Director of the Company with effect from 16 September 2019 due to the expiration of his 6-year term of office as a Director.

Explanation on the absence from the Board meeting twice in succession

☐ Applicable ☒ Not applicable

2. Independent Directors' Objection to Any Matters Related to the Company

Any objections to the matters related to the Company from the Independent Directors

☐ Yes ☒ No

Independent Directors have no objection to any matters related to the Company during the Year.

3. Other Explanations about Performance of Duties by Independent Directors

Whether the opinions from the independent Directors of the Company are adopted

☐ Yes ☐ No ☒ Not applicable

VI. CORPORATE GOVERNANCE DISCLOSURE MADE PURSUANT TO THE HONG KONG LISTING RULES

1. Compliance with the Corporate Governance Code

The Board of the Company regularly monitored and reviewed the progress of the Group's corporate governance practices to ensure compliance with the relevant codes. The Company adopts the Corporate Governance Code as set out in Appendix 14 of the Hong Kong Listing Rules as its corporate governance code.

The Company confirmed that during the period from 1 January 2019 to 31 December 2019, the Company strictly complied with the principles and the code provisions (the "Code Provisions") in the Corporate Governance Code as set out in Appendix 14 of the Hong Kong Listing Rules, except for the following deviation:

According to E.1.2 of the Code Provisions, the chairman of the Board shall attend annual general meetings. Mr. Zhu Baoguo, the chairman of the Board, did not attend the 2018 Annual General Meeting of the Company due to urgent business trip.

VI. CORPORATE GOVERNANCE DISCLOSURE MADE PURSUANT TO THE HONG KONG LISTING RULES *(continued)*

2 Securities Transactions of Directors and Supervisors

The Company has adopted the Model Code as set out in Appendix 10 of the Hong Kong Listing Rules as its own Model Code regarding the securities transactions in the H Shares of the Company by the Company's Directors, Supervisors and the "Relevant Employees" as defined in the Corporate Governance Code as set out in Appendix 14 of the Hong Kong Listing Rules. After making due and specific enquiries to all of the Directors and Supervisors of the Company, the Company was not aware of any information which has reasonably revealed that each of the Directors and Supervisors has not complied with the standards required by the above-mentioned code during the period from 1 January 2019 to the date of this Report. All Directors and Supervisors have confirmed that they have complied with the standards as set out in the above codes during the period from 1 January 2019 to the date of this Report. The Company has also made specific enquiry to all of the employees in respect of compliance to the standards set out in the above-mentioned code by the employees, and note that there has been no incident of non-compliance with the standards as set out in the above-mentioned code.

3. Board

The Board is responsible for leading and monitoring the Company, and is wholly responsible for the administration and supervision of the Company's businesses to facilitate its success. Executive Directors or senior executives and management in charge of each division and function are authorised to be responsible for the daily management of the Company. Directors of the Company shall act objectively and make decisions in the interests of the Company. The management and senior management of the Company hold regular meetings with the Board to discuss the ordinary business operations and performance of the Company, and carry out the relevant decisions of the Board. The Company will arrange independent legal advice upon the request from the Directors or any committees of the Board, if the Board or any committees of the Board consider it is necessary to seek for independent professional advice.

The members of the Board of the Company are elected at and accountable to the shareholders' general meetings, and shall exercise the following authority and powers: (1) to convene general meetings and report to the meetings; (2) to implement the resolutions passed at general meetings; (3) to determine the Company's business plans and investment schemes; (4) to prepare the Company's annual financial budget and final accounts; (5) to formulate the Company's profit distribution plan and loss recovery plan; (6) to formulate proposals for increases or reductions of the Company's registered capital and for the issuance and listing of corporate bonds or other securities; (7) to draft plans for material acquisition, acquisition of the shares of the Company under the circumstances as required in (i) and (ii) of the first paragraph of Article 27 of these Articles of Association, merger, division, dissolution or change in corporate form; (8) to determine the acquisition of the shares of the Company under the circumstances as required in (iii) to (vii) of the first paragraph of Article 27 of these Articles of Association within the authorisation of the general meeting; (9) save as otherwise provided by the securities regulatory authorities and the stock exchanges where the shares of the Company is listed, to determine matters relating to the Company's external investment, asset acquisition and disposal, asset mortgage, external guarantee, asset management mandate and connected transaction within the authorisation of the general meeting; (10) to determine the establishment of the Company's internal management structure; (11) to appoint or dismiss the Company's President and the secretary of the Board; and pursuant to the president's nominations, to appoint or dismiss senior officers including vice presidents and chief financial officer of the Company and to decide on their remuneration, rewards and penalties; (12) to formulate the Company's basic management system; (13) to formulate the proposed amendments to these Articles of Association; (14) to deal with information disclosures of the Company; (15) to propose to the general meeting for appointment or replacement of the accounting firms serving as the auditors of the Company; (16) to receive work report submitted by the president and to review his performance; (17) to exercise other duties and powers specified in the laws, administrative regulations, rules of regulatory authorities or these Articles of Association.

VI. CORPORATE GOVERNANCE DISCLOSURE MADE PURSUANT TO THE HONG KONG LISTING RULES *(continued)***3. Board** *(continued)*

The Board is responsible for performing the functions set out in the code provision D.3.1 of the Corporate Governance Code to ensure that the Company establishes good corporate governance policies, practices and procedures. During the Year, the Board:

- (1) formulated and reviewed the Company's policies and practices on corporate governance;
- (2) reviewed and monitored the training and continuous professional development of Directors and senior management;
- (3) reviewed and monitored the Company's policies and practices on compliance with legal and regulatory requirements;
- (4) formulated, reviewed and monitored the code of conduct and compliance manual of Directors and employees; and
- (5) reviewed the Company's compliance with the Corporate Governance Code and disclosure in the Corporate Governance Report.

As at the date of this Report, the Board of the Company has a total of ten members, of which two executive Directors are Tang Yanggang (President) and Xu Guoxiang (Vice Chairman and Vice President); three non-executive Directors are Zhu Baoguo (Chairman), Tao Desheng (Vice Chairman) and Qiu Qingfeng; and five independent non-executive Directors are Xu Yanjun, Zheng Zhihua, Xie Yun, Tian Qiusheng and Wong Kam Wa. For details of the biographies of the above Directors, please refer to Section IX "Directors, Supervisors and Senior Management" of this Report.

VI. CORPORATE GOVERNANCE DISCLOSURE MADE PURSUANT TO THE HONG KONG LISTING RULES *(continued)*

3. Board *(continued)*

During the Year, the Company convened a total of twelve Board meetings and nine shareholders' general meetings. Attendance of the Directors of the Company is as follows:

		Attendance of relevant meetings during their term of office/Number of relevant meetings held during their term of office	
Name	Position	Board meetings	General meetings (including class meetings)
I. Executive Directors			
Tang Yanggang	Director, President	12/12	4/9
Xu Guoxiang	Vice Chairman, Vice President	12/12	0/9
Fu Daotian	Director, Vice President	9/9	7/7
II. Non-executive Directors			
Zhu Baoguo	Chairman	12/12	0/9
Tao Desheng	Vice Chairman	12/12	9/9
Qiu Qingfeng	Director	12/12	3/9
III. Independent Non-executive Directors			
Xu Yanjun	Independent Director	12/12	9/9
Zheng Zhihua	Independent Director	12/12	3/9
Xie Yun	Independent Director	12/12	4/9
Tian Qiusheng	Independent Director	3/3	1/1
Wong Kam Wa	Independent Director	3/3	0/1
Guo Guoqing	Independent Director	6/6	7/7
Wang Xiaojun	Independent Director	8/8	0/7

Notes: Mr. Guo Guoqing retired as an independent non-executive Director of the Company with effect from 19 July 2019 due to the expiration of his 6-year term of office as a Director. Mr. Wang Xiaojun has retired as an independent non-executive Director of the Company with effect from 16 September 2019 due to the expiration of his 6-year term of office as a Director. Mr. Fu Daotian resigned as an executive Director and a vice president of the Company due to personal family and development reasons with effect from 27 September 2019.

Save as twelve Board meetings as above, the chairman also held one meeting with non-executive Directors of the Company during the Year.

Save as disclosed in biographies of Directors of the Company set out in this Report, there is no financial, business or family relationship or material/relevant relationship between the members of the Board.

Prior notice are given for meetings convened during the Year in accordance with relevant requirements to ensure all Directors have the opportunity to attend meetings and propose matters for discussion to be incorporated into agenda. All of the Directors may obtain opinions and services from the secretary to the Board to ensure compliance with Board procedures and all applicable rules and regulations. The Company has purchased liability insurances for Directors, Supervisors and senior management.

VI. CORPORATE GOVERNANCE DISCLOSURE MADE PURSUANT TO THE HONG KONG LISTING RULES *(continued)*

3. Board *(continued)*

Training and professional development: the Company arranged for Directors to participate in professional training organised by the CSRC and the Shenzhen Stock Exchange from time to time for obtaining training qualification certificates or qualification certificates recognised by relevant authority, and regularly provide all directors with relevant updates on regulations, industry information and directors' duties. Meanwhile, Directors are encouraged to participate in courses and lectures organised by professional institutions to enhance the Directors' continuous professional development and further education and update their knowledge and skills. Each Director has provided records of training they have taken during the year ended 31 December 2019 and attended trainings rendered by professional groups and/or learned materials about his/her duty and responsibility.

	Continuous professional development of Directors	
	Attending professional training/courses/lectures	Reading books and materials
Executive Directors		
Tang Yanggang	✓	✓
Xu Guoxiang	✓	✓
Fu Daotian	✓	✓
Non-executive Directors		
Zhu Baoguo	✓	✓
Tao Desheng	✓	✓
Qiu Qingfeng	✓	✓
Independent Non-executive Directors		
Xu Yanjun	✓	✓
Zheng Zhihua	✓	✓
Xie Yun	✓	✓
Tian Qiusheng	✓	✓
Wong Kam Wa	✓	✓
Guo Guoqing	✓	✓
Wang Xiaojun	✓	✓

Notes: Mr. Guo Guoqing retired as an independent non-executive director of the Company with effect from 19 July 2019 due to the expiration of his 6-year term of office as a Director. Mr. Wang Xiaojun has retired as an independent non-executive Director of the Company with effect from 16 September 2019 due to the expiration of his 6-year term of office as a Director. Mr. Fu Daotian resigned as an executive Director and a vice president of the Company due to personal family and development reasons with effect from 27 September 2019.

VI. CORPORATE GOVERNANCE DISCLOSURE MADE PURSUANT TO THE HONG KONG LISTING RULES *(continued)***4. Chairman and President**

The positions of the chairman and president of the Company are held by different persons and there is a clear division of work between the two roles. The chairman of the Company is Mr. Zhu Baoguo and the president of the Company is Mr. Tang Yanggang.

The chairman of the Board mainly exercises the following duties and powers: to preside over general meetings and to convene and preside over Board meetings; to supervise and monitor the implementation of resolutions of Board meetings; to sign share certificates, debentures and other quoted securities of the Company; to sign important documents of the Board and other documents which should be signed by the Company's legal representative; to exercise the authority and powers of a legal representative; to exercise special discretionary power on corporate affairs in accordance with laws and in the Company's interests in case of emergency situations such as the occurrence of natural disasters of an exceptional scale and other force majeure events, and provide aftermath reports to the Board and general meetings; and to perform other duties and powers authorised by the Board.

The president shall report to the Board and exercises the following duties and powers: to be in charge of the production, operation and management of the Company, to organize and implement the resolutions adopted by the Board, and to report his work to the Board; to organize and implement the annual business plans and investment plans of the Company; to draft schemes for the establishment of the Company's internal management departments; to draft schemes for the establishment of the Company's internal management departments; to formulate the detailed rules and regulations of the Company; to make proposals regarding the appointment or removal of the vice president and chief financial officers of the Company; to appoint or remove managerial officers other than those to be appointed or removed by the Board; and to perform other duties and powers authorised by the Articles of Association and the Board.

5. Independent Non-Executive Directors

The Board comprises of five independent non-executive Directors, exceeding the minimum requirement under the Hong Kong Listing Rules in relation to the number of independent non-executive Directors. Mr. Xu Yanjun, being an independent non-executive Director of the Company, possesses appropriate accounting and financial management expertise, which is in compliance with the requirements under Rule 3.10 of the Hong Kong Listing Rules. For the biography of Mr. Xu Yanjun, please refer to Section IX of this Report. The Company has received from each of the independent non-executive Directors an annual confirmation of independence pursuant to independence guidelines set out in Rule 3.13 of the Hong Kong Listing Rules. The Company considers that all of the independent non-executive Directors are independent.

6. Directors' Term of Office

According to the Articles of Association, all Directors of the ninth session of the Board (including non-executive Directors) are elected at general meetings with a term of three years from 30 June 2017 to 30 June 2020. Directors can be re-elected upon expiration of the term, provided that no term of office shall last for more than six years.

VI. CORPORATE GOVERNANCE DISCLOSURE MADE PURSUANT TO THE HONG KONG LISTING RULES *(continued)***7 Directors' Responsibility for the Financial Statements**

The Directors acknowledged their responsibility to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company. The Directors believed that the Company had adopted and applied consistently appropriate accounting policies in preparing the financial statements in compliance with all related accounting standards.

8. Special Committees of the Board

Pursuant to the Corporate Governance Code, three committees are set up under the Board, namely the Audit Committee, the Remuneration and Assessment Committee, and the Nomination Committee, so as to oversee specific scopes concerning the state of affairs of the Company. Each of the Board committees has specific term of reference in writing. The written term of reference for each of the Board committees are published on websites of the Hong Kong Stock Exchange and the Company. Apart from the requirements under the Hong Kong Listing Rules and the Corporate Governance Code, the Company has also established the Strategy Committee in order to monitor the Company's long-term development strategic plan, conduct research and give recommendations thereon.

Audit Committee

The Audit Committee under the ninth session of the Board comprises three independent non-executive Directors of the Company. The chairman of the committee is Mr. Xu Yanjun and other committee members are Mr. Xie Yun and Mr. Zheng Zhihua. Mr. Xu Yanjun possesses appropriate accounting and financial management expertise as required under Rule 3.10 of the Hong Kong Listing Rules. The key responsibilities of the Audit Committee are to review the Company's financial reports; review the Company's financial control system, risk management system and internal control system; study the Company's relationships with external auditors and consider the annual audit plans submitted by external auditors; and examine reports submitted in confidence by the Company's employees in relation to concern of possible improprieties in financial reporting, internal control or other aspects, and give relevant suggestions.

During the Year, the Audit Committee had discussed the Group's annual, interim and quarterly financial statements, reviewed the accounting principles and practices, internal supervision system and considered audit conducted and fees charged by auditor. On 9 March 2020, the Committee reviewed the 2019 Self-Evaluation Report on Risk Management and Internal Control.

During the Year, six meetings were convened by the Audit Committee, details were as follows:

- (1) On 4 January 2019, the ninth meeting of the Audit Committee of the ninth session of the Board was held on-site at the conference room at the 4th floor of the headquarter of the Company, during which the Resolution on the 2018 Financial Audit Plan of Livzon Pharmaceutical Group Inc. was considered and approved.
- (2) On 28 February 2019, the tenth meeting of the Audit Committee of the ninth session of the Board was held by way of telecommunication, during which the Resolution on Consideration of the 2018 Auditors' Report (Draft) and the Resolution on Consideration of the 2018 Final Financial Report were considered and approved.

VI. CORPORATE GOVERNANCE DISCLOSURE MADE PURSUANT TO THE HONG KONG LISTING RULES *(continued)*

8. Special Committees of the Board *(continued)*

Audit Committee *(continued)*

- (3) On 7 March 2019, the eleventh meeting of the Audit Committee of the ninth session of the Board was held on-site at the conference room at the 4th floor of the headquarter of the Company, during which the Resolution on Consideration of the 2018 Auditors' Report, the Resolution on Consideration of the 2018 Results Announcement and the Annual Report (Draft), the Resolution on Consideration of Continuing Connected Transactions, the Resolution on Consideration of the 2018 Self-Evaluation Report on Risk Management and Internal Control, the Resolution on Reviewing the Arrangements for Concerned by Employees for Inappropriate Acts, the Resolution on Consideration of the Evaluation Report on the Audit Work Carried Out by Ruihua Certified Public Accountants (LLP) for the year 2018 and the Resolution on Considering the Re-appointment of Ruihua Certified Public Accountants(LLP) as the Audit Firm of the Company for the year 2019 were considered and approved.
- (4) On 24 April 2019, the twelfth meeting of the Audit Committee of the ninth session of the Board was held by way of telecommunication, during which the Resolution on the Unaudited Consolidated Financial Statements and the Quarterly Results Announcement for Three Months Ended 31 March 2019 of the Company and its Subsidiaries was considered and approved.
- (5) On 7 August 2019, the thirteen meeting of the Audit Committee of the ninth session of the Board was held on-site at the conference room at the 4th floor of the headquarter of the Company, during which the Resolution on Consideration of the Unaudited Interim Results Announcement, the Interim Report, Consolidated Financial Reports for the Six Months Ended 30 June 2019 of the Company, the Resolution on Consideration of Continuing Connected Transaction of the Company for the First Six Months of 2019 and the Resolution on Consideration of Specific Report on Deposit and the Actual Use of the Fund Raised from Non-public Issuance of A Shares by the Company were considered and approved.
- (6) On 21 October 2019, the fourteen meeting of the Audit Committee of the ninth session of the Board was held by way of telecommunication, during which the Resolution on Consideration of the Unaudited Consolidated Financial Statements and the Quarterly Results Announcement for Nine Months Ended 30 September 2019 of the Company and its Subsidiaries, Special Report of the Company on the Deposit and the Actual Use of the Fund Raised as at 30 September 2019, and Change of the Auditor of the Company for 2019 were considered and approved.

Remuneration and Assessment Committee

The Remuneration and Assessment Committee under the ninth session of the Board is comprised of three Directors. The chairman of the committee is Mr. Zheng Zhihua (independent non-executive Director) and other committee members are Mr. Tao Desheng (non-executive Director) and Mr. Xu Yanjun (independent non-executive Director). The member composition is in compliance with the requirements under Rule 3.25 of the Hong Kong Listing Rules. The key responsibilities of the Remuneration and Assessment Committee are to assess and review and advice the Board on the remuneration packages for the chairman of the Board, executive Directors and senior management of the Company, and to make recommendations to the Board on the policy and structure for all Directors' and senior management's remuneration and on the establishment of a formal and transparent procedure for developing remuneration policy, so as to ensure that any Director or any of their associates shall not be involved in fixing their remuneration and related matters.

During the Year, the Remuneration and Assessment Committee held three meetings to consider matters on assessing, reviewing and making recommendations to the Board on remuneration, remuneration policy and framework of the Directors and senior management of the Company (including president and vice president) and the interests of the Company as a whole and 2018 Share Options Incentive Scheme.

Details in relation to remuneration of the senior management are disclosed in "Note X 5. Related Transactions" of the financial statements in this Report.

VI. CORPORATE GOVERNANCE DISCLOSURE MADE PURSUANT TO THE HONG KONG LISTING RULES *(continued)***8. Special Committees of the Board** *(continued)***Nomination Committee**

The Nomination Committee under the ninth session of the Board is comprised of three Directors. The chairman of the committee is Mr. Xie Yun (independent non-executive Director) and other committee members are Mr. Zheng Zhihua (independent non-executive Director) and Mr. Tao Desheng (non-executive Director). The member composition is in compliance with the requirements under code provision A.5.1 of the Corporate Governance Code as set out in Appendix 14 of the Hong Kong Listing Rules. The key responsibilities of the Nomination Committee are to review the structure, number of members and composition of the Board (in respect of various areas including gender, ages, cultural and education background, skills, knowledge and experience); to study the criteria and procedures for selection and appointment of Directors and senior management, and to make recommendations thereon to the Board; to advise the Board on the appointment or re-appointment of Directors and succession plan for Directors (particularly the chairman and the president); and to evaluate the independence of independent non-executive Directors.

During the Year, the Nomination Committee held three meetings to consider matters on nomination of the vice chairman and independent non-executive Directors of the ninth session of Board and the vice presidents of the Company, review the Board Diversity Policy and monitoring its implementation, assess independence of the independent non-executive Directors, review the structure, number of members and composition of the Board and make recommendations on its size and composition.

The Nomination Committee has adopted a set of nomination procedures and adopted the Director Nomination Policy on 19 November 2018. The Nomination Committee may search extensively for candidates for Directors and senior management from the Company, its subsidiaries or participating stock companies and the job market, and in accordance with the relevant laws and regulations, the Director Nomination Policy and the relevant provisions of the Articles of Association, coupled with the Company's actual circumstances, the Nomination Committee shall study the election criteria, selection procedures and term of service for Directors and senior management of the Company, and submit the resolution to the Board for approval. The Nomination Committee may select candidates for Directors and senior management of the Company according to their occupations, education, job titles, detailed work experience, their part-time jobs, character and integrity, professional qualifications, independence, diversity, the time which they are willing and able to devote and the potential contributions which they can bring to the Board, the Company's needs and the statutory requirements, laws and regulations. For any person that is nominated by a Shareholder for election as a Director at the general meeting of the Company, the Nomination Committee and/or the Board should evaluate such candidate based on the criteria as set out above. For re-election of Directors, the Nomination Committee and/or the Board should review the overall contribution and service to the Company and the level of participation and performance on the Board of the retiring director as well as whether the retiring director to be re-elected continues to meet the criteria as set out above, and make recommendation to shareholders.

According to the Director Nomination Policy, the Nomination Committee and/or the Board should, upon receipt of the proposal on appointment of new Director and the biographical information (or relevant details) of the candidate, evaluate such candidate based on the criteria as set out above to determine whether such candidate is qualified for directorship.

VI. CORPORATE GOVERNANCE DISCLOSURE MADE PURSUANT TO THE HONG KONG LISTING RULES *(continued)*

8. Special Committees of the Board *(continued)*

Nomination Committee *(continued)*

The Company is of the view that the diversity of the Board is one of the essential factors in sustaining the competitive edge of the Company and facilitating the sustainable development of the Company. The Company formulated the Board Diversity Policy (the “Policy”). Under the Policy, when considering the composition of the Board, the Company shall consider various aspects for the Board diversity, including but not limited to gender, age, cultural and educational background, professional qualifications, skills and knowledge etc. On top of the above basis, the Company shall make decisions in accordance with objective conditions such as comprehensive values that the candidates can bring to the business and development of the Company, contributions that the candidates can make to the Board whilst ensuring the diversity of the Board. In order to ensure the effectiveness of the Policy, the Nomination Committee of the Company will periodically monitor and review the Policy. The Company is of the view that the current composition of the Board is a balanced and diversified mix that is suitable for the Company’s business development.

Strategy Committee

The Strategy Committee under the ninth session of the Board is comprised of three Directors. The chairman of the committee is Mr. Zhu Baoguo (non-executive Director) and other committee members are Mr. Tang Yanggang (executive Director, appointed as the committee member on 16 August 2019) and Mr. Tao Desheng (non-executive Director). The key responsibilities of the Strategy Committee are to conduct research on the Company’s long-term development strategy and major investment decisions, and to give recommendations thereon.

Attendance of the meetings of Special Committees of the Board

During the Year, attendance of the meetings of special committees of the Board was as follows:

Name	Position	Attendance of relevant meetings during their term of office/ Number of relevant meetings held during their term of office			
		Meetings of Audit Committee	Meetings of Nomination Committee	Meetings of Remuneration and Assessment Committee	Meetings of Strategy Committee
Zhu Baoguo	Non-executive Director/Chairman	N/A	N/A	N/A	0/0
Tang Yanggang	Executive Director	N/A	N/A	N/A	0/0
Tao Desheng	Non-executive Director/Vice Chairman	N/A	3/3	3/3	0/0
Xu Yanjun	Independent Non-executive Director	6/6	N/A	3/3	N/A
Xie Yun	Independent Non-executive Director	6/6	3/3	N/A	N/A
Zheng Zhihua	Independent Non-executive Director	1/1	2/2	3/3	N/A
Guo Guoqing	Independent Non-executive Director	4/4	1/1	0/0	N/A

Note: Mr. Guo Guoqing retired as an independent non-executive Director, a member of the Audit Committee, the chairman of the Remuneration and Assessment Committee and a member of the Nomination Committee of the Company due to the expiration of his 6-year term of office as a director, with effect from 19 July 2019. Mr. Zheng Zhihua was appointed as a member of the Audit Committee, the chairman of the Remuneration and Assessment Committee, and a member of the Nomination Committee of the Company on 16 August 2019. Mr. Tang Yanggang was appointed as a member of the Strategy Committee of the Company on 16 August 2019.

VI. CORPORATE GOVERNANCE DISCLOSURE MADE PURSUANT TO THE HONG KONG LISTING RULES *(continued)***9. Communication with Shareholders**

The Company attaches high importance to its effective communication with shareholders through which the shareholders can conduct clear assessment on the results of the Group, and make inquiries to the Board. Major ways of communication between the Company and shareholders are as follows:

Information disclosure on the Company's website

The Company will use the most comprehensive and timely manner for disclosure of all significant information related to the Group to those who are interested in receiving the Company's information. The Company's website (www.livzon.com.cn) may provide important information related to the Group's activities and corporate issues (such as annual reports and interim reports to Shareholders, announcements, business development and operation, corporate governance practice and other information etc.) available for inspection by Shareholders and other stakeholders. In addition, announcements issued through the Hong Kong Stock Exchange are also available on the website of the Company.

Telephone number and email

The Company provide telephone number (86-756-8135888) and email address (LIVZON_GROUP@livzon.com.cn) to Shareholders for communicating with the Company.

Convening of general meetings

General meetings serve as a useful platform for the Board's direct communication with shareholders. The Company shall submit separate resolutions at the general meeting on substantially different topics for discussion, reserve sufficient time for direct communication and exchange between senior management of the Company and Shareholders who attend the meeting, and answer various inquiries made by Shareholders.

10. Shareholders' Rights**Procedure for convening general meetings by shareholders**

Pursuant to Article 73 of the Articles of Association: "Shareholders, individually or jointly, holding 10% or more of the Company's shares may request the Board to convene an extraordinary general meeting or a class meeting of Shareholders, and such proposals shall be made to the Board in writing. For such proposal, the Board shall, in accordance with laws, administrative regulations and these Articles of Association, make a written response as to whether or not it agrees to convene an extraordinary general meeting or a class meeting of Shareholders, within 10 days upon receipt of such proposal.

If the Board agrees to convene the extraordinary general meeting or class meeting of Shareholders, a notice of such meeting shall be issued within 5 days after the resolution of the Board is passed. Changes made to the original proposal in the notice shall be approved by the relevant Shareholder.

If the Board disagrees to convene the extraordinary general meeting or class meeting of Shareholders, or fails to give a relevant notice within 10 days after the receipt of the request, shareholders, individually or jointly, holding 10% or more of the Company's shares may request the Supervisory Committee to convene an extraordinary general meeting or a class meeting of Shareholders, and such proposals shall be made to the Supervisory Committee in writing.

VI. CORPORATE GOVERNANCE DISCLOSURE MADE PURSUANT TO THE HONG KONG LISTING RULES *(continued)***10. Shareholders' Rights** *(continued)***Procedure for convening general meetings by shareholders** *(continued)*

If the Supervisory Committee agrees to convene the extraordinary general meeting or class meeting of Shareholders, a notice of such meeting shall be issued within 5 days after the receipt of the request. Changes made to the original proposals in the notice shall be approved by the relevant Shareholder.

If the Supervisory Committee fails to give a relevant notice within the designated period, it shall be deemed that the Supervisory Committee fails to convene and preside over the general meeting. The shareholder(s) continuously holding for 90 days individually or collectively 10% or more of the shares of the Company may convene and preside over the meeting by himself/themselves.

All reasonable expenses incurred by the shareholders to convene a general meeting where the Board and the Supervisory Committee fail to do so shall be assumed by the Company."

Pursuant to Articles 74, 75 and 76 of the Articles of Association: "If the Supervisory Committee or Shareholder(s) decide(s) to convene the general meeting by itself/themselves, it/they shall issue a written notice to the Board and file with the local office of CSRC and the stock exchange.

Shareholding proportion of the Convening Shareholders who intend to convene a general meeting shall not be less than 10% prior to announcement of the resolution of the general meeting.

The convening Shareholders shall submit the corresponding supporting materials to the local office of CSRC and the stock exchange when issuing the notice of convening a general meeting and declaring the resolution of general meeting.

For general meetings convened by the Supervisory Committee or the Shareholders, the Board and the secretary to the Board shall coordinate accordingly. The Board shall provide the register of members as at the registered date for entitlements of shares.

All necessary expenses incurred by the Supervisory Committee or the Shareholders to convene a general meeting shall be assumed by the Company."

Procedure for delivering Shareholders' inquiries to the Board

Shareholders may, at any time through the Secretary to the Board (Company Secretary), forward their inquiries and matters of concern to the Board of the Company in writing. For contact details of the Secretary to the Board (Company Secretary), please refer to relevant content as set out in "CONTACT PERSONS AND CONTACT DETAILS" of Section II of this Report. The Secretary to the Board (Company Secretary) shall forward Shareholders' inquiries and matters of concern to the Board of the Company and/or relevant committees under the Board (if appropriate), in order to respond to Shareholders' queries.

VI. CORPORATE GOVERNANCE DISCLOSURE MADE PURSUANT TO THE HONG KONG LISTING RULES *(continued)***10. Shareholders' Rights** *(continued)***Procedure for submission of Shareholders' proposals to general meetings**

Pursuant to Article 78 of the Articles of Association: "The Board, the Supervisory Committee, and Shareholder(s) individually or jointly holding more than 3% of the Company's shares shall have the right to submit proposed resolutions to the Company for a general meeting of the Company. If those proposals are within the functions and powers of the general meeting, they are required to be added to the agenda of the general meeting.

The Shareholder(s) individually or jointly holding more than 3% of the Company's Shares may submit extra proposed resolutions in writing to the convener of a general meeting in writing 10 days prior to the meeting. The convener shall issue a supplementary notice of the general meeting and announce the contents of such extra proposed resolutions within 2 days after receipt thereof.

Except as provided by the preceding clause, the convener of a general meeting shall not amend the proposed resolutions set out in the notice of the meeting or add any new proposed resolutions subsequent to the issue of the notice of the general meeting.

Proposals which are not specified in the notice of the general meeting or which do not comply with Article 77 of these Articles of Association shall not be voted and resolved at the general meeting and become resolutions."

Investor relations

The Company serves and visits investors to introduce the business of the Group in a timely manner. In addition, the Company shall promptly answer questions raised by the public and individual Shareholders through calls, interactive platform of the Shenzhen Stock Exchange, etc. Under any circumstances, the Company shall adopt prudent attitude to ensure it shall not make selective disclosure of any information that affects share prices.

11. Articles of Association

During the Year, the Company made four amendments to the Articles of Association.

On 7 January 2019, the Company convened the 2019 first extraordinary general meeting to approve the amendments to the Articles of Association of the Company. Therefore, the Company made amendments to Article 27, Article 28, Article 64 and Article 150 of the Articles of Association on 7 January 2019, details of which is available in the announcement of the Company dated 18 December 2018 and 19 December 2018 as posted on the websites of the Company and the Hong Kong Stock Exchange and Cninfo respectively.

On 14 February 2019, the Company convened the 2019 second extraordinary general meeting to approve the amendments to the Articles of Association of the Company. Therefore, the Company made amendments to Article 96, Article 149 and Article 157 of the Articles of Association on 14 February 2019, details of which is available in the announcement of the Company dated 28 December 2018 and 29 December 2018 as posted on the websites of the Company and the Hong Kong Stock Exchange and Cninfo respectively.

VI. CORPORATE GOVERNANCE DISCLOSURE MADE PURSUANT TO THE HONG KONG LISTING RULES *(continued)***11. Articles of Association** *(continued)*

On 30 May 2019, the Company convened the 2018 annual general meeting to approve the amendments to the Articles of Association of the Company, in order to reflect the changes in the share capital and registered capital of the Company after the repurchase and cancellation of Restricted Shares. Therefore, the Company made amendments to Article 6 and Article 21 of the Articles of Association on 30 May 2019, details of which is available in the announcement of the Company dated 11 April 2019 and 12 April 2019 as posted on the websites of the Company and the Hong Kong Stock Exchange and Cninfo respectively.

On 15 October 2019, the Company convened the 2019 third extraordinary general meeting to approve the amendments to the Articles of Association of the Company, in order to reflect the changes in the share capital and registered capital of the Company after implementation of the 2018 Annual Profit Distribution Plan. Therefore, the Company made amendments to Article 6 and Article 21 of the Articles of Association on 15 October 2019, details of which is available in the announcement of the Company dated 28 August 2019 and 29 August 2019 as posted on the websites of the Company and the Hong Kong Stock Exchange and Cninfo respectively.

12. The Company's Profit Distribution Policy

The profit distribution policy as required in the Articles of Association is set out as follows:

- (1) The profit distribution of the Company shall focus on providing Shareholders with reasonable investment return as well as the Company's sustainable development, and the Company shall maintain the continuity and stability of the profit distribution policy as much as possible.
- (2) The Company may distribute its profit in the form of cash, shares or a combination of cash and shares or in other ways as permitted by the laws and regulations.
- (3) The Company distributes its profit annually in principle. Nevertheless, interim profit distribution in cash may be made by the Company subject to conditions.
- (4) Subject to the condition that the Company's cash flow could satisfy normal operation and long-term development need, the Company shall implement proactively the cash dividends distribution and shall guarantee that the accumulated profit to be distributed in cash for the latest three years shall not be less than 30% of the average annual distributable profit realized in the latest three years. Particulars of the proportion of profit distributed in cash annually are proposed by the Board in accordance with relevant requirements and the Company's operation of the year, which shall be submitted to the general meeting for approval.

The Company shall, after considering various factors such as the characteristics of the industry where it operates, stage of development, business model, profitability and investment expenses, propose different cash dividend policy based on the following situation according to statutory procedures: (i) If the Company is at a mature stage of development with no significant capital expenditure arrangement at the time of profit distribution, cash dividend payout ratio of such profit distribution shall be at least 80%; (ii) If the Company is at a mature stage of development with significant capital expenditure arrangement at the time of profit distribution, cash dividend payout ratio of such profit distribution shall be at least 40%; (iii) If the Company is in a growing stage of development with significant capital expenditure arrangement at the time of profit distribution, cash dividend payout ratio of such profit distribution shall be at least 20%.

VI. CORPORATE GOVERNANCE DISCLOSURE MADE PURSUANT TO THE HONG KONG LISTING RULES *(continued)***12. The Company's Profit Distribution Policy** *(continued)*

- (5) The Company may distribute cash dividend, provided that the following conditions are fulfilled: (i) Positive figures are recorded for the distributable profits of the Company (i.e. post-tax profit left after the loss recovery and accrual of the reserves) during the year; (ii) A standard unqualified audit report is issued by an auditor for the financial report of the Company during the year;
- (6) Conditions for the Company to declare script dividend: subject to the fulfilment of the conditions for declaring cash dividend, if the operating income and net profit of the Company show rapid growth, in addition to propose a cash dividend proposal, the Board of the Company can propose a script dividend proposal if it considers the scale of the share capital and shareholding structure of the Company are reasonable.

The Shareholders' return plan of the Company for 2019-2021 as required in the Shareholders' Return Plan for the Three Years (2019-2021) of the Company, which has been approved in the general meeting dated 11 February 2020, is set out as follows:

(1) Distribution principle

The Company implements the dividend distribution principle of equal shares entitling to equal profits, under which dividends and other forms of benefits are distributed to shareholders in proportion to the number of shares they hold. In distributing its profits, the Company shall attach importance to delivering reasonable investment returns to shareholders taking into account the Company's sustainable development, and shall be committed to maintaining the continuity and stability of the distribution policy. The distribution of profits shall neither exceed the scope of the cumulative distributable profits, nor shall it be detrimental to the Company's ability to continue its operation.

(2) Distribution method

The Company may distribute profits in the form of cash, stocks, a combination of cash and stocks, or other methods permitted by the laws and regulations.

(3) Conditions and proportions for the distribution of profits

(i) Conditions and proportions for the distribution of cash dividends

During the term of the plan, any distribution of cash dividends by the Company shall meet the following conditions: the distributable profit achieved by the Company in the previous year (namely the Company's remaining after-tax profit after making up for the losses and extracting the provident fund) is positive; a standard unqualified audit report has been issued by the auditing institution on the Company's financial reports for the previous year; no major investment plan or significant cash expenditure and other matters will occur in the future.

Major investment plan or significant cash expenditure shall refer to one of the following situations: the Company's cumulative expenditures on its proposed external investments, acquisitions or asset purchases in the next 12 months has reached or exceeded 50% of the Company's latest audited net assets and that the sum has exceeded RMB50 million; the Company's cumulative expenditures on its proposed external investments, acquisitions or asset purchases in the next 12 months has reached or exceeded 30% of the Company's latest audited total assets.

VI. CORPORATE GOVERNANCE DISCLOSURE MADE PURSUANT TO THE HONG KONG LISTING RULES *(continued)***12. The Company's Profit Distribution Policy** *(continued)*

(3) Conditions and proportions for the distribution of profits *(continued)*

(i) Conditions and proportions for the distribution of cash dividends *(continued)*

During the term of the plan, in the case where the conditions for paying out cash dividends and the capital requirements for its normal production and operation are met, the Company shall actively distribute profits in the form of cash, and the profits to be distributed in cash each year shall not be less than 80% of the distributable profit achieved in the current year.

In the case where the Company adopts a tender offer or the centralised bidding method to repurchase its shares using cash as consideration, the amount of shares repurchased in the current year shall be deemed as the amount of cash dividends to be paid and shall be included in the calculation of relevant proportions for the distribution of cash dividends for the year.

(ii) Conditions for the distribution of stock dividends

On the premise that the payment of cash dividends is fulfilled, if increasing the Company's share capital is considered to be necessary and beneficial to the overall interests of all shareholders of the Company, the Board of the Company may propose a plan for the distribution of stock dividends or the conversion of capital reserves into share capital.

(4) Intervals for the distribution of profit

In the case where the aforementioned conditions for the distribution of dividends are met, the Company shall actively distribute dividends in the form of cash, and in principle distribute profits on an annual basis. However, if conditions allow, the Company may pay out interim cash dividends. If the Company decides to pay out interim cash dividends without distributing bonus shares or converting capital reserves into share capital, the interim financial report may not be audited.

VII. AUDITOR' REMUNERATION

Disclosure of the auditor' remuneration is set out in the "APPOINTMENT AND DISMISSAL OF THE ACCOUNTING FIRM" in Section V of this Report.

VIII. COMPANY SECRETARY

The company secretary of the Company is Mr. Yang Liang. Mr. Yang Liang took no less than 15 hours of relevant professional training during the Year.

IX. WORK OF THE SUPERVISORY COMMITTEE

The Supervisory Committee of the Company is accountable to all Shareholders, responsible for overseeing the legal compliance of financial matters of the Company as well as performance of responsibilities by Directors, the president and other senior management of the Company, and safeguarding the legal interests of the Company and Shareholders. The Supervisory Committee consists of two Shareholders' representatives and one employee representative of the Company. The positions of Supervisors held by Shareholder' representatives are subject to election and removal at general meetings, and the position of Supervisor held by an employee representative is subject to democratic election and removal by the employees of the Company.

Whether the Supervisory Committee of the Company discovered risks in its supervisory activities during the Year

☐ Yes ☒ No

The Supervisory Committee has no objection of the supervisory matters during the Year.

X. RISK MANAGEMENT AND INTERNAL CONTROL

In 2019, the risk management and internal control of the Company mainly focus on internal environment, risk assessment, control, information and communication and internal supervision. Its scope includes principal business and major events of the Company and its subsidiaries with an emphasis on risk management and internal control for high risk areas including fund management, R&D, quality control, asset management, sales, connected transactions. It focuses on daily regulated operations, integrity building, prevention and handling of internal and external risk in the operations.

Responsible persons of each department of the Company and its subsidiaries have performed self-assessments and evaluation regarding the specific operating procedures, the business practice and risk management and internal control within their the scope of business in order to ensure compliance of control policies and prepare for the business instruction and inspection from the management departments of the Company. The management of the Company collaborated with department supervisors to assess possibilities of risks, provided solutions and oversaw progress of risk management. The management is responsible for monitoring the risk management and internal control and reported to the Audit Committee and the Board on results and effects in relation to the risk management and internal control system during the Year.

The Company has established the Department of Audit and Integrity which is responsible for the audit of each department of the Company. Department of Audit and Integrity carries out audit work in accordance with the audit plan established by it, performs audit on the risk management, internal control system and financial position of each subsidiary, confirms and assesses the comprehensiveness and effectiveness of risk management and internal control system of each subsidiary and continues to supervise and review regularly. In accordance with the audit needs, the Company has engaged specific audit staff to consolidate internal audit resource of the Group and establish an audit team comprising the Department of Audit and Integrity (as the leader) and staff from departments of laws, human resources, finance and chief production & technology, in order to carry out a comprehensive and special audit work on part of subsidiaries of the Company, the off-office audit and economic responsibility audit for the management staff in 2019 and recommend remedies for existing problems, organize and complete internal audit correction and self-inspection of the subsidiaries. Department of Audit and Integrity shall prepare the comprehensive and special audit reports in accordance with specific audit contents, supervise the remedies of audited departments simultaneously, report to the management of the Group, and the management of the Group shall regularly report to the Audit Committee and the Board on effectiveness of the risk management and internal control system.

X. RISK MANAGEMENT AND INTERNAL CONTROL *(continued)*

In 2019, the Company conducted integrity building publicity for management staff at the deputy manager level and above and staff on key positions (such as procurement, engineering, EHS) of the Company and its subsidiaries, and made these staff sign the Undertaking on Anti-commercial Bribery. The Company conducted inspection in respect of cadre office and integrity concerns, and rated management cadres at all levels according to criteria of moral qualities and business capabilities, in order to build a clean and efficient cadre management team.

In 2019, the Company strengthened the procurement management of the assets, coordinated the development, allocation and utilization of the Company's productive resources, standardized procurement business processes, formulated and strictly implemented corresponding system. The Company required that the bulk procurement of materials and engineering equipment of each subsidiary should be subject to public bidding, with the Company's legal and compliance head department, production and technology head department and risk management head department participating together in order to strengthen the supplier qualification review and adopt the participation at the beginning and control during the process instead of the post supervision for procurement.

According to the requirement of optimizing corporate governance structure and internal control system of the Company, the Company was devoted to strengthening and optimizing risk management and internal control system, and internal audit work was gradually professionalized, formulated and standardized. The Company continued to strengthen the system establishment, build internal audit system which is aligned with the development of the Company, establish risk management procedure and guidance of various terms of reference, amend and optimize relevant audit system, code of conduct for audit personnel, audit standards, audit business guidelines, complaints reporting management system and audit files management system.

The Board acknowledged that it is responsible for the risk management and internal control systems and reviewing their effectiveness, and that such risk management and internal control systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss. The Company has obtained confirmation from the management in respect of the effectiveness of risk management and internal control system of the Company.

The inside information of the Group should normally be limited to circulation in relevant departments only. For necessary inside information circulation among the departments of the Company and its subsidiaries, necessary approval procedures are required to be performed by departments of the Company and its subsidiaries and approval from department supervisors are required before the inside information circulates to other departments. The Company should make a truthful and complete record of all relevant insiders involved with reporting, circulation, compiling, review and disclosure of inside information before public disclosure and time for such inside information available to insiders, for enquiry from the Company and regulatory bodies.

The insiders of inside information of the Company shall be obligated to keep inside information confidential. The Directors, Supervisors, the senior management of the Company and relevant insiders shall minimize the number of insiders of inside information before public disclosure through obligatory measures. The Company shall inspect and make penalty decisions to any insider dealer or any suggestion from insiders to utilize inside information in a timely manner, and also file such inspection and penalty results to Guangdong Securities Regulatory Bureau of CSRC and Shenzhen Stock Exchange.

XI. INTERNAL CONTROL

The material weakness discovered in internal control during the Year

☐ Yes ☒ No

Self-Evaluation Report on Risk Management and Internal Control

During the Year, the Board had conducted a review of effectiveness and adequacy of the risk management and internal control of the Group for the year ended 31 December 2019, including the supervision on finance, operation and compliance, as well as an assessment on internal environment and risks. Through the review, the Board had found no material and important weaknesses that indicates inefficient internal control of the Group. The Board considers the risk management and internal control systems of the Group are effective and adequate.

The disclosure date of the text of Evaluation Report on Internal Control	26 March 2020
The index of the text of Evaluation Report on Internal Control	Please refer to the 2019 Self-Evaluation Report on Risk Management and Internal Control of Livzon Pharmaceutical Group Inc. disclosed on the website of http://www.cninfo.com.cn/ .
The proportion of the total assets of the units within the scope of evaluation in the total assets of the Company's combined financial statements	99.79%
The proportion of the operation income of the units within the scope of evaluation in the operation income of the Company's combined financial statements	100%

XI. INTERNAL CONTROL *(continued)***Self-Evaluation Report on Risk Management and Internal Control** *(continued)*

Weakness identification standards		
Type	Financial statement	Non-financial statement
Qualitative standard	<ol style="list-style-type: none"> Weaknesses with the following characters shall be identified as material weaknesses: <ol style="list-style-type: none"> ineffective control environment; the management of the Company has fraud of any degree; the material misstatements found by external auditor was not first found by the Company; the weaknesses relating to the total amount of the affected connected transactions exceeds the quota of connected transactions approved by the shareholders; Important weaknesses: combination of one or more weaknesses, the severity of which is lower than material weaknesses, but it is severe to cause the Company not to prevent or discover the deviation of overall control target, which shall raise the attention of the management of Company. General weaknesses: other control weaknesses that do not constitute material or important weaknesses. 	<ol style="list-style-type: none"> Weaknesses with the following characters shall be identified as material weaknesses: <ol style="list-style-type: none"> severe violation against laws and regulations; the material weaknesses on internal control already found and reported to the management has not been rectified after a reasonable period of time; other than policy-related losses, the Company's continuing operation is subject to challenges with losses in successive years; failure in merger and acquisition and reorganization, or the newly expanded subsidiaries are difficult to sustain the operation; resignation of the management of the Company or severe loss of staff on key positions, repeated negative news coverage by the media. Important weaknesses: combination of one or more weaknesses, the severity of which is lower than material weaknesses, but it is severe to cause the Company not to prevent or discover the deviation of overall control target, which shall raise the attention of the management of Company. General weaknesses: other control weaknesses that do not constitute material or important weaknesses.
Quantitative standard	<ol style="list-style-type: none"> General weaknesses: combined misstatements < 3% of the profit before tax in the combined statements; 2. Important weaknesses: 3% of the profit before tax in the combined statements ≤ combined misstatements < 5% of the profit before tax in the combined statements; 3. Material weaknesses: combined misstatements ≥ 5% of the profit before tax in the combined statements 	<ol style="list-style-type: none"> General weaknesses: direct loss amount ≤ 3% of the total assets in the combined statements; 2. Important weaknesses: 3% of the total assets in the combined statements < direct loss amount ≤ 5% of the total assets in the combined statements; 3. Material weaknesses: direct loss amount > 5% of the total assets in the combined statements
Number of material weaknesses in financial statement	0	
Number of material weaknesses in non-financial statement	0	
Number of important weaknesses in financial statement	0	
Number of important weaknesses in non-financial statement	0	

XII. AUDITOR' REPORT ON INTERNAL CONTROL✓ Applicable ☐ Not applicable**The paragraph of audit opinions in the Auditor' Report on Internal Control**

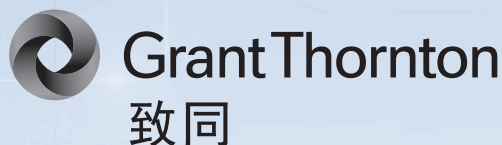
Grant Thornton (Special General Partnership) issued the Auditor' Report on Internal Control (GTCSZ (2020) No.442ZA3731) for the Company's internal control during the year of 2019, with the following audit opinion: on 31 December 2019, Livzon Pharmaceutical Group Inc. maintained effective financial statement internal control in all material aspects pursuant to "Basic Ordinance of Corporation Internal Control" and relevant provisions.

Disclosure of the Auditor' Report on Internal Control	Disclosed
The disclosure date of the text of the Auditor' Report on Internal Control	26 March 2020
The index of the text of the Auditor's Report on Internal Control	Please refer to the Auditor' Report on Internal Control disclosed on the website of http://www.cninfo.com.cn/
Type of opinions in the Auditor' Report on Internal Control	Standard unqualified opinion
Whether material weaknesses existed in the non-financial statements	No

Whether the accounting firm issued a non-standard auditor's report on internal control☐ Yes ✓ No**Whether the Auditor's Report on Internal Control issued by the accounting firm in in line with the self-evaluation report of the Board**✓ Yes ☐ No

☐Applicable ☒Not applicable

The Company has not issued any corporate bonds to the public and for listing on the stock exchanges.



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AUDITORS' REPORT

GTCSZ (2020) No. 442ZA3730

To the Shareholders of Livzon Pharmaceutical Group Inc:

I. AUDIT OPINIONS

We have audited the financial statements of Livzon Pharmaceutical Group Inc. (麗珠醫藥集團股份有限公司) (hereinafter referred to as the "Company"), which comprise the consolidated and company balance sheet as at 31 December 2019, the consolidated and company income statement, the consolidated and company cash flow statement, and the consolidated statement of changes in shareholders' equity and the statement of changes in shareholders' equity of the Company for the year 2019 together with the relevant notes thereto.

In our opinion, the accompanying financial statements are, in all material aspects, prepared in accordance with the Accounting Standards for Business Enterprises and give a fair view on the consolidated financial positions and the financial positions of the Company as at 31 December 2019 and the consolidated operation results and operation results and the consolidated cash flows and cash flows of the Company for the year 2019.

II. BASIS FOR OPINION

We conducted our audit in accordance with China Standards on Auditing for Certified Public Accountants. Our responsibilities under those standards are further described in the "CERTIFIED PUBLIC ACCOUNTANTS' RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS" section of our report. We are independent of the Company in accordance with the Code of Ethics for Chinese Certified Public Accountant, and we have fulfilled our other ethical responsibilities. We believe that the audit evidences obtained by us are sufficient and appropriate and provide basis for our audit opinions.

III. KEY AUDIT MATTERS

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

(I) Recognition of revenue

For details of the relevant information disclosure, please refer to Note III.28 and Note V.39 to the financial statements.

1. Item description

In 2019, the Company recorded revenue of RMB9.317 billion from its principal business. Due to the importance of revenue to the financial statements as a whole and there is a risk of material misstatement in the complete and accurate recognition of revenue in the appropriate period. Therefore, recognition of revenue is confirmed by us as a critical auditing item.

2. Auditing technique

- (1) Understand and evaluate the design of critical internal control of the management relating to the recognition of revenue, and test the effectiveness of exercising the critical control.
- (2) Obtain the agreement signed between the Company and the customer and verify the critical contractual terms, such as ① delivery of goods and inspection for acceptance; ② payment and settlement; ③ policies on replacement and return of goods, etc.
- (3) By making enquiries on the business information of the customer and interviewing the relevant staff of the Company, confirm whether there is any connected relationship between the customer and the Company; and acquire an understanding on the reasons for a change in customer and the status of contractual performance, combining with statistics of the customer selected from the customer's business system linking directly to the Company and analyze the end-user sales of products purchased from the Company, ratio between purchases and sales and the level of inventory.
- (4) Obtain the records of replacement and return of goods from the supply chain system of the Company and carry out inspection to confirm whether there is any material unusual replacement or return of goods that affects the recognition of revenue.
- (5) Select a sample and check the contract, purchase order, voucher for delivery of goods, transportation vouchers, credit sales evidence, receipts of payments, periodic reconciliation statements, etc. The documentary evidence procedure should be performed on sales to important customers and unsettled account receivables.
- (6) Consider factors such as market and industrial trends and business expansion by product categories to carry out analysis procedure on revenue and analyze the reasonableness of changes in revenue.
- (7) Select a sample from the transactions around the balance sheet date, check the sales contract, invoice, delivery voucher, transportation voucher, credit sales evidence, and evaluate whether revenue was recorded in the appropriate accounting period.

III. KEY AUDIT MATTERS *(continued)***(II) Impairment of goodwill**

For details of the relevant information disclosure, please refer to Note III.22.36(3) and Note V.17 to the financial statements.

1. Item description

The book value of goodwill of the Company at the end of the period was RMB0.103 billion, the management carries out impairment test on goodwill on annual basis, and makes comparison between the book value of the group of assets with goodwill and its recoverable amount to determine whether provision for impairment is required. The recoverable amount is calculated by the present value of expected future cash flows. Preparing the forecast on discounted cash flows involves significant judgement of the management, particularly on the estimated growth rate of revenue, operating profit margin and determination of the discount rate to be adopted. As an estimation of impairment on goodwill involves more complicated estimation techniques and the parameters used in the estimated impairment test involves significant judgement of the management, such judgement has inherent uncertainties and may be influenced by bias of the management. Therefore, impairment of goodwill is confirmed by us as a critical auditing item.

2. Auditing technique

- (1) Understand the method of estimating the present value of future cash flows adopted by the management, review the classification of asset group or asset portfolio with goodwill by the management, and evaluate whether the method adopted to prepare the forecast on the discounted cash flows has complied with the requirements of the accounting standards for business enterprises; combine the actual operation of the asset group with market analysis and forecast, and verify the data used in the forecast of cash flows and historical data and other supporting evidence to analyze their reasonableness.
- (2) Evaluate the competence, professional quality and objectiveness of the experts engaged by the management in carrying out the impairment test.
- (3) Examine the forecast of future cash flows and calculation of the present value of future cash flows by the management.
- (4) Examine the disclosure of impairment test for goodwill in the financial statements.

IV. OTHER INFORMATION

The Management of the Company (hereinafter referred to as the "Management") is responsible for other information, including the information included in the 2019 Annual Report of the Company but excluding the financial statements and our auditors' report.

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

In connection with our audit of the financial statements, our responsibility is to read other information and in the process, consider whether 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 in other information, we are required to report that fact. We have nothing to report in this regard.

V. RESPONSIBILITIES OF THE MANAGEMENT AND THE GOVERNANCE TEAM FOR THE FINANCIAL STATEMENTS

The Management of the Company is responsible for the preparation and fair presentation of the financial statements in accordance with the the Accounting Standards for Business Enterprises, and for the design, implementation and maintenance of such internal control as necessary to ensure the financial statements are free from material misstatement due to fraud or error.

In preparing the financial statements, the 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 the Management either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

The governance team is responsible for overseeing the Company's financial reporting process.

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

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' 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 the auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

In conducting an audit in accordance with the auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- (1) identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error; design and perform audit procedures responsive to those risks; and obtain audit evidence that is sufficient and appropriate to provide a basis for our 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.
- (2) obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances.
- (3) evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- (4) conclude on the appropriateness of the 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 Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, according the auditing standards, we are required to draw the attention of the users of financial statements in our auditors' report to the related disclosures in these financial statements or, if such disclosures are inadequate, to qualify our opinion. Our conclusions are based on the information obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- (5) evaluate the overall presentation, structure and content of the financial statements, and determine whether the financial statements represent the underlying transactions and matters in a manner that achieves fair presentation.
- (6) obtain sufficient appropriate audit evidences regarding the financial information of the entities or business activities within the Company to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit, and are solely responsible for our audit opinion.

VI. CERTIFIED PUBLIC ACCOUNTANTS' RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS *(continued)*

We have discussed with the governance team regarding, among other matters, the planned scope, timing and significant findings of the audit, including any significant deficiencies in internal control we have identified during the audit.

We have also provided the governance team with a statement that we have complied with relevant ethical requirements regarding independence, and discussed with them on all relationships and other matters that may reasonably be believed to have impact on our independence and, where applicable, related preventive measures.

From the matters we discussed with the governance team, we have determined which matters are of the most importance for the audit of the financial statements of the current period and are key audit matters. We have described such matters in our auditors' report unless such matters are prohibited by laws or regulations to be publicly disclosed, or in extremely rare circumstances, we have determined that a matter should not be discussed in our report on the ground that the adverse consequences of doing so would reasonably be expected to outweigh the public benefits of such discussion.

Grant Thornton (Special General Partnership)

Certified Public Accountants: Li Encheng
(Project Partner)

Beijing, China

Certified Public Accountants: Zhang Fang

March 25, 2020

Prepared by: Livzon Pharmaceutical Group Inc.

Unit: RMB

Item	Notes	Amount at the End of the Year		Amount at the Beginning of the Year	
		Consolidated	Company	Consolidated	Company
Current assets:					
Monetary fund	V. 1	8,855,408,402.78	7,772,918,903.18	8,587,927,272.41	7,505,401,614.22
Financial assets held for trading	V. 2	17,191,861.74	8,035,940.56	15,934,738.20	7,267,953.42
Bills receivables	V. 3	952,945,194.97	569,150,368.14	1,029,370,542.77	606,560,125.42
Accounts receivables	V. 4	1,472,438,936.26	652,604,102.82	1,381,706,955.95	601,743,929.08
Receivables financing					
Prepayments	V. 5	186,231,922.16	23,285,852.64	169,765,301.71	26,503,604.37
Other receivables	V. 6	91,848,022.04	1,620,041,222.11	49,482,179.59	1,779,658,972.33
In which: Interest receivable					
Dividends receivable		11,475,000.00	573,412,484.96		599,078,865.48
Inventories	V. 7	1,168,854,337.03	553,618,797.04	1,117,007,240.91	483,740,282.91
Contract assets					
Held-for-sale assets					
Non-current assets due within one year	V. 8	17,497,288.62	17,497,288.62	10,869,100.00	10,869,100.00
Other current assets	V. 9	110,786,443.02	4,752,848.61	109,664,922.90	3,720.38
Total current assets		12,873,202,408.62	11,221,905,323.99	12,471,728,254.44	11,021,749,302.13
Non-current assets:					
Debt investments					
Other debt investments					
Long-term receivables	V. 10	10,828,143.63	10,828,143.63	20,299,509.76	20,299,509.76
Long-term equity investments	V. 11	171,498,988.56	1,901,157,584.00	188,106,109.58	1,906,138,109.75
Other equity instrument investments	V. 12	479,737,808.86	118,629,608.84	407,707,119.32	80,503,108.84
Other non-current financial assets					
Investment properties					
Fixed assets	V. 13	3,160,096,367.19	83,020,764.96	3,217,576,074.00	77,680,302.35
Construction in progress	V. 14	233,489,857.85	114,259.61	184,518,928.04	1,729,987.35
Productive biological assets					
Oil and gas assets					
Right-of-use assets					
Intangible assets	V. 15	229,559,613.00	30,340,512.63	244,193,325.80	25,547,418.64
Development expenditure	V. 16	148,504,020.49		81,146,586.57	4,740,370.24
Goodwill	V. 17	103,040,497.85		103,040,497.85	
Long-term deferred expenses	V. 18	111,340,713.49	5,645,604.20	113,346,522.83	1,643,638.99
Deferred tax assets	V. 19	182,659,491.39	32,547,576.65	141,596,264.49	30,325,432.85
Other non-current assets	V. 20	272,505,206.28	95,598,763.52	264,087,667.70	90,929,898.90
Total non-current assets		5,103,260,708.59	2,277,882,818.04	4,965,618,605.94	2,239,537,777.67
Total assets		17,976,463,117.21	13,499,788,142.03	17,437,346,860.38	13,261,287,079.80

Prepared by: Livzon Pharmaceutical Group Inc.

Unit: RMB

Item	Notes	Amount at the End of the Year Consolidated	Company	Amount at the Beginning of the Year Consolidated	Company
Current liabilities:					
Short-term loans	V. 21	1,360,840,657.32	1,151,369,666.66	1,500,000,000.00	1,500,000,000.00
Financial liabilities held for trading	V. 22	13,916.00		85,294.16	
Bills payables	V. 23	715,986,816.20	7,139,310.75	718,590,036.85	22,892,011.81
Accounts payables	V. 24	547,102,924.99	584,136,134.88	636,324,506.52	370,669,222.77
Receipts in advance					
Contract liabilities	V. 25	151,765,150.53	41,484,759.54	115,973,464.09	40,208,856.21
Employee benefits payables	V. 26	278,117,911.92	74,999,108.16	186,046,426.55	33,347,783.68
Tax and surcharge payables	V. 27	223,339,525.21	13,776,226.89	245,057,455.45	52,232,361.86
Other payables	V. 28	2,016,490,501.54	4,689,008,436.20	1,967,100,817.25	3,851,428,656.70
Of which: Interest payables					
Dividends payable		90,179,524.72	20,174.46	97,536,288.17	20,174.46
Held-for-sale liabilities					
Non-current liabilities due within one year	V. 29			400,000.00	
Other current liabilities					
Total current liabilities		5,293,657,403.71	6,561,913,643.08	5,369,578,000.87	5,870,778,893.03
Non-current liabilities:					
Long-term loans	V. 30			700,000.00	
Notes payables					
Leasing liabilities					
Long-term payables					
Long-term employee benefits payables					
Provisions					
Deferred gain	V. 31	246,683,181.60	72,502,157.94	262,712,220.34	77,673,338.51
Deferred tax liabilities	V. 19	90,884,958.20	16,309,446.79	54,479,730.16	7,868,473.39
Other non-current liabilities	V. 32	70,000,000.00			
Total non-current liabilities		407,568,139.80	88,811,604.73	317,891,950.50	85,541,811.90
Total liabilities		5,701,225,543.51	6,650,725,247.81	5,687,469,951.37	5,956,320,704.93
Share capital	V. 33	934,762,675.00	934,762,675.00	719,050,240.00	719,050,240.00
Other equity instruments					
Of which: Preferred shares					
Perpetual bonds					
Capital reserve	V. 34	1,163,404,748.17	1,527,410,001.24	1,362,250,389.67	1,726,897,983.73
Less: Treasury shares	V. 35			25,208.04	25,208.04
Other consolidated earnings	V. 36	26,403,971.65	31,474,909.33	-29,164,814.15	
Special reserve					
Surplus reserve	V. 37	623,178,143.29	418,215,089.71	587,255,162.90	382,292,109.32
Undistributed profits	V. 38	8,419,002,908.40	3,937,200,218.94	8,012,611,700.26	4,476,751,249.86
Total equity attributable to shareholders of the parent company		11,166,752,446.51	6,849,062,894.22	10,651,977,470.64	7,304,966,374.87
Minority interests		1,108,485,127.19		1,097,899,438.37	
Total shareholders' (or owners') equity		12,275,237,573.70	6,849,062,894.22	11,749,876,909.01	7,304,966,374.87
Total liabilities and shareholders' (or owners') equity		17,976,463,117.21	13,499,788,142.03	17,437,346,860.38	13,261,287,079.80

Chairman of the Board and Legal Representative:
Zhu Baoguo

Executive Director and President:
Tang Yanggang

Chief Financial Officer:
Si Yanxia

Head of Accounting Department:
Zhuang Jianying

Prepared by: Livzon Pharmaceutical Group Inc.

Unit: RMB

Item	Notes	Amount for the Year		Amount for the Previous Year	
		Consolidated	Company	Consolidated	Company
I. Operating income	V. 39	9,384,695,835.01	4,905,049,183.64	8,860,655,670.73	4,630,876,965.08
Less: Operating costs	V. 39	3,391,728,260.19	3,033,128,400.72	3,359,655,064.11	2,769,742,007.02
Tax and surcharge	V. 40	108,757,407.34	24,877,723.18	118,454,266.51	27,421,306.18
Selling expenses	V. 41	3,093,219,804.38	1,518,031,878.59	3,267,279,529.29	1,761,642,901.70
Administrative expenses	V. 42	629,346,060.48	210,272,003.18	546,375,495.41	178,946,072.79
R&D expenses	V. 43	732,891,738.02	244,316,283.21	548,972,707.16	166,084,628.20
Finance expenses	V. 44	-220,799,167.69	-197,022,584.14	-251,952,496.18	-213,483,424.99
Of which: Interest expenses		7,255,024.45	50,955,723.77	16,772,638.85	45,192,299.74
Interest income		226,434,815.93	248,785,218.67	236,174,743.57	271,983,961.62
Add: Other income	V. 45	156,194,635.50	71,618,167.71	85,097,367.17	20,281,040.34
Investment income					
("-" represents losses)	V. 46	-19,597,761.68	252,210,453.14	-42,445,887.41	750,747,652.69
Of which: income from					
investment in					
associates and					
joint ventures		-10,686,084.85	-12,699,314.85	-6,186,649.16	-15,239,316.17
Derecognition of income from					
financial assets at amortized					
cost ("-" represents losses)					
Gains from hedging net exposure					
("-" represents losses)					
Gains from changes in fair value					
("-" represents losses)	V. 47	1,328,501.70	767,987.14	-2,410,266.97	-2,598,444.42
Credit impairment loss					
("-" represents losses)	V. 48	-4,860,224.48	-246,721.68	30,700,999.19	21,164,034.42
Asset impairment loss					
("-" represents losses)	V. 49	-53,224,067.26	-15,051,663.80	-67,768,499.83	-5,076,644.58
Gains from disposal of assets					
("-" represents losses)	V. 50	460,273.31	190,797.13	-549,283.16	-110,725.33
II. Operating profit					
("-" represents losses)		1,729,853,089.38	380,934,498.54	1,274,495,533.42	724,930,387.30
Add: non-operating income	V. 51	11,483,490.34	220,086.88	176,898,473.07	150,676,949.07
Less: non-operating expenditure	V. 52	13,794,185.53	4,566,827.20	34,719,651.84	4,518,887.74
III. Total profit					
("-" represents total losses)		1,727,542,394.19	376,587,758.22	1,416,674,354.65	871,088,448.63
Less: income tax expenses	V. 53	265,964,834.90	17,357,954.35	234,959,635.62	12,510,282.31
IV. Net profit					
("-" represents net losses)		1,461,577,559.29	359,229,803.87	1,181,714,719.03	858,578,166.32
(I) Classified by continuing operations:					
Of which: net profit from					
continuing operations					
("-" represents net					
losses)		1,461,577,559.29	359,229,803.87	1,181,714,719.03	858,578,166.32
net profit from					
discontinued operations					
("-" represents net					
losses)					
(II) Classified by attribution to					
ownership:					
Of which: net profit attributable					
to shareholders of the					
parent company ("-"					
represents net losses)		1,302,875,440.93	359,229,803.87	1,082,174,905.98	858,578,166.32
profit and loss					
attributable to					
minority interests ("-"					
represents net losses)		158,702,118.36		99,539,813.05	

Prepared by: Livzon Pharmaceutical Group Inc.

Unit: RMB

Item	Notes	Amount for the Year		Amount for the Previous Year	
		Consolidated	Company	Consolidated	Company
V. Other comprehensive net income after taxation		58,697,018.11	31,474,909.33	26,035,358.56	
Other comprehensive net income after taxation attributable to shareholders of the parent company		55,568,785.80	31,474,909.33	23,734,115.37	
(I) Other comprehensive income not to be reclassified into profit or loss		39,155,030.34	31,319,525.00	9,849,816.91	
1. Changes in re-measurement of defined benefit plans					
2. Other comprehensive income not to be reclassified into profit or loss under equity method					
3. Changes in fair value of other equity instrument investments		39,155,030.34	31,319,525.00	9,849,816.91	
4. Changes in fair value of enterprise's own credit risk					
5. Others					
(II) Other comprehensive income to be reclassified as profit or loss		16,413,755.46	155,384.33	13,884,298.46	
1. Other comprehensive income to be reclassified into profit or loss under the equity method		155,384.33	155,384.33		
2. Changes in fair value of other debt investments					
3. Financial assets reclassified into other comprehensive income					
4. Credit impairment provision for other debt investments					
5. Reserve for cash flow hedging (effective portion of profit or loss from cash flow hedging)					
6. Translation differences of financial statements denominated in foreign currency		16,258,371.13		13,884,298.46	
7. Others					
Other comprehensive net income after taxation attributable to minority interests		3,128,232.31		2,301,243.19	
VI. Total comprehensive income		1,520,274,577.40	390,704,713.20	1,207,750,077.59	858,578,166.32
Total comprehensive income attributable to shareholders of the parent company		1,358,444,226.73	390,704,713.20	1,105,909,021.35	858,578,166.32
Total comprehensive income attributable to minority interests		161,830,350.67		101,841,056.24	
VII. Earnings per share					
(I) Basic earnings per share		1.39		1.16	
(II) Diluted earnings per share		1.39		1.16	

Chairman of the Board and Legal Representative:
Zhu Baoguo

Executive Director and President:
Tang Yanggang

Chief Financial Officer:
Si Yanxia

Head of Accounting Department:
Zhuang Jianying

Prepared by: Livzon Pharmaceutical Group Inc.

Unit: RMB

Item	Notes	Amount for the Year		Amount for the Previous Year	
		Consolidated	Company	Consolidated	Company
I. Cash flow from operating activities:					
Cash received from sales of goods and services rendered		9,870,473,698.39	5,363,323,813.59	9,768,960,092.56	5,418,166,916.36
Refund of taxes and levies		78,148,503.69		107,391,240.43	
Cash received relating to other operating activities	V. 54	479,844,345.42	315,214,829.38	680,681,144.03	429,953,587.49
Sub-total of cash inflow from operating activities		10,428,466,547.50	5,678,538,642.97	10,557,032,477.02	5,848,120,503.85
Cash paid for purchase of goods and services rendered		2,559,855,010.72	3,207,097,348.99	2,599,192,448.82	3,985,184,121.08
Cash paid to and on behalf of employees		971,708,686.98	267,818,409.15	880,652,150.38	223,854,043.35
Payments for various taxes and levies		1,089,374,555.70	294,046,556.57	1,838,966,543.62	911,867,255.71
Cash paid relating to other operating activities	V. 54	4,040,365,411.33	1,932,608,100.60	3,970,600,153.16	1,886,295,099.30
Sub-total of cash outflow from operating activities		8,661,303,664.73	5,701,570,415.31	9,289,411,295.98	7,007,200,519.44
Net cash flow from operating activities		1,767,162,882.77	-23,031,772.34	1,267,621,181.04	-1,159,080,015.59
II. Cash flow from investing activities:					
Cash received from disposal of investments		127,669,831.39	25,112,000.00	33,100,525.00	519,100,525.00
Cash received on investment income		8,471,843.49	272,542,856.51	3,906,200.68	740,062,804.98
Net cash received from disposal of fixed assets, intangible assets and other long-term assets		1,859,052.00	1,101,113.18	450,353.09	250,000.00
Net cash received from disposal of subsidiaries and other operating units				24,749,467.35	
Cash received relating to other investing activities	V. 54	88,496,772.62		1,225,000.00	
Sub-total of cash inflow from investing activities		226,497,499.50	298,755,969.69	63,431,546.12	1,259,413,329.98
Cash payments for acquisition of fixed assets, intangible assets and other long-term assets		397,997,407.34	47,098,895.71	474,472,400.55	33,477,381.49
Cash payments for investments		126,120,301.78	8,255,000.00	555,972,142.47	539,372,200.00
Net cash paid for acquisition of subsidiaries and other operating units					
Cash paid relating to other investing activities	V. 54	18,404,270.38		53,832,171.20	
Sub-total of cash outflow from investing activities		542,521,979.50	55,353,895.71	1,084,276,714.22	572,849,581.49
Net cash flow from investing activities		-316,024,480.00	243,402,073.98	-1,020,845,168.10	686,563,748.49

Prepared by: Livzon Pharmaceutical Group Inc.

Unit: RMB

Item	Notes	Amount for the Year		Amount for the Previous Year	
		Consolidated	Company	Consolidated	Company
III. Cash flow from financing activities:					
Cash received from investments		11,702,474.00		637,590,000.00	
Of which: cash received by subsidiaries from investments of minority interests		11,702,474.00		637,590,000.00	
Cash received from borrowings		1,509,316,912.60	1,300,000,000.00	1,800,000,000.00	1,500,000,000.00
Cash received relating to other financing activities	V. 54	2,926,091.34	1,273,517,481.18	1,199,047.19	1,694,487,361.22
Sub-total of cash inflow from financing activities		1,523,945,477.94	2,573,517,481.18	2,438,789,047.19	3,194,487,361.22
Cash paid on repayment of debts		1,650,000,000.00	1,650,000,000.00	300,000,000.00	
Cash paid for distribution of dividends and profits or interest payments		1,054,757,971.85	868,457,971.85	1,277,489,115.93	1,115,487,907.64
Of which: dividends and profits paid to minority interests by subsidiaries		186,300,000.00		156,800,000.00	
Cash paid relating to other financing activities	V. 54	269,345.90	7,349,101.31	3,875,932.38	595,641,148.52
Sub-total of cash outflow from financing activities		2,705,027,317.75	2,525,807,073.16	1,581,365,048.31	1,711,129,056.16
Net cash flow from financing activities		-1,181,081,839.81	47,710,408.02	857,423,998.88	1,483,358,305.06
IV. Effect of changes in foreign exchange rates on cash and cash equivalents		20,418,084.63	-563,420.70	58,537,258.94	-45,566.25
V. Net increase in cash and cash equivalents		290,474,647.59	267,517,288.96	1,162,737,270.76	1,010,796,471.71
Add: Cash and cash equivalents at the beginning of the period		8,563,711,205.95	7,505,401,614.22	7,400,973,935.19	6,494,605,142.51
VI. Cash and cash equivalents at the end of the period		8,854,185,853.54	7,772,918,903.18	8,563,711,205.95	7,505,401,614.22

Chairman of the Board and Legal Representative:
Zhu Baoguo

Executive Director and President:
Tang Yanggang

Chief Financial Officer:
Si Yanxia

Head of Accounting Department:
Zhuang Jianying

Unit: RMB

Livzon Pharmaceutical Group Inc. Annual Report 2019

Prepared by: Livzon Pharmaceutical Group Inc.

Unit: RMB

Item	Amount for the Previous Year												
	Shareholders' equity attributable to shareholders of the parent company												
	Other equity instruments			Other									
	Share capital	Preferred shares	Perpetual bonds	Others	Capital reserve	Less: Treasury shares	Other comprehensive income	Special reserve	Surplus reserve	General risk provisions	Undistributed profits	Minority interest	Total shareholders' equity
I. Balance as at the End of the Previous Year	553,231,369.00				1,715,270,973.93	66,786,741.96	-44,546,365.43		587,255,162.90		8,028,315,370.19	460,883,784.97	11,233,023,555.60
Add: adjustment for changes in accounting policies													
Correction of accounting errors in prior period													
Merger of enterprises under common control													
Others								-8,352,564.09			8,352,564.09		
II. Balance as at the Beginning of the Year	553,231,369.00				1,715,270,973.93	66,786,741.96	-52,898,929.52		587,255,162.90		8,028,667,934.28	460,883,784.97	11,233,023,555.60
III. Increase/decrease during the Year ("+" represents increases)													
(I) Total comprehensive income	165,818,871.00				-353,020,584.26	-66,761,533.92	23,734,115.37	23,734,115.37			-24,056,234.02	637,015,653.40	516,163,355.41
(II) Capital contributed and reduced by shareholders	-115,799.00				-1,611,873.24	-66,761,533.92	23,734,115.37				1,082,174,905.98	101,841,056.24	1,207,590,077.59
1. Ordinary Shares contributed by shareholders													
2. Capital contributed by holders of other equity instruments													
3. Share-based equity-settled payments													
4. Others	-115,799.00				-1,611,873.24	-66,761,533.92						66,190,546.19	66,190,546.19
(III) Profit distribution													
1. Transfer to surplus reserve													
2. Provision to general risk reserve													
3. Distribution to shareholders													
4. Others													
(IV) Inward transfer of Shareholders' equity	165,934,670.00				-165,934,670.00								
1. Transfer of capital reserve to share capital													
2. Transfer of surplus reserve to share capital	165,934,670.00				-165,934,670.00								
3. Surplus reserve offsetting losses													
4. Changes in defined benefit plans transferred to retained earnings													
5. Other comprehensive income transferred to retained earnings													
6. Others													
(V) Special reserve													
1. Extraction during the Period													
2. Amount used during the Period													
(VI) Others	719,050,240.00				-185,474,041.02	25,208.04	-29,164,814.15		587,255,162.90		8,012,611,700.26	210,045,550.97	24,571,509.95
VII. Balance as at the End of the Year					1,362,250,389.67	25,208.04	-29,164,814.15		587,255,162.90		8,012,611,700.26	1,097,899,438.37	11,749,976,905.07

Chairman of the Board and Legal Representative: Zhu Baoquo

Executive Director and President:
Tang Yangqiang

Chief Financial Officer:
Si Yanxia

Head of Accounting Department:
Zhuang Jianying

Prepared by: Livzon Pharmaceutical Group Inc.

Unit: RMB

Item	Amount for the Year								
	Other equity instruments						Total shareholders' equity		
	Share capital	Preferred shares	Perpetual bonds	Others	Capital reserve	Less: Treasury shares			
								Other comprehensive income	Special reserve
I. Balance as at the End of the Previous Year	719,050,240.00				1,726,897,983.73	25,208.04	382,292,109.32	4,476,751,249.86	7,304,966,374.87
Add: adjustments for changes in accounting policies									
Correction of accounting errors in prior period									
Others									
II. Balance as at the Beginning of the Year	719,050,240.00				1,726,897,983.73	25,208.04	382,292,109.32	4,476,751,249.86	7,304,966,374.87
III. Increase/decrease during the Year ("+" represents increase)	215,712,435.00				-199,487,982.49	-25,208.04	35,922,980.39	-539,551,030.92	-455,903,480.65
(I) Total comprehensive income									
(II) Capital contributed or reduced by shareholders									
1. Ordinary shares contributed by shareholders									
2. Capital contributed by holders of other equity instruments									
3. Share-based equity-settled payments									
4. Others	-2,028.00				12,548,475.74	-25,208.04		359,229,803.87	390,704,713.20
(III) Profit distribution									
1. Transfer to surplus reserve									
2. Provision to general risk reserve									
3. Distribution to shareholders									
4. Others									
(IV) Inward transfer of shareholders' equity									
1. Transfer of capital to share capital									
2. Transfer of surplus reserve to share capital									
3. Surplus reserve offsetting losses									
4. Changes in defined benefit plans transferred to retained earnings									
5. Other comprehensive income transferred to retained earnings									
6. Others									
(V) Special reserve									
1. Extraction during the Period									
2. Amount used during the Period									
(VI) Others									
IV. Balance as at the End of the Year	934,762,675.00				3,678,004.77	31,474,909.33	418,215,089.71	3,937,200,218.94	6,849,062,894.22

Unit: RMB

Chairman of the Board and Legal Representative:
Zhu Baoguo

Executive Director and President:
Tang Yanggang

Chief Financial Officer:
Si Yanxia

Head of Accounting Department:
Zhuang Jianying

I. BASIC INFORMATION OF THE COMPANY

1. Company profile

In March 1992, Livzon Pharmaceutical Group Inc. (麗珠醫藥集團股份有限公司) (hereinafter referred to as the "Company") was transformed into a company limited by shares by directed placement, with seven companies namely, Macau Nam Yue (Group) Co., Ltd. (澳門南粵(集團)有限公司), Zhuhai Credit Cooperative Union (珠海市信用合作聯社), Guangdong Medicine Group Co., Ltd. (廣東省製藥工業公司), Zhuhai Medicine Corporation (珠海市醫藥總公司), Guangzhou Medicines & Health Products Imp. & Exp. Corp. (廣州醫藥保健品進出口公司), Zhuhai branch of Bank of China (中國銀行珠海市分行) and Zhuhai Guihua Employees Mutual Aid Association (珠海桂花職工互助會) as its promoters to make share contribution by converting their net assets in their original sino-foreign joint ventures with limited liability into consideration, and by directed placement from other domestic legal persons and internal staff pursuant to the approval documents 1992 No. 29 issued by Zhuhai Economic System Reform Commission (珠海市經濟體制改革委員會) and 1992 No. 45 jointly issued by Joint Examination Group for Pilot Joint Stock Enterprise in Guangdong Province (廣東省企業股份制試點聯審小組) and Guangdong Economic System Reform Committee (廣東省經濟體制改革委員會).

In 1993, pursuant to Yue Zheng Jian Fa Zi 1993 No. 001 document (粵證監發字[1993] 001號文) issued by Guangdong Securities Regulatory Commission (廣東省證券監督管理委員會), Shen Ren Yin Fu Zi [1993] No. 239 document (深人銀復字[1993]第239號文) issued by Special Economic Zone branch of the People's Bank of China (中國人民銀行深圳經濟特區分行) and Zheng Jian Fa Shen Zi 1993 No. 19 document (證監發審字[1993] 19號文) issued by China Securities Regulatory Commission, the Company was listed on the Shenzhen Stock Exchange.

In 1998, the promoters of the Company, namely Zhuhai Credit Cooperative Union (珠海市信用合作聯社), Guangdong Medicine Group Co., Ltd. (廣東省製藥工業公司), Zhuhai Guihua Employees Mutual Aid Association (珠海桂花職工互助會) and Zhuhai branch of Bank of China (中國銀行珠海市分行) entered into an equity transfer agreement with China Everbright (Group) Corporation (中國光大(集團)總公司), respectively, and transferred all their shares to China Everbright (Group) Corporation (中國光大(集團)總公司). Upon completion of the transfer, China Everbright (Group) Corporation (中國光大(集團)總公司) held 38,917,518 domestic legal person shares of the Company. Macau Nam Yue (Group) Co., Ltd. (澳門南粵(集團)有限公司), the foreign promoter of the Company, entered into an equity transfer agreement with China Everbright Pharmaceutical Co., Ltd. (中國光大醫藥有限公司), and transferred all of the 18,893,448 foreign-invested legal person shares held by it to China Everbright Pharmaceutical Co., Ltd. (中國光大醫藥有限公司).

On 12 April 2002, China Everbright (Group) Corporation (中國光大(集團)總公司) entered into an equity custody agreement with Xi'an Dongsheng Group Co., Ltd. (西安東盛集團有限公司), and assigned the 38,917,518 domestic legal person shares of the Company held by it in the custody of Xi'an Dongsheng Group Co., Ltd. (西安東盛集團有限公司). On 21 December 2004, Xi'an Dongsheng Group Co., Ltd. (西安東盛集團有限公司) accepted the transfer of 38,917,518 domestic legal person shares of the Company held by China Everbright (Group) Corporation (中國光大(集團)總公司). As at 31 December 2004, China Everbright (Group) Corporation (中國光大(集團)總公司) did not hold any share in the Company, and Xi'an Dongsheng Group Co., Ltd. (西安東盛集團有限公司) directly held 38,917,518 domestic legal person shares of the Company, representing 12.72% of the total share capital of the Company.

On 4 February 2005, Joicare Pharmaceutical Industry Group Co., Ltd. (健康元藥業集團股份有限公司) (hereinafter referred to as the "Joicare Group") entered into an equity transfer agreement and an equity pledge agreement with Xi'an Dongsheng Group Co., Ltd. (西安東盛集團有限公司), pursuant to which, Xi'an Dongsheng Group Co., Ltd. (西安東盛集團有限公司) directly transferred and pledged the 38,917,518 domestic legal person shares of the Company (representing 12.72% of the total share capital in the Company) to Joicare Group (健康元集團). On 3 August 2006, the procedures for the transfer of the 38,917,518 domestic legal person shares to Joicare Group (健康元集團) was completed.

(Unless specified otherwise, all amounts are denominated in RMB)

I. BASIC INFORMATION OF THE COMPANY *(continued)*

1. Company profile *(continued)*

As at 31 December 2012, Joicare Group (健康元集團) and its subsidiaries held a total of 140,122,590 shares of the Company through transfer agreements and direct purchase from the secondary market, representing 47.3832% of the total share capital of the Company, therefore it became the largest shareholder of the Company and had de facto control in the Company. Of which, 6,059,428 legal person shares held in the name of Guangzhou Begol Trading Holdings Limited (廣州市保科力貿易公司) did not complete the procedures for the transfer to Joicare Group (健康元集團).

In the 2008 First Extraordinary General Meeting, the Company considered and approved “the Resolution on Repurchase of Domestically Listed Foreign Shares (B Shares) of the Company”. As at 2 December 2009 (the expiry date of implementing the repurchase), the Company accumulatively repurchased 10,313,630 B Shares. On 4 December 2009, the Company completed the cancellation of the repurchased shares with China Securities Depository and Clearing Corporation Limited (Shenzhen branch) (中國證券登記結算有限責任公司深圳分公司). The total share capital of the Company was reduced by 10,313,630 shares, and the registered capital of the Company was reduced from RMB306,035,482 to RMB295,721,852. The Company completed the changes of the industrial and commercial registration on 20 April 2010.

Pursuant to “Restricted Shares Incentive Scheme of Livzon Pharmaceutical Group Inc. (Revised Draft)” and its summary considered and approved by the 2015 First Extraordinary General Meeting of the Company and the resolution of the 8th Meeting of the 8th Session of the Board on 27 March 2015, 458 restricted shares incentive participants exercised the options and the actual number of options that vest were 8,660,400. Capital verification for this exercise was completed on 27 March 2015 and the approval registration was completed by China Securities Depository and Clearing Corporation Limited (Shenzhen branch). The registered capital following the exercise has changed to RMB304,382,252. This capital increase was validated and confirmed by the Capital Verification Report (Ruihua Yan Zi [2015] No.40030004) issued by Ruihua Certified Public Accountants. The Company completed the changes of the industrial and commercial registration on 22 May 2015.

Pursuant to the resolutions of the 2014 Annual General Meeting, the 2015 Second Class Meeting of A Shareholders and the 2015 Second Class Meeting of H Shareholders, it was agreed that the Company issued 91,314,675 bonus shares of RMB1 each in the proportion of 3 shares for every 10 shares to all shareholders by way of conversion of capital reserve based on the total share capital of the Company of 304,382,252 shares. Upon the bonus issue, the registered capital of the Company has changed to RMB395,696,927. This capital increase was validated and confirmed by the Capital Verification Report (Ruihua Yan Zi [2015] No.40030017) issued by Ruihua Certified Public Accountants. The Company completed the changes of the industrial and commercial registration on 21 January 2016 with the unified social credit code 914404006174883094.

Pursuant to “the Resolution on Repurchase and Cancellation of Restricted Shares Granted But Unlocked Held by Incentive Participants Without Satisfying Incentive Conditions” considered and approved by the 16th Meeting of the 8th Session of the Board on 27 October 2015, 93,080 shares were repurchased. After the repurchase, the Company’s share capital has changed to RMB395,603,847. This capital reduction was validated and confirmed by the Capital Verification Report (Ruihua Yan Zi [2015] No.40030020) issued by Ruihua Certified Public Accountants.

I. BASIC INFORMATION OF THE COMPANY *(continued)***1. Company profile** *(continued)*

Pursuant to “the Resolution on Granting the Reserved Restricted Shares to Incentive Participants” considered and approved by the 18th Meeting of the 8th Session of the Board on 12 November 2015, 177 restricted shares incentive participants exercised the options and the actual number of options that vest were 1,285,700. Capital verification of this exercise was completed on 18 December 2015 and the approval registration was completed by China Securities Depository and Clearing Corporation Limited (Shenzhen branch). The Company’s share capital following the exercise has changed to RMB396,889,547. This capital increase was validated and confirmed by the Capital Verification Report (Ruihua Yan Zi [2015] No.40030023) issued by Ruihua Certified Public Accountants.

Pursuant to “the Resolution on Repurchase and Cancellation of Restricted Shares Granted But Unlocked Held by Incentive Participants Without Satisfying Incentive Conditions” considered and approved by the 23rd Meeting of the 8th Session of the Board on 28 March 2016 and the 26th Meeting of the 8th Session of the Board on 16 May 2016, 257,624 shares were repurchased. After the repurchase, the Company’s share capital has changed to RMB396,631,923. This capital reduction was validated and confirmed by the Capital Verification Report (Ruihua Yan Zi [2016] No. 40030011) issued by Ruihua Certified Public Accountants.

Pursuant to the resolutions of the 17th Meeting of the 8th Session of the Board on 2 November 2015, the 2015 Third Extraordinary General Meeting on 21 December 2015, 21st Meeting of the 8th Session of the Board on 8 March 2016, the 2016 Second Extraordinary General Meeting on 25 April 2016, as approved by China Securities Regulatory Commission (中國證券監督管理委員會) with “Approval in Relation to the Non-public Issuance of Shares by Livzon Pharmaceutical Group Inc.” (Zheng Jian Xu Ke [2016] No. 1524) on 1 August 2016, 29,098,203 Renminbi ordinary shares (A Shares) of the Company were issued through non-public issuance with a nominal value of RMB1.00 each. After the issuance, the Company’s share capital has changed to RMB425,730,126. This capital increase was validated and confirmed by the Capital Verification Report (Ruihua Yan Zi [2016] No.40030019) issued by Ruihua Certified Public Accountants.

Pursuant to “the Resolution on Repurchase and Cancellation of Restricted Shares Granted But Unlocked Held by Incentive Participants Without Satisfying Incentive Conditions” considered and approved by the 32nd Meeting of the 8th Session of the Board on 30 November 2016 and the 36th Meeting of the 8th Session of the Board on 28 March 2017, 167,534 shares were repurchased. After the repurchase, the Company’s share capital has changed to RMB425,562,592. This capital reduction was validated and confirmed by the Capital Verification Reports (Ruihua Yan Zi [2017] No.40030001 and [2017] 40030007) issued by Ruihua Certified Public Accountants.

Pursuant to the resolutions of the 2016 Annual General Meeting, the 2017 First Class Meeting of A Shareholders and the 2017 First Class Meeting of H Shareholders and the revised Articles of Association, it was agreed that the Company issued 127,668,777 bonus shares of RMB1 each in the proportion of 3 shares for every 10 shares to all shareholders by way of conversion of capital reserve based on the total share capital of the Company of 425,562,592 shares. Upon completion of the bonus issue, the registered capital of the Company has changed to RMB553,231,369. This capital increase was validated and confirmed by the Capital Verification Report (Ruihua Yan Zi [2017] No.40030010) issued by Ruihua Certified Public Accountants.

(Unless specified otherwise, all amounts are denominated in RMB)

I. BASIC INFORMATION OF THE COMPANY *(continued)*

1. Company profile *(continued)*

Pursuant to “the Resolution on Repurchase and Cancellation of Part of Restricted Shares” and “the Resolution on Repurchase and Cancellation of Restricted Shares Granted But Unlocked Held by Incentive Participants Without Satisfying Incentive Conditions” considered and approved at the 6th Meeting of 9th Session of the Board on 15 December 2017 and the 12th Meeting of 9th Session of the Board on 29 March 2018, respectively, 115,799 shares were repurchased. After the repurchase, the share capital of the Company has changed to RMB553,115,570. The capital reduction was validated and confirmed by the Capital Verification Reports (Rui Hua Yan Zi [2018] No. 40030006 and [2018] No. 40030008) issued by Ruihua Certified Public Accountants.

Pursuant to the resolutions of the 2017 Annual General Meeting, the 2018 Second Class Meeting of A Shareholders and the 2018 Second Class Meeting of H Shareholders and the revised Articles of Association, it was agreed that the Company issued 165,934,670 bonus shares of RMB1 each in the proportion of 3 shares for every 10 shares to all shareholders by way of conversion of capital reserve based on the total share capital of the Company of 553,115,570 shares. Upon completion of the bonus issue, the registered capital of the Company has changed to RMB719,050,240. This capital increase was validated and confirmed by the Capital Verification Report (Ruihua Yan Zi [2018] No.40030013) issued by Ruihua Certified Public Accountants.

Pursuant to “the Resolution on Repurchase and Cancellation of Part of Restricted Shares” considered and approved by the 22nd Meeting of the 9th Session of the Board on 18 December 2018, 2,028 shares were repurchased and cancelled at a price of RMB12.43 per share. After the repurchase and cancellation, the Company’s share capital was RMB719,048,212.00. This capital decrease was validated by the Capital Verification Report (Ruihua Yan Zi [2019]40020003) issued by Ruihua Certified Public Accountants (LLP).

Pursuant to the resolutions of the 2018 Annual General Meeting, the 2019 Second Class Meeting of A Shareholders and the 2019 Second Class Meeting of H Shareholders and the revised Articles of Association, it was agreed that the Company issued 215,714,463 bonus shares of RMB1 each in the proportion of 3 shares for every 10 shares to all shareholders by way of conversion of capital reserve based on the total share capital of the Company of 719,048,212 shares. Upon completion of the bonus issue, the registered capital of the Company has changed to RMB934,762,675. This capital increase was validated and confirmed by the Capital Verification Report (Ruihua Yan Zi [2019] No. 40020008) issued by Ruihua Certified Public Accountants.

The Company is engaged in the pharmaceutical manufacturing industry.

The scope of business for the Company was the production and sales of self-manufactured APIs for traditional Chinese and western medicines, pharmaceutical intermediates, traditional Chinese herbal medicines, medical equipment for traditional Chinese medicine decoction pieces, sanitary materials, healthcare products, medical cosmetics, Chinese and Western finished medicines, biochemical reagents, as well as chemicals, food, information business, pharmaceutical APIs, medical diagnostic equipment and reagents; research and development of new medical products, transfer of technical achievements; management service; medical diagnostic equipment leasing; import & export of proprietary products of the Company and relevant auxiliary service; wholesale of Chinese patent medicines, chemical APIs and their preparations, antibiotics APIs and their preparations, biological products (except for preventive biological products), biochemical drugs (for items that are administrated with quota license or special regulations of the state, they shall be subject to the relevant rules; for other items that require administrative license, they shall only be operated after obtaining the license).

I. BASIC INFORMATION OF THE COMPANY *(continued)***1. Company profile** *(continued)*

During the Reporting Period, there was no change in the principal activities of the Company.

The financial statements and the notes to the financial statements have been approved by the 37th meeting of the Ninth Session of the Board of the Company on 25 March 2020.

2. Scope of consolidated financial statements

Please refer to this Note VII “Disclosure of interests in other entities” for names of subsidiaries included into the consolidation in 2019. Seven more subsidiaries are included into the consolidation during the Year compared with the previous year while none of subsidiaries are excluded. Please refer to Note VI “Change to consolidation scope” for details.

II. BASIS OF PREPARATION FOR THE FINANCIAL STATEMENTS

The financial statements have been prepared in accordance with the Accounting Standards for Business Enterprises issued by the MOF and its application guidance, interpretations and the other related provisions (collectively, the “Accounting Standards for Business Enterprises”). In addition, the Company also discloses relevant financial information in accordance with the Information Disclosure and Presentation Rules for Companies Offering Securities to the Public No. 15 – General Provisions on Financial Reporting (2014 Revision) issued by the CSRC.

The financial statements have been prepared on the going-concern basis.

The Company’s accounting is measured on an accrual basis. Except for certain financial instruments, these financial statements are generally measured at historical cost. Non-current assets held for sale are measured at the fair value less the estimated expense or the original carrying amount when the held for-sale criteria are met, whichever is the lower. In case of asset impairment, the Company shall make provisions for impairment in accordance with applicable provisions.

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

The Company determines capitalization condition of R&D expenses and revenue recognition policies on the basis of its production and operation characteristics. Details of accounting policies are set out in Note III.21 and Note III.28.

1. Statement of compliance with the Accounting Standards for Business Enterprises

The financial statements comply with the Accounting Standards for Business Enterprises, which gives a true and complete view of the consolidated and the Company’s financial condition as at 31 December 2019, and the consolidated and the Company’s operating results and the consolidated and the Company’s cash flow for 2019.

2. Accounting period

The accounting period of the Company is classified into an accounting year and an interim accounting period. An interim accounting period refers to a reporting period shorter than a full fiscal year. The fiscal year of the Company is from 1 January to 31 December in each calendar year.

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)***3. Business cycle**

The business cycle of the Company consists of 12 months, which is the classification standard for the liquidity of assets and liabilities.

4. Functional currency

The Company and its domestic subsidiaries use RMB as their functional currency according to the primary economic environment in which they operate. The functional currency of the Company and its domestic subsidiaries is Renminbi ("RMB"). Overseas subsidiaries of the Company usually recognise HK dollar, Macau dollar and US dollar as their functional currencies according to the primary economic environment in which these subsidiaries operate. The Company prepares its financial statements in RMB.

5. Accounting treatments for business combinations

Business combination refers to a transaction or an event under which two or more separate enterprises combine into one reporting body. Business combinations are classified into business combinations involving enterprises under common control and business combinations involving enterprises not under common control.

(1) Business combinations involving enterprises under common control

For the business combination involving entities under common control, the assets acquired and liabilities assumed are measured based on their carrying amounts in the consolidated financial statements of the ultimate controlling party as at the combination date, except the adjustment made due to different accounting policies. The difference between the carrying amount of the consideration paid for the combination and the net assets acquired is adjusted against capital premium in the capital reserve, with any excess adjusted against retained earnings.

Business combination involving enterprises under common control and achieved in stages

In the separate financial statements, the initial investment cost will be recognised at the carrying amount of the Company's share in the combined party's net assets in the consolidated financial statements of the ultimate controlling party on the date of combination. The difference between the initial investment cost and the sum of the carrying amount of the investment held and the carrying amount of consideration paid for the combination at the combination date is adjusted against capital premium in the capital reserve, with any excess adjusted against retained earnings.

In the consolidated financial statements, the assets acquired and liabilities assumed are measured based on their carrying amounts in the consolidated financial statements of the ultimate controlling party as at the combination date, except the adjustment made due to different accounting policies. The difference between sum of the carrying amount of the investment held and the carrying amount of the consideration paid for the combination and the carrying amount of the net assets acquired is adjusted against capital premium in the capital reserve, with any excess adjusted against retained earnings. For long-term equity investment held before the control over the combined party is obtained, profit or loss, other comprehensive income and other changes to equity interest attributable to the owners recognised from the later of the acquisition of the original equity interest and the date when the combining party and the combined party are placed under common control until the date of combination shall be offset against retained profit at the beginning of the period of the comparative financial statements or profit or loss of the period respectively.

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)***5. Accounting treatments for business combinations** *(continued)***(2) Business combinations involving enterprises not under common control** *(continued)*

For the business combinations involving enterprises not under common control, the combination cost shall be the fair value of the assets transferred, liabilities incurred or assumed, and equity securities issued by the acquirer for acquisition of control in the acquiree on the acquisition date. The assets, liabilities and contingent liabilities acquired or assumed on the date of acquisition are recognised at fair value.

Where the combination cost exceeds the fair value of the acquiree's identifiable net assets in the business combination, the difference is recognised as goodwill and is subsequently measured at cost less accumulated impairment provisions. Where the combination cost is less than the fair value of the acquiree's identifiable net assets in the business combination, the difference shall be included in profit or loss for the period after review.

Business combination involving enterprises not under common control and achieved in stages

In the separate financial statements, the initial cost of the investment is the sum of the carrying amount of the acquiree's equity investment held before the acquisition date and the additional investment cost on the acquisition date. In respect of the equity investment held prior to the acquisition date, other comprehensive income will not be recognized using equity method on the acquisition date, and such investment will be accounted for on the same accounting treatment as direct disposal of relevant asset or liability by the investee at the time of disposal. Shareholder's equity recognized due to the changes of other shareholder's equity other than the changes of net loss and profit, other comprehensive income and profit distribution shall be transferred to profit or loss for current period when disposed. If the equity investment held prior to the acquisition date is measured at fair value, the cumulative changes in fair value recognized in other comprehensive income shall be transferred to profit or loss for current period when accounted for using cost method.

In the consolidated financial statements, the combination cost is the sum of consideration paid on the acquisition date and fair value of the acquiree's equity held prior to the acquisition date. The equity of the acquirees held before the acquisition date is re-measured at the fair value of the equity on the acquisition date and the differences between the fair value and the carrying amount are recognised in the income for the current period; in respect of any other comprehensive income attributable to the equity interest in the acquiree held prior to the acquisition date and any changes of other shareholder's equity shall be transferred to investment profit or loss for current period on the acquisition date, except for the other comprehensive income incurred due to the changes arising from remeasuring net assets or net liabilities of defined benefit plan attributable to the acquiree.

(3) Transaction fees attribution during the combination

The intermediary and other relevant administrative expenses such as audit, legal and valuation advisory for business combinations are recognised in profit or loss when incurred. Transaction costs of equity or debt securities issued as the considerations of business combination are included in the initial recognition amounts.

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)***6. Preparation of consolidated financial statements****(1) Scope of consolidation**

The scope of consolidated financial statements is determined based on control. Control means the Company has exposures or rights to variable returns from its involvement with the investee and the ability to affect those returns through power over such investee. Subsidiaries are the entities controlled by the Company, including enterprises, a dividable part of investees and structured entities.

(2) Method for preparation of the consolidated financial statements

The consolidated financial statements are based on the financial statements of the Company and its subsidiaries, and are prepared by the Company in accordance with other relevant information. In preparing the consolidation financial statements, the Company and its subsidiaries are required to apply consistent accounting policy and accounting period, intra-group transactions and balances shall be offset.

A subsidiary or a business acquired through a business combination involving entities under common control in the reporting period shall be included in the scope of the consolidation of the Company from the date when it is under control of the ultimate controlling party, and then its operating results and cash flows will be included in the consolidated income statement and the consolidated cash flow statement, respectively.

For a subsidiary or a business acquired through a business combination involving entities not under common control in the reporting period, its income, expenses and profits are included in the consolidated income statement, and its cash flows are included in the consolidated cash flow statement from the acquisition date to the end of the reporting date.

The shareholders' equity of the subsidiaries that are not attributable to the Company shall be presented under shareholders' equity in the consolidated balance sheet as minority interests. The portion of net profit or loss of subsidiaries for the period attributable to minority interest is presented in the consolidated income statement under the "profit or loss of minority interest". When the amount of loss attributable to the minority shareholders of a subsidiary exceeds the minority shareholders' portion of the opening balance of owners' equity of the subsidiary, the excess amount shall be allocated against minority interest.

(3) Purchase of the minority stake in the subsidiary

The difference between the long-term equity investments costs acquired by the purchase of minority interests and the share of the net assets that the subsidiaries have to continue to calculate from the date of purchase or the date of consolidation in proportion to the new shareholding ratio, and the difference between the disposal of the equity investment without losing control over its subsidiary and the disposal of the long-term equity investment corresponding to the share of the net assets of the subsidiaries from the date of purchase or the date of consolidation, shall be adjusted to the capital reserve (or capital premium), if the capital reserve is not sufficient, any excess will be adjusted to retained earnings.

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)***6. Preparation of consolidated financial statements** *(continued)***(4) Treatment of loss of control of subsidiaries**

Where the Company loses its control over the original subsidiary due to the disposal of some equity investment or other reasons, the remaining equity is re-measured at its fair value on the date when the Company loses its control. The difference between the sum of the consideration acquired due to the disposal of the equity and the fair value of the remaining equity, and the Company's share in the sum of carrying value of net assets of the original subsidiary and goodwill calculated on an on-going basis from the acquisition date based on the original shareholding proportion is recognised in the investment income for the current period when the control is lost.

Other comprehensive income in relation to the original subsidiary's equity investment are transferred to profit or loss for the current period when control ceases, except for those arising from re-measuring net assets or net liabilities of defined benefit plan by the investee.

(5) Treatment of disposal through several transactions until the loss of control of subsidiaries

Where the Company disposes of the equity interests in the subsidiary through several transactions until it loses control, and the transaction terms, conditions and economic effects satisfy one or several of the following circumstances, such several transactions shall be deemed as a basket of transactions in accounting treatment:

- ① such transactions are entered into simultaneously or upon the consideration of the mutual impacts;
- ② no complete commercial result will be realised without such transactions as a whole;
- ③ the occurrence of one transaction depends on the occurrence of at least another transaction;
- ④ the result of an individual transaction is not economical, but it would be economical after taken into account of other transactions in the series.

In the separate financial statements, where the Company disposes of the equity investment in the subsidiary through several transactions until the loss of control, and such transactions are not regarded as "a basket of transactions", the carrying amount of the long-term equity investment involving each disposal will be carried forward, with the difference between the disposal price and the carrying amount of the long-term equity investment involving the disposal being accounted into the investment incomes for the current period; where the transactions constitute "a basket of transactions", the difference between the consideration of each disposal and the carrying amount of the long-term equity investment involving the disposal before the loss of the control, is recognised as the other comprehensive income and will be carried forward to the profit or loss for the current period when the control is lost.

In the consolidated financial statements, where the Company disposes of the equity investment in the subsidiary through several transactions until the loss of control, the measurement of the remaining equity interest and the accounting treatment of the losses and gains of the disposal will be made with reference to the "Treatment of loss of control of subsidiaries" as described above. For the difference between the consideration of each disposal before the loss of the control and the carrying amount of the Company's share in the net assets involving the disposal of such subsidiary calculated on an on-going basis from the acquisition date, the treatment will be made as follows:

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

6. Preparation of consolidated financial statements *(continued)*

(5) Treatment of disposal through several transactions until the loss of control of subsidiaries *(continued)*

- ① In case the transactions are “a basket of transactions”, such difference is recognised as the other comprehensive income and will be carried forward to the profit or loss for the current period when the control is lost.
- ② In case the transactions are not “a basket of transactions”, such difference is accounted into the capital reserve (or capital premium) as equity, and shall not be carried forward to the profit or loss for the current period when the control is lost.

7. Classification of joint arrangement and accounting treatment for joint operation

A joint arrangement is an arrangement jointly controlled by two or more parties. The Company's joint arrangement is classified into the joint operation and the joint venture.

(1) Joint operation

A joint operation is a joint arrangement whereby the Company have rights and obligations to the relevant assets and liabilities.

The Company recognizes the following items in relation to its interest in a joint operation, and makes corresponding accounting treatment in accordance with relevant accounting standards:

- A. the solely-held assets, and the share of any assets held jointly;
- B. the solely-assumed liabilities, and its share of any liabilities incurred jointly;
- C. its revenue from the sale of its share of the output arising from the joint operation;
- D. its share of the revenue from the sale of the output by the joint operation;
- E. the solely-incurred expenses, including its share of any expenses incurred jointly.

(2) Joint ventures

A joint venture is a joint arrangement whereby the Company only entitled to the net assets of the arrangements.

The Company's investment in joint ventures is accounted for using the equity method according to the rules of the long-term equity investment.

8. Standards for determination of cash and cash equivalents

Cash and cash equivalents of the Company include cash on hand, bank deposit readily available for payment and those investments held by the Company that are short-term (normally due in three months since the acquisition date), highly liquid, readily convertible into known amounts of cash and subject to an insignificant risk of change in value.

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)***9. Foreign currency transactions and translation of financial statements in foreign currency****(1) Foreign currency transactions**

Foreign currency transactions incurred by the Company are translated to the functional currency at the spot exchange rates on the date of the transactions upon initial recognition, which is normally the median exchange rate quoted by the People's Bank of China on that day and the same below; provided that the foreign currency exchange business or the transactions involving foreign currency exchange incurred by the Company are translated to the functional currency at the prevailing exchange rates.

Monetary items denominated in foreign currencies are translated to functional currency at the spot exchange rate on the balance sheet date. Exchange differences arising from the differences between the spot exchange rate prevailing at the balance sheet date and those spot rates used on initial recognition or at the previous balance sheet date are recognised in profit or loss for the current period; non-monetary items denominated in foreign currencies that are measured at historical cost are translated using the spot exchange rate on the transaction date. Non-monetary items denominated in foreign currencies that are measured at fair value are translated using the spot exchange rate on the date the fair value is determined; the resulting exchange differences between the amounts in functional currency upon translation and in original functional currency are recognised in profit or loss for the current period.

(2) Translation of financial statements in foreign currency

At the balance sheet date, when translating the foreign currency financial statements of overseas subsidiaries, the assets and liabilities in the balance sheet are translated at the spot exchange rate at the balance sheet date; all items except for "undistributed profits" of the shareholders' equity are translated at the spot exchange rate on the transaction date.

The revenue and expenses in profit or loss are translated at the spot exchange rate on the transaction date.

All items in the statement of cash flows are translated at the spot exchange rate on the transaction date. The effect of exchange difference on cash is adjusted and separately presented as "Effect of changes in foreign exchange rates on cash and cash equivalents" in the cash flow statement.

The exchange differences arising from translation of the financial statements are presented as the "other comprehensive income" in the shareholders' equity of the balance sheet.

When the Company disposes of the overseas operation and loses control, the differences arising from the translation of the financial statements in foreign currency that have been presented under the shareholders' equity in the balance sheet and involving such overseas operation are carried forward to the profit or loss for the current period in whole or in the proportion of the disposal of the overseas operation.

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)***10. Financial instruments**

Financial instruments are contracts creating financial assets of a party and financial liabilities or equity instruments of other parties.

(1) Recognition and De-recognition of financial instruments

A financial asset or financial liability is recognised when the Company becomes one of the parties under a financial instrument contract.

The financial assets will be de-recognised if any of the following conditions is satisfied:

- ① the contractual right to receive the cash flow of the financial assets is terminated;
- ② the financial assets has been transferred and the transferred financial asset satisfies the following conditions of de-recognition.

If the current obligation of a financial liability (or a part thereof) has been discharged, the financial liability (or that part of the financial liability) will be derecognised. When the Company (as the debtor) and the lender have signed an agreement which uses a new financial liability to replace the existing financial liability, and the contract terms of the new financial liability are substantially different with the original financial liability, the original financial liability shall be de-recognised, and the new financial liability shall be recognised at the same time.

The regular transactions of the financial assets are recognised and derecognised at the transaction date.

(2) Classification and measurement of financial assets

The Company classifies financial assets into three categories: financial assets at amortised cost; financial assets at fair value through other comprehensive income; and financial assets at fair value through profit or loss based on the business model for managing financial assets and their contractual cash flow characteristics upon initial recognition.

① Financial assets at amortised cost

The Company shall classify financial assets that meet the following conditions and are not designated as financial assets at fair value through profit or loss for the current period as financial assets measured at amortized cost:

- A. The Company's business model for managing the financial assets is to collect contractual cash flow;
- B. The terms of the financial asset contract stipulate that the cash flow generated on a specific date is only the payment for principal and interest accrued on the outstanding principal.

After initial recognition, these financial assets are measured at amortised cost using the effective interest method. Gains or losses arising from financial assets which are measured at amortised cost and not part of any hedging relationship are included in the profit and loss of the current period upon de-recognition, amortization using the effective interest method, or impairments recognition.

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)***10. Financial instruments** *(continued)***(2) Classification and measurement of financial assets** *(continued)*

② Financial assets at fair value through other comprehensive income

The Company shall classify financial assets that meet the following conditions and are not designated as financial assets measured at fair value through profit or loss for the current period as financial assets measured at fair value through other comprehensive income:

- A. The Company's business model for managing the financial assets is both to collect contractual cash flows and to sell the financial assets;
- B. The terms of the financial asset contract stipulate that the cash flow generated on a specific date is only the payment for principal and interest accrued on the outstanding principal.

After initial recognition, these financial assets are subsequently measured at fair value. Interest, impairment losses or gains and exchange losses and gains calculated using the effective interest method are recognised in profit or loss for the current period, while other gains or losses are recognised in other comprehensive income. The cumulative profit or loss previously included in other comprehensive income will be transferred to the profit or loss for the current period upon de-recognition of the financial assets.

③ Financial assets at fair value through profit or loss for the current period

In addition to the above financial assets which are measured at amortized cost or at fair value through other comprehensive income, the Company classifies all other financial assets as financial assets measured at fair value through profit or loss for the current period. When initial recognition, in order to eliminate or significantly reduce accounting mismatches, the Company irrevocably designates some financial assets that should have been measured at amortized cost or at fair value through other comprehensive income as financial assets at fair value through profit or loss for the current period.

After initial recognition, these financial assets are subsequently measured at fair value, and the profits or losses (including interest and dividend income) generated from which are recognised in profit or loss for the current period, unless the financial assets are part of the hedging relationship.

However, with respect to non-trading equity instrument investments, the Company may irrevocably designate them as financial assets measured at fair value through other comprehensive income at initial recognition. The designation is made on the basis of individual investment, and the relevant investment conforms to the definition of equity instruments from the issuer's point of view.

After initial confirmation, financial assets are subsequently measured at fair value. Dividend income that meets the requirements is recognised in profit and loss, and other gains or losses and changes in fair value are recognised in other comprehensive gains. When derecognized, the accumulated gains or losses previously recognised in other comprehensive gains are transferred from other comprehensive gains to retained earnings.

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)***10. Financial instruments** *(continued)***(2) Classification and measurement of financial assets** *(continued)*③ Financial assets at fair value through profit or loss for the current period *(continued)*

The business model of managing financial assets refers to how the Company manages financial assets to generate cash flow. The business model decides whether the source of cash flow of financial assets managed by the Group is to collect contract cash flow, sell financial assets or both of them. Based on objective facts and the specific business objectives of financial assets management decided by key managers, the Company determines the business model of financial assets management.

The Company evaluates the characteristics of the contract cash flow of financial assets to determine whether the contract cash flow generated by the relevant financial assets on a specific date is only to pay principal and interest based on the amount of unpaid principal. Among them, principal refers to the fair value of financial assets at the time of initial confirmation; interest includes the consideration of time value of money, credit risk related to the amount of unpaid principal in a specific period, and other basic borrowing risks, costs and profits. In addition, the Company evaluates the terms and conditions of the contracts that may lead to changes in the time distribution or amount of cash flow in financial asset contracts to determine whether they meet the requirements of the above contract cash flow's characteristics.

Only when the Company changes its business model of managing financial assets, all the financial assets affected shall be reclassified on the first day of the first reporting period after the business model changes, otherwise, financial assets shall not be reclassified after initial confirmation.

Financial assets are measured at fair value on initial recognition. The relevant transaction cost of financial assets at fair value through profit or loss is directly recognised in profit or loss for the current period, and that of other types of financial assets is included in the initially recognised amount. Trade receivables or notes receivable arising from sales of goods or rendering services, without significant financing component, are initially recognised based on the transaction price expected to be entitled by the Company.

(3) Classification and measurement of financial liabilities

On initial recognition, the Company's financial liabilities are classified into financial liabilities at fair value through profit or loss and financial liabilities at amortised cost. For financial liabilities not classified as financial liabilities at fair value through profit or loss, the relevant transaction costs are included in the initially recognised amount.

① Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated at fair value through profit or loss upon initial recognition. Such financial liabilities are subsequently measured at fair value, all gains and losses arising from changes in fair value and dividend and interest expense relative to the financial liabilities are recognised in profit or loss for the current period.

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)***10. Financial instruments** *(continued)***(3) Classification and measurement of financial liabilities** *(continued)*

② Financial liabilities at amortised cost.

Other financial liabilities are subsequently measured at amortised cost using the effective interest method; gains and losses arising from derecognition or amortisation is recognised in profit or loss for the current period.

③ Distinction between financial liabilities and equity instruments

The financial liability is the liability that meets one of following criteria:

- A. Contractual obligation to deliver cash or other financial instruments to another entity.
- B. Under potential adverse condition, contractual obligation to exchange financial assets or financial liabilities with other parties.
- C. A contract that will or may be settled in the entity's own equity instruments and is a non-derivative for which the entity is or may be obliged to deliver a variable number of the entity's own equity instruments;
- D. A derivative that will or may be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the entity's own equity instruments.

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities.

If the Company cannot unconditionally avoid fulfilling a contractual obligation by delivering cash or other financial assets, the contractual obligation meets the definition of financial liability.

If a financial instrument must or are able to be settled by the Company's own equity instrument, the Company should consider whether the Company's equity instrument as the settlement instrument is a substitute of cash or other financial assets or the residual interest in the assets of the Company after deducting all of its liabilities. If the former, the tool is the Company's financial liability; if the latter, the tool is the equity instrument of the Company.

(4) Derivative financial instruments and embedded derivatives

The Company's derivative financial instruments include forward foreign exchange contracts and are initially measured at fair value on the date of the derivative contract signed and are subsequently measured at fair value. A derivative with positive fair value shall be recognized as an asset, otherwise that with negative fair value shall be recognized as a liability. Any profit or loss arising from changes of fair value and not compliance with the accounting provision of hedge shall be recognized as profit or loss for current period.

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

10. Financial instruments *(continued)*

(4) Derivative financial instruments and embedded derivatives *(continued)*

For the hybrid instrument which includes embedded derivatives, where the host contract is a financial asset, requirements in relation to the classification of financial assets shall apply to the hybrid instrument as a whole. Where the host contract is not a financial asset, and the hybrid instrument is not measured at fair value and its changes are included in the profit and loss for the current period for accounting purposes, there is no close relation between the embedded derivatives and the host contract in terms of economic features and risks, and the instrument that has the same condition with the embedded derivatives and exists independently meets the definition of derivatives, the embedded derivatives shall be separated from the hybrid instrument and treated as a separate derivative financial instrument. If it is unable to separately measure the embedded derivatives upon acquisition or on the subsequent balance sheet date, the hybrid instrument shall be entirely designated as the financial assets or financial liabilities measured at fair value and whose movements are included in the profit and loss of the current period.

(5) Fair value of the financial instrument

The methods for determining the fair value of the financial assets or financial liabilities are set out in Note III.11.

(6) Impairment of financial assets

The following items are subject to impairment accounting and recognition of loss allowances based on expected credit losses:

- A. Financial assets measured at amortised cost;
- B. Receivables and debt investments that are measured at fair value through other comprehensive income;
- C. Contract assets as defined in the Accounting Standard for Business Enterprises No. 14 – Revenue;
- D. Lease receivables;
- E. Financial guarantee contracts, except for those carried at fair value through profit or loss, those which the transfer of financial assets does not satisfy the derecognition condition or those formed as a result of continued involvement of the transferred financial assets.

Measurement of expected credit loss (ECLs)

The ECL is a weighted average of credit losses on financial instruments weighted at the risk of default. Credit loss is the difference between all receivable contractual cash flows according to the contract and all cash flows expected to be received by the Company discounted to present value at the original effective interest rate, i.e. the present value of all cash shortfalls.

The Company takes into account reasonable and valid information on past events, current conditions and forecasts of future economic conditions, with the risk of default as the weight, to calculate the probabilistic weighted amount of the present value of the difference between the cash flow receivable from contract and the expected cash flow to be received and recognise the expected credit loss.

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)***10. Financial instruments** *(continued)***(6) Impairment of financial assets** *(continued)*Measurement of expected credit loss (ECLs) *(continued)*

The Company respectively measures the expected credit losses of financial instruments by different stages. If the credit risk of the financial instrument does not increase significantly since the initial recognition, it would be classified in Stage 1, the Company would measure loss allowance according to the future 12-month expected credit losses. If the credit risk of a financial instrument has significantly increased since the initial recognition but not yet credit-impaired, it would be classified in Stage 2, the Company would measure loss allowance according to the lifetime expected credit losses of that instrument. If the financial instrument has credit-impaired since the initial recognition, it would be classified in Stage 3, and the Company would measure loss allowance according to the lifetime expected credit losses of that instrument.

For financial instruments with lower credit risk on the balance sheet date, the Company assumes that its credit risk has not increased significantly since the initial recognition, and measures loss allowance according to the 12-month expected credit losses.

Lifetime ECLs are the ECLs that result from all possible default event over the expected life of a financial instrument. Future 12-month ECLs are the portion of ECL that results from default events on a financial instrument that are possible within the 12 months after the balance sheet date (or the expected life of the instrument, if it is less than 12 months).

The maximum period considered when estimating ECLs is the maximum contractual period over which the Company are exposed to credit risk (including the option to renew).

For the financial instruments classified in Stage 1 and Stage 2 and those with lower credit risk, the Company would measure the interest income by the book balance (that is, without deduction for credit allowance) and the effective interest rate. For financial instruments classified in Stage 3, the Company would measure the interest income by the amortised cost (that is, book balance less impairment allowance) and the effective interest rate.

For notes receivable, trade receivables and contract assets, regardless whether it has significant financing components or not, the Company has always measured its loss allowance at an amount equal to lifetime expected credit losses.

If the expected credit losses of one individual financial asset cannot be estimated at a reasonable cost, the Company classifies notes receivable and trade receivables into portfolios based on credit risk characteristics, and measures expected credit losses on portfolios basis to determine portfolios by the following basis:

A. Notes receivable

- Notes receivable portfolio 1: Bank acceptance bills
- Notes receivable portfolio 2: Commercial acceptance bills

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)***10. Financial instruments** *(continued)***(6) Impairment of financial assets** *(continued)*

Measurement of expected credit loss (ECLs) *(continued)*

B. Trade receivables

- Trade receivables portfolio 1: Amount due from other customers
- Trade receivables portfolio 2: Receivables of consolidated companies

Contract assets

- Contract assets portfolio: Sale of products

For notes receivable classified as portfolio, the Company measures expected credit losses based on the risk exposures of default and lifetime expected credit losses rate with reference to the historical credit loss experience, current situation and forecasts of future economic conditions.

For trade receivables classified as portfolio, the Company measures expected credit losses through preparing a table of concordance between the aging of trade receivables and lifetime expected credit losses rate with reference to the historical credit loss experience, current situation and forecasts of future economic conditions.

Other receivables

The Company classifies other receivables into certain portfolios based on credit risk characteristics, and measures expected credit losses on portfolios basis to determine portfolios by the following basis:

- Other receivables portfolio 1: Other receivables
- Other receivables portfolio 2: Receivables of consolidated companies

For other receivables classified as portfolio, the Company measures expected credit losses based on the risk exposures of default and future 12-month or lifetime expected credit losses rate.

Long-term receivables

The Company's long-term receivables include installments receivable for sale of products and installments receivable for rendering labor services.

The Company classifies installments receivable for sale of products and installments receivable for rendering labor services into certain portfolios based on credit risk characteristics, and measures expected credit losses on portfolios basis to determine portfolios by the following basis:

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)***10. Financial instruments** *(continued)***(6) Impairment of financial assets** *(continued)*

Long-term receivables *(continued)*

- Other long-term receivables portfolio: Other receivables

For installments receivable for sale of products and installments receivable for rendering labor services, the Company measures expected credit losses based on the risk exposures of default and lifetime expected credit losses rate with reference to the historical credit loss experience, current situation and forecasts of future economic conditions.

For other receivables and long-term receivables other than installments receivable for sale of products and installments receivable for rendering labor services that are classified as portfolio, the Company measures expected credit losses based on the risk exposures of default and future 12-month or lifetime expected credit losses rate.

Debt investments and other debt investments

For debt investments and other debt investments, the Company measures expected credit losses based on the nature of investments, counterparties and various types of risk exposures and the risk exposures of default and future 12-month or lifetime expected credit losses rate.

Assessment of significant increase in credit risk

By comparing the risk of default of financial instruments occurring on the balance sheet date and on the initial recognition date, the Company determines the relative changes in risk of default over the expected life of financial instruments and assesses whether the credit risk of financial instruments have increased significantly since the initial recognition.

When determine whether credit risks have significantly increased since the initial recognition, the Company considers information that is reasonable and supportable, including forward-looking information that is available without undue cost or effort. The information considered by the Company includes:

- Failure to make payments of principal or interest on debtors' contractually due dates;
- An actual or expected significant deterioration in a financial instrument's external or internal credit rating (if any);
- An actual or expected significant deterioration in the operating results of debtors;
- Existing or forecast changes in the technological, market, economic or legal environment that have a significant adverse effect on the debtors' abilities to repay to the Company.

Depending on the nature of the financial instruments, the Company assesses whether credit risks have significantly increased on either an individual financial instrument basis or a collective financial instrument basis. When the assessment is performed on a collective financial instrument basis, the Company can classify the financial instruments based on the shared credit risk characteristics, such as past due information and credit risk ratings.

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)***10. Financial instruments** *(continued)***(6) Impairment of financial assets** *(continued)*

Credit-impaired financial assets

The Company assesses whether financial assets at amortised cost and debt investments measured at fair value through other comprehensive income are credit-impaired at balance sheet date. A financial asset is 'credit-impaired' when one or more events that have an adverse impact on the estimated future cash flows of the financial asset have occurred. Evidence that a financial asset is credit-impaired includes the following observable information:

- significant financial difficulty of the issuer or debtor;
- a breach of contract by debtor, such as a default or delinquency in interest or principal payments;
- for economic or contractual reasons relating to the borrower's financial difficulty, the Company having granted to the borrower a concession that would not otherwise consider;
- it is probable that the borrower will enter bankruptcy or other financial reorganization; or
- the disappearance of an active market for that financial asset because of financial difficulties.

Presentation of allowance for ECL

The Company re-measures the ECLs on each balance sheet date to reflect changes in the financial instruments' credit risk since initial recognition, and the increase or reversal of the loss provision resulted therefrom is recognised as an impairment gain or loss in profit or loss. For financial assets measured at amortized cost, the loss provision is offset against their carrying amounts in the balance sheet. For debt investments at FVOCI, the Company recognises the loss provision in other comprehensive income and does not deduct the carrying amount of the financial assets.

Write-off

The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. A write-off constitutes a derecognition event. This is generally the case when the Company determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Company's procedures for recovery of amounts due.

Subsequent recoveries of an asset that was previously written off are recognised as a reversal of impairment in profit or loss in the period in which the recovery occurs.

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)***10. Financial instruments** *(continued)***(7) Transfer of financial assets**

Transfer of financial assets refers to the transference or deliverance of financial assets to the other party (the transferee) other than the issuer of financial assets.

The Company derecognises a financial asset only if it transfers substantially all the risks and rewards of ownership of the financial asset to the transferee; the Company should not derecognise a financial asset if it retains substantially all the risks and rewards of ownership of the financial asset.

The Company neither transfers nor retains substantially all the risks and rewards of ownership, shows as the following circumstances: if the Company has forgone control over the financial assets, derecognise the financial assets and verify the assets and liabilities; if the Company retains its control of the financial asset, the financial asset is recognised to the extent of its continuing involvement in the transferred financial asset and recognise an associated liability is recognised.

(8) Offsetting financial assets and financial liabilities

When the Company has the legal right to offset recognised financial assets and financial liabilities, and the legal right can be executed at present, and the Company has a plan to settle the financial assets and financial liabilities at the same time or at net amount, the financial assets and financial liabilities can be presented on the balance sheet after offsetting. Except for the above circumstances, financial assets and financial liabilities cannot be offset and shall be presented separately on the balance sheet.

11. Fair value measurement

The fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The Company measures the relevant assets or liability at fair value supposing the orderly transaction of asset selling or liability transferring incurring in a principal market of relevant assets or liabilities. In the absence of a principal market for the asset or liability, the Company assumes that the transaction takes place at the most advantageous market of relevant asset or liability. A principal market (or the most advantageous market) is the transaction market that the Company can enter into at measurement date. The Company implements the hypothesis used by the market participants to realize the maximum economic benefit in assets or liabilities pricing.

If there exists an active market for the financial assets or financial liabilities, the Company uses the quotation on the active market as its fair value. For those in the absence of active market, the Company uses valuation technique to recognise its fair value. However under limited circumstances, the Company may use all information about the results and operation of the investee obtained after the date of initial recognition to determine whether cost represents fair value. Cost may represent the best estimate of fair value of the relevant financial asset within the scope of distribution, and such cost represents the appropriate estimate of fair value within the scope of distribution.

For non-financial assets measured at fair value, the Company should consider the capacity of the market participants to put the assets into optimal use thus generating the economic benefit, or the capacity to sell assets to other market participants who can put the assets into optimal use and generate economic benefit.

The Company implements the valuation technique suitable for the current condition and supported by enough available data and other information, gives priority in use of relevant observable inputs, only the observable inputs cannot be obtained or impracticable before using unobservable inputs.

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)***11. Fair value measurement** *(continued)*

For the assets and liabilities measured or disclosed at fair value on financial statements, fair value hierarchies are categorized into three levels as the lowest level input that is significant to the entire fair value measurement: Level 1: inputs are quoted prices (unadjusted) in active markets for identical assets and liabilities. Level 2: inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Level 3: inputs are unobservable inputs for the asset or liability.

At each balance sheet date, the Company re-evaluates the assets and liabilities recognised to be measured at fair value on the financial statements to make sure whether conversion occurs between fair value hierarchies.

12. Inventories**(1) Classification of inventories**

The Company's inventories include, among others, raw materials, packaging materials, work in progress, finished goods, subcontracting materials and low-value consumables.

(2) Method of costing

Inventories are measured at actual cost on acquisition. Cost of inventories comprises actual costs of purchase and which incurred in bringing the inventories to their present location and condition. Cost of distribution of inventories is calculated using the weighted average cost method. Low-value consumables and packaging materials are amortised in full upon the use.

(3) The underlying factors in the determination and the basis of provision for diminution in net realisable value of inventories

Net realisable value of inventories is the estimated selling price less the estimated costs of completion, selling expenses and related taxes. The net realizable value of inventories is determined based on objective evidence, and consideration will be given to the purpose of holding the inventories and the effects of the events after balance sheet date.

On the balance sheet date, the inventories are calculated at the lower of cost and the net realizable value. When the net realizable value is lower than the cost, the provision for diminution in value of inventories is made on an item-by-item basis at the excess of the cost of the inventory over its net realizable value. For large volume inventories with low unit price, the provision for diminution in the value of inventories is made by categories.

When the provision for diminution in the value of inventory is made, if the factors that previously give rise to the write-down of inventories are no longer exist, which result in a net realizable value of the inventory higher than its carrying amount, the amount of the provision for diminution in value of inventories that has been made should be reversed and recognised in the profit or loss for the current period.

(4) Inventory system

The Company maintains a perpetual inventory system.

(5) Amortisation methods of consumables

Low-value consumables of the Company are amortised in full when used.

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)***13. Assets held for sale and discontinued operations****(1) Category and measurement of non-current assets or the disposal group held for sale**

Non-current assets and disposal groups are classified as held for sale if the Company recovers its book value mainly by selling (including the exchange of nonmonetary assets with commercial substance) rather than continuing to use it.

The aforesaid non-current assets do not include investment property measured with the basis of fair value; the biological assets measured with the basis of fair value less selling costs; the assets formed by employee benefits; financial assets and the right arising from deferred income tax assets and insurance contracts.

A disposal group is a group of assets to be disposed through sale or other means as a whole in a single transaction, and liabilities directly associated with those assets that will be transferred in the transaction. In certain circumstance, disposal groups include the goodwill obtained through business combination.

Non-current assets and disposal groups that meet the following conditions are classified as held for sale: according to the practice of disposing of this type of assets or disposal groups in a similar transaction, a non-current asset or disposal group is available for immediate sale at its present condition; the sale is likely to occur, that is, a decision has been made on a sale plan and a determined purchase commitment is made, and the sale is expected to be completed within one year. Where the loss of control over the subsidiaries is due to the sales of investment in subsidiaries, no matter whether the Company retains part of the equity investment after selling or not, the investment in subsidiaries shall be classified as held for sale in the separate financial statements when it satisfies the conditions for category of held for sale; all assets and liabilities of subsidiaries shall be classified as held for sale in the consolidated financial statements.

The difference between carrying amount of non-current assets or disposal groups classified as held for sale and the net amount of fair value less selling costs shall be recognised as impairment loss on assets upon initial measurement or when such non-current assets or disposal groups are remeasured at the balance sheet date. For the amount of impairment loss on assets recognised in disposal groups, the carrying amount of disposal groups' goodwill shall be offset against first, and then offset against the carrying amount of non-current assets according to the proportion of carrying amount of the individual non-current assets in the disposal groups.

If on a subsequent balance sheet date, the net amount of the fair value of a held-for-sale disposal group less its selling costs increases, the amount reduced previously shall be recovered, and reversed in the asset impairment loss recognised on the non-current asset which is applicable to the measurement requirements of Held-For-Sale Standards after the non-current asset is classified into held-for-sale category. The reversed amount is credited to current profit or loss. The carrying value of goodwill which has been offset can not be reversed.

No depreciation or amortisation is provided for the non-current assets in the held-for-sale and the assets in the disposal group held for sale. The interest on the liabilities and other costs in the disposal group held for sale is recognised continuously. As far as all or part of investment in the associates and joint ventures is concerned, for the part classified into the held-for-sale category, the accounting with equity method shall be stopped, while the remaining part (which is not classified into the held-for-sale category) shall still be accounted for using the equity method. When the Company loses the significant influence on the associates and joint venture due to the sale, the use of equity method shall be stopped.

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)***13. Assets held for sale and discontinued operations** *(continued)***(1) Category and measurement of non-current assets or the disposal group held for sale** *(continued)*

When certain non-current asset or disposal group classified into the held-for-sale category no longer meets the classification criteria for held-for-sale category, the Company shall stop classifying it into the held-for-sale category and measure it according to the lower of the following two amounts:

- ① The carrying amount of the asset of disposal group before it was classified into the held-for-sale category after being adjusted with the depreciation, amortization or impairment that could have been recognized if it was not classified into the held-for-sale category;
- ② The recoverable amount.

(2) Discontinued operation

Discontinued operation refers to the component meeting one of the following conditions that has been disposed of by the Company or classified by the Company into the held-for-sale type and can be identified separately:

- ① The component represents an independent principal business or a separate principal business place.
- ② The component is a part of the related plan for the contemplated disposal of an independent principal business or a separate principal business place.
- ③ the component is a subsidiary acquired exclusively for the purpose of resale.

(3) Presentation

The Company presents the non-current assets held for sale and the assets in the disposal group held for sale under "assets classified as held for sale", and the liabilities in the disposal group held for sale under "liabilities classified as held for sale" in the balance sheet.

The Company presents the profit and loss for continuing operation and profit and loss for discontinued operation in the income statement, respectively. The impairment loss and reversal amount and disposal profit and loss of the non-current assets held for sale or disposal group not meeting the definition of discontinued operation will be presented as the profit and loss of continuing operation. The operating profit and loss (such as impairment loss and reversal amount) and disposal profit and loss of the discontinued operation will be presented as the profit and loss of the discontinued operation.

The disposal group proposed for retirement rather than sale and meeting the condition about the relevant component in the definition of the discontinued operation will be presented as discontinued operation from the date of retirement.

For the discontinued operation reported in the current period, the information formerly presented as profit and loss of continuing operation will be presented as the profit and loss of discontinued operation for the comparable accounting period in the financial statement of the current period. If the discontinued operation no longer meets the classification criteria for held-for-sale category, the information formerly presented as profit and loss of discontinued operation will be presented as the profit and loss of continuing operation for the comparable accounting period in the financial statement of the current period.

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)***14. Long-term equity investment**

The long-term equity investment includes the equity investment in the subsidiary, joint ventures and associates. The investee over which the Company has significant influence is the associates of the Company.

(1) Determination of initial investment cost

The long-term equity investment resulting from corporate merger: For the long-term equity investment resulting from merger of companies under the same control, the carrying amount of the ownership equity of the merged party obtained on the merger date presented in the consolidated financial statement of the final controlling party will be used as the investment cost. For the long-term equity investment resulting from merger of companies under different controls, the merger cost will be used as the investment cost of the long-term equity investment.

The long-term equity investment obtained by other means: For the long-term equity investment obtained by paying cash, the actually paid purchase price will be used as the initial investment cost. For the long-term equity investment obtained by issuing equity securities, the fair value of the issued equity securities will be used as the initial investment cost.

(2) Subsequent measurement and recognition method of profit or loss

The investment in subsidiary will be accounted for using cost method, unless the investment meets the criteria of held-for-sale category. The investment in associates and joint venture will be accounted with equity method.

For the long-term equity investment accounted for using cost method, except for the price actually paid upon the investment or the cash dividend or profit in the consideration that has been declared but not released, the cash dividend or profit declared and distributed by the investee is recognized as the investment income and recorded into the profit and loss for the current period.

For the long-term equity investment accounted for using equity method, the investment cost of the long-term equity investment shall not be adjusted if the initial investment cost of the long-term equity investment is higher than the Company's share in the fair value of the identifiable net value of the investee at the time of investment; if the initial investment cost of the long-term equity investment is lower than the Company's share in the fair value of the identifiable net value of the investee at the time of investment, the carrying amount of the long-term equity investment will be adjusted, with the difference recorded into the profit and loss for the current period of investment.

When accounted for using the equity method, return on investment and other comprehensive income are recognised according to the share in the investee's realised net profit or loss and other comprehensive income respectively, and the carrying amount of the long-term equity investment is adjusted. The carrying amount of the long-term equity investment will be deducted according to the profit distribution declared by the investee or cash dividend attributable to the Company. The carrying amount of long-term equity investment will be adjusted for changes to equity interest attributable to the owners of the investee other than net profit or loss, other comprehensive income and profit distribution, and recorded into capital reserve (other capital reserve). The Company's share of the net profit or loss of the investees will be recognised after adjustment of the net profit of the investees according to the accounting policy and accounting period of the Company on the basis of fair value of all identifiable assets of the investee on acquisition.

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

14. Long-term equity investment *(continued)*

(2) Subsequent measurement and recognition method of profit or loss *(continued)*

If the Company is able to exert significant influence or implement joint control (which does not constitute control) on the investee through additional investment or other reason, the sum of the fair value of the original equity plus the additional investment cost will be used as the initial investment cost, which will be accounted for with equity method, on the conversion date. The difference between the fair value of the original equity on the conversion date and its carrying amount, and the accumulated change of fair value recorded into other comprehensive income will be transferred into the profit and loss for the current period, which will be accounted for using equity method.

If an entity loses joint control or has no significant influence over investees due to the elimination of parts of the equity investment, the surplus equity after disposal shall be recognized in accordance with "Accounting Standards for Business Enterprises No. 22-Recognition and Measurement of Financial Instruments", and the difference between fair value and carrying amount should be recognized as profit or loss for current period. Other comprehensive income of original equity investment recognized under equity method shall be recognized in accordance with the same foundation used by the investees when dispose the relevant assets or liabilities directly in the termination of equity method. Other changes of owners' equity related to the original equity investment shall be transferred into profit or loss for current period.

If an entity loses control over investees due to the elimination of parts of the equity investment, the surplus owners' equity that is able to implement joint control or have significant influence over investees shall be measured at equity method and are deemed to be recognized under equity method since the acquisition date. The surplus owners' equity that are unable to implement joint control or have no significant influence over investees shall be processed in accordance with "Accounting Standards for Business Enterprises No. 22-Recognition and Measurement of Financial Instruments", and the difference between fair value and carrying amount at the day of loss of control shall be recognized as profit or loss for current period.

If the shareholding ratio of the Company is reduced due to the increase of capital of other investors, and thus the control is lost, but the joint control or significant influence can be exerted on the invested entity, the company should recognize net asset according to the new shareholding ratio. The difference between the original book value of the long-term equity investment corresponding to the decrease in the shareholding ratio should be included in the current profit and loss; then, according to the new shareholding ratio, the equity method is used to adjust the investment.

The Company recognizes the unrealized profit or loss of intra-transaction between the joint ventures or associates that belongs to itself according to the proportion of the shares and recognizes the investment income or loss after offset. However, the loss arising from the unrealized intra-transaction between the Company and investees, which belongs to the impairment loss of assets transferred, cannot be offset.

(3) Basis of determining common control and significant influence on the investee

Joint control is the contractually agreed sharing of control over an arrangement under which the decisions relating to any activity require the unanimous consent of the parties sharing control. In determining whether there is a joint control, the first judge is to determine whether the relevant arrangement is controlled collectively by all the parties involved or the group of the parties involved. Secondly, and then determine whether the decisions related to the basic operating activities should require the unanimous consent of the parties involved. If the parties involved or the group of the parties involved must act consistently to determine the relevant arrangement, it is considered that the parties involved or the group of the parties involved control the arrangement. If two or more parties involve in the collectively control of certain arrangement, it shall not be considered as joint control. Protection of rights shall not be considered in determining whether there is joint control.

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)***14. Long-term equity investment** *(continued)***(3) Basis of determining common control and significant influence on the investee** *(continued)*

Significant influence refers to the power to participate in the decision making process for financial and operational policies of the investees without control or common control over the formulation of such policies. When determining whether it has significant influence over the investee, the influence of the voting shares of the investee held by the investor directly and indirectly and the potential voting rights held by the investor and other parties which are exercisable in the current period and converted to the equity of the investee, including the warrants, stock options and convertible bonds that are issued by the investee and can be converted in the current period, shall be taken into account.

(4) Held-for-sale equity investment

Refer to note III. 13 for the relevant accounting treatment of the equity investment to joint ventures or associates all or partially classified as assets held for sale.

The surplus equity investments that are not classified as assets held for sale shall be accounted for using equity method.

The equity investment to joint ventures or associates already classified as held for sale no longer meets the conditions of assets held for sale shall be adjusted retroactively using equity method from the date of being classified as assets held for sale.

(5) Impairment test and Impairment provision

Refer to note III. 22 for investment to subsidiaries, associates and joint ventures and the impairment provision of assets.

15. Investment properties

Investment properties are properties held to earn rental or capital appreciation or both. The investment properties of the Company include land use rights that have already been leased out, land use rights that are held for the purpose of sale after capital appreciation, buildings that have been already been leased out, etc.

Investment properties of the Company are measured initially at cost upon acquisition, and subject to depreciation or amortization in the relevant periods according to the relevant provisions on fixed assets or intangible assets.

The Company adopts the cost model for subsequent measurement of the investment properties. The method for asset impairment provision is set out in note III. 22.

The balance after the disposal income from the disposal, transfer, scrapping or destruction of the investment properties deducts the book value and the relevant taxes shall be recorded into the profit and loss for the current period.

(Unless specified otherwise, all amounts are denominated in RMB)

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

16. Fixed asset

(1) Conditions for recognition of fixed assets

The Company's fixed assets represent the tangible assets held by the Group using in the production of goods, rendering of services, rent and for operation and administrative purposes with useful life over one year.

The fixed asset can be recognized only when the economic benefit related to the fixed asset is probable to flow into the company and the cost of the fixed asset can be reliably measured.

The Company's fixed assets are initially measured at the actual cost at the time of acquisition.

(2) Depreciation methods of fixed assets

Fixed assets are depreciated using the equal annual instalment method. Fixed assets start to be depreciated from the day the assets to the expected conditions for use and stop to be depreciated when the assets are derecognized and are divided into hold-for-sale as non-current assets. For those fixed asset without considering impairment provision, the Company's annual depreciation rates are shown as follows according to the category, expected useful lives and estimated net residual values rates:

Category	Useful years (year)	Residual rate %	Annual depreciation rate %
Buildings	20	5-10	4.5-4.75
Machine and equipment	10	5-10	9-9.5
Transportation Equipment	5	5-10	18-19
Electric equipment and others	5	5-10	18-19

Where, for the fixed assets for which depreciation provision is made, to determine the depreciation rate, the accumulated amount of the fixed asset depreciation provision that has been made shall be deducted.

(3) Refer to note III. 22 for the impairment testing and the impairment provision of fixed assets.

(4) The Company reviews the useful life and estimated net residual value of fixed asset and the depreciation method applied annually at each of the period end.

The useful lives of fixed asset are adjusted if their expected useful lives are different from the original estimates; the estimated net residual values are adjusted if they are different from the original estimates.

(5) Overhaul costs

The overhaul costs occurred in regular inspection of property, plant and equipment are recognised in the cost of property, plant and equipment if there is undoubted evidence to confirm that they meet the recognition criteria of fixed assets, otherwise, the overhaul costs are recognised in profit or loss for the current period. Property, plant and equipment are depreciated during the intervals of the regular overhaul.

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)***17. Construction in progress**

Construction in progress is measured at actual cost. Actual cost comprises necessary project expenditure incurred during construction, borrowing cost that are eligible for capitalization and other necessary cost incurred 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.

For provision for impairment of construction in progress, refer to note III. 22.

18. Borrowing costs**(1) Recognition principle of capitalization of borrowing costs**

For borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset, they shall be capitalized and included in the cost of related assets; other borrowing costs are recognized as expenses and included in profit or loss when incurred. Capitalization of such borrowing costs can commence only when all of the following conditions are satisfied:

- ① Expenditures for the asset incurred, capital expenditure includes the expenditure in the form of cash payment, transfer of non-cash assets or the interest bearing liabilities for the purpose of acquiring or constructing assets eligible for capitalization;
- ② Borrowing costs incurred;
- ③ Activities relating to the acquisition, construction or production of the asset that are necessary to prepare the asset for its intended use or sale have commenced.

(2) Capitalization period of borrowing costs

Capitalization of such borrowing costs ceases when the qualifying assets being acquired, constructed or produced become ready for their intended use or sale. The borrowing cost incurred after that is recognised as an expense in the period in which they are incurred and included in profit or loss for the current period.

Capitalization of borrowing costs is suspended during periods in which the acquisition, construction or production of a qualifying asset is interrupted abnormally and when the interruption is for a continuous period of more than 3 months; the borrowing costs in the normally interrupted period continue to capitalize.

(3) Calculation of the capitalization rate and amount of borrowing costs

The interest expense of the specific borrowings incurred at the current period, deducting any interest income earned from depositing the unused specific borrowings in bank or the investment income arising from temporary investment, shall be capitalized. The capitalization rate of the general borrowing is determined by applying the weighted average effective interest rate of general borrowings, to the weighted average of the excess amount of cumulative expenditures on the asset over the amount of specific borrowings.

During the capitalization period, exchange differences on foreign currency special borrowings shall be capitalized; exchange differences on foreign currency special borrowings shall be recognized as current profits or losses.

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)***19. Biological assets****(1) Determination of biological assets**

Biological assets refer to assets comprising of living animals and plans. No biological asset shall be recognized unless it meets the conditions as follows simultaneously:

- ① An enterprise possesses or controls the biological asset as a result of past transaction or event;
- ② The economic benefits or service potential concerning this biological asset are likely to flow into the enterprise;
- ③ The cost of this biological asset can be measured reliably.

(2) Classification of biological assets

The Company's biological assets are consumable biological assets which include traditional Chinese medical herbal plant species.

The consumable biological assets refer to the biological assets held for sale, or biological assets to be harvested as agricultural products in the future, consisting of growing traditional Chinese medical herbal plant species. The consumable biological asset is initially measured at cost. The cost of any consumable biological assets by way of self-planting, self-cultivating, self-breeding is the necessary cost directly attributable to this asset prior to the harvest, consisting of borrowing costs that meet the conditions of capitalization. The subsequent expenses for the maintenance, protection and cultivation of a consumable biological asset after the harvest shall be included in the current profits or loss.

The cost of a consumable biological asset shall, at the time of harvest or sale, be carried over at its book value by the weighted average method.

(3) Impairment of biological assets

If the net realizable value of the consumable biological assets is lower than their carrying amount, provision of impairment loss is made and recognized in the profit or loss for the current period as the excess of the carrying amount over the net realizable value. If the factors affecting the impairment of consumable biological assets no longer exist, the amount of write-down shall be resumed and shall be reversed from the original provision for the impairment loss before being recognized in the profit or loss for the current period.

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)***20. Intangible assets**

An intangible asset is an identifiable non-monetary asset without physical substance owned or controlled by the Company. An intangible asset is recognised only when all of the following conditions are satisfied:

- ① It is probable that the economic benefits associated with the intangible assets will flow to the enterprise;
- ② The cost of the intangible asset can be reliably measured.

Intangible assets are initially measured at actual cost.

- ① Where the payment for acquisition of an intangible asset is postponed beyond the normal credit terms, which substantially constitutes a financing transaction, the present value of the purchase price will be recognised as the cost of intangible assets.
- ② The intangible assets acquired from debtor under debt restructuring are stated at the fair value, and the difference between the carrying amount of the restructured debt and the fair value of the intangible assets acquired from debtor under debt restructuring is recognised in the profit or loss for the current period. For non-monetary assets exchange with commercial substance, if the fair value of the assets received or transferred can be reliably measured, the intangible assets received in the exchange of non-monetary assets shall normally be stated at the fair value of the assets transferred, unless there is objective evidence indicating that the fair value of the assets received is more reliable; for the exchange of non-monetary assets that does not meet the above conditions, the cost of intangible assets received is recognised at the carrying amount of the assets transferred with the relevant taxes, and no gains or losses will be recognised in the profit or loss.
- ③ The intangible assets acquired in the business combinations under common control are stated at the carrying amount of the intangible assets of the acquiree. The intangible assets acquired in the business combinations not under common control are recognised at its fair value.

The Company shall make judgement to determine the useful life of intangible assets upon acquisition based on its analysis. For intangible assets with finite useful life, the useful life shall be estimated from its length of service, its output in the future or other similar factors involved. When there is no foreseeable limit to the period over which an intangible asset is expected to generate economic benefits for the Company, it is regarded as having an indefinite useful life.

Amortisation of intangible assets: intangible assets with finite useful life are amortised in the profit or loss using the straight-line method over the estimated useful life. An intangible asset with indefinite useful life is not amortised. The useful life for an intangible asset with a finite useful life and the method of amortisation are reviewed at least once at the end of each financial year. If the useful life and amortisation method for the intangible assets are different from the previous estimate, the change of amortisation is recognised prospectively.

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)***21. Research and development expenditures**

Expenditures on an internal research and development project are classified into expenditures on the research phase and expenditures on the development phase.

Expenditures on the research phase refer to the costs incurred for original, exploratory and planned researches with the prospect of gaining new scientific or technical knowledge and understanding to collect data and prepare for further development activities. There is great uncertainty as to whether research in progress can move onto development phase and whether intangible assets can be created at the end of the development phase. Expenditures on the research phase shall be recognised in profit or loss for the current period when incurred.

Expenditures on the development phase refer to the cost incurred for applying research findings or other knowledge to a plan or design to produce new materials, devices, products or processes or make substantial improvement thereof before the commercial production or use. In the development phase, facilitating by the works conducted during the research phase, the Company shall be capable to demonstrate the feasibility of creating new products or new technologies. Expenditures on the development phase will be capitalized only when 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; the Company intends to complete the intangible asset and use or sell it; it can be demonstrated how the intangible asset will generate economic benefits, including proving that the intangible assets or the products produced by it will have markets, or the intangible assets for internal use will be useful; there are adequate technical, financial and other resources to complete the development and the Company is able to use or sell the intangible assets; and expenditures on the development phase attributable to the intangible assets can be reliably measured. The development expenditures that do not satisfy the above conditions shall be recognised in profit or loss for the current period.

Capitalised expenditures on the development phase are shown as development expenditures on the balance sheet and reclassified as intangible assets on the date the project meets the intended purpose.

Capitalisation conditions for specific research and development projects are as follows: upon obtaining relevant approvals, such as “the Clinical Test Approval (臨床試驗批件)”, “the Drug Registration Approval (藥品註冊批件)” in accordance with the Measures for the Administration of Drug Registration (《藥品註冊管理辦法》) promulgated by the State Food and Drug Administration or approvals issued by international drug administration institutions, or satisfying the conditions of pilot in R&D projects, after considering both the R&D process of the pharmaceutical industry and the Company’s own R&D features, the expenses occurred after obtaining such approval or commencing the pilot may be capitalised as R&D expenses provided that the conditions for development are satisfied according to the Company’s assessment; the remaining R&D expenditures will be charged to R&D expenses; and the purchase price of production technology or formulation acquired externally are recognised as development expenses and projects requiring further R&D are recognised according to the standards as mentioned above.

Where it is impossible to differentiate the expenditures on the research phase and the expenditures on the development phase, all the research and development expenditures are recognised in profit or loss for the current period.

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)***22. Impairment of assets**

The impairment of subsidiaries, associates and joint ventures in the long-term equity investments, investment properties subsequently measured at cost, fixed assets, construction in progress, right-of-use assets, intangible assets, etc. (Excluding inventories, investment properties measured at fair value, deferred income tax assets and financial assets) are determined as follows:

At the balance sheet date, the Company determines whether there may be evidence of impairment, if there is any, the Company will estimate the recoverable amount for impairment, and then test for impairment. For goodwill arising from a business combination, intangible assets with indefinite useful life and the intangible assets that have not yet ready for use are tested for impairment annually regardless of whether such evidence exists.

The recoverable amount of an asset is determined by the higher amount of fair value deducting disposal costs and net present value of future cash flows expected from the assets. The Company estimates the recoverable amount based on individual asset; for individual asset which is difficult to estimate the recoverable amount, the recoverable amount of the asset group is determined based on the asset group involving the asset. The identification of the asset group is based on whether the cash flow generated from the asset group is independent of the major cash inflows from other assets or asset groups.

When the asset or asset group's recoverable amount is lower than its carrying amount, the Company reduces its carrying amount to its recoverable amount, the reduced amount is included in profit or loss, while the provision for impairment of assets is recognised.

In terms of impairment test of the goodwill, the carrying amount of the goodwill, arising from business combination, shall be allocated to the related asset group in accordance with a reasonable basis at acquisition date. Those that are difficult to be allocated to related assets shall be allocated to related asset group. Related assets or assets group refer to those that can benefit from the synergies of business combination and are not larger than the Company's recognised reporting segment.

When there is an indication that the asset and asset group are prone to impair, the Company should test for impairment for asset and asset group excluding goodwill and calculate the recoverable amount and recognize the impairment loss accordingly. The Company should test for impairment for asset or the asset group including goodwill and compare the asset or asset group's recoverable amount with its carrying amount, provision for impairment of assets shall be recognized when the recoverable amount of assets is lower than its carrying amount.

Once impairment loss is recognised, it cannot be reversed in subsequent accounting periods.

23. Long-term deferred expenses

The Company's long-term deferred expenses measured at cost actually incurred and evenly amortized on straight-line basis over the expected beneficial period. For the long-term deferred expense items that cannot benefit in subsequent accounting period, their amortized value is recognised through profit or loss.

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)***24. Employee compensation****(1) The scope of employee compensation**

Employee compensation are all forms of remuneration and compensation given by the Company in exchange for service rendered by employees or the termination of employment. Employee compensation include short-term employee compensation, post-employment benefits, termination benefits and other long-term employee benefits. Employee compensation include benefits provided to employees' spouses, children, other dependants, survivors of the deceased employees or to other beneficiaries.

According to liquidity, employment compensation are presented separately as "accrued payroll" item and "long-term employment compensation payable" item in the balance sheet.

(2) Short-term employee compensation

During the accounting period in which the employees render the related services, wages, bonuses, social security contributions (including medical insurance, injury insurance, maternity insurance, etc.) and house funding are recognized as liability and included in the profit or loss for the current period or related asset costs. If the liability cannot be wholly settled within twelve months after the end of the annual reporting period in which the employees render the related service and have significant financial impact, the liability shall be measured as the discounted amounts.

(3) Post-employment benefits

Post-employment benefit plans mainly includes defined contribution plans. Defined benefit plans are post-employment benefit plans under which an entity pays fixed contributions into a separate fund and will have no legal or constructive obligation to pay further contributions. Defined benefit plans include the basic pension insurance, unemployment insurance, etc.

During the accounting period in which the employees render services, the contributions to defined contribution plans is recognized as a liability, and are included in profit or loss for the current period or related asset costs.

(4) Termination benefits

The liability of employee compensation arising from termination benefits is recognised and included in profit or loss for the current period in the earlier date of the followings: the Company cannot unilaterally withdraw the offer of termination benefits because of an employment termination plan or a curtailment proposal; the Company recognises costs or expenses related to the restructuring that involves the payment of termination benefits.

For the implementation of the internal retirement plan for employees, the economic compensation before the official retirement date is a termination benefit. The wage of and social insurance contributions for the internally retired employee which would have incurred from the date on which the employee cease rendering services to the Company to the scheduled retirement date will be included in the profit or loss for the current period. Economic compensation after the official retirement date (such as normal pension) should be treated as post-employment benefits.

(5) Other long-term employee benefits

When other long-term employee benefits provided to the employees by the Company are satisfied the conditions of a defined contribution plan, those benefits shall be accounted for in accordance with the relevant provisions of the above defined contribution plans.

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)***25. Provisions**

An obligations related to a contingency is recognised as a provision when all of the following conditions are satisfied:

- (1) The obligation is a present obligation of the Company;
- (2) It is probable that an outflow of economic benefits will be required to settle the obligation;
- (3) The amount of the obligation can be measured reliably.

Provisions are initially measured at the best estimate of the payment to settle the associated obligations and consider the relevant risk, uncertainty and time value of money. If the impact of time value of money is significant, the best estimate is determined as its present value of future cash outflow. The Company reviews the carrying amount of provisions at the balance sheet date and adjusts the carrying amount to reflect the best estimate.

If the expenses for clearing of provisions is fully or partially compensated by a third party, and the compensated amount can be definitely received, it is recognised separately as asset. The compensated amount recognised shall not be greater than the carrying amount of the liability recognised.

26. Share-based payment and equity instruments**(1) Category of share-based payment**

Share-based payment is classified into equity-settled share-based payment and cash-settled share-based payment.

(2) Determination of fair value of equity instrument

For the existence of an active market for options and other equity instruments granted by the Company, the fair value is determined at the active market quotations. For options and other equity instruments with no active market, option pricing model shall be used to estimate the fair value of the equity instruments. Factors as follows shall be taken into account using option pricing models: A. the exercise price of the option; B. the validity of the option; C. the current market price of the share; D. the expected volatility of the share price; E. predicted dividend of the share; F. risk-free rate of the option within the validity period.

(3) Recognition basis for the best estimate of exercisable equity instruments

At each balance sheet date during the pending period, the Company, based on the latest subsequent information such as the latest update on the change in the number of entitled employees, makes best estimates to adjust the expected number of equity instruments that can be vested. As at the exercise date, the final estimated number of exercisable equity instruments should equal the actual number of exercisable equity instruments.

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)***26. Share-based payment and equity instruments** *(continued)***(4) Accounting treatment for implementation, amendment and termination of share-based payments**

Equity-settled share-based payment is measured at the fair value of the equity instruments granted to employees. Instruments which are vested immediately upon the grant are included in relevant costs or expenses at the fair value of equity instruments on the date of grant and capital reserves are increased accordingly. If vesting is conditional upon completion of services in the pending period or fulfillment of performance conditions, at each balance sheet date during the pending period, based on the best estimates of the number of vested equity instruments, the services received for the period are recognised as the costs or expenses and capital reserves at fair value of the equity instruments as at the date of grant. After the vesting period, relevant costs or expenses and total shareholders' equity has been confirmed and will not be adjusted.

Cash-settled share-based payments are measured at the fair value of the liabilities (share-based or other equity instrument-based) assumed by the Company. Instruments which are vested immediately upon the grant are included in relevant costs or expenses at the fair value of liabilities assumed by the Company on the date of grant and liabilities are increased accordingly. If vesting is conditional upon completion of services in the pending period or fulfillment of performance conditions, at each balance sheet date during the pending period, based on the best estimates of the vesting situation, the services received for the period are recognised as the costs or expenses and corresponding liabilities at fair value of the liabilities assumed by the Company. At each balance sheet date and settlement date before the relevant liabilities are settled, the fair value of liabilities are re-measured and the resulting changes are included in the profit and loss for the current period.

When the Company modifies the share-based payment plan, and if such modification increases the fair value of the equity instruments granted, the increase in services received will be recognised accordingly following the increase in fair value of the equity instruments; if such modification increases the number of equity instruments granted, the increase in fair value of the equity instruments is recognized as a corresponding increase in service achieved. The increase in fair value of the equity instruments refers to the difference in fair value on the date of modification before and after the modification in respect of the equity instruments. If the modification reduces the total fair value of the share-based payments or adopts any form that is unfavorable to employees to modify the terms and conditions of the share-based payment plan, accounting treatment will be continued to be conducted in respect of the services received and the modification will be deemed to have never occurred, unless the Company had cancelled part or all of the equity instruments granted.

During the pending period, if the equity instruments granted are cancelled (except for failure to meet the non-market conditions of the vesting conditions), the Company will undertake an accelerated vesting in respect of the cancelled equity instruments that had been granted, include the remaining amount that shall be recognised during the pending period in the current profit and loss immediately and recognise capital reserve accordingly. Where employees or other parties are permitted to choose to fulfill non-vesting conditions but have not fulfilled during the pending period, the Company will treat the granted equity instruments as cancelled.

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)***26. Share-based payment and equity instruments** *(continued)***(5) Accounting treatment for share-based payments involving the Company and the shareholders or the actual controller of the Company**

For share-based payment transactions involving the Company and the shareholders or the actual controller of the Company, the settlement enterprise and the enterprise receiving services (one under the Company while another external to the Company) shall follow the requirements below to conduct accounting treatment in the Company's consolidated financial statements:

- ① For settlement enterprises settling through their own equity instruments, such share-based payment transaction will be treated as equity-settled share-based payment; except for this, such share-based payment transaction will be treated as cash-settled share-based payment.

Where a settlement enterprise is an investor of an enterprise receiving services, the fair value of the equity instruments on the date of grant or the fair value of the liabilities that shall be assumed are recognised as long-term equity investment in the enterprise receiving services, at the same time, capital reserve (other capital reserve) or liabilities are recognised.

- ② Where an enterprise receiving services has no settlement obligations or grants its own equity instruments to employees, such share-based payment transaction will be treated as equity-settled share-based payment; where an enterprise receiving services has settlement obligations and grants equity instruments (other than its own) to employees, such share-based payment transaction will be treated as cash-settled share-based payment.

For a share-based payment transaction occurring between each enterprise under the Company where the enterprise receiving services and the settlement enterprise are not the same enterprise, such share-based payment transaction shall be recognised and measured in each of the respective financial statements of the enterprise receiving services and the settlement enterprise (as compared with the above principles).

27. Preferred shares, perpetual bonds and other financial instruments**(1) Classification of financial liabilities and equity instruments**

The Company classifies the financial instrument or its components as financial assets, financial liabilities or equity instruments at the initial recognition based on the contract terms of the issued financial instrument and the economic substance it reflects, instead of only in legal form, and combine the definition of financial assets, financial liabilities and equity instruments.

(2) Accounting treatment of preferred shares, perpetual bonds and other financial instruments

The financial instruments issued by the Company are initially recognized and measured in accordance with the financial instrument standards; thereafter, interest or dividends are accrued or distributed on each balance sheet date and processed in accordance with relevant specific accounting standards for enterprises. That is, on the basis of the classification of the financial instrument issued, the accounting treatment of interest expenses or dividend distributions of the instrument is determined. For financial instruments classified as equity instruments, interest expenses or dividend distributions are treated as profit distribution of the Company, and repurchases and cancellations are treated as changes in equity; for financial instruments classified as financial liabilities, interest expenses or dividend distributions are in principle treated according to borrowing costs, and gains or losses arising from repurchase or redemption are credited to profit or loss for the current period.

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)***27. Preferred shares, perpetual bonds and other financial instruments** *(continued)***(2) Accounting treatment of preferred shares, perpetual bonds and other financial instruments** *(continued)*

The transaction costs such as charges and commissions incurred by the Company when issuing financial instruments, if classified as debt instruments and measured at amortized cost, are included in the initial measurement amount of the issued instrument; if classified as equity instruments, are deducted from equity.

28. Income

Revenue is recognised when the customer obtains control of the goods, subject to the fulfilment of the following conditions under the contract entered into the Company and customers: the parties has approved the contract and undertaken to fulfil their respective obligations; the contract clearly states the parties to the contract and their rights and obligations relating to the transferred goods and rendered services; the contract clearly stated the payment terms relating to the transferred goods; the contract has commercial substance that the fulfilment of the contract will result in changes in the risk, time frame or amount of the future cash flow risk of the Company; the collection of the consideration that the Company is entitled to for transferring the goods is probable.

On the effective date of the contract, the Company identifies each performance obligation under such contracts and allocate the transaction price to each performance obligation based on the percentage of respective unit price of a good guaranteed by each performance obligation. The determination of the transaction price has taken into account the impact of factors, such as variable consideration, the significant financing component exist in the contract, non-cash consideration, consideration payable to the customers.

For each of the performance obligations under the Contract, if one of the following conditions is fulfilled, the Company shall recognised the transaction price which was allocated to each of the performance obligations as income based on the progress of performance within a certain period: the Client has received and consumed simultaneously all of the economics benefits; When the customer simultaneously receives and consumes the benefits provided by the Company when the Company performs its obligations under the contract; When the customer is able to control the commodity in progress in the course of performance by the Company under the contract; The product produced by the Company under the contract is irreplaceable and the Company has the right to payment for performance completed to date. The stage of fulfilment are determined based on the nature of the transferred goods with the adoption of input method or output-based method. When the progress of performance cannot be reasonably determined, if the costs incurred by the Group are expected to be recoverable, the revenue will be recognised to the extent of the costs incurred until the progress of performance can be reasonably determined.

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)***28. Income** *(continued)*

If one of the above conditions is not fulfilled, the Company shall recognise the transaction price which was allocated to each of the performance obligations as income when the customer is able to control the commodity. When determining whether the customer has obtained control of the goods, the Group will consider the following indications: the enterprise has the current right to receive payment for the goods, which is when the customers have the current payment obligations for the goods; the enterprise has transferred the legal title of the goods to the client, which is when the client possesses the legal title of the goods; the Group has transferred the physical possession of goods to the customer, which is when the customer obtains physical possession of the goods; the Group has transferred all of the substantial risks and rewards of ownership of the goods to the customer, which is when the client obtains all of the substantial risks and rewards of ownership of the goods to the customer; when the customer has accepted the goods, which is when other information indicates that the customer has obtained control of the goods.

A contract asset represents the Company's right to consideration in exchange for goods or services that it has transferred to a customer when that right is conditioned on factors other than passage of time, for which the loss allowances for expected credit loss is recognised (see Note III.10(6)). The Company shall present any unconditional (i.e. if only the passage of time is required) rights to consideration separately as a receivable. A contract liability is the Company's obligation to transfer goods or services to a customer for which the Company has received consideration (or the amount is due) from the customer.

The contract assets and liabilities under the same contract shall be shown on a net basis. If the net amount stated in debit balance, it will be presented under the items of "Contract assets" or "Other non-current assets" according to its mobility; If the net amount stated in credit balance, it will be presented under the items of "Contract liabilities" or "Other non-current liabilities" according to its mobility.

The Company enters into sales contracts with customers. Revenue from sales is recognised according to the invoiced amount upon the delivery of goods to the designated carrier or purchaser according to the orders received from customers.

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)***29. Contract costs**

Contract costs are either the incremental costs of obtaining a contract with a customer or the costs to fulfil a contract with a customer.

Incremental costs of obtaining a contract are those costs that the Company incurs to obtain a contract with a customer that it would not have incurred if the contract had not been obtained e.g. an incremental sales commission. The Company recognises as an asset the incremental costs of obtaining a contract with a customer if it expects to recover those costs. Other costs of obtaining a contract are expensed when incurred.

If the costs to fulfil a contract with a customer are not within the scope of inventories or other accounting standards, the Company recognises an asset from the costs incurred to fulfil a contract only if those costs meet all of the following criteria:

- ① the costs relate directly to an existing contract or to a specifically identifiable anticipated contract, including direct labour, direct materials, allocations of overheads (or similar costs), costs that are explicitly chargeable to the customer and other costs that are incurred only because the Group entered into the contract;
- ② the costs generate or enhance resources of the Company that will be used in satisfying (or in continuing to satisfy) performance obligations in the future;
- ③ the costs are expected to be recovered.

Assets recognised for the incremental costs of obtaining a contract and assets recognised for the costs to fulfil a contract (the “assets related to contract costs”) are amortised on a systematic basis that is consistent with the transfer to the customer of the goods or services to which the assets relate and recognised in profit or loss for the current period.

The Company recognises an impairment loss in profit or loss to the extent that the carrying amount of an asset related to contract costs exceeds:

- ① remaining amount of consideration that the Company expects to receive in exchange for the goods or services to which the asset relates;
- ② The cost estimated to be happened for the transfer of related goods or services.

The costs of contract performance recognised as assets, if the amortisation period is less than one year or a normal operating cycle upon the initial recognition, are presented as “Inventories” item, and if the amortisation period is more than one year or a normal operating cycle upon the initial recognition, are presented as “Other non-current assets” item.

The contract obtaining costs recognised as assets, if the amortisation period is less than one year or a normal operating cycle upon the initial recognition, are presented as “Other current assets” item, and if the amortization period is more than one year or a normal operating cycle upon the initial recognition, are presented as “Other non-current assets” item.

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)***30. Government grants**

A government grant shall be recognised only when the enterprise can comply with the conditions attaching to the grant and the enterprise can receive the grant.

If a government grant is in the form of a transfer of a monetary asset, the item is measured at the amount received. If a government grant is in the form of a transfer of a non-monetary asset, the item is measured at fair value, when fair value is not reliably determinable, the item is measured at a nominal amount of RMB1.

Government grant related to assets represents the government grant received for acquisition and construction of long term assets, or forming long term assets in other ways. Except for these, all are government grant related to income.

Regarding to the government grant not clearly defined in the official documents and can form long term assets, the part of government grant which can be referred to the value of the assets is classified as government grant related to assets and the remaining part is government grant related to income. For the government grant that is difficult to distinguish, the entire government grant is classified as government grant related to income.

The government grant related to assets is recognised as deferred income and would be transferred to profit or loss in reasonable and systematic manner within the period of use of the relevant assets. The government grant related to income which is used to compensate the relevant costs or losses incurred should be recognised in the profit or loss for the current period; the government grant related to income which is used to compensate the relevant costs or losses for the subsequent period is recognised as deferred income and shall be recognised in profit or loss during the relevant cost or loss confirmation period. Government grants measured in nominal terms are directly included in the profit or loss for the current period. The Company has adopted a consistent approach to the same or similar government grant business.

The government grants related to daily activities are recognised as other gains in accordance with the substance of economic business. Government grants that are not related to daily activities are recognised as non-operating income and expenses.

If the recognised government grants need to be refunded, adjust the carrying amount of assets when the carrying amount of assets is offset at the time of initial recognition; the balance of deferred income is offset against the carrying amount of the balance of deferred income and the excess is recognised in the profit or loss for the current period. Other circumstances, it is directly recognised in the profit or loss for the current period.

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)***31. Deferred tax assets and deferred tax liabilities**

Tax expense comprises current tax expense and deferred tax expense. Current tax and deferred tax are included in the profit or loss for the current period as tax expense, except for deferred tax related to transactions or events that are directly recognised in shareholders' equity which are recognised directly in shareholders' equity, and deferred tax arising from a business combination, which is adjusted against the carrying amount of goodwill.

Temporary differences arising from the difference between the carrying amount of an asset or liability and its tax base are recognised as deferred tax using the balance sheet liability method.

All the taxable temporary differences are recognised as deferred tax liabilities except for those incurred in the following transactions:

- (1) The initial recognition of goodwill, and the initial recognition of an asset or liability in a transaction which is neither a business combination nor affects accounting profit or taxable profit (or deductible loss) when the transaction occurs;
- (2) The taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, and the Company is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The Company recognises a deferred tax asset for the carry-forward of deductible temporary differences, deductible losses and tax credits to subsequent periods, to the extent that it is probable that future taxable profits will be available against which the deductible temporary differences, deductible losses and tax credits can be utilised, except for those incurred in the following transactions:

- (1) The transaction is neither a business combination nor affects accounting profit or taxable profit (or deductible loss) when the transaction occurs;
- (2) The deductible temporary differences associated with investments in subsidiaries, associates and joint ventures, the corresponding deferred tax asset is recognised when both of the following conditions are satisfied: it is probable that the temporary difference will reverse in the foreseeable future, and it is probable that taxable profits will be available in the future, against which the temporary difference can be utilised.

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, and their tax effect is reflected.

At the balance sheet date, the Company reviews the carrying amount of a deferred tax asset. If it is probable that sufficient taxable profits will not be available in future periods to allow the benefit of the deferred tax asset to be utilised, the carrying amount of the deferred tax asset is reduced. Any such reduction in amount is reversed when it becomes probable that sufficient taxable profits will be available.

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)***32. Leases****(1) Identification of leases**

At the inception of a contract, the Company, as a lessee or lessor, assesses if the customer in a contract has the right to obtain substantially all the economic benefits from use of the identified assets and the right to direct the use of the identified assets in the period of use. The Company would identify that a contract is a lease, or contains a lease if a party of the contract transfers the right to control the use of one or more identified assets for a period of time in exchange for consideration.

(2) The Company as the lessee

At the inception of a lease, the Company recognises all its leases as the right-of-use assets and lease liabilities, except for the short-term leases and the leases of low-value assets which are treated with a simplified approach.

For the accounting policies on the right-of-use assets, please refer to Note III.33.

Lease liabilities are initially measured based on the present value of outstanding lease payment at the inception of a lease, discounted using the interest rate implicit in the lease or the incremental borrowing rate. Lease payment include: fixed payments and in-substance fixed payments, less any lease incentives (if there is a lease incentive); variable lease payment that are based on an index or a rate; the exercise price of a purchase option if the lessee is reasonably certain to exercise that option; payments of penalties for terminating the lease option, if the lease term reflects that the lessee will exercise that option; and amounts expected to be payable under the guaranteed residual value provided by the lessee. The Company shall subsequently calculate the interest expenses of lease liabilities over the lease term at the fixed periodic interest rate, and include it into the profit or loss for the current period. Variable lease payments not included in the measurement of lease liabilities are charged to profit or loss in the period in which they actually arise.

Short-term lease

Short-term lease refers to the lease that the lease term does not exceed 12 months from the inception of a lease, and the lease that includes the option of purchase is not a short-term lease.

The Company recognises the amount of lease payments of short-term lease in the cost of the related asset or the profit or loss for the current period, on a straight-line method over each period of the lease term.

Leases of low-value assets

For the Leases of low-value assets, the Company chooses to adopt the above simplified treatment method in accordance with the specific conditions of each lease.

The Company recognised the lease payments for the Leases of low-value assets in the relevant asset cost or the profit or loss for the current period on a straight-line basis over each period of the lease term.

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)***32. Leases** *(continued)***(3) The Company as the lessor**

When the Company is the lessor, the lease that substantially transfers all the risks and rewards related to the ownership of assets is recognised as a finance lease, and leases other than finance leases are recognised as operating leases.

Finance leases

In a financial lease, the Company uses the net investment in leases as the carrying amount of finance lease receivables at the inception of a lease. The net investment in leases is the sum of the unguaranteed residual value and the present value of the outstanding lease payment at the inception of a lease, discounted using the interest rate implicit in the lease. The Company, as the lessor, calculates and recognises the interest income over each period of the lease term at a fixed periodic interest rate. Variable lease payments not included in the measurement of the lease liability, which are obtained by the Company as a lessor, are recognised in profit or loss as incurred.

The termination of recognition and impairment of financial lease receivables is accounted for in accordance with the provisions of "Accounting Standards for Business Enterprises No. 22 – Recognition and Measurement of Financial Instrument" and "Accounting Standards for Business Enterprises No. 23 – Transfer of Financial Assets".

Operating leases

For the rental of operating leases, the Company recognises it in the profit or loss for the current period on a straight-line basis over each period of the lease term. The initial direct cost incurred in connection with an operating lease shall be capitalised and amortised on the same basis for recognition of rental income during the lease term, and shall be included in installments in the profit or loss for the current period. The variable lease payment, which is obtained in connection with an operating lease and not included in the lease receivables, shall be included in the profit and loss for the current period when they actually occur.

33. Right-of-use assets**(1) Recognition condition of right-of-use assets**

The right-of-use assets of the Company are defined as the right of underlying assets in the lease term for the Group as a lessee.

Right-of-use assets are initially measured at cost as at the commencement date of the lease, which consists of: the amount of the initial measurement of the lease liability; any lease payments made at or before the commencement date of the lease less any lease incentives received if any; initial direct expenses incurred by the Company as a lessee; costs to be incurred by the Company as a lessee in dismantling and removing a leased asset, restoring the site on which it is located or restoring the leased assets to the condition required by the terms and conditions of the lease. The Company as a lessee recognises and measures the costs of demolition and restoration according to "Accounting Standards for Business Enterprises No.13 – Contingencies", and subsequently adjusts for any remeasurement of lease liability.

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)***33. Right-of-use assets** *(continued)***(2) Depreciation method of right-of-use assets**

The Company calculates depreciation on a straight-line basis. Right-of-use assets in which the Company as a lessee is reasonably certain to obtain ownership of the underlying leased assets at the end of the lease term are depreciated over the remaining useful life. Otherwise, right-of-use assets are depreciated over the shorter of the lease term and its remaining useful life.

(3) For methods of impairment testing and provision for impairment for right-of-use assets, please refer to note III. 22.**34. Repurchase of shares**

Prior to cancellation or transfer of shares repurchased, the Company recognises all expenditures arising from share repurchase as cost of treasury shares in the treasury share account. Considerations and transaction fee incurred from the repurchase of shares shall lead to the elimination of owners' equity and does not recognise profit or loss when shares of the Company are repurchased, transferred or cancelled.

The difference between the actual amount received and the carrying amount of the treasury stock are recognised as capital reserve when the treasury stocks are transferred, if the capital reserve is not sufficient to be offset, the excess amount shall be recognised to offset surplus reserve and undistributed profit. When the treasury stocks are cancelled, the capital shall be eliminated according to the number of shares and par value of cancellation shares, the difference between the actual amount received and the carrying amount of the treasury stock are recognised as capital reserve, if the capital reserve is not sufficient to be offset, the excess amount shall be recognised to offset surplus reserve and undistributed profit.

35. Restricted Shares

If the Company grants the Restricted Shares to incentive participants under the Share Options Incentive Scheme, the incentive participants subscribe for the shares first. If the unlocking conditions stipulated in the Share Options Incentive Scheme cannot be fulfilled subsequently, the Company repurchase the shares at the predetermined price. If the registration and other capital increase procedures for the Restricted Shares issued to employees are completed in accordance with relevant regulations, the Company recognises share capital and capital reserve (or capital premium) based on the subscription money received from the employees on the grant date; and recognises treasury shares and other payables for repurchase obligation.

36. Significant accounting judgements and estimates

Significant accounting estimates and critical assumptions adopted by the Company are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable. The significant accounting estimates and critical 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 set out below:

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)***36. Significant accounting judgements and estimates** *(continued)***(1) Classification of financial assets**

Significant judgements involved in determining the classification of financial assets include analysis of business mode and characteristics of the contractual cash flows.

Factors considered by the Company in determining the business model of financial assets management for a group of financial assets include past experience on how financial asset's performance is evaluated and reported to key management personnel, how risks affecting the performance of financial asset are assessed and managed and how managers of related businesses are compensated.

When assessing whether the contractual cash flows of financial assets are consistent with basic lending arrangement, the Company adopts the following significant judgements: whether the time distribution or amounts of the principal within the duration may change due to early repayment and other reasons; whether the interest includes only the time value of money, credit risk, other basic lending risks and the consideration for cost and profit. For example, the amounts of early repayment only reflect principal unpaid, the interest based on principal unpaid and reasonable compensation paid for early termination of a contract.

(2) Measurement of ECL for accounts receivables

The Company calculates ECL of accounts receivables according to their exposure at default and ECL rate, and determines ECL rate based on probability of default and loss given default. When determining ECL rate, the Company adopts data like historical credit loss experience in combination with current situation and forward-looking information to adjust historical data. When considering forward-looking information, the Company uses indicators including the risk of economic downturn, external market environment, technology environment and changes on customer situation. The Company periodically monitors and reviews assumptions relevant to the measurement of ECL.

(3) Impairment of goodwill

The Company evaluates whether goodwill is impaired at least once a year. This requires an estimate of the value in use of the asset groups to which the goodwill is allocated. In estimating the value in use, the Company needs to estimate the future cash flows generated from the asset groups and also to choose an appropriate discount rate in order to calculate the present value of the future cash flows.

(4) Development expenditure

Determining the amounts to be capitalised requires the management to make assumptions regarding the expected future cash flows generated from assets, discount rates to be applied and the expected period of benefits.

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)***36. Significant accounting judgements and estimates** *(continued)***(5) Deferred income tax assets**

The deferred income tax assets will be recognised for all unused tax losses to the extent that it is probable that there will be sufficient taxable profits against which the loss is utilised. This requires the management to exert numerous judgments to estimate the timing and amount of the future taxable profits so as to determine the amount of deferred income tax assets to be recognised with reference to the tax planning strategy.

(6) Revenue recognition

As stated in note III. 28, the Company makes the following significant accounting judgements and estimates in terms of revenue recognition: identifying customer contracts; estimating the recoverability of the considerations that are entitled to be obtained by transferring goods to customers; identifying the performance obligation in the contract; estimating the variable consideration in the contract and cumulative revenue recognised where it is highly probable that a significant reversal therein will not occur when the relevant uncertainty is resolved; assessing whether there is a significant financing component in the contract; estimating the individual selling price of the individual performance obligation in the contract; determining whether the performance obligation is performed in a period of time or at a point in time; the determination of the progress of the contract, etc. The Company makes judgments primarily based on historical experiences and works. Changes in these significant judgments and estimates may have significant impacts on the operating income, operating costs, and profit or loss of the current or subsequent periods.

(7) Determination of the fair value of unlisted equity investment

The fair value of unlisted equity investments represents the expected future cash flows discounted at the prevailing discount rate of items with similar terms and risk characteristics. It requires the Company to estimate the expected future cash flows and discount rates, and therefore there is uncertainty. Under limited circumstances, if the information used to determine the fair value is insufficient, or the possible estimated amount of fair value is widely distributed, and cost represents the best estimate of the fair value within such scope, the cost may represent an appropriate estimate of the fair value within such distribution scope.

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

37. Changes in significant accounting policies and accounting estimates and correction to accounting errors

(1) Changes in accounting policies

Changes in accounting policies due to adoption of new Accounting Standards for Business Enterprises

① New lease standard

In 2018, the Ministry of Finance issued the “Accounting Standards for Business Enterprises No. 21 – Leases (Revised)”, which requires companies that are listed both domestically and overseas, and companies that are listed overseas and adopt the International Financial Reporting Standards or the Accounting Standards for Business Enterprises in the preparation of financial reports to implement the above-mentioned standards from 1 January 2019. With the approval from the twenty-fifth meeting of the ninth session of the Board held on 27 March 2019, the Company adopted the new lease standard from 1 January 2019, and made adjustments to its accounting policies accordingly. Please see note III. 32 for the revised accounting policies.

Under the new lease standard, for contracts already existed before the initial application date, the Company elected not to reevaluate whether they are or contain a lease on the date of initial adoption. For lease contracts with the Company as the lessee, uncompleted lease contracts with the Company as the lessee on 1 January 2019, and the leases qualified for short-term lease and lease of low value assets and applied simplified approach, the Company elected to include those leases in the cost of related assets or in profit or loss of the current period on a straight-line basis over the lease term. No right-of-use assets and lease liabilities were recognised.

② New Standards for Debt Restructuring

On 16 May 2019, the Ministry of Finance issued the “Accounting Standards for Business Enterprises No. 12 – Debt Restructuring” (the “New Standards for Debt Restructuring”), which revised the definition of debt restructuring, clarified the applications of the “Accounting Standards for Business Enterprises No. 22 – Recognition and Measurement of Financial Instruments” to financial instruments in debt restructuring and other standards, and clarified that assets other than financial assets transferred to creditors shall be initially measured at cost and that it is no longer to distinguish between profit or loss on disposal of assets and profit or loss on debt restructuring when debtors settle debts with assets.

According to the requirements of the Cai Kuai [2019] No. 6, gains or losses arising from disposal of non-current assets in debt restructuring shall not be included in “non-operating income” and “non-operating expenses” any longer.

A prospective application approach was applied to the debt restructuring occurred from 1 January 2019, and no retrospective adjustments were made to the debt restructuring occurred before 1 January 2019.

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)***37. Changes in significant accounting policies and accounting estimates and correction to accounting errors** *(continued)***(1) Changes in accounting policies** *(continued)*

③ New Standards for Non-monetary Exchange

On 16 May 2019, the Ministry of Finance issued the “Accounting Standards for Business Enterprises No. 7 – Exchange of Non-monetary Assets” (the “New Standards for Non-monetary Exchange”), which clarified the definitions of monetary assets and non-monetary assets and the scope of application of the standard, the timing of recognition of non-monetary assets exchange, and the value measurement basis and accounting method of non-monetary exchange under different conditions, and improved relevant information disclosure requirements. A prospective application approach was applied to the non-monetary asset exchange occurred from 1 January 2019, and no retrospective adjustments were made to the non-monetary asset exchange occurred before 1 January 2019.

Changes in accounting policies due to adoption of the above accounting standards have no material effect on the financial statements of the Company for the Period.

④ Presentation of financial statements

In April 2019, the Ministry of Finance issued the “Notice on Revising and Issuing the Presentation of Financial Statements of General Enterprises for the Year 2019” (Cai Kuai [2019] No.6), upon which the “Notice on Revising and Issuing the Presentation of Financial Statements of General Enterprises for the Year 2018” (Cai Kuai [2018] No.15) issued in June 2018 was abolished. In September 2019, the Ministry of Finance issued the “Notice on Revising and Issuing the Presentation of Combined Financial Statements (2019 Version)” (Cai Kuai [2019] No.16), upon which the “Notice on Revising and Issuing the Presentation of Combined Financial Statements for the Year 2018” (Cai Kuai [2019] No.1) was abolished. According to the Cai Kuai [2019] No.6 and the Cai Kuai [2019] No.16, the Company has made the following revisions to the presentation of financial statements:

In balance sheet, “Bills and accounts receivables” was divided into “Bills receivables” and “Account receivables”; and “Bills and accounts payables” was divided into “Bills payables” and “Account payables”.

Adjustments have been made to comparative figures for the comparable period in accordance with the Cai Kuai [2019] No.6.

The revisions to the presentation of financial statements have no impact on the Company’s total assets, total liabilities, net profit and other comprehensive income.

(2) Changes in significant accounting estimates and correction to accounting errors

None.

(Unless specified otherwise, all amounts are denominated in RMB)

IV. TAXATION**1. The main taxes and tax rates**

Types of tax	Basis of taxation	Statutory tax rate (%)
Value added tax	Taxable income	3, 13, 16 (Note 1)
Urban maintenance and construction tax	Turnover tax to be paid	1, 5, 7
Education surcharges	Turnover tax to be paid	3
Local education surcharges	Turnover tax to be paid	Note 2
Enterprise income tax	Taxable income	Note 3

Note 1. According to the Announcement on Relevant Policies for Deepening Value-Added Tax Reform issued by the Ministry of Finance, the State Administration of Taxation and General Administration of Customs (Announcement of the Ministry of Finance, the State Administration of Taxation and General Administration of Customs [2019] No. 39), for general VAT taxpayer engaged in VAT taxable sales or imports of goods, the original applicable tax rate of 16% is adjusted to 13% from 1 April 2019 onwards.

Note 2. The Company and its subsidiaries that are incorporated in Zhuhai shall pay local education surcharges that are charged as 2% of the turnover tax to be paid. Other subsidiaries shall pay local education surcharges according to the tax rate as specified at their places of incorporation on the basis of turnover tax to be paid.

Note 3. The enterprise income tax rate applicable to the Company and its subsidiaries are set out as follows:

Name of taxpayer	Income tax rate (%)
Livzon Pharmaceutical Biotechnology Co., Limited (麗珠醫藥生物科技有限 公司), Lian (Hong Kong) Co., Ltd. (麗安香港有限公司), Livzon Biologics Hong Kong Limited (麗珠生物科技香港有限公司)	16.5
Companhia de Macau Carason Limitada (澳門嘉安信有限公司), Li Zhu (Macau) Limitada (麗珠(澳門)有限公司)	0-12 (Tax rate is 12% where the taxable income is MOP600,000 or more; for those with taxable income less than MOP600,000, they are exempted from income taxes.)
The Company, Livzon Group Limin Pharmaceutical Manufacturing Factory (麗珠集團利民製藥廠), Livzon Group Livzon Pharmaceutical Factory (麗珠集團麗珠製藥廠), Zhuhai FTZ Livzon Hecheng Pharmaceutical Manufacturing Co., Ltd. (珠海保稅區麗珠合成製藥有限公司), Shanghai Livzon Pharmaceutical Manufacturing Co., Ltd. (上海麗珠製藥有限公司), Livzon Group Xinbeijiang Pharmaceutical Manufacturing Inc. (麗珠集團新 北江製藥股份有限公司), Sichuan Guangda Pharmaceutical Manufacturing Co., Ltd. (四川光大製藥有限公司), Zhuhai Livzon Diagnostics Inc. (珠海麗 珠試劑股份有限公司), Livzon Group Fuzhou Fuxing Pharmaceutical Co., Ltd. (麗珠集團福州福興醫藥有限公司), Shanghai Livzon Biotechnology Co., Ltd. (上海麗珠生物科技股份有限公司), Livzon Group (Ningxia) Pharmaceutical Manufacturing Co., Ltd. (麗珠集團(寧夏)製藥有限公司)	15
Livzon MABPharm (US) Inc. (麗珠單抗生物技術(美國)有限公司)	21
Livzon International Limited、Livzon Biologics Limited、Livzon International Ventures、Livzon International Ventures I、Livzon International Ventures II	0
Other subsidiaries	25

IV. TAXATION *(continued)***2. Tax preference and approvals****(1) Preferential value added tax**

In accordance with the Announcement on Value Added Tax on Biological Products Sold by Pharmaceutical Operation Enterprises (Announcement of State Administration of Taxation 2012 No. 20), the biological products sold by the Company are subject to value added tax at 3% by the simple approach.

(2) Preferential enterprise income tax

The Company and its subsidiaries, Shanghai Livzon Pharmaceutical Manufacturing Co., Ltd. (上海麗珠製藥有限公司), Sichuan Guangda Pharmaceutical Manufacturing Co., Ltd. (四川光大製藥有限公司), Livzon Group Fuzhou Fuxing Pharmaceutical Co., Ltd. (麗珠集團福州福興醫藥有限公司), Livzon Group Limin Pharmaceutical Manufacturing Factory (麗珠集團利民製藥廠), Livzon Group Livzon Pharmaceutical Factory (麗珠集團麗珠製藥廠), Zhuhai FTZ Livzon Hecheng Pharmaceutical Manufacturing Co., Ltd. (珠海保稅區麗珠合成製藥有限公司), are entitled to preferential taxation policies applicable to high and new technology enterprises since 2017 for a valid period of three years; Livzon Group Xinbeijiang Pharmaceutical Manufacturing Inc. (麗珠集團新北江製藥股份有限公司) and Zhuhai Livzon Diagnostics Inc. (珠海麗珠試劑股份有限公司) have reapplied and recognised as the high and new technology enterprises for the Period; Shanghai Livzon Biotechnology Co., Ltd. (上海麗珠生物科技股份有限公司) is entitled to preferential taxation policies applicable to high and new technology enterprises since 2018 for a valid period of three years; Livzon Group (Ningxia) Pharmaceutical Manufacturing Co., Ltd. (麗珠集團(寧夏)製藥有限公司) was approved to enjoy the tax preference of the Encouraged Industries in Western China during the Period. Such companies were subject to an enterprise income tax rate of 15% for the Period.

In accordance with Article 27 of the Enterprise Income Tax Law of the People's Republic of China and Article 86 of the Regulations for the Implementation of the Enterprise Income Tax Law of the People's Republic of China, the business of planting Chinese herbal medicines engaged by the subsidiaries of the Company, Datong Livzon Qiyuan Medicine Co., Ltd. (大同麗珠芪源藥材有限公司), Longxi Livzon Shenyuan Medicine Co., Ltd. (隴西麗珠參源藥材有限公司) and Wenshan Livzon Sanqi Plantation Co., Ltd. (文山麗珠三七種植有限公司) are exempted from enterprise income tax.

(Unless specified otherwise, all amounts are denominated in RMB)

V. NOTES TO THE COMPONENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS

Unless specified otherwise, "Beginning of the Year" refers to 1 January 2019, "End of the Year" refers to 31 December 2019; "Year" refers to the year 2019 and "Last Year" refers to the year 2018 in the following notes (including major notes to the financial statements of the Company):

1. Monetary funds

Item	Balance at the End of the Year			Balance at the Beginning of the Year		
	Amount in foreign currency	Translation rate	Amount in RMB	Amount in foreign currency	Translation rate	Amount in RMB
Cash on hand:	—	—	126,821.79	—	—	134,536.84
RMB	—	—	109,590.98	—	—	117,334.89
Euro	1,579.87	7.8155	12,347.47	1,579.87	7.8473	12,397.71
USD	700.00	6.9762	4,883.34	700.00	6.8632	4,804.24
Bank deposits:	—	—	8,851,796,592.01	—	—	8,562,040,609.92
RMB	—	—	7,903,329,660.13	—	—	7,819,701,378.53
HKD	14,642,464.71	0.89578	13,116,427.05	678,362,414.67	0.87620	594,381,147.73
Euro	102,814.97	7.8155	803,550.41	26,433.60	7.8473	207,432.39
USD	133,419,180.83	6.9762	930,758,889.31	20,803,732.35	6.8632	142,780,175.87
MD	3,494,729.58	0.8703	3,041,463.15	5,831,837.78	0.8523	4,970,475.34
Japanese Yen	11,650,001.00	0.064086	746,601.96	1.00	0.061887	0.06
Of bank deposits: deposit with financial companies	—	—	—	—	—	—
Other monetary funds:	—	—	3,484,988.98	—	—	25,752,125.65
RMB	—	—	1,601,286.68	—	—	13,968,683.03
HKD	1,334,878.88	0.89578	1,195,757.80	1,081,246.23	0.87620	947,387.95
USD	98,613.07	6.9762	687,944.50	1,578,863.31	6.8632	10,836,054.67
Total			8,855,408,402.78			8,587,927,272.41
In which: total overseas deposits			822,034,509.84			605,654,125.40

- ① Other monetary funds are mainly deposits under guarantee such as deposits for investments, letter of guarantee and forward exchange deposits under guarantee.
- ② Frozen funds in bank deposits and restricted funds relating to letter of guarantee and forward exchange deposits under guarantee in other monetary funds were deducted from cash and cash equivalents in cash flow statement. Apart from the restricted funds, there is no other charge, pledge or lock up on the balance of cash at bank and on hand that may limit its use, kept outside China and may have probable risks in its collection. Below are the details of the use of restricted monetary funds:

Item	Balance at the End of the Year	Balance at the Beginning of the Year
Deposits under guarantee	1,222,549.24	24,216,066.46
Total	1,222,549.24	24,216,066.46

(Unless specified otherwise, all amounts are denominated in RMB)

V. NOTES TO THE COMPONENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS*(continued)***2. Financial assets held for trading****(1) Classification**

Item	Balance at the End of the Year	Balance at the Beginning of the Year
Financial assets held for trading	17,191,861.74	15,934,738.20
In which: Debt instrument investments	895,270.68	869,284.66
Equity instrument investments	14,198,906.96	14,540,413.42
Derivative financial assets	2,097,684.10	525,040.12
Total	17,191,861.74	15,934,738.20

① The Company's investments in equity instruments and debt instruments for financial assets held for trading at the End of the Year were listed for trading on Shenzhen Stock Exchange and Hong Kong Stock Exchange. The fair value was determined based on the closing price on the last trading date in the Reporting Period.

② Derivative financial assets represents foreign currency forward contracts, gain from unexpired contracts measured at fair value was recognised as financial assets at balance sheet date.

(2) No restrictive financial asset measured at fair value through profit or loss was realised in the ending balance.

(3) No hedges instruments in the ending balance and no hedges transactions during the Year.

3. Bills receivables

Type of notes	Balance at the End of the Year			Balance at the Beginning of the Year		
	Gross amount	Provision for bad debt	Carrying value	Gross amount	Provision for bad debt	Carrying value
Bank acceptance bills	952,945,194.97	0.00	952,945,194.97	1,029,370,542.77	0.00	1,029,370,542.77
Commercial acceptance bills	50,000.00	50,000.00	0.00	0.00	0.00	0.00
Total	952,995,194.97	50,000.00	952,945,194.97	1,029,370,542.77	0.00	1,029,370,542.77

(1) Pledged bills receivables at the End of the Year

Type	Pledged amount at the End of the Year
Bank acceptance bills	212,142,008.83
Total	212,142,008.83

As of 31 December 2019, bills with carrying amount of RMB212,142,008.83 (31 December 2018: RMB335,767,075.30) were pledged for bank acceptance bills.

(Unless specified otherwise, all amounts are denominated in RMB)

V. NOTES TO THE COMPONENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS*(continued)***3. Bills receivables** *(continued)***(2) Endorsed or discounted bills receivable not yet mature by the date of balance sheet at the End of the Year**

Type	Derecognised amount by the End of the Year	Not derecognized amount by the End of the Year
Bank acceptance bills not yet mature but already endorsed	241,040,490.61	—
Bank acceptance bills not yet mature but already discounted	—	—
Total	241,040,490.61	

For the Year, the Company discounted RMB0.00 bank acceptance bills (RMB0.00 in Last Year) to a bank. As the main risks (such as interest risks) and rewards related to these bank acceptance bills were transferred to the bank, the Company derecognised the undue bank acceptance bills that had been discounted. The discounted fee was RMB0.00 (RMB0.00 in Last Year).

(3) There were no bills transferred into account receivables for non-performance by the issuer by the End of the Year.**(4) Classified according to the method of provision for bad debts**

Category	Balance at the End of the Year					Balance at the Beginning of the Year				
	Gross amount		Provision for bad debt			Gross amount		Provision for bad debt		
	Amount	Percentage (%)	Amount	Expected credit loss rate (%)	Carrying value	Amount	Percentage (%)	Amount	Expected credit loss rate (%)	Carrying value
Provision for bad debts made on an individual basis	50,000.00	0.01	50,000.00	100.00	0.00	0.00	0.00	0.00	0.00	0.00
In which:										
Commercial acceptance bills	50,000.00	0.01	50,000.00	100.00	0.00	0.00	0.00	0.00	0.00	0.00
Provision for bad debts made collectively	952,945,194.97	99.99	0.00	0.00	952,945,194.97	1,029,370,542.77	100.00	0.00	0.00	1,029,370,542.77
In which:										
Bank acceptance bills	952,945,194.97	99.99	0.00	0.00	952,945,194.97	1,029,370,542.77	100.00	0.00	0.00	1,029,370,542.77
Total	952,995,194.97	100.00	50,000.00	0.01	952,945,194.97	1,029,370,542.77	100.00	0.00	0.00	1,029,370,542.77

Provision for bad debts made on an individual basis:

Name	Balance at the End of the Year			
	Gross amount	Provision for bad debt	Expected credit loss rate (%)	Reason for provision made
Chongqing Kerui Pharmaceutical (Group) Co., Ltd.	50,000.00	50,000.00	100.00	Not expected to be recoverable
Total	50,000.00	50,000.00	100.00	

(Unless specified otherwise, all amounts are denominated in RMB)

V. NOTES TO THE COMPONENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS*(continued)***3. Bills receivables** *(continued)***(5) Provisions for bad debts made, recovered or reversed during the Year**

	Amount of provisions for bad debts
Balance at the Beginning of the Year	0.00
Provisions made for the Year	50,000.00
Recoveries or reversals for the Year	0.00
Write-off for the Year	0.00
Balance at the End of the Year	50,000.00

(6) There is no actual write-off of bills receivables for the Year.**4. Accounts receivables****(1) Disclosed using the ageing analysis method**

Ageing	Balance at the End of the Year	Balance at the Beginning of the Year
Within 1 year		
In which: Within 3 months (including 3 months)	1,267,427,287.81	1,150,263,996.77
4-6 months (including 6 months)	158,989,752.29	188,826,372.12
7-12 months (including 12 months)	48,013,022.41	50,207,147.98
Sub-total within 1 year:	1,474,430,062.51	1,389,297,516.87
1-2 years (including 2 years)	26,691,843.97	21,484,041.49
2-3 years (including 3 years)	8,015,499.93	8,514,549.48
Over 3 years	16,240,758.37	14,535,690.59
Sub-total	1,525,378,164.78	1,433,831,798.43
Less: Provision for bad debts	52,939,228.52	52,124,842.48
Total	1,472,438,936.26	1,381,706,955.95

According to the credit policies of the Company, the Company usually grants a credit period ranging from 30 to 90 days to its customers.

(Unless specified otherwise, all amounts are denominated in RMB)

V. NOTES TO THE COMPONENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS

(continued)

4. Accounts receivables (continued)

(2) Classified according to the method of provision for bad debts

Category	Balance at the End of the Year					Balance at the Beginning of the Year				
	Gross amount		Provision for bad debt			Gross amount		Provision for bad debt		
	Amount	Percentage (%)	Amount	Expected credit loss rate (%)	Carrying value	Amount	Percentage (%)	Amount	Expected credit loss rate (%)	Carrying value
Provision for bad debts made on an individual basis	5,324,302.69	0.35	5,324,302.69	100.00	0.00	7,921,331.66	0.55	7,921,331.66	100.00	0.00
In which:										
Due from other customers	5,324,302.69	0.35	5,324,302.69	100.00	0.00	7,921,331.66	0.55	7,921,331.66	100.00	0.00
Provision for bad debts made collectively	1,520,053,862.09	99.65	47,614,925.83	3.13	1,472,438,936.26	1,425,910,466.77	99.45	44,203,510.82	3.10	1,381,706,955.95
In which:										
Due from other customers	1,520,053,862.09	99.65	47,614,925.83	3.13	1,472,438,936.26	1,425,910,466.77	99.45	44,203,510.82	3.10	1,381,706,955.95
Total	1,525,378,164.78	100.00	52,939,228.52	3.47	1,472,438,936.26	1,433,831,798.43	100.00	52,124,842.48	3.64	1,381,706,955.95

Provision for bad debts made on an individual basis:

Description	Balance at the End of the Year			
	Gross amount	Provision for bad debt	Expected credit loss rate (%)	Reason for provision made
Payment for goods	5,324,302.69	5,324,302.69	100.00	Not expected to be recoverable
Total	5,324,302.69	5,324,302.69	100.00	

Provision for bad debts made collectively:

Item: Due from other customers

	Balance at the End of the Year		
	Accounts receivables	Provision for bad debt	Expected credit loss rate (%)
Within 3 months (including 3 months)	1,267,427,287.81	12,950,693.01	1.02
4-6 months (including 6 months)	158,989,752.29	7,907,373.82	4.97
7-12 months (including 12 months)	48,013,022.41	4,789,873.63	9.98
1-2 years (including 2 years)	26,691,843.97	5,375,469.11	20.14
2-3 years (including 3 years)	7,956,450.93	5,616,011.58	70.58
Over 3 years	10,975,504.68	10,975,504.68	100.00
Total	1,520,053,862.09	47,614,925.83	3.13

(Unless specified otherwise, all amounts are denominated in RMB)

V. NOTES TO THE COMPONENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS*(continued)***4. Accounts receivables** *(continued)***(3) Provisions for bad debts made, recovered or revised during the Year**

	Amount of provisions for bad debts
Balance at the Beginning of the Year	52,124,842.48
Provisions made for the Period	5,928,981.14
Recoveries or reversals for the Period	—
Write-off for the Period	5,117,493.34
Others	2,898.24
Balance at the End of the Year	52,939,228.52

As at 31 December 2019 and 31 December 2018, the Company had no accounts receivables that are past due but not impaired.

(4) Actual write-off of receivables for the Year

Item	Amount written-off
Accounts receivables actually written off	5,117,493.34

(5) Account receivables with five largest amount by creditors

The total of account receivables with five largest amount by creditors was RMB143,680,418.15 for the Year, or 9.42% of the total account receivables at the End of the Year, total provision for bad debts at the End of the Year was RMB2,070,960.32.

(6) The Company has no derecognised account receivables out of transfer of financial assets.

(7) The Company has no assets or liabilities formed by its continuous involvement of transferring account receivables.

(Unless specified otherwise, all amounts are denominated in RMB)

V. NOTES TO THE COMPONENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS*(continued)***5. Prepayments****(1) Ageing analysis of prepayments was as follows**

Aging	Balance at the End of the Year		Balance at the Beginning of the Year	
	Amount	Percentage (%)	Amount	Percentage (%)
Within 1 year	182,616,289.28	98.06	166,042,685.50	97.81
1 to 2 years	2,281,912.56	1.23	2,640,114.96	1.55
2 to 3 years	1,195,992.04	0.64	251,378.75	0.15
Over 3 years	137,728.28	0.07	831,122.50	0.49
Total	186,231,922.16	100.00	169,765,301.71	100.00

(2) Prepayments with five largest amount by receiver of prepayments

The total of prepayments with five largest amount by receiver of prepayments was RMB90,214,407.23 for the Year, or 48.44% of the prepayments at the End of the Year.

6. Other receivables

Item	Balance at the End of the Year	Balance at the Beginning of the Year
Dividends receivables	11,475,000.00	0.00
Other receivables	80,373,022.04	49,482,179.59
Total	91,848,022.04	49,482,179.59

(1) Dividends receivables

Item	Balance at the End of the Year	Balance at the Beginning of the Year
Guangdong Blue Treasure Pharmaceutical Co. Ltd. (廣東藍寶製藥有限公司)	11,475,000.00	0.00
Sub-total:	11,475,000.00	0.00
Less: Provision for bad debts	0.00	0.00
Total	11,475,000.00	0.00

(Unless specified otherwise, all amounts are denominated in RMB)

V. NOTES TO THE COMPONENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS

(continued)

6. Other receivables (continued)

(2) Other receivables

① Disclosed using the ageing analysis method

Ageing	Balance at the End of the Year	Balance at the Beginning of the Year
Within 1 year		
In which: Within 3 months (including 3 months)	69,250,476.56	34,573,772.12
4-6 months (including 6 months)	4,726,783.91	6,760,038.18
7-12 months (including 12 months)	4,312,712.31	5,558,650.20
Sub-total within 1 year:	78,289,972.78	46,892,460.50
1-2 years	3,599,339.85	4,646,532.89
2-3 years	1,345,937.54	1,723,958.38
Over 3 years	7,118,503.43	7,917,621.96
Sub-total	90,353,753.60	61,180,573.73
Less: Provision for bad debts	9,980,731.56	11,698,394.14
Total	80,373,022.04	49,482,179.59

② Disclosed by nature

Item	Balance at the End of the Year	Balance at the Beginning of the Year
Deposits under guarantee	764,547.20	904,549.60
Reserve fund	6,983,594.29	11,805,931.93
Related party balances	1,134,056.86	709,142.46
Borrowing due from external entities	5,000,000.00	5,000,000.00
Tax refunds on exports	18,989,200.81	9,590,693.23
Lease expenses and deposits	2,037,670.75	2,404,871.24
Staff advances	26,559,073.37	25,115,272.16
Others	28,885,610.32	5,650,113.11
Total	90,353,753.60	61,180,573.73

(Unless specified otherwise, all amounts are denominated in RMB)

V. NOTES TO THE COMPONENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS*(continued)***6. Other receivables** *(continued)***(2) Other receivables** *(continued)*

③ Provision made for bad debts

As at the end of the Year, the provision for bad debts in step 1 was as follows:

Category	Gross amount	Rate of expected credit losses over the next 12 months (%)	Provision for bad debts	Carrying value	Reasons
Provision for bad debts made individually	11,475,000.00	0.00	0.00	11,475,000.00	Recovered
Dividend receivables	11,475,000.00	0.00	0.00	11,475,000.00	
Provision for bad debts made collectively	0.00	0.00	0.00	0.00	—
Total	11,475,000.00	0.00	0.00	11,475,000.00	

As at the end of the Year, the provision for bad debts in step 2 was as follows:

Category	Gross amount	Rate of expected credit losses over the lifetime (%)	Provision for bad debts	Carrying value	Reasons
Provision for bad debts made individually	0.00	0.00	0.00	0.00	—
Provision for bad debts made collectively	89,380,901.69	10.08	9,007,879.65	80,373,022.04	
Other receivables	89,380,901.69	10.08	9,007,879.65	80,373,022.04	
Total	89,380,901.69	10.08	9,007,879.65	80,373,022.04	

As at the end of the Year, the provision for bad debts in step 3 was as follows:

Category	Gross amount	Rate of expected credit losses over the lifetime (%)	Provision for bad debts	Carrying value	Reasons
Provision for bad debts made individually	972,851.91	100.00	972,851.91	0.00	Unlikely to be recovered
Other receivables	972,851.91	100.00	972,851.91	0.00	
Provision for bad debts made collectively	0.00	0.00	0.00	0.00	—
Total	972,851.91	100.00	972,851.91	0.00	

(Unless specified otherwise, all amounts are denominated in RMB)

V. NOTES TO THE COMPONENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS*(continued)***6. Other receivables** *(continued)***(2) Other receivables** *(continued)*

④ Provision for bad debts made, recovered or reversed during the Year

	Step 1 Expected credit losses over the next 12 months	Step 2 Expected credit losses over the lifetime (without impairment of credit)	Step 3 Expected credit losses over the lifetime (with impairment of credit)	Total
Provision for bad debts				
Balance at the beginning of the year	0.00	10,175,542.23	1,522,851.91	11,698,394.14
Balance at the beginning of the year transferred or reversed during the Period as follows:				
– Transferred to step 2	0.00	0.00	0.00	0.00
– Transferred to step 3	0.00	0.00	0.00	0.00
– Reversed in step 2	0.00	0.00	0.00	0.00
– Reversed in step 1	0.00	0.00	0.00	0.00
Provisions made for the Period	0.00	-1,118,756.66	0.00	-1,118,756.66
Reversals during the Period	0.00	0.00	0.00	0.00
Write-off during the Period	0.00	0.00	0.00	0.00
Settlement during the Period	0.00	68,215.20	550,000.00	618,215.20
Other changes	0.00	19,309.28	0.00	19,309.28
Balance at the End of the Year	0.00	9,007,879.65	972,851.91	9,980,731.56

⑤ The settlement of other receivables during the Year

Item	Settlement
Settlement of other receivables	618,215.20

⑥ Other receivables with five largest amount by creditors at the End of the Year

Name of unit	Nature of receivables	Balance of other receivables at the End of the Year	Ageing	Proportion to total other receivables at the End of the Year (%)	Provision for bad debts at the End of the Year
PICC Property and Casualty Company Limited	Insurance claims	19,828,856.24	Within 3 months	21.95	198,288.56
Tax refunds on exports	Tax refunds on exports	18,989,200.81	Within 3 months	21.02	180,250.01
Guangzhou Galaxy Sunshine Biological Products Co., Ltd. (廣州銀河陽光生物製品有限公司)	Borrowings	5,000,000.00	Over 5 years	5.53	5,000,000.00
Guangdong Blue Treasure Pharmaceutical Co. Ltd (廣東藍寶製藥有限公司)	Energy and power	984,818.54	Within 3 months	1.09	13,590.50
Pioneer Time Investment Limited	Deposit	896,483.40	4-6 months	0.99	44,734.52
Total	—	45,699,358.99	—	50.58	5,436,863.59

(Unless specified otherwise, all amounts are denominated in RMB)

V. NOTES TO THE COMPONENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS*(continued)***6. Other receivables** *(continued)***(2) Other receivables** *(continued)*

- ⑦ The Company has no derecognised other receivables out of transfer of financial assets.
- ⑧ The Company has no assets or liabilities formed by its continuous involvement of transferring other receivables.

7. Inventories**(1) Inventories by types**

Item	Balance at the End of the Year			Balance at the Beginning of the Year		
	Gross amount	Provision for diminution in value	Carrying amount	Gross amount	Provision for diminution in value	Carrying amount
Raw materials	308,065,385.96	4,836,258.42	303,229,127.54	304,726,038.85	5,667,626.41	299,058,412.44
Packaging materials	31,562,625.12	465,535.36	31,097,089.76	26,732,851.73	1,151,354.12	25,581,497.61
Goods in process	201,840,567.02	793,333.83	201,047,233.19	272,149,349.42	26,893,747.99	245,255,601.43
Finished goods	609,311,319.20	32,898,441.11	576,412,878.09	518,510,962.40	22,386,517.99	496,124,444.41
Sub-contracting materials	3,133,458.48	0.00	3,133,458.48	1,048,625.89	0.00	1,048,625.89
Low-value consumables	15,268,908.53	55,772.65	15,213,135.88	9,751,463.11	0.00	9,751,463.11
Goods in transit	0.00	0.00	0.00	6,566,594.25	0.00	6,566,594.25
Consumable biological assets	11,248,048.47	0.00	11,248,048.47	10,029,634.55	0.00	10,029,634.55
Proprietary semi-finished goods	28,696,528.65	1,223,163.03	27,473,365.62	23,590,967.22	0.00	23,590,967.22
Total	1,209,126,841.43	40,272,504.40	1,168,854,337.03	1,173,106,487.42	56,099,246.51	1,117,007,240.91

(2) Provision for diminution in value of inventories

Item	Balance at the Beginning of the Year	Increase during the Year		Decrease during the Year		Balance at the End of the Year
		Provision	Other	Reversed or written off	Other	
Raw materials	5,667,626.41	4,037,864.67	0.00	4,869,232.66	0.00	4,836,258.42
Packaging materials	1,151,354.12	2,651,356.77	0.00	3,337,175.53	0.00	465,535.36
Work in progress	26,893,747.99	793,333.83	0.00	26,893,747.99	0.00	793,333.83
Finished goods	22,386,517.99	41,774,795.01	0.00	31,262,871.89	0.00	32,898,441.11
Low-value consumables	0.00	55,772.65	0.00	0.00	0.00	55,772.65
Proprietary semi-finished goods	0.00	1,223,163.03	0.00	0.00	0.00	1,223,163.03
Total	56,099,246.51	50,536,285.96	0.00	66,363,028.07	0.00	40,272,504.40

(Unless specified otherwise, all amounts are denominated in RMB)

V. NOTES TO THE COMPONENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS*(continued)***7. Inventories** *(continued)***(2) Provision for diminution in value of inventories** *(continued)*

Provision for diminution in value of inventories (continued)

Item	Basis for determination of net realisable value/ remaining consideration and the cost to be incurred	Reason for reversal or write off provision for diminution in value of inventories/impairment provision for contract performance cost during the Year
Raw materials	The estimated selling price less the estimated costs of completion, selling expenses and related taxes	Processing, sale of finished goods and discard
Packaging materials	The estimated selling price less the estimated costs of completion, selling expenses and related taxes	Processing, sale of finished goods and discard
Work in progress	The estimated selling price less the estimated costs of completion, selling expenses and related taxes	Processing and discard
Finished goods	The estimated selling price less the estimated selling expenses and related taxes	Sale and discard
Low-value consumables	The estimated selling price less the related taxes	—
Proprietary semi-finished goods	The estimated selling price less the estimated costs of completion, selling expenses and related taxes	—

- (3) In the balance at the end of the Year of the inventories of the Company, no borrowing costs had been capitalised.

8. Non-current assets due within one year

Item	Balance at the End of the Year	Balance at the Beginning of the Year
Long-term receivables due within one year	17,497,288.62	10,869,100.00
Total	17,497,288.62	10,869,100.00

(Unless specified otherwise, all amounts are denominated in RMB)

V. NOTES TO THE COMPONENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS*(continued)***9. Other current assets**

Item	Balance at the End of the Year	Balance at the Beginning of the Year
Input VAT pending deduction/attestation	3,752,087.13	3,283,862.23
Remaining VAT credit	11,021,418.29	10,151,915.53
Advance payment of income tax	2,522,423.64	0.00
Cash management	93,481,080.00	90,095,643.32
Profit or loss from assets to be processed	9,433.96	6,133,501.82
Total	110,786,443.02	109,664,922.90

10. Long-term receivables**(1) Long-term receivables by nature**

Item	Balance at the End of the Year			Balance at the Beginning of the Year			Range of discount rate
	Gross amount	Provision for bad debts	Carrying value	Gross amount	Provision for bad debts	Carrying value	
Receivables from equity transferred by installments	28,325,432.25	0.00	28,325,432.25	31,168,609.76	0.00	31,168,609.76	5%
Sub-total	28,325,432.25	0.00	28,325,432.25	31,168,609.76	0.00	31,168,609.76	
Less: Long-term receivables due within one year	17,497,288.62	0.00	17,497,288.62	10,869,100.00	0.00	10,869,100.00	
Total	10,828,143.63	0.00	10,828,143.63	20,299,509.76	0.00	20,299,509.76	

- (2) The Company's long-term receivables have not been overdue.
- (3) The Company has no derecognised long-term receivables out of transfer of financial assets.
- (4) The Company has no assets or liabilities formed by its continuous involvement of transferring long-term receivables.

(Unless specified otherwise, all amounts are denominated in RMB)

V. NOTES TO THE COMPONENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS

(continued)

11. Long-term equity investments

Investee	Change during the Year									Balance at the End of the Year	Balance of provision for impairment at the End of the Year
	Balance at the Beginning of the Year	Acquired/ additional investment	Investment disposed of	Investment profit and loss under the equity method	Adjustment in other comprehensive income	Other equity changes	Cash dividend or profit distribution declared	Provision for impairment	Others		
① Joint ventures	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Sub-total	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
② Associates											
Livzon Medical Electronic Equipment (Plant) Co., Ltd. (麗珠集團麗珠醫用電子設備有限公司)	1,200,000.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	1,200,000.00	1,200,000.00
Guangdong Blue Treasure Pharmaceutical Co. Ltd. (廣東藍寶製藥有限公司)	56,020,062.41	0.00	0.00	9,992,445.38	0.00	0.00	11,475,000.00	0.00	0.00	54,537,507.79	0.00
Jiangsu Nike Medical Equipment Co., Ltd. (江蘇尼科醫療器械有限公司)	30,038,251.43	0.00	0.00	3,200,534.92	0.00	0.00	0.00	0.00	0.00	33,238,786.35	0.00
Shenzhen City Youbao Technology Co., Ltd. (深圳市有寶科技有限公司)	1,040,814.43	0.00	0.00	-453.36	0.00	0.00	0.00	0.00	0.00	1,040,361.07	0.00
AbCite Therapeutics Inc.	19,353,885.24	0.00	0.00	-3,384,485.16	0.00	279,048.00	0.00	0.00	0.00	16,248,448.08	0.00
L&L Biopharma, Co. Ltd. (上海健信生物醫藥科技有限公司)	14,700,895.35	0.00	0.00	-692,237.01	0.00	1,441,526.73	0.00	0.00	0.00	15,450,185.07	0.00
DOSERNA INC	6,000,992.75	0.00	0.00	-84,406.68	0.00	0.00	0.00	0.00	0.00	5,916,586.07	0.00
Zhuhai Sanmed Biotech Inc.* (珠海聖美生物診斷技術有限公司)	40,223,225.99	0.00	0.00	-18,035,533.15	155,384.33	3,678,004.77	0.00	0.00	0.00	26,021,081.94	0.00
Aetio Biotherapy Inc	20,727,981.98	0.00	0.00	-1,681,949.79	0.00	0.00	0.00	0.00	0.00	19,046,032.19	0.00
Sub-total	189,306,109.58	0.00	0.00	-10,686,084.85	155,384.33	5,398,579.50	11,475,000.00	0.00	0.00	172,698,988.56	1,200,000.00
Total	189,306,109.58	0.00	0.00	-10,686,084.85	155,384.33	5,398,579.50	11,475,000.00	0.00	0.00	172,698,988.56	1,200,000.00

(Unless specified otherwise, all amounts are denominated in RMB)

V. NOTES TO THE COMPONENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS*(continued)***12. Other equity instrument investments**

Item	Balance at the End of the Year	Balance at the Beginning of the Year
LUNGLIFE AI, INC. (previously known as CYNVENIO BIOSYSTEMS, INC), which shall apply hereinafter	3,209,525.99	3,158,700.39
Guangdong Development Bank Co., Ltd. (廣發銀行股份有限公司)	177,348.84	177,348.84
Zhuhai China Resources Bank Co., Ltd. (珠海華潤銀行股份有限公司)	112,172,260.00	75,325,760.00
Shanghai Haixin Pharmaceutical Co., Ltd (上海海欣醫藥股份有限公司)	500,000.00	500,000.00
SEEKERS FUND	0.00	103,432,480.34
GLOBAL HEALTH SCIENCE	219,218,806.41	205,702,713.12
Xiangrong Biotech (Shanghai) Co., Limited (享融(上海)生物科技有限公司)	5,000,000.00	5,000,000.00
SCC VENTURE VI 2018-B,L.P.	14,652,183.88	14,410,116.63
SCC VENTURE VII 2018-C,L.P.	35,583,875.14	0.00
Nextech V Oncology S.C.S., SICAV-SIF	23,057,656.50	0.00
Yizun Biopharmaceutics (Shanghai) Co., Ltd. (羿尊生物醫藥(上海)有限公司)	30,000,000.00	0.00
Zhuhai Maidefa Biotech Co., Ltd. (珠海麥得發生物科技股份有限公司)	1,000,000.00	0.00
Zhuhai Lifanda Biotechnology Co., Ltd.* (珠海麗凡達生物技術有限公司)	280,000.00	0.00
ELICIO THERAPEUTICS, INC.	34,886,152.10	0.00
Total	479,737,808.86	407,707,119.32

As the aforesaid project is a long-term investment that the Company plans to hold for strategic purposes, the Company designates it as a financial asset measured at fair value through other comprehensive income.

(Unless specified otherwise, all amounts are denominated in RMB)

V. NOTES TO THE COMPONENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS*(continued)***12. Other equity instrument investments** *(continued)*

Continued:

Items	Dividend income recognised for the Year	Cumulative gain	Cumulative loss	Amount transferred from other comprehensive income to retained income	Reason for transfer
LUNGLIFE AI, INC.	0.00	0.00	0.00	0.00	—
Guangdong Development Bank Co., Ltd. (廣發銀行股份有限公司)	2,272.18	0.00	0.00	0.00	—
Zhuhai China Resources Bank Co., Ltd. (珠海華潤銀行股份有限公司)	0.00	0.00	0.00	0.00	—
Shanghai Haixin Pharmaceutical Co., Ltd (上海海欣醫藥股份有限公司)	50,000.00	0.00	0.00	0.00	—
SEEKERS FUND	0.00	2,296,602.00	0.00	2,296,602.00	Disposal
GLOBAL HEALTH SCIENCE	0.00	0.00	0.00	0.00	—
Xiangrong Biotech (Shanghai) Co., Limited (享融(上海)生物科技有限公司)	0.00	0.00	0.00	0.00	—
SCC VENTURE VI 2018-B,L.P.	0.00	0.00	0.00	0.00	—
SCC VENTURE VII 2018-C,L.P.	0.00	0.00	0.00	0.00	—
Nextech V Oncology S.C.S., SICAV-SIF	1,838,534.86	0.00	0.00	0.00	—
Yizun Biopharmaceutics (Shanghai) Co., Ltd. (羿尊生物醫藥(上海)有限公司)	0.00	0.00	0.00	0.00	—
Zhuhai Maidefa Biotech Co., Ltd. (珠海麥得發生物科技股份有限公司)	0.00	0.00	0.00	0.00	—
Zhuhai Lifanda Biotechnology Co., Ltd.* (珠海麗凡達生物技術有限公司)	0.00	0.00	0.00	0.00	—
ELICIO THERAPEUTICS, INC.	0.00	0.00	0.00	0.00	—

13. Fixed assets

Item	Balance at the End of the Year	Balance at the Beginning of the Year
Fixed assets	3,160,096,367.19	3,192,208,026.03
Disposal of fixed assets	0.00	25,368,047.97
Total	3,160,096,367.19	3,217,576,074.00

(Unless specified otherwise, all amounts are denominated in RMB)

V. NOTES TO THE COMPONENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS*(continued)***13. Fixed assets** *(continued)***(1) Fixed assets**

① Status of fixed assets

Item	Plant and building	Machinery and equipment	Motor vehicles	Electronic devices and others	Total
I. Original book value					
1. Balance at the Beginning of the Year	2,805,794,515.43	2,336,023,774.35	76,790,286.98	327,788,144.88	5,546,396,721.64
2. Additions for the Year	115,151,228.80	182,545,269.43	6,377,385.35	44,441,899.07	348,515,782.65
(1) Acquisition	39,101,821.26	73,695,102.76	5,144,043.77	40,037,160.19	157,978,127.98
(2) Construction in progress transferred	76,049,407.54	101,125,002.52	929,077.19	4,404,738.88	182,508,226.13
(3) Others	0.00	7,725,164.15	304,264.39	0.00	8,029,428.54
3. Decrease for the Year	26,602,586.00	66,500,210.77	7,386,316.72	10,837,749.69	111,326,863.18
(1) Disposal or written-off	26,602,586.00	66,500,210.77	7,386,316.72	10,837,749.69	111,326,863.18
4. Balance at the End of the Year	2,894,343,158.23	2,452,068,833.01	75,781,355.61	361,392,294.26	5,783,585,641.11
II. Accumulated depreciation					
1. Balance at the Beginning of the Year	815,283,939.09	1,191,479,452.35	49,024,356.01	210,377,778.63	2,266,165,526.08
2. Additions for the Year	137,222,416.14	167,888,114.73	8,367,628.19	41,052,375.71	354,530,534.77
(1) Provision	137,222,416.14	167,888,114.73	8,085,731.39	41,052,375.71	354,248,637.97
(2) Other additions	0.00	0.00	281,896.80	0.00	281,896.80
3. Decrease for the Year	10,652,961.05	34,508,169.93	6,599,808.79	9,500,445.57	61,261,385.34
(1) Disposal or written-off	10,652,961.05	34,508,169.93	6,599,808.79	9,500,445.57	61,261,385.34
4. Balance at the End of the Year	941,853,394.18	1,324,859,397.15	50,792,175.41	241,929,708.77	2,559,434,675.51
III. Impairment provision					
1. Balance at the Beginning of the Year	30,960,940.58	55,324,486.33	72,835.46	1,664,907.16	88,023,169.53
2. Additions for the Year	0.00	2,415,234.16	0.00	103,206.68	2,518,440.84
(1) Provision	0.00	2,415,234.16	0.00	103,206.68	2,518,440.84
3. Decrease for the Year	184,198.33	25,983,269.00	0.00	319,544.63	26,487,011.96
(1) Disposal or written-off	184,198.33	25,983,269.00	0.00	319,544.63	26,487,011.96
4. Balance at the End of the Year	30,776,742.25	31,756,451.49	72,835.46	1,448,569.21	64,054,598.41
IV. Carrying amounts					
1. Carrying amount at the End of the Year	1,921,713,021.80	1,095,452,984.37	24,916,344.74	118,014,016.28	3,160,096,367.19
2. Carrying amount at the Beginning of the Year	1,959,549,635.76	1,089,219,835.67	27,693,095.51	115,745,459.09	3,192,208,026.03

During the Year, the amount of depreciation was RMB354,248,637.97 (RMB341,586,859.13 in the Last Year).

(Unless specified otherwise, all amounts are denominated in RMB)

V. NOTES TO THE COMPONENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS*(continued)***13. Fixed assets** *(continued)***(1) Fixed assets** *(continued)*

② Temporarily idled fixed assets

Item	Original book value	Accumulated depreciation	Provision for impairment	Carrying amount	Note
Plant and building	22,023,017.75	10,246,429.89	0.00	11,776,587.86	
Machinery and equipment	27,557,217.26	20,087,435.31	3,353,641.87	4,116,140.08	
Electronic devices and others	1,445,858.56	1,364,340.66	0.00	81,517.90	
Total	51,026,093.57	31,698,205.86	3,353,641.87	15,974,245.84	

③ The Company has no fixed assets leased in under finance leases.

④ Fixed assets leased out under operating leases

Item	Carrying amount
Plant and building	1,223,318.67
Machinery and equipment	7,060,292.54
Electronic devices and others	15,125,850.11
Total	23,409,461.32

⑤ Fixed assets with pending certificates for ownership

Item	Carrying amount	Reason for pending certificates for ownership
Plant and building	413,987,025.80	Being in progress

(2) Disposal of fixed assets

Item	Balance at the End of the Year	Balance at the Beginning of the Year	Reason for transferring to disposal
Machinery and equipment	0.00	25,368,047.97	Fire damage
Total	0.00	25,368,047.97	

(Unless specified otherwise, all amounts are denominated in RMB)

V. NOTES TO THE COMPONENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS

(continued)

14. Construction in progress

Item	Balance at the End of the Year	Balance at the Beginning of the Year
Construction in progress	233,489,857.85	184,518,928.04
Construction supplies	0.00	0.00
Total	233,489,857.85	184,518,928.04

(1) Construction in progress

① Breakdown of construction in progress

Item	Balance at the End of the Year			Balance at the Beginning of the Year		
	Gross amount	Provision for impairment	Net carrying amount	Gross amount	Provision for impairment	Net carrying amount
Guangda New Factory Project (光大新廠項目)	10,066,340.20	0.00	10,066,340.20	5,828,320.98	0.00	5,828,320.98
Improvement Project of Workshop of Hecheng Co. (合成公司車間改造項目)	1,993,880.22	0.00	1,993,880.22	6,017,286.99	0.00	6,017,286.99
Fuxing Company second phase project	25,649,773.33	0.00	25,649,773.33	41,336,128.21	0.00	41,336,128.21
Project of Shijiao New Factory (石角新廠項目)	13,679,116.59	0.00	13,679,116.59	6,237,329.19	0.00	6,237,329.19
Transformation Project of Pharmaceutical Factory Workshop (藥廠車間改造項目)	44,568,865.34	0.00	44,568,865.34	81,710,969.79	0.00	81,710,969.79
Construction Project for Microsphere Workshop of Livzon Group Livzon Pharmaceutical Factory (麗珠集團麗珠製藥廠微球車 間建設項目)	80,123,187.68	0.00	80,123,187.68	13,307,330.35	0.00	13,307,330.35
Others	57,578,034.95	169,340.46	57,408,694.49	30,081,562.53	0.00	30,081,562.53
Total	233,659,198.31	169,340.46	233,489,857.85	184,518,928.04	0.00	184,518,928.04

(Unless specified otherwise, all amounts are denominated in RMB)

V. NOTES TO THE COMPONENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS*(continued)***14. Construction in progress** *(continued)***(1) Construction in progress** *(continued)*

② Changes of significant construction in progress

Name of project	Balance at the Beginning of the Year	Additions for the Year	Transferred to fixed asset	Other deduction	Accumulated amount of the interest capitalised	In which: Interest capitalised for the Year	Interest capitalized rate for the Year (%)	Balance at the End of the Year
Guangda New Factory Project (光大新廠項目)	5,828,320.98	4,238,019.22	0.00	0.00	0.00	0.00	0.00	10,066,340.20
Improvement Project of Workshop of Hecheng Co. (合成公司車間改造項目)	6,017,286.99	6,697,362.15	5,436,000.45	5,284,768.47	0.00	0.00	0.00	1,993,880.22
Fuxing Company second phase project	41,336,128.21	51,549,675.54	67,236,030.42	0.00	0.00	0.00	0.00	25,649,773.33
Project of Shijiao New Factory (石角新廠項目)	6,237,329.19	7,441,787.40	0.00	0.00	0.00	0.00	0.00	13,679,116.59
Transformation Project of Pharmaceutical Factory Workshop (藥廠車間改造項目)	81,710,969.79	33,560,488.13	70,702,592.58	0.00	0.00	0.00	0.00	44,568,865.34
Construction Project for Microsphere Workshop of Livzon Group Livzon Pharmaceutical Factory (麗珠集團麗珠製藥廠微球車間建設項目)	13,307,330.35	66,815,857.33	0.00	0.00	0.00	0.00	0.00	80,123,187.68
Others	30,081,562.53	73,742,113.16	39,133,602.68	7,112,038.06	0.00	0.00	0.00	57,578,034.95
Total	184,518,928.04	244,045,302.93	182,508,226.13	12,396,806.53	0.00	0.00	0.00	233,659,198.31

(Unless specified otherwise, all amounts are denominated in RMB)

V. NOTES TO THE COMPONENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS*(continued)***14. Construction in progress** *(continued)***(1) Construction in progress** *(continued)*② Changes of significant construction in progress *(continued)*

Name of project	Budgeted amount	Percentage of accumulated cost incurred over budgeted amount (%)	Construction progress	Sources of funds
Guangda New Factory Project (光大新廠項目)	646,000,000.00	1.56	Designing process	Self-funding
Improvement Project of Workshop of Hecheng Co. (合成公司車間改造項目)	4,919,300.00	40.53	Completion of some projects	Self-funding
Fuxing Company second phase project (福興公司二期項目)	258,256,114.30	9.93	Completion of some projects	Self-funding
Project of Shijiao New Factory (石角新廠項目)	143,289,400.00	9.55	Under construction	Self-funding
Transformation Project of Pharmaceutical Factory Workshop (藥廠車間改造項目)	162,848,000.00	27.37	Completion of some projects	Self-funding
Construction Project for Microsphere Workshop of Livzon Group Livzon Pharmaceutical Factory (麗珠集團麗珠製藥廠微球車間建設項目)	198,445,000.00	40.38	Under construction	Self-funding and funds raised
Others	—	—	—	Self-funding
Total	1,413,757,814.30	—	—	—

Other deduction mainly refers to transfer of long-term deferred expenses.

③ Provision for impairment of construction in progress

Item	Provision for the Year	Reason for provision
Others	169,340.46	Project termination
Total	169,340.46	

(Unless specified otherwise, all amounts are denominated in RMB)

V. NOTES TO THE COMPONENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS*(continued)***15. Intangible assets****(1) Status of intangible assets**

Item	Land use rights	Patent and Technical know-how	Software	Trademark rights	Others	Total
I. Original book value						
1. Balance at the Beginning of the Year	263,527,174.75	211,838,852.50	36,590,943.71	24,000.00	10,985,294.53	522,966,265.49
2. Additions for the Year	4,312,443.51	0.00	11,499,184.25	0.00	0.00	15,811,627.76
(1) Acquisition	4,312,443.51	0.00	11,499,184.25	0.00	0.00	15,811,627.76
(2) Internal R&D	0.00	0.00	0.00	0.00	0.00	0.00
3. Decrease for the Year	0.00	0.00	1,037,450.86	0.00	0.00	1,037,450.86
(1) Disposal	0.00	0.00	1,037,450.86	0.00	0.00	1,037,450.86
4. Balance at the End of the Year	267,839,618.26	211,838,852.50	47,052,677.10	24,000.00	10,985,294.53	537,740,442.39
II. Accumulated amortisation						
1. Balance at the Beginning of the Year	71,977,352.59	161,393,460.67	31,898,529.68	24,000.00	2,288,603.02	267,581,945.96
2. Additions for the Year	5,334,841.95	20,034,596.46	3,896,912.95	0.00	1,098,529.45	30,364,880.81
(1) Provision	5,334,841.95	20,034,596.46	3,896,912.95	0.00	1,098,529.45	30,364,880.81
3. Decrease for the Year	0.00	0.00	956,991.08	0.00	0.00	956,991.08
(1) Disposal	0.00	0.00	956,991.08	0.00	0.00	956,991.08
4. Balance at the End of the Year	77,312,194.54	181,428,057.13	34,838,451.55	24,000.00	3,387,132.47	296,989,835.69
III. Provision for impairment						
1. Balance at the Beginning of the Year	981,826.94	10,209,166.79	0.00	0.00	0.00	11,190,993.73
2. Additions for the Year	0.00	0.00	0.00	0.00	0.00	0.00
(1) Provision	0.00	0.00	0.00	0.00	0.00	0.00
3. Decrease for the Year	0.00	0.03	0.00	0.00	0.00	0.03
(1) Others	0.00	0.03	0.00	0.00	0.00	0.03
4. Balance at the End of the Year	981,826.94	10,209,166.76	0.00	0.00	0.00	11,190,993.70
IV. Carrying amounts						
1. Carrying amount at the End of the Year	189,545,596.78	20,201,628.61	12,214,225.55	0.00	7,598,162.06	229,559,613.00
2. Carrying amount at the Beginning of the Year	190,567,995.22	40,236,225.04	4,692,414.03	0.00	8,696,691.51	244,193,325.80

Amortisation for the Year is RMB30,364,880.81 (RMB22,513,252.64 in the Last Year).

The proportion of intangible assets created due to the Company's internal R&D in the balance of intangible assets at the End of the Year is 6.63%.

(Unless specified otherwise, all amounts are denominated in RMB)

V. NOTES TO THE COMPONENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS*(continued)***15. Intangible assets** *(continued)***(2) Intangible assets with pending certificates for ownership**

Item	Carrying amount	Reason for pending certificates for ownership
Land use rights 1	22,086,388.82	Certificate for ownership obtained in January 2020
Land use rights 2	4,442,060.22	Being in progress

(3) Notes to intangible assets

The land use rights represent the state-owned land use rights obtained by the Company in accordance with PRC laws in China, and there will be 50 years of grant term commencing from the date of obtaining the land use rights.

16. Development expenditure

Item	Balance at the Beginning of the Year	Increase for the Year Internal development expenditure	Other increase	Decrease for the Year Recognised as intangible assets	Recognised in profit or loss for the current period	Balance at the End of the Year
Biologics	71,637,764.28	68,893,186.90	0.00	0.00	12,448,520.91	128,082,430.27
Chemical drug preparation	9,508,822.29	18,258,186.38	0.00	0.00	7,345,418.45	20,421,590.22
Total	81,146,586.57	87,151,373.28	0.00	0.00	19,793,939.36	148,504,020.49

continued:

Item	Time for commencement of capitalisation	Specific basis of capitalisation	Progress of research and development as at the End of the Period
Chemical drug preparation	Clinical trial	Clinical approval	Clinical stage
Biologics	Clinical trial	Clinical approval	Clinical stage

(Unless specified otherwise, all amounts are denominated in RMB)

V. NOTES TO THE COMPONENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS

(continued)

17. Goodwill

(1) Original book value of goodwill

Name of investee or the matter of goodwill arisen	Balance at the Beginning of the Year	Increase for the Year		Decrease for the Year		Balance at the End of the Year
		Business combination involving enterprises	Others	Disposal	Others	
Livzon Group Livzon Pharmaceutical Factory (麗珠集團麗珠製藥廠)	47,912,269.66	0.00	0.00	0.00	0.00	47,912,269.66
Sichuan Guangda Pharmaceutical Manufacturing Co., Ltd. (四川光大製藥有限公司)	13,863,330.24	0.00	0.00	0.00	0.00	13,863,330.24
Livzon Group Fuzhou Fuxing Pharmaceutical Co., Ltd. (麗珠集團福州福興醫藥有限公司)	46,926,155.25	0.00	0.00	0.00	0.00	46,926,155.25
Livzon Group Xinbeijiang Pharmaceutical Manufacturing Inc. (麗珠集團新北江製藥股份有限公司)	7,271,307.03	0.00	0.00	0.00	0.00	7,271,307.03
Shanghai Livzon Pharmaceutical Manufacturing Co., Ltd. (上海麗珠製藥有限公司)	2,045,990.12	0.00	0.00	0.00	0.00	2,045,990.12
Zhuhai FTZ Livzon Hecheng Pharmaceutical Manufacturing Co., Ltd. (珠海保稅區麗珠合成製藥有限公司)	3,492,752.58	0.00	0.00	0.00	0.00	3,492,752.58
Total	121,511,804.88	0.00	0.00	0.00	0.00	121,511,804.88

(2) Provision for impairment of goodwill

Name of investee or the matter of goodwill arisen	Balance at the Beginning of the Year	Increase for the Year		Decrease for the Year		Balance at the End of the Year
		Provision	Others	Disposal	Others	
Livzon Group Fuzhou Fuxing Pharmaceutical Co., Ltd. (麗珠集團福州福興醫藥有限公司)	11,200,000.00	0.00	0.00	0.00	0.00	11,200,000.00
Livzon Group Xinbeijiang Pharmaceutical Manufacturing Inc. (麗珠集團新北江製藥股份有限公司)	7,271,307.03	0.00	0.00	0.00	0.00	7,271,307.03
Total	18,471,307.03	0.00	0.00	0.00	0.00	18,471,307.03

(Unless specified otherwise, all amounts are denominated in RMB)

V. NOTES TO THE COMPONENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS*(continued)***17. Goodwill** *(continued)***(2) Provision for impairment of goodwill** *(continued)*

- ① Information about the asset group or set of asset groups that include main goodwill

Unit: RMB'0000

Asset group or set of asset groups	Carrying value of goodwill allocated to this asset group or set of asset groups	Carrying value of asset group or set of asset groups	Carrying value of asset group or set of asset groups that include goodwill
Livzon Group Livzon Pharmaceutical Factory (麗珠集團麗珠製藥廠)	4,791.23	8,279.32	13,070.55
Sichuan Guangda Pharmaceutical Manufacturing Co., Ltd. (四川光大製藥有限公司)	1,386.33	14,301.60	15,687.93
Livzon Group Fuzhou Fuxing Pharmaceutical Co., Ltd. (麗珠集團福州福興醫藥有限公司)	3,572.62	45,211.22	48,783.84

Goodwill of the Company arose from its business combination involving enterprises not under common control in previous years.

- ② Impairment test and provision for impairment on goodwill

On the balance sheet date, the Company conducted impairment test on goodwill and adopted the asset groups related to goodwill to estimate the present value of the future cash flow when estimating the recoverable amount of the investment cost.

The estimated future cash flow of asset groups is calculated according to the five-year financial plan made by the management, the cash flows in the years beyond the years in the five-year plan are deemed stable.

Key assumptions of discounted future cash flow for goodwill impairment test are as follows:

For the calculation of estimated present value of future cash flow of the asset groups related to goodwill of Livzon Group Livzon Pharmaceutical Factory (麗珠集團麗珠製藥廠), key assumptions are a gross margin of 71.28%-72.81% and a business revenue growth rate of 0~12.45% as well as the discount rate of cash flow of 14.72%. The management took into account historical conditions and predictions for future market development in making above assumptions.

For the calculation of estimated present value of future cash flow of the asset groups related to goodwill of Sichuan Guangda Pharmaceutical Manufacturing Co., Ltd. (四川光大製藥有限公司), key assumptions are a gross margin of 62.03%-67.80% and a business revenue growth rate of 0~31.45% as well as the discount rate of cash flow of 15.15%. The management took into account historical conditions and predictions for future market development in making above assumptions.

For the calculation of estimated present value of future cash flow of the asset groups related to goodwill of Livzon Group Fuzhou Fuxing Pharmaceutical Co., Ltd. (麗珠集團福州福興醫藥有限公司), key assumptions are a gross margin of 49.43%-53.40% and a business revenue growth rate of -0.51%~27.20% as well as the discount rate of cash flow of 15.04%. The management took into account historical conditions and predictions for future market development in making above assumptions.

As tested, the management of the Company expects that no impairment provision is needed during the Reporting Period.

(Unless specified otherwise, all amounts are denominated in RMB)

V. NOTES TO THE COMPONENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS*(continued)***18. Long-term deferred expenses**

Item	Balance at the Beginning of the Year	Increase for the Year	Decrease for the Year		Balance at the End of the Year
			Amortisation for the Year	Other decrease	
Overhaul costs of fixed assets	7,045,445.90	1,833,087.17	3,328,817.89	0.00	5,549,715.18
Renovation costs of offices	20,057,842.04	2,348,500.05	4,080,694.98	0.00	18,325,647.11
Renovation costs of plants	76,692,652.44	11,256,164.79	14,627,625.68	0.00	73,321,191.55
Resins and fillers	7,548,842.79	12,690,921.80	8,269,621.69	0.00	11,970,142.90
Others	2,001,739.66	747,271.30	574,994.21	0.00	2,174,016.75
Total	113,346,522.83	28,875,945.11	30,881,754.45	0.00	111,340,713.49

19. Deferred income tax assets and deferred income tax liabilities**(1) Deferred income tax assets and deferred income tax liabilities without offsetting**

Item	Balance at the End of the Year		Balance at the Beginning of the Year	
	Deductible/ taxable temporary difference	Deferred income tax assets/ liabilities	Deductible/ taxable temporary difference	Deferred income tax assets/ liabilities
Deferred income tax assets:				
Provision for impairment of assets	214,519,462.30	32,694,034.01	209,076,521.54	31,783,300.72
Accrued expenses	318,335,983.06	49,340,282.63	170,124,443.74	26,586,375.47
Deductible loss	55,912,256.31	8,683,035.79	31,916,422.66	4,787,463.40
Deferred income	235,440,184.36	35,316,027.66	243,750,004.01	36,562,500.61
Gains from unrealized intracompany transactions	359,954,727.97	53,993,209.20	264,002,103.60	39,600,315.54
Share incentive cost	17,535,316.39	2,630,814.70	2,810,710.50	421,608.06
Changes in fair value	13,916.00	2,087.40	85,294.16	12,794.12
Other deductible temporary difference	0.00	0.00	12,255,335.49	1,841,906.57
Sub-total	1,201,711,846.39	182,659,491.39	934,020,835.70	141,596,264.49
Deferred income tax liabilities:				
Valuation of financial instruments held for trading and derivative financial instruments	10,261,839.54	1,577,935.72	8,472,426.34	1,294,246.16
Changes in fair value of other equity instruments reclassified into other comprehensive income	65,981,056.41	10,334,176.80	17,838,911.04	3,148,872.47
Long-term equity investments under equity method	31,618,026.12	4,742,703.92	27,434,905.93	4,115,235.89
Accelerated depreciation of fixed assets	436,636,136.75	65,689,141.76	248,352,965.60	37,380,375.64
Gains from unrealized intracompany transactions	56,940,000.00	8,541,000.00	56,940,000.00	8,541,000.00
Sub-total	601,437,058.82	90,884,958.20	359,039,208.91	54,479,730.16

(Unless specified otherwise, all amounts are denominated in RMB)

V. NOTES TO THE COMPONENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS

(continued)

19. Deferred income tax assets and deferred income tax liabilities (continued)

(2) Breakdown of deductible temporary difference and deductible loss of deferred income tax assets not recognised

Item	Balance at the End of the Year	Balance at the Beginning of the Year
Deductible temporary difference	307,751,097.06	230,740,223.37
Deductible loss	924,622,580.83	609,869,854.04
Total	1,232,373,677.89	840,610,077.41

(3) Deductible loss of deferred income tax assets not recognised will be due in the following years

Year	Balance at the End of the Year	Balance at the Beginning of the Year
2019	–	58,730,829.81
2020	47,491,873.28	83,358,127.84
2021	97,337,885.51	97,337,885.51
2022	138,177,103.20	141,810,116.50
2023	210,580,038.62	211,237,901.76
2024	392,706,421.60	0.00
2027	635,203.47	635,203.47
2028	8,935,708.33	8,935,708.33
2029	15,136,971.03	0.00
2032	1,245,859.22	1,245,859.22
2033	6,578,221.60	6,578,221.60
2034	2,841,372.33	0.00
Indefinite	2,955,922.64	0.00
Total	924,622,580.83	609,869,854.04

20. Other non-current assets

Item	Balance at the End of the Year	Balance at the Beginning of the Year
Remaining VAT credit	27,809,784.46	19,033,258.68
Prepayment for acquisition of project and equipment	136,915,395.63	138,761,846.47
Prepayment for acquisition of technical know-how	107,780,026.19	106,292,562.55
Total	272,505,206.28	264,087,667.70

(Unless specified otherwise, all amounts are denominated in RMB)

V. NOTES TO THE COMPONENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS*(continued)***21. Short-term loans****(1) Classification of short-term loans**

Item	Balance at the End of the Year	Balance at the Beginning of the Year
Loans on credit	1,151,369,666.66	1,500,000,000.00
Loans on guarantee	209,470,990.66	0.00
Total	1,360,840,657.32	1,500,000,000.00

Lizhu (Hong Kong) Co., Limited (麗珠(香港)有限公司), a subsidiary of the Company, has provided a guarantee of US\$30 million for the loans granted to Ando Development Limited (安滔發展有限公司) by the Hongkong and Shanghai Banking Corporation Limited.

(2) The Company has no overdue but outstanding short-term loans.**22. Financial liabilities held for trading**

Item	Balance at the End of the Year	Balance at the Beginning of the Year
Financial liabilities held for trading		
In which:		
Derivative financial liabilities	13,916.00	85,294.16
Total	13,916.00	85,294.16

Derivative financial liabilities represent foreign currency forward contracts, loss from unexpired contracts measured at fair value was recognised as financial liabilities held for trading at balance sheet date.

23. Bills payables

Type	Balance at the End of the Year	Balance at the Beginning of the Year
Bank acceptance bills	715,986,816.20	718,590,036.85
Total	715,986,816.20	718,590,036.85

There are no mature but unpaid bills payables for the Company for the Year.

(Unless specified otherwise, all amounts are denominated in RMB)

V. NOTES TO THE COMPONENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS*(continued)***24. Accounts payables**

Item	Balance at the End of the Year	Balance at the Beginning of the Year
Within 3 months (including 3 months)	415,945,057.12	421,288,694.50
4 to 6 months (including 6 months)	55,979,763.56	141,627,643.20
7 to 12 months (including 12 months)	32,189,218.73	36,799,505.54
1 to 2 years (including 2 years)	10,985,075.55	14,519,847.32
Over 2 years	32,003,810.03	22,088,815.96
Total	547,102,924.99	636,324,506.52

Of which, important accounts payables ageing over 1 year

Item	Balance at the End of the Year	Reason for non-payment or non-transfer
Zhanjiang Construction Engineering Group Company Zhuhai Company (湛江市建築工程集團公司珠海公司)	8,717,286.36	Holdback
Total	8,717,286.36	

25. Contract liabilities

Item	Balance at the End of the Year	Balance at the Beginning of the Year
Within 1 year	124,625,218.73	91,651,095.70
Over 1 year	27,139,931.80	24,322,368.39
Total	151,765,150.53	115,973,464.09

Of which, important contract liabilities ageing over 1 year

Item	Balance at the End of the Year	Reason for non-payment or non-transfer
Guangdong Provincial Center for Disease Control and Prevention (廣東省疾病預防控制中心)	5,782,807.18	The other party has not requested delivery
Total	5,782,807.18	

The amount of income recognized in the Year which is included in the carrying amount of the contract liabilities at the Beginning of the Year is RMB71,693,011.48.

(Unless specified otherwise, all amounts are denominated in RMB)

V. NOTES TO THE COMPONENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS*(continued)***26. Employee benefits payables**

Item	Balance at the Beginning of the Year	Increase for the Year	Decrease for the Year	Balance at the End of the Year
Short-term salary	184,392,216.36	991,493,401.93	899,760,340.56	276,125,277.73
Post-resignation benefits-defined contribution plans	246,210.19	67,024,383.14	67,176,416.14	94,177.19
Dismiss benefits	1,408,000.00	2,787,499.97	2,297,042.97	1,898,457.00
Other benefits due within 1 year	0.00	0.00	0.00	0.00
Total	186,046,426.55	1,061,305,285.04	969,233,799.67	278,117,911.92

(1) Short-term salary

Item	Balance at the Beginning of the Year	Increase for the Year	Decrease for the Year	Balance at the End of the Year
Salaries, bonuses, allowances and subsidies	178,955,493.25	853,581,810.27	801,734,258.03	230,803,045.49
Employee welfare	4,913,244.88	35,396,287.61	39,506,546.29	802,986.20
Social insurance	21,516.61	28,810,802.43	28,781,397.74	50,921.30
In which: 1. Medical insurances	0.00	24,511,960.12	24,474,121.49	37,838.63
2. Work-related injury insurances	14,415.25	1,928,556.73	1,934,870.59	8,101.39
3. Maternity insurances	7,101.36	2,370,285.58	2,372,405.66	4,981.28
Housing funds	445,182.00	26,868,803.27	27,087,900.27	226,085.00
Labour union fees and employee education fees	56,779.62	2,641,157.77	2,650,238.23	47,699.16
Short-term compensated absence	0.00	0.00	0.00	0.00
Short-term profit distribution plan	0.00	0.00	0.00	0.00
Employee stock ownership scheme funds	0.00	44,194,540.58	0.00	44,194,540.58
Total	184,392,216.36	991,493,401.93	899,760,340.56	276,125,277.73

(2) Defined contribution plans

Item	Balance at the Beginning of the Year	Increase for the Year	Decrease for the Year	Balance at the End of the Year
Post-resignation benefits				
In which: 1. Basic pension insurance	231,578.08	64,497,424.19	64,641,247.50	87,754.77
2. Unemployment insurance	14,632.11	2,526,958.95	2,535,168.64	6,422.42
Total	246,210.19	67,024,383.14	67,176,416.14	94,177.19

The Company participates in pension insurance and unemployment insurance plans established by the government in accordance with relevant requirements. According to the plans, the Company makes contributions to these plans in accordance with relevant requirements of the local government. Save for the above contributions, the Company no longer undertakes further payment obligation. The corresponding cost is charged to the profit or loss for the current period or the cost of relevant assets when it occurs.

(Unless specified otherwise, all amounts are denominated in RMB)

V. NOTES TO THE COMPONENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS*(continued)***27. Taxes payables**

Item	Balance at the End of the Year	Balance at the Beginning of the Year
Value added tax	71,947,331.03	91,051,071.74
Urban maintenance and construction tax	3,570,666.23	3,689,564.99
Enterprise income tax	138,656,871.51	127,423,429.14
Property tax	2,989,371.15	10,727,445.94
Land use tax	886,913.11	2,973,348.48
Individual income tax	1,467,775.94	3,942,663.25
Stamp duty	349,942.67	1,642,708.04
Education surcharges	2,963,016.66	3,459,973.69
Flood prevention fee	20,300.76	20,300.76
Others	487,336.15	126,949.42
Total	223,339,525.21	245,057,455.45

28. Other payables

Item	Balance at the End of the Year	Balance at the Beginning of the Year
Dividends payable	90,179,524.72	97,536,288.17
Other payables	1,926,310,976.82	1,869,564,529.08
Total	2,016,490,501.54	1,967,100,817.25

(Unless specified otherwise, all amounts are denominated in RMB)

V. NOTES TO THE COMPONENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS

(continued)

28. Other payables (continued)

(1) Dividends payable

Item	Balance at the End of the Year	Balance at the Beginning of the Year
Dividends on ordinary shares	20,174.46	20,174.46
Qingyuan Xinbeijiang (Group) Company (清遠新北江企業(集團)公司)	1,200,710.00	1,200,710.00
Other legal persons and individual shares of subsidiaries	3,311,300.00	1,051,300.00
Staff shares of subsidiaries	2,419,800.00	259,800.00
Zhuhai Zhenghe Co., Ltd. (珠海正禾企業有限公司)	81,760,934.22	90,004,303.71
Zheng Fusang (鄭扶桑)	0.00	5,000,000.00
Zhuhai Zhong Hui Yuan Investment Partnership (Limited Partnership) (珠海中匯源投資合夥企業(有限合夥))	1,466,606.04	0.00
Total	90,179,524.72	97,536,288.17

Important dividends payable outstanding over 1 year:

Name of shareholder	Amount of dividends payable	Reason for non-payment
Qingyuan Xinbeijiang (Group) Company (清遠新北江企業(集團)公司)	1,200,710.00	Not yet paid
Other legal persons and individual shares of subsidiaries	1,051,300.00	Not yet paid
Staff shares of subsidiaries	259,800.00	Not yet paid
Total	2,511,810.00	–

(2) Other payables

Item	Balance at the End of the Year	Balance at the Beginning of the Year
Office expenses	62,531,895.56	81,524,026.34
Deposits under guarantees	74,422,212.64	37,511,839.06
Business promotion expenses	1,080,999,482.25	1,020,057,577.45
Obligations of repurchasing restricted shares	0.00	25,208.04
Technology transfer funds	3,356,753.82	10,168,111.97
Related party balances	7,106,655.80	5,787,078.06
Accrued expenses	664,512,411.31	686,633,258.99
Others	33,381,565.44	27,857,429.17
Total	1,926,310,976.82	1,869,564,529.08

The obligations of repurchasing restricted shares of the Directors, the senior management and their spouses amounted to RMB0.00 at the End of the Year.

(Unless specified otherwise, all amounts are denominated in RMB)

V. NOTES TO THE COMPONENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS*(continued)***28. Other payables** *(continued)***(2) Other payables** *(continued)*

Of which, the breakdown of accrued expenses were as follows:

Item	Balance at the End of the Year	Balance at the Beginning of the Year	Reason for outstanding
Utilities expenses	15,850,454.31	11,706,301.31	Not yet paid
Research expenses	21,554,587.96	28,044,547.23	Not yet paid
Business promotion expenses	535,713,955.94	565,056,625.35	Not yet paid
Advertising expenses	266,371.28	149,571.28	Not yet paid
Business meeting expenses	30,473,617.98	29,058,996.84	Not yet paid
Auditing and information disclosure expenses	2,126,203.03	2,493,633.59	Not yet paid
Others	58,527,220.81	50,123,583.39	Not yet paid
Total	664,512,411.31	686,633,258.99	

29. Non-current liabilities due within one year

Item	Balance at the End of the Year	Balance at the Beginning of the Year
Long-term loans due within one year	0.00	400,000.00
Total	0.00	400,000.00

30. Long-term loans

Item	Balance at the End of the Year	Interest rate range	Balance at the Beginning of the Year	Interest rate range
Loans on credit	0.00		1,100,000.00	Interest-free
Sub-total	0.00		1,100,000.00	
Less: Long-term loans due within one year	0.00		400,000.00	
Total	0.00		700,000.00	

There is no overdue but outstanding long-term loans at the End of the Year.

(Unless specified otherwise, all amounts are denominated in RMB)

V. NOTES TO THE COMPONENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS*(continued)***31. Deferred income**

Item	Balance at the Beginning of the Year	Increase for the Year	Decrease for the Year	Balance at the End of the Year	Reason
Government grants	262,712,220.34	26,999,700.00	43,028,738.74	246,683,181.60	
Total	262,712,220.34	26,999,700.00	43,028,738.74	246,683,181.60	

For details of the government grants included in deferred income, see Note XIV.3. Government grants.

32. Other non-current liabilities

Item	Balance at the End of the Year	Balance at the Beginning of the Year
The overall relocation and expansion project of Sichuan Guangda Pharmaceutical Manufacturing	70,000,000.00	0.00
Total	70,000,000.00	0.00

(Unless specified otherwise, all amounts are denominated in RMB)

V. NOTES TO THE COMPONENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS*(continued)***33. Share capital****2019**

Item	Balance at the Beginning of the Year		Changes for the Year (+ -)					Balance at the End of the Year	
	Amount	Percentage (%)	Issuance of new shares	Number of bonus shares	Reserve fund capitalized	Others	Sub-total	Amount	Percentage (%)
I. Shares subject to selling restrictions									
1. State-owned shares	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
2. State-owned legal person shares	13,312,561	1.85	0.00	0.00	3,993,768	0.00	3,993,768	17,306,329	1.85
3. Other domestic shares	1,468,197	0.20	0.00	0.00	462,229	164,371	626,600	2,094,797	0.22
In which: Domestic legal person shares	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Domestic natural person shares	1,468,197	0.20	0.00	0.00	462,229	164,371	626,600	2,094,797	0.22
Funds and wealth management products	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
4. Foreign shares	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
In which: Overseas legal person shares	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Overseas natural person shares	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Shares subject to selling restrictions in aggregate	14,780,758	2.05	0.00	0.00	4,455,997	164,371	4,620,368	19,401,126	2.07
II. Shares not subject to selling restrictions									
1. Ordinary shares denominated in Renminbi	458,220,084	63.73	0.00	0.00	137,443,647	-166,399	137,277,248	595,497,332	63.71
2. Domestically listed foreign shares (B-share)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
3. Overseas listed foreign shares (H-share)	246,049,398	34.22	0.00	0.00	73,814,819	0.00	73,814,819	319,864,217	34.22
4. Others	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Shares not subject to selling restrictions in aggregate	704,269,482	97.95	0.00	0.00	211,258,466	-166,399	211,092,067	915,361,549	97.93
III. Total number of shares	719,050,240	100.00	0.00	0.00	215,714,463	-2,028	215,712,435	934,762,675	100.00

According to the relevant requirements of the Guidelines of Standardized Operation for Companies Listed on the Main Board of the Shenzhen Stock Exchange (《深交所主板上市公司規範運作指引》), there are 2,094,797 locked shares held by the senior management.

(Unless specified otherwise, all amounts are denominated in RMB)

V. NOTES TO THE COMPONENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS*(continued)***33. Share capital** *(continued)***2018**

Item	Balance at the Beginning of the Year		Changes for the Year (+ -)					Balance at the End of the Year	
	Amount	Percentage (%)	Issuance of new shares	Number of bonus shares	Reserve fund capitalized	Others	Sub-total	Amount	Percentage (%)
I. Shares subject to selling restrictions									
1. State-owned shares	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
2. State-owned legal person shares	10,240,432	1.85	0.00	0.00	3,072,129	0.00	3,072,129	13,312,561	1.85
3. Other domestic shares	5,263,323	0.95	0.00	0.00	135,217	-3,930,345	-3,795,128	1,468,195	0.20
In which: Domestic legal person shares	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Domestic natural person shares	5,263,323	0.95	0.00	0.00	135,217	-3,930,345	-3,795,128	1,468,195	0.20
Funds and wealth management products	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
4. Foreign shares	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
In which: Overseas legal person shares	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Overseas natural person shares	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Shares subject to selling restrictions in aggregate	15,503,755	2.80	0.00	0.00	3,207,346	-3,930,345	-722,999	14,780,756	2.05
II. Shares not subject to selling restrictions									
1. Ordinary shares denominated in Renminbi	348,458,846	62.99	0.00	0.00	105,946,694	3,814,546	109,761,240	458,220,086	63.73
2. Domestically listed foreign shares (B-share)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
3. Overseas listed foreign shares (H-share)	189,268,768	34.21	0.00	0.00	56,780,630	0.00	56,780,630	246,049,398	34.22
4. Others	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Shares not subject to selling restrictions in aggregate	537,727,614	97.20	0.00	0.00	162,727,324	3,814,546	166,541,870	704,269,484	97.95
III. Total number of shares	553,231,369	100.00	0.00	0.00	165,934,670	-115,799	165,818,871	719,050,240	100.00

On 29 March 2018 and 18 December 2018, the Resolution on the First Grant of Shares to be Unlocked during the Third Unlocking Period under the Restricted Shares Incentive Scheme of the Company and the Resolution on the Reserved Grant of Shares to be Unlocked during the Third Unlocking Period under the Restricted Shares Incentive Scheme of the Company was passed at the Twelfth Meeting of the Ninth Session of the Board and the Twenty-second meeting of the Ninth Session of the Board, accordingly, 4,038,407 Restricted Shares under the First Grant and 583,912 Restricted Shares under the Reserved Grant were unlocked respectively during the Third Unlocking Period. According to the authority granted to the Board at the 2015 First Extraordinary General Meeting of the Company, the Company had completed the unlock procedure and related matters for the above shares, with the listing date of such shares being 13 April 2018 and 28 December 2018 respectively, resulting in a change in the number of shares. According to the Guidelines of the Shenzhen Stock Exchange for the Standard Operation of Companies Listed on the Main Board, upon completion of this unlock procedure, there are 1,466,167 locked shares held by the senior management.

For the details of changes of other shares, please see the Note 1.

(Unless specified otherwise, all amounts are denominated in RMB)

V. NOTES TO THE COMPONENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS*(continued)***34. Capital reserve****2019**

Item	Balance at the Beginning of the Year	Increase for the Year	Decrease for the Year	Balance at the End of the Year
Share premium	1,308,689,050.73	910,034.25	218,484,288.66	1,091,114,796.32
Other capital reserve	53,561,338.94	18,728,612.91	0.00	72,289,951.85
Total	1,362,250,389.67	19,638,647.16	218,484,288.66	1,163,404,748.17

The increase in the share premium in the Year represented: ① the increase of RMB910,034.25 in the net assets shares of a subsidiary corresponding to a decrease in shareholding ratio of the Company caused by the introduction of minority shareholders by the subsidiary; The decrease in the share premium in the Year represented ① the decrease of share premium in the sum of RMB23,180.04 by the repurchase and cancellation of 2,028 Restricted Shares granted to incentive participants no longer satisfying the incentive conditions; ② the decrease of share premium in the sum of RMB215,714,463.00 by the conversion of capital; ③ upon disposal of certain equity of a subsidiary without losing control, increase of share premium in the sum of RMB6,396,546.26 by the difference between the disposal price and the net assets shares of the subsidiary continuously calculated from the date of merger corresponding to the disposal of long-term equity investment, and the tax of RMB9,143,191.88 incurred in the transaction, the share premium is totally reduced by RMB2,746,645.62.

Other capital reserve increase in the Year includes: ① withdrawal of share incentive expenses of RMB14,290,505.57; ② capital reserve increase of RMB4,438,107.34 due to changes in shareholding ratio of the Company caused by disproportionate capital increase under the equity method.

2018

Item	Balance at the Beginning of the Year	Increase for the Year	Decrease for the Year	Balance at the End of the Year
Share premium	1,670,409,484.28	48,946,395.40	410,666,828.95	1,308,689,050.73
Other capital reserve	44,861,489.65	33,080,156.18	24,380,306.89	53,561,338.94
Total	1,715,270,973.93	82,026,551.58	435,047,135.84	1,362,250,389.67

The increase in the share premium in the Year represented: ① releasing conditions of 4,622,319 Restricted Shares from the First Grant and Reserved Grant have been fulfilled, and the corresponding withdrawal of share incentive expenses RMB24,380,306.89 is transferred from other capital reserve to the share premium reserve; ② upon unlocking of Restricted Shares, the difference between expenses deductible for tax purpose and the accrued expenses reduced income tax payable by RMB24,566,088.51 according to taxation requirements and share premiums is increased accordingly. The decrease in the share premium in the Year represented ① the decrease of share premium in the sum of RMB1,611,873.24 by the repurchase and cancellation of 115,799 Restricted Shares granted to incentive participants no longer satisfying the incentive conditions; ② the decrease of share premium in the sum of RMB165,934,670.00 by the conversion of capital; ③ upon disposal of certain equity of a subsidiary without losing control, the difference of RMB3,047,987.69 between the present value of the disposal price and the net assets shares of the subsidiary continuously calculated from the date of merger corresponding to the disposal of long-term equity investment, and the tax of RMB7,259,192.09 incurred in the transaction, the share premium is totally reduced by RMB10,307,179.78; ④ the decrease of share premium by disproportionate capital increase to a subsidiary due to the difference of RMB232,813,105.93 between the capital contribution and the corresponding net assets shares of the subsidiary.

Other capital reserve increase in the Year includes: ① withdrawal of share incentive expenses of RMB3,407,722.56; ② capital reserve increase of RMB29,672,433.62 due to changes in shareholding ratio of the Company caused by disproportionate capital increase under the equity method.

(Unless specified otherwise, all amounts are denominated in RMB)

V. NOTES TO THE COMPONENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS*(continued)***35. Treasury shares****2019**

Item	Balance at the Beginning of the Year	Increase for the Year	Decrease for the Year	Balance at the End of the Year
Repurchase obligation arising from the Share Incentive Scheme	25,208.04	0.00	25,208.04	0.00

The decrease in our repurchase obligation during the Year represented the repurchase and cancellation of 2,028 Restricted Shares granted to the Incentive Participants no longer satisfying the incentive conditions, resulting in a repurchase payment of RMB25,208.04, among which the decrease of share capital of RMB2,028 and capital reserve of RMB23,180.04 were attributable to the cancellation of treasury shares.

2018

Item	Balance at the Beginning of the Year	Increase for the Year	Decrease for the Year	Balance at the End of the Year
Repurchase obligation arising from the Share Incentive Scheme	66,786,741.96	0.00	66,761,533.92	25,208.04

The decrease in our repurchase obligation during the Year represented: ① the releasing conditions of 4,622,319 Restricted Shares under the First Grant and the Reserved Grant have been fulfilled, resulting in a corresponding decrease in our repurchase obligation of RMB64,118,796.72; ② the decrease of treasury shares of RMB915,064.96 due to cash dividends distributed to the holders of Restricted Shares during the Year; ③ the repurchase and cancellation of 115,799 Restricted Shares granted to the Incentive Participants no longer satisfying the incentive conditions, resulting in a repurchase payment of RMB1,727,672.24, among which the decrease of share capital of RMB115,799 and capital reserve of RMB1,611,873.24 were attributable to the cancellation of treasury shares.

(Unless specified otherwise, all amounts are denominated in RMB)

V. NOTES TO THE COMPONENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS

(continued)

36. Other comprehensive income

2019

Item	Balance at the Beginning of the Year ⁽¹⁾	Amount incurred before income tax for the Year	For the Year				Balance at the End of the Year ⁽³⁾⁼⁽¹⁾⁺⁽²⁾
			Less: amount recognized in other comprehensive income in Previous Period transferred to profit or loss or retained earnings for the Period	Less: income tax expenses	Attributable to the parent company after tax ⁽²⁾	Attributable to the noncontrolling shareholders after tax	
I. Other comprehensive income items not to be re-classified into profit or loss	15,576,351.33	54,794,797.20	6,993,096.87	8,567,173.77	39,155,030.34	79,496.22	54,731,381.67
1. Change in fair value of other investments in equity instruments	15,576,351.33	54,794,797.20	6,993,096.87	8,567,173.77	39,155,030.34	79,496.22	54,731,381.67
II. Other comprehensive income items to be reclassified into profit or loss	-44,741,165.48	19,462,491.55	0.00	0.00	16,413,755.46	3,048,736.09	-28,327,410.02
1. Other comprehensive income to be reclassified into profit or loss under the equity method	0.00	155,384.33	0.00	0.00	155,384.33	0.00	155,384.33
2. Translation differences of financial statements denominated in foreign currency	-44,741,165.48	19,307,107.22	0.00	0.00	16,258,371.13	3,048,736.09	-28,482,794.35
Total of other comprehensive income	-29,164,814.15	74,257,288.75	6,993,096.87	8,567,173.77	55,568,785.80	3,128,232.31	26,403,971.65

2018

Item	Balance at the Beginning of the Year ⁽¹⁾	Amount incurred before income tax for the Year	For the Year				Balance at the End of the Year ⁽³⁾⁼⁽¹⁾⁺⁽²⁾
			Less: amount recognized in other comprehensive income in Previous Period transferred to profit or loss or retained earnings for the Period	Less: income tax expenses	Attributable to the parent company after tax ⁽²⁾	Attributable to the noncontrolling shareholders after tax	
I. Other comprehensive income items not to be re-classified into profit or loss	5,726,534.42	12,225,950.51	0.00	2,017,281.83	9,849,816.91	358,851.77	15,576,351.33
1. Change in fair value of other investments in equity instruments	5,726,534.42	12,225,950.51	0.00	2,017,281.83	9,849,816.91	358,851.77	15,576,351.33
II. Other comprehensive income items to be reclassified into profit or loss	-58,625,463.94	15,826,689.88	0.00	0.00	13,884,298.46	1,942,391.42	-44,741,165.48
1. Other comprehensive income to be reclassified into profit or loss under the equity method	0.00	0.00	0.00	0.00	0.00	0.00	0.00
2. Translation differences of financial statements denominated in foreign currency	-58,625,463.94	15,826,689.88	0.00	0.00	13,884,298.46	1,942,391.42	-44,741,165.48
Total of other comprehensive income	-52,898,929.52	28,052,640.39	0.00	2,017,281.83	23,734,115.37	2,301,243.19	-29,164,814.15

(Unless specified otherwise, all amounts are denominated in RMB)

V. NOTES TO THE COMPONENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS*(continued)***37. Surplus reserve****2019**

Item	Balance at the Beginning of the Year	Increase for the Year	Decrease for the Year	Balance at the End of the Year
Statutory surplus reserve	419,666,842.50	35,922,980.39	0.00	455,589,822.89
Discretionary surplus reserve	63,796,201.34	0.00	0.00	63,796,201.34
Reserve funds	82,108,376.71	0.00	0.00	82,108,376.71
Enterprise development funds	21,683,742.35	0.00	0.00	21,683,742.35
Total	587,255,162.90	35,922,980.39	0.00	623,178,143.29

2018

Item	Balance at the Beginning of the Year	Increase for the Year	Decrease for the Year	Balance at the End of the Year
Statutory surplus reserve	419,666,842.50	0.00	0.00	419,666,842.50
Discretionary surplus reserve	63,796,201.34	0.00	0.00	63,796,201.34
Reserve funds	82,108,376.71	0.00	0.00	82,108,376.71
Enterprise development funds	21,683,742.35	0.00	0.00	21,683,742.35
Total	587,255,162.90	0.00	0.00	587,255,162.90

(Unless specified otherwise, all amounts are denominated in RMB)

V. NOTES TO THE COMPONENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS

(continued)

38. Retained earnings

(1) Movement in retained earnings

Item	For the Year	For the Last Year	Allocation or appropriation proportion
Retained earnings for the end of Last Year before adjustment	8,012,611,700.26	8,028,315,370.19	—
Adjustment for total retained earnings as at the beginning of the Year (+ for increase and - for decrease)	0.00	8,352,564.09	—
Retained earnings at the beginning of the Year after adjustment	8,012,611,700.26	8,036,667,934.28	
Add: Net earnings attributable to the owners of the parent company for the Year	1,302,875,440.93	1,082,174,905.98	—
Gain on disposal of other equity investments	2,296,602.00	—	—
Less: Appropriation to statutory surplus reserve	35,922,980.39	—	10%
Appropriation to discretionary surplus reserve	0.00	—	—
Dividends payable to ordinary shares	862,857,854.40	1,106,231,140.00	—
Dividends of ordinary shares capitalised	0.00	—	—
Retained earnings at the end of the Year	8,419,002,908.40	8,012,611,700.26	—

Breakdown of adjustments to the retained earnings as at the beginning of the Period:

- ① The effect of the retrospective adjustments arising from Accounting Standards for Business Enterprises and the related new requirements on the retained earnings as at the beginning of the Period amounted to RMB0.00.
- ② The effect of changes in accounting policies on the retained earnings as at the beginning of the Period amounted to RMB0.00.
- ③ The effect of corrections of significant accounting errors on the retained earnings as at the beginning of the Period amounted to RMB0.00.
- ④ The effect of the change of the scope of combination under common control on the retained earnings as at the beginning of the Period amounted to RMB0.00.
- ⑤ The effect of other adjustments on the retained earnings as at the beginning of the Period amounted to RMB0.00.

(Unless specified otherwise, all amounts are denominated in RMB)

V. NOTES TO THE COMPONENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS

(continued)

38. Retained earnings (continued)

(2) Notes to appropriation of profits

Item	For the Year	Unit: RMB' 000
		For the Last Year
Dividends:		
Final dividends in respect of the year 2018 paid during the year (Note 2)	862,857.85	—
Final dividends in respect of the year 2017 paid during the year (Note 3)	—	1,106,231.14
Dividends proposed after the balance sheet date:		
Final dividends proposed for the year 2019 (Note 1)	1,074,977.08	—
Final dividends proposed for the year 2018 (Note 2)	—	862,857.85

Note 1: On 25 March 2020, the Company considered and approved the 2019 Annual Profit Distribution Plan at the thirty-seventh meeting of the ninth session of the Board, pursuant to which a cash dividend of RMB11.50 (tax inclusive) for every 10 shares in a total amount of RMB1,074,977,076.25 (tax inclusive) is proposed to be distributed based on the Company's total share capital of 934,762,675 shares as at the end of 2019. There will be no bonus shares, nor will the capital reserves be capitalized. The profit distribution plan is subject to be approved at the 2019 annual general meeting.

Note 2: On 27 March 2019, the Company held the Twenty-fifth Meeting of the Ninth Session of the Board to consider and approve 2018 annual profit distribution, based on the Company's total share capital as at the registration date of shareholding determined by implementation of the 2018 annual profit distribution plan, a cash dividend of RMB1.2 per share (tax inclusive) would be distributed to all the shareholders of the Company. At the same time, 3 shares would be issued for every 10 shares held to all shareholders of the Company by way of capitalizing our capital reserve. Such profit contribution plan was approved on 30 May 2019 at the general meeting, and RMB862,857,854.40 was paid.

Note 3: On 23 March 2018, the Company held the Eleventh Meeting of the Ninth Session of the Board to consider and approve 2017 annual profit distribution, based on the Company's total share capital as at the registration date of shareholding determined by implementation of the 2017 annual profit distribution plan, a cash dividend of RMB2 per share (tax inclusive) would be distributed to all the shareholders of the Company. At the same time, 3 shares would be issued for every 10 shares held to all shareholders of the Company by way of capitalizing our capital reserve. Such profit contribution plan was approved on 21 May 2018 at the general meeting and RMB1,106,231,140.00 was paid.

(Unless specified otherwise, all amounts are denominated in RMB)

V. NOTES TO THE COMPONENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS

(continued)

39. Operating income and operating cost

(1) Operating income and operating cost

Item	For the Year		For the Last Year	
	Income	Cost	Income	Cost
Principal activities	9,317,112,446.94	3,343,936,171.01	8,822,319,939.95	3,339,247,339.90
Other activities	67,583,388.07	47,792,089.18	38,335,730.78	20,407,724.21
Total	9,384,695,835.01	3,391,728,260.19	8,860,655,670.73	3,359,655,064.11

The Company operates in a single operating segment in the PRC, i.e. the manufacture of pharmaceuticals. Accordingly, no operating segment of the Company is presented.

(2) Information of major business income

① Presented by product types

Item	For the Year		For the Last Year	
	Income	Cost	Income	Cost
Chemical drug preparation products	4,931,285,414.40	1,112,476,450.97	4,238,248,037.33	911,066,207.07
API and Intermediates	2,350,068,519.91	1,621,724,121.27	2,354,276,412.34	1,789,518,716.37
Traditional Chinese drug preparation products	1,281,343,618.13	316,554,406.53	1,532,464,641.30	364,099,728.75
Diagnostic reagents and equipment	754,414,894.50	293,181,192.24	697,330,848.98	274,562,687.71
Total	9,317,112,446.94	3,343,936,171.01	8,822,319,939.95	3,339,247,339.90

② Presented by regions of operations

Item	For the Year		For the Last Year	
	Income	Cost	Income	Cost
Domestic	8,083,464,081.64	2,545,952,333.03	7,729,928,025.92	2,543,604,959.29
Overseas	1,233,648,365.30	797,983,837.98	1,092,391,914.03	795,642,380.61
Total	9,317,112,446.94	3,343,936,171.01	8,822,319,939.95	3,339,247,339.90

③ Presented by recognition time of income

Item	For the Year		For the Last Year	
	Income	Cost	Income	Cost
Commodities (recognized at a point in time)	9,317,112,446.94	3,343,936,171.01	8,822,319,939.95	3,339,247,339.90
Total	9,317,112,446.94	3,343,936,171.01	8,822,319,939.95	3,339,247,339.90

(Unless specified otherwise, all amounts are denominated in RMB)

V. NOTES TO THE COMPONENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS*(continued)***40. Business taxes and surcharges**

Item	For the Year	For the Last Year
Urban maintenance and construction tax	46,310,284.59	49,816,989.35
Education surcharges	35,695,327.19	40,061,047.53
Land use tax	6,118,790.29	6,440,669.74
Property tax	15,733,344.08	15,171,506.65
Stamp duty	3,675,033.39	6,019,732.09
Vehicle and vessel usage tax	90,131.26	74,042.04
Environmental protection tax	609,762.97	352,705.18
Others	524,733.57	517,573.93
Total	108,757,407.34	118,454,266.51

Note: The basis of calculations for principal business taxes and surcharges taxes are disclosed in note IV. Taxation.

41. Selling expenses

Item	For the Year	For the Last Year
Marketing and promotional expenses	2,708,111,339.13	2,913,752,573.93
Staff salaries	224,572,585.53	175,952,344.05
Transportation costs	52,924,752.01	53,852,905.87
Travelling expenses and entertainment	42,100,037.36	41,319,734.91
Business meeting expenses	26,035,913.31	38,327,597.16
Others	39,475,177.04	44,074,373.37
Total	3,093,219,804.38	3,267,279,529.29

42. Administrative expenses

Item	For the Year	For the Last Year
Staff salaries	280,278,079.73	212,102,039.29
Share incentive expenses	15,880,256.94	3,124,290.06
Depreciation and amortisation	71,721,626.06	66,376,753.94
Loss on suspension of operations	56,505,559.65	56,194,951.38
Auditing fees	2,245,283.02	2,573,053.67
Others	202,715,255.08	206,004,407.07
Total	629,346,060.48	546,375,495.41

(Unless specified otherwise, all amounts are denominated in RMB)

V. NOTES TO THE COMPONENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS*(continued)***43. R&D expenses**

Item	For the Year	For the Last Year
Material costs	174,950,678.98	129,308,500.99
Staff salaries	204,326,877.26	185,721,719.91
Share incentive expenses	833,205.56	283,432.50
Testing fees	228,201,060.59	134,285,004.90
Depreciation and amortisation	66,960,113.43	51,115,075.93
Others	57,619,802.20	48,258,972.93
Total	732,891,738.02	548,972,707.16

44. Finance expenses

Item	For the Year	For the Last Year
Interest expenses	7,255,024.45	16,772,638.85
Less: Interest income	226,434,815.93	236,174,743.57
Exchange (gains)/losses	-5,377,418.73	-35,634,554.22
Commission charges and others	3,758,042.52	3,084,162.76
Total	-220,799,167.69	-251,952,496.18

45. Other income

Items of the grants (sources of other income)	For the Year	For the Last Year	Related to assets/income
Government grants	32,323,131.70	18,415,455.52	Related to assets
Government grants	122,555,248.30	64,124,648.38	Related to income
Tax withholding commission charges	288,402.81	2,557,263.27	
Extra tax deductions for tax refunds	1,027,852.69	0.00	
Total	156,194,635.50	85,097,367.17	

For details of the government grants, please see the Note XIV. 3. Government grants.

(Unless specified otherwise, all amounts are denominated in RMB)

V. NOTES TO THE COMPONENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS*(continued)***46. Investment income**

Item	For the Year	For the Last Year
Long-term equity investments income under equity method	-10,686,084.85	-6,186,649.16
Investment income from disposal of long-term equity investments	0.00	16,341,464.65
Investment income from financial assets held for trading during the holding period	318,785.83	352,708.44
Dividend income from other equity instrument investments	1,890,807.04	220,000.00
Investment income from disposal of financial assets held for trading	-11,857,182.34	-53,173,411.34
Others	735,912.64	0.00
Total	-19,597,761.68	-42,445,887.41

47. Gains from changes in fair value

Sources of gains from changes in fair value	For the Year	For the Last Year
Financial assets held for trading	1,257,123.54	-2,664,102.71
In which: Debt instrument investments	25,986.02	3,218.09
Equity instrument investments	-341,506.46	-2,974,560.92
Derivative financial assets	1,572,643.98	307,240.12
Financial liabilities held for trading	71,378.16	253,835.74
In which: Derivative financial liabilities	71,378.16	253,835.74
Total	1,328,501.70	-2,410,266.97

48. Credit impairment loss ("-" represents losses)

Item	For the Year	For the Last Year
Bad debt loss of bills receivables	-50,000.00	0.00
Bad debt loss of accounts receivables	-5,928,981.14	31,177,278.22
Bad debt loss of other receivables	1,118,756.66	-476,279.03
Total	-4,860,224.48	30,700,999.19

(Unless specified otherwise, all amounts are denominated in RMB)

V. NOTES TO THE COMPONENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS*(continued)***49. Asset impairment loss ("-" represents losses)**

Item	For the Year	For the Last Year
Loss on obsolete stocks	-50,536,285.96	-52,887,006.03
Impairment loss on fixed assets	-2,518,440.84	-14,881,493.80
Impairment loss on construction in progress	-169,340.46	0.00
Total	-53,224,067.26	-67,768,499.83

50. Gains on disposal of assets

Item	For the Year	For the Last Year
Gains on disposal of fixed assets ("-" represents losses)	460,273.31	-549,283.16
Total	460,273.31	-549,283.16

51. Non-operating income

Item	For the Year	For the Last Year	Amount charged to non-recurring gains or losses during the Period
Government grants	81,395.56	175,164,788.75	81,395.56
Gain on destruction or retirement of non-current assets	6,803,450.08	0.00	6,803,450.08
Income from scraps	1,046,684.19	263,907.45	1,046,684.19
Compensation income	643,003.30	80,654.99	643,003.30
Waiver of payables	1,463,274.29	0.00	1,463,274.29
Others	1,445,682.92	1,389,121.88	1,445,682.92
Total	11,483,490.34	176,898,473.07	11,483,490.34

The breakdown of government grants sets out below:

Items of the grants	For the Year	For the Last Year	Related to assets/income	Notes
Supporting funds for headquarter enterprises	0.00	11,813,630.07	Related to income	Received
Financial support funds	0.00	158,373,180.00	Related to income	Received
Supporting funds for disaster recovery and reconstruction	0.00	2,383,778.68	Related to income	Received
Others	81,395.56	2,594,200.00	Related to income	Received
Total	81,395.56	175,164,788.75		

(Unless specified otherwise, all amounts are denominated in RMB)

V. NOTES TO THE COMPONENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS*(continued)***52. Non-operating expenses**

Item	For the Year	For the Last Year	Amount charged to non-recurring gains or losses during the Period
Charitable donation expenses	3,745,508.60	3,925,651.05	3,745,508.60
Loss on destruction or retirement of non-current assets	3,127,835.95	21,916,073.68	3,127,835.95
Others	6,920,840.98	8,877,927.11	6,920,840.98
Total	13,794,185.53	34,719,651.84	13,794,185.53

53. Income tax expenses**(1) Breakdown of income tax expenses**

Item	For the Year	For the Last Year
Current income tax calculated according to tax laws and relevant rules	286,951,329.97	223,416,868.75
In which: Domestic enterprise income tax	286,861,844.52	222,381,205.97
Enterprise income tax in Hong Kong and Macau	89,485.45	1,035,662.78
Deferred income tax expenses	-20,986,495.07	11,542,766.87
Total	265,964,834.90	234,959,635.62

(2) Reconciliation between income tax expenses and total profits sets out below:

Item	For the Year	For the Last Year
Total profits	1,727,542,394.19	1,416,674,354.65
Income tax expenses calculated at statutory tax rates	431,885,598.55	354,168,588.66
Effect of different tax rates applicable to subsidiaries	-973,053.89	1,254,549.98
Effect of tax deduction	-282,735,079.13	-192,463,233.53
Effect of non-deductible expenses	4,706,392.21	81,654.15
Credit (charge) on deductible temporary differences on which deferred income tax assets are not recognised for the year	-5,542,149.62	11,200,319.63
Deductible losses of deferred income tax assets that are not recognised for the year	103,020,992.65	59,579,110.71
Utilisation of deductible losses of deferred income tax assets that are not recognised in the previous year	-7,342,229.84	-1,492,068.04
Others	22,944,363.97	2,630,714.06
Income tax expenses	265,964,834.90	234,959,635.62

(Unless specified otherwise, all amounts are denominated in RMB)

V. NOTES TO THE COMPONENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS

(continued)

54. Notes to cash flow statement item

(1) Cash received relating to other operating activities

Item	For the Year	For the Last Year
Government grants	140,246,992.32	327,293,738.71
Interest income	226,434,815.93	242,119,806.98
Liquidated damages and compensation income	643,003.30	80,654.99
Income from scraps	1,046,684.19	263,907.45
Deposits for letter of credit/bank acceptance bills	25,007,892.22	32,377,653.66
Movements in capital and others	86,464,957.46	78,545,382.24
Total	479,844,345.42	680,681,144.03

(2) Cash paid relating to other operating activities

Item	For the Year	For the Last Year
Office expenses	44,595,839.84	48,205,017.36
Travelling expenses	62,641,278.33	52,435,572.18
Entertainment expenses	47,421,932.46	47,807,415.27
Transportation and miscellaneous fees	75,851,362.47	76,258,185.72
Advertising expenses	911,098.90	286,609.35
Business meeting expenses	46,870,086.04	48,692,659.06
Auditing and information disclosure fees	9,501,338.24	9,735,135.94
Consultancy fees	15,969,365.08	20,709,622.80
R&D expenses	452,433,864.89	373,973,048.40
Bank charges	3,758,042.52	3,084,162.76
Business promotion expenses	3,077,984,529.17	3,086,567,581.23
Deposits for letter of credit and bank acceptance bills	2,014,375.00	56,938,720.12
Other expenses paid and current account	200,412,298.39	145,906,422.97
Total	4,040,365,411.33	3,970,600,153.16

(Unless specified otherwise, all amounts are denominated in RMB)

V. NOTES TO THE COMPONENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS*(continued)***54. Notes to cash flow statement item** *(continued)***(3) Cash received relating to other investing activities**

Item	For the Year	For the Last Year
Deposits under guarantee	230,000.00	1,225,000.00
Insurance claims	18,266,772.62	0.00
Compensation for demolition	70,000,000.00	0.00
Total	88,496,772.62	1,225,000.00

(4) Cash paid relating to other investing activities

Item	For the Year	For the Last Year
Deposits under guarantee	230,000.00	880,000.00
Foreign exchange forward contracts loss	18,174,270.38	52,952,171.20
Total	18,404,270.38	53,832,171.20

(5) Cash received relating to other financing activities

Item	For the Year	For the Last Year
Collection and advance payment of individual income tax	2,926,091.34	1,199,047.19
Total	2,926,091.34	1,199,047.19

(6) Cash paid relating to other financing activities

Item	For the Year	For the Last Year
Repurchase of shares	25,208.04	1,727,672.24
Collection and advance payment of individual income tax	244,137.86	2,148,260.14
Total	269,345.90	3,875,932.38

(Unless specified otherwise, all amounts are denominated in RMB)

V. NOTES TO THE COMPONENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS*(continued)***55. Supplemental information to cash flow statement****(1) Supplemental information to cash flow statement**

Supplemental information	For the Year	For the Last Year
1. Reconciliation from net profit to cash flow from operating activities:		
Net profit	1,461,577,559.29	1,181,714,719.03
Add: Asset impairment loss	53,224,067.26	67,768,499.83
Credit impairment loss	4,860,224.48	-30,700,999.19
Fixed assets depreciation	354,248,637.97	341,586,859.13
Intangible assets amortization	30,364,880.81	22,513,252.64
Long-term deferred expenses amortization	30,881,754.45	17,465,671.51
Loss on disposal of fixed assets, intangible assets and other long-term assets ("-" represents gains)	-460,273.31	549,283.16
Loss on retirement of fixed assets ("-" represents gains)	-3,675,614.13	21,916,073.68
Loss on fair value change ("-" represents gains)	-1,328,501.70	2,410,266.97
Finance expenses ("-" represents gains)	-614,068.60	-21,627,554.40
Investment losses ("-" represents gains)	19,597,761.68	42,445,887.41
Decrease in deferred income tax assets ("-" represents increase)	-41,063,226.90	-14,387,377.41
Increase in deferred income tax liabilities ("-" represents decrease)	20,076,731.83	25,930,144.28
Decrease in inventories ("-" represents increase)	-108,336,349.59	-97,145,543.46
Decrease in operating items receivable ("-" represents increase)	-81,104,920.45	141,378,446.39
Increase in operating items payable ("-" represents decrease)	13,300,757.18	-427,296,991.31
Others	15,613,462.50	-6,899,457.22
Net cash flow from operating activities	1,767,162,882.77	1,267,621,181.04
2. Major investment and financing activities irrelevant to cash income and expenses:		
Conversion of debts into capital	0.00	0.00
Convertible corporate bonds due within one year	0.00	0.00
Fixed assets capitalized under finance leases	0.00	0.00
3. Net change in cash and cash equivalents:		
Cash balance at the end of the period	8,854,185,853.54	8,563,711,205.95
Less: Cash balance at the beginning of the period	8,563,711,205.95	7,400,973,935.19
Add: Balance of cash equivalents at the end of the period	0.00	0.00
Less: Balance of cash equivalents at the beginning of the period	0.00	0.00
Net increase in cash and cash equivalents	290,474,647.59	1,162,737,270.76

(Unless specified otherwise, all amounts are denominated in RMB)

V. NOTES TO THE COMPONENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS*(continued)***55. Supplemental information to cash flow statement** *(continued)***(2) Net cash payment for acquisition of subsidiaries during the Year**

Nil.

(3) Net cash received from disposal of subsidiaries during the Year

Nil.

(4) Composition of cash and cash equivalents

Item	At the End of the Year	At the Beginning of the Year
I. Cash	8,854,185,853.54	8,563,711,205.95
In which: Cash on hand	126,821.79	134,536.84
Bank deposits that are readily available for payment	8,851,796,592.01	8,562,040,609.92
Other monetary funds that are readily available for payment	2,262,439.74	1,536,059.19
II. Cash equivalents	0.00	0.00
In which: Bond investments due within three months	0.00	0.00
III. Balance of cash and cash equivalents at the end of the period	8,854,185,853.54	8,563,711,205.95

Cash and cash equivalents excluded restricted cash and cash equivalents used by the Company.

56. Assets with restricted ownership or right of use

Item	Carrying amount at the End of the Year	Reasons
Monetary funds - Other monetary funds	1,222,549.24	Letter of guarantee and forward exchange deposits under guarantee
Bills receivables	212,142,008.83	Pledged bills receivables for the bill pool business
Total	213,364,558.07	

(Unless specified otherwise, all amounts are denominated in RMB)

V. NOTES TO THE COMPONENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS*(continued)***57. Monetary items denominated in foreign currencies**

Item	Balance in foreign currency at the End of the Year	Exchange rate	Equivalent RMB balance at the End of the Year
Monetary funds			
In which: HKD	15,977,343.59	0.89578	14,312,184.85
Euro	104,394.84	7.8155	815,897.88
USD	133,518,493.90	6.9762	931,451,717.15
MOP	3,494,729.58	0.8703	3,041,463.15
JPY	11,650,001.00	0.064086	746,601.96
Accounts receivables			
In which: USD	37,022,346.09	6.9762	258,275,290.79
Euro	19,890.00	7.8155	155,450.30
MOP	631,848.45	0.8703	549,897.71
Other receivables			
In which: USD	19,415.00	6.9762	135,442.92
HKD	1,346,648.17	0.89578	1,206,300.50
MOP	581,188.00	0.8703	505,807.92
Other current assets			
In which: USD	13,400,000.00	6.9762	93,481,080.00
Short-term loans			
In which: USD	30,026,517.40	6.9762	209,470,990.66
Accounts payables			
In which: USD	554,652.35	6.9762	3,869,365.72
JPY	174,943,615.00	0.064086	11,211,436.51
Euro	5,665.41	7.8155	44,278.01
CHF	217,122.00	7.2028	1,563,886.34
Other payables			
In which: USD	1,168,438.32	6.9762	8,151,259.41
HKD	592,244.54	0.89578	530,520.81

VI. CHANGE TO CONSOLIDATION SCOPE

On 29 April 2019, Zhuhai Livzon Biotechnology Co., Ltd. (珠海市麗珠生物醫藥科技有限公司) entered into a Shareholder Voting Right Entrustment Agreement with Zhuhai Kadi Medical Biotechnology Inc. (珠海市卡迪生物醫藥有限公司) (established on 16 April 2019, with no capital contribution) and all of its shareholders, pursuant to which Zhuhai Livzon Medical Biotechnology Co., Ltd. has the control via variable interest over Zhuhai Kadi Medical Biotechnology Inc. and is interested in 100% of its voting right. According to the Shareholder Voting Right Entrustment Agreement, Zhuhai Livzon Biotechnology Co., Ltd. shall be entitled to all the shareholders' rights and voting rights of Zhuhai Kadi Medical Biotechnology Inc., including but not limited to its dividend rights, the right of sale or transfer or pledge or disposal of part or all of its shareholding, as well as the distribution rights to the residual assets upon its bankruptcy, liquidation, dissolution or termination.

(Unless specified otherwise, all amounts are denominated in RMB)

VI. CHANGE TO CONSOLIDATION SCOPE (Continued)

On 30 April 2019, Lizhu (Hong Kong) Co., Limited (麗珠(香港)有限公司) established Livzon International Ventures and is interested in 100% of its registered capital.

On 21 May 2019, Lizhu (Hong Kong) Co., Limited (麗珠(香港)有限公司) established Livzon International Ventures I and is interested in 100% of its registered capital.

On 21 May 2019, Lizhu (Hong Kong) Co., Limited (麗珠(香港)有限公司) established Livzon International Ventures II and is interested in 100% of its registered capital.

On 17 May 2019, the Company and Livzon Group Livzon Pharmaceutical Factory (麗珠集團麗珠製藥廠) established Zhuhai Livzon Pharmaceutical Equity Investment Management Co., Ltd. (珠海市麗珠醫藥股權投資管理有限公司) and are in aggregate interested in 100% of its registered capital.

On 27 June 2019, Zhuhai Livzon Diagnostics Inc. (珠海麗珠試劑股份有限公司) established Zhuhai Qiao Biotechnology Co., Ltd.* (珠海啟奧生物技術有限公司) and is interested in 60% of its registered capital.

On 1 November 2019, Livzon Group Fuzhou Fuxing Pharmaceutical Co., Ltd. (麗珠集團福州福興醫藥有限公司) and Gutian Fuxing Pharmaceutical Co., Ltd. (古田福興醫藥有限公司) established Fuzhou Fuxing Pharmaceutical Co., Ltd. (福州市福興製藥有限公司) and are in aggregate interested in 100% of its registered capital.

VII. EQUITY IN OTHER ENTITIES

1. Equity in subsidiaries

(1) Group structure

Name of Subsidiaries	Type	Type of Legal Entity	Principal Place of Business	Place of Registration	Nature of Business	Registered Capital	Percentage of Shareholding (%)	Proportion of Voting Rights (%)	Acquisition Method
Ando Development Limited (安滔發展有限公司)	Subsidiary of wholly-owned subsidiary	Limited company	Hong Kong	Hong Kong	Investment	HKD500,000	100	100	Set-up
Lizhu (Hong Kong) Co., Limited (麗珠(香港)有限公司)	Wholly-owned subsidiary	Limited company	Hong Kong	Hong Kong	Investment	HKD451,000,000	100	100	Set-up
Livzon International Ventures	Subsidiary of wholly-owned subsidiary	Limited company	Cayman	Cayman	Investment	USD50,000	100	100	Set-up
Livzon International Ventures I	Subsidiary of wholly-owned subsidiary	Limited company	Cayman	Cayman	Investment	USD50,000	100	100	Set-up
Livzon International Ventures II	Subsidiary of wholly-owned subsidiary	Limited company	Cayman	Cayman	Investment	USD50,000	100	100	Set-up
Li An (Hong Kong) Co., Ltd. (麗安香港有限公司)	Wholly-owned subsidiary	Limited company	Hong Kong	Hong Kong	Investment	HKD313,000,000	100	100	Set-up
Zhuhai Modern Chinese Medicine High Technology Co., Ltd. (珠海現代中藥高科技有限公司)	Wholly-owned subsidiary	Limited company	Zhuhai	Zhuhai	Provision of services	RMB6,000,000	100	100	Set-up
Livzon Group Livzon Pharmaceutical Factory (麗珠集團麗珠製藥廠)	Wholly-owned subsidiary	Limited company	Zhuhai	Zhuhai	Manufacture of medicine	RMB450,000,000	100	100	Set-up

(Unless specified otherwise, all amounts are denominated in RMB)

VII. EQUITY IN OTHER ENTITIES (continued)

1. Equity in subsidiaries (continued)

(1) Group structure (continued)

Name of Subsidiaries	Type	Type of Legal Entity	Principal Place of Business	Place of Registration	Nature of Business	Registered Capital	Percentage of Shareholding (%)	Proportion of Voting Rights (%)	Acquisition Method
Livzon Group Livzon Pharmaceutical Marketing Co., Ltd. (麗珠集團麗珠醫藥營銷有限公司)	Wholly-owned subsidiary	Limited company	Zhuhai	Zhuhai	Sales of goods	RMB20,000,000	100	100	Set-up
Zhuhai Livzon Pharmaceutical Trading Co., Ltd. (珠海市麗珠醫藥貿易有限公司)	Wholly-owned subsidiary	Limited company	Zhuhai	Zhuhai	Sales of goods	RMB60,000,000	100	100	Set-up
Shanghai Livzon Pharmaceutical Manufacturing Co., Ltd. (上海麗珠製藥有限公司)	Holding subsidiary	Limited company	Shanghai	Shanghai	Manufacture of medicine	RMB87,330,000	51	51	Set-up
Zhuhai FTZ Livzon Hecheng Pharmaceutical Manufacturing Co., Ltd. (珠海保稅區麗珠合成製藥有限公司)	Subsidiary of wholly-owned subsidiary	Limited company	Zhuhai	Zhuhai	Manufacture of medicine	RMB128,280,000	100	100	Set-up
Zhuhai Livzon Diagnostics Inc. (珠海麗珠診斷股份有限公司)	Holding subsidiary	Limited company	Zhuhai	Zhuhai	Manufacture of medicine	RMB92,876,800	39.425	39.425	Set-up
Zhuhai Qiao Biotechnology Co., Ltd. * (珠海啟奧生物技術有限公司)	Subsidiary of holding subsidiary	Limited company	Zhuhai	Zhuhai	Technology development	RMB16,666,667	23.655	23.655	Set-up
Datong Livzon Qiyan Medicine Co., Ltd. (大同麗珠芪源藥材有限公司)	Subsidiary of wholly-owned subsidiary	Limited company	Hunyuan County	Hunyuan County	Crop farming	RMB4,000,000	92.50	92.50	Set-up
Longxi Livzon Shenyuan Medicine Co., Ltd. (隴西麗珠參源藥材有限公司)	Subsidiary of wholly-owned subsidiary	Limited company	Longxi County	Longxi County	Crop farming	RMB4,000,000	100	100	Set-up
Livzon Pharmaceutical Biotechnology Co., Limited (麗珠醫藥生物科技股份有限公司)	Wholly-owned subsidiary	Limited company	Hong Kong	Hong Kong	Provision of services	HKD10,000	100	100	Set-up
Zhuhai Livzon Advertising Co., Ltd. (珠海麗珠廣告有限公司)	Wholly-owned subsidiary	Limited company	Zhuhai	Zhuhai	Provision of services	RMB1,000,000	100	100	Set-up
Livzon Group Livzon Baimeg Biological Materials Co., Ltd. (麗珠集團麗珠一拜阿蒙生物材料有限公司)	Holding subsidiary	Limited company	Zhuhai	Zhuhai	Manufacture of medicine	RMB12,000,000	82	82	Set-up
Livzon Group Livzon Medical Research Centre (麗珠集團麗珠醫藥研究所)	Wholly-owned subsidiary	Limited company	Zhuhai	Zhuhai	Provision of services	RMB10,000,000	100	100	Set-up
Jiaozuo Livzon Hecheng Pharmaceutical Manufacturing Co., Ltd. (焦作麗珠合成製藥有限公司)	Subsidiary of wholly-owned subsidiary	Limited company	Jiaozuo	Jiaozuo	Manufacture of medicine	RMB70,000,000	100	100	Set-up
Livzon MABPharm Inc. (珠海市麗珠單抗生物技術有限公司)	Subsidiary of holding subsidiary	Limited company	Zhuhai	Zhuhai	Provision of services	RMB1,133,330,000	55.13	55.13	Set-up
Livzon Group Vaccine Engineering Inc. (麗珠集團疫苗工程股份有限公司)	Holding subsidiary	Limited company	Zhuhai	Zhuhai	Provision of services	RMB65,000,000	83.85	83.85	Set-up
Wenshan Livzon Sanqi Plantation Co., Ltd. (文山麗珠三七種植有限公司)	Holding subsidiary	Limited company	Wenshan	Wenshan	Crop farming	RMB9,200,000	51	51	Set-up

(Unless specified otherwise, all amounts are denominated in RMB)

VII. EQUITY IN OTHER ENTITIES (continued)

1. Equity in subsidiaries (continued)

(1) Group structure (continued)

Name of Subsidiaries	Type	Type of Legal Entity	Principal Place of Business	Place of Registration	Nature of Business	Registered Capital	Percentage of Shareholding (%)	Proportion of Voting Rights (%)	Acquisition Method
Livzon Group Ningxia Pharmaceutical Manufacturing Co., Ltd. (麗珠集團(寧夏)製藥有限公司)	Subsidiary of holding subsidiary	Limited company	Pingluo County	Pingluo County	Manufacture of medicine	RMB200,000,000	87.14	87.14	Set-up
Companhia de Macau Carason Limitada (澳門嘉安信有限公司)	Subsidiary of holding subsidiary	Limited company	Macau	Macau	Sales of goods	MOP100,000	39.425	39.425	Set-up
Li Zhu (Macau) Limitada (麗珠(澳門)有限公司)	Wholly-owned subsidiary	Limited company	Macau	Macau	Provision of services	MOP100,000	100	100	Set-up
Shanghai Livzon Biotechnology Co., Ltd. (上海麗珠生物科技有限公司)	Subsidiary of holding subsidiary	Limited company	Shanghai	Shanghai	Provision of services	RMB10,000,000	38.25	38.25	Set-up
Zhuhai Lihe Medical Diagnostic Product Company Limited (珠海麗禾醫療診斷產品有限公司)	Subsidiary of holding subsidiary	Limited company	Zhuhai	Zhuhai	Manufacture of medicine	RMB15,000,000	39.425	39.425	Set-up
Shanghai Lihang Biotechnology Co., Limited (上海麗航生物科技有限公司)	Subsidiary of holding subsidiary	Limited company	Shanghai	Shanghai	Provision of services	RMB1,000,000	39.425	39.425	Set-up
Suzhou Lidi Biological Technology Co., Ltd. (蘇州麗迪生物科技有限公司)	Subsidiary of holding subsidiary	Limited company	Suzhou	Suzhou	Technology development	RMB1,000,000	39.425	39.425	Set-up
Livzon Gene Diagnostics Inc. (珠海市麗珠基因檢測科技有限公司)	Holding subsidiary	Limited company	Zhuhai	Zhuhai	Provision of services	RMB100,000,000	60	60	Set-up
Livzon MABPharm (USA) Limited (麗珠單抗生物技術(美國)有限公司)	Subsidiary of holding subsidiary	Limited company	Boston	Boston	Technology development	USD1,100,000	55.13	55.13	Set-up
Zhuhai Livzon Microsphere Technology Co., Ltd. * (珠海市麗珠微球科技有限公司)	Wholly-owned subsidiary	Limited company	Zhuhai	Zhuhai	Technology development	RMB500,000	100	100	Set-up
Zhuhai Livzon Pharmaceutical Equity Investment Management Co., Ltd. (珠海市麗珠醫藥股權投資管理有限公司)	Wholly-owned subsidiary	Limited company	Zhuhai	Zhuhai	Investment	RMB10,000,000	100	100	Set-up
Livzon International Limited	Subsidiary of wholly-owned subsidiary	Limited company	Cayman	Cayman	Investment	USD50,000	100	100	Set-up
Livzon Biologics Limited	Holding subsidiary	Limited company	Cayman	Cayman	Investment	USD50,000	55.13	55.13	Consolidation under common control
Livzon Biologics Hong Kong Limited (麗珠生物科技香港有限公司)	Subsidiary of holding subsidiary	Limited company	Hong Kong	Hong Kong	Investment	HKD400 + RMB600,000,000	55.13	55.13	Set-up
Zhuhai Livzon Biotechnology Co., Ltd. (珠海市麗珠生物醫藥科技有限公司)	Subsidiary of holding subsidiary	Limited company	Zhuhai	Zhuhai	Technology development	RMB250,000,000	55.13	55.13	Set-up
Gongshan Livzon Pharmaceutical Technology Limited (貢山麗珠藥源科技有限公司)	Subsidiary of wholly-owned subsidiary	Limited company	Gongshan	Gongshan	Crop farming	RMB1,000,000	100	100	Set-up

(Unless specified otherwise, all amounts are denominated in RMB)

VII. EQUITY IN OTHER ENTITIES (continued)

1. Equity in subsidiaries (continued)

(1) Group structure (continued)

Name of Subsidiaries	Type	Type of Legal Entity	Principal Place of Business	Place of Registration	Nature of Business	Registered Capital	Percentage of Shareholding (%)	Proportion of Voting Rights (%)	Acquisition Method
Fuzhou Fuxing Pharmaceutical Co., Ltd. (福州市福興製藥有限公司)	Subsidiary of holding subsidiary	Limited company	Fuzhou	Fuzhou	Manufacture of medicine	RMB18,466,700	90.601	90.601	Set-up
Sichuan Guangda Pharmaceutical Manufacturing Co., Ltd. (四川光大製藥有限公司)	Wholly-owned subsidiary	Limited company	Pengzhou	Pengzhou	Manufacture of medicine	RMB149,000,000	100	100	Consolidation not under common control
Livzon Group Xinbeijiang Pharmaceutical Manufacturing Inc. (麗珠集團新北江製藥股份有限公司)	Holding subsidiary	Limited company	Qingyuan	Qingyuan	Manufacture of medicine	RMB239,887,700	87.14	87.14	Consolidation not under common control
Livzon Group Limin Pharmaceutical Manufacturing Factory (麗珠集團利民製藥廠)	Wholly-owned subsidiary	Limited company	Shaoguan	Shaoguan	Manufacture of medicine	RMB61,560,000	100	100	Consolidation not under common control
Livzon Group Fuzhou Fuxing Pharmaceutical Co., Ltd. (麗珠集團福州福興製藥有限公司)	Subsidiary of holding subsidiary	Limited company	Fuzhou	Fuzhou	Manufacture of medicine	USD41,700,000	90.355	90.355	Consolidation not under common control
Gutian Fuxing Pharmaceutical Co., Ltd. (古田福興製藥有限公司)	Subsidiary of holding subsidiary	Limited company	Gutian County	Gutian County	Manufacture of medicine	RMB26,700,000	92.766	92.766	Consolidation not under common control
Zhuhai Kadi Medical Biotechnology Inc. (珠海市卡迪生物醫藥有限公司)	Variable interest entity	Limited company	Zhuhai	Zhuhai	Technology development	RMB1,000,000	0	100	Contractual arrangements

(2) Important non-wholly owned subsidiaries

Name of subsidiaries	Percentage of minority interest (%)	Gains or loss for the Year attributable to minority interest	Dividends distributed to the minority interest for the Year	Balance of minority interest at the End of the Year
Shanghai Livzon Pharmaceutical Manufacturing Co., Ltd. (上海麗珠製藥有限公司) (consolidated)	49.00	158,044,645.85	98,000,000.00	299,262,381.43
Zhuhai Livzon Diagnostics Inc. (珠海麗珠試劑股份有限公司) (consolidated)	60.575	53,297,350.82	75,056,630.51	114,548,252.14
Livzon MABPharm Inc. (珠海市麗珠單抗生物技術有限公司) (consolidated)	44.87	-82,725,058.51	0.00	402,868,064.60
Livzon Group Xinbeijiang Pharmaceutical Manufacturing Inc. (麗珠集團新北江製藥股份有限公司) (consolidated)	12.86	38,148,934.72	6,622,518.68	127,803,739.47

(Unless specified otherwise, all amounts are denominated in RMB)

VII. EQUITY IN OTHER ENTITIES (continued)

1. Equity in subsidiaries (continued)

(3) Major financial information on important non-wholly owned subsidiaries

Name of subsidiaries	Balance at the End of the Year					Total liabilities
	Current assets	Non-current assets	Total assets	Current liabilities	Non-current assets	
Shanghai Livzon Pharmaceutical Manufacturing Co., Ltd. (上海麗珠製藥有限公司) (consolidated)	774,731,006.52	108,595,874.80	883,326,881.32	266,189,620.46	3,472,724.41	269,662,344.87
Zhuhai Livzon Diagnostics Inc. (珠海麗珠試劑股份有限公司) (consolidated)	492,811,648.98	252,800,087.87	745,611,736.85	542,466,311.96	12,975,100.00	555,441,411.96
Livzon MABPharm Inc. (珠海市麗珠單抗生物技術有限公司) (consolidated)	135,605,025.76	412,533,581.94	548,138,607.70	49,173,511.21	2,724,830.41	51,898,341.62
Livzon Group Xinbeijiang Pharmaceutical Manufacturing Inc. (麗珠集團新北江製藥股份有限公司) (consolidated)	1,473,202,751.16	1,401,683,790.27	2,874,886,541.43	1,617,568,979.44	34,149,887.99	1,651,718,867.43

Name of subsidiaries	Balance at the Beginning of the Year					Total liabilities
	Current assets	Non-current assets	Total assets	Current liabilities	Non-current assets	
Shanghai Livzon Pharmaceutical Manufacturing Co., Ltd. (上海麗珠製藥有限公司) (consolidated)	651,410,746.42	96,885,990.03	748,296,736.45	244,652,288.37	5,193,425.04	249,845,713.41
Zhuhai Livzon Diagnostics Inc. (珠海麗珠試劑股份有限公司) (consolidated)	443,443,909.10	266,670,129.65	710,114,038.75	479,274,150.40	8,495,100.00	487,769,250.40
Livzon MABPharm Inc. (珠海市麗珠單抗生物技術有限公司) (consolidated)	383,210,414.27	386,758,498.03	769,968,912.30	60,134,829.81	4,581,824.54	64,716,654.35
Livzon Group Xinbeijiang Pharmaceutical Manufacturing Inc. (麗珠集團新北江製藥股份有限公司) (consolidated)	1,321,854,123.27	1,356,450,186.97	2,678,304,310.24	1,674,555,604.25	27,737,773.96	1,702,293,378.21

Name of subsidiaries	Amount for the Year				Amount for the Last Year			
	Revenue	Net profit	Total Comprehensive income	Cash flow from operating activities	Revenue	Net profit	Total Comprehensive income	Cash flow from operating activities
Shanghai Livzon Pharmaceutical Manufacturing Co., Ltd. (上海麗珠製藥有限公司) (consolidated)	1,155,889,086.55	308,174,250.12	308,174,250.12	364,517,872.77	997,343,938.25	244,768,673.48	244,768,673.48	274,446,434.32
Zhuhai Livzon Diagnostics Inc. (珠海麗珠試劑股份有限公司) (consolidated)	755,378,137.63	105,063,208.70	105,180,135.46	156,390,752.09	708,286,410.40	109,938,013.36	110,164,889.71	102,991,675.00
Livzon MABPharm Inc. (珠海市麗珠單抗生物技術有限公司) (consolidated)	630,287.14	-210,335,770.43	-210,264,839.36	-219,078,600.29	0.00	-173,714,225.59	-173,629,820.93	-159,676,983.91
Livzon Group Xinbeijiang Pharmaceutical Manufacturing Inc. (麗珠集團新北江製藥股份有限公司) (consolidated)	1,683,144,342.19	298,613,838.93	298,613,838.93	520,615,779.50	1,605,361,856.52	138,477,617.23	138,477,617.23	758,466,384.61

(Unless specified otherwise, all amounts are denominated in RMB)

VII. EQUITY IN OTHER ENTITIES (continued)**1. Equity in subsidiaries** (continued)**(4) Transactions that Result in Change of Owners' Equity in Subsidiaries without Losing Control**

① Changes in percentage of owners' equity in subsidiaries

On 8 November 2019, the resolution on the Disposal of Certain Equity of a Holding Subsidiary and Connected Transaction was considered and approved at the Thirty-fourth Meeting of the Ninth Session of the Board, pursuant to which it was agreed that 9.5% equity interests (totally 8,382,100 shares) in Zhuhai Livzon Diagnostics Inc. (珠海麗珠診斷股份有限公司) held by the Company shall be transferred to Zhuhai Liying Investment Management Partnership (Limited Partnership) (珠海麗英投資管理合夥企業(有限合夥)) at the consideration of RMB21,122,892. The parties entered into the Equity Transfer Agreement of Zhuhai Livzon Diagnostics Inc., pursuant to which, the Company has received RMB14,112,000 as the first installment for this equity transfer, and the remaining consideration will be paid by 31 December 2020. Upon the equity transfer, the Company holds 41.5% equity interests in Zhuhai Livzon Diagnostics Inc. and could still exercise control over this company.

On 8 November 2019, the Resolution on the Implementation of Employee Equity Incentive Scheme by a Holding Subsidiary was considered and approved at the Thirty-fourth Meeting of the Ninth Session of the Board. Pursuant to which, the total number of shares of new issuance by Zhuhai Livzon Diagnostics Inc. for implementation of employee equity incentive scheme shall not be more than 4,643,839 shares, and the scheme participants shall contribute a total of RMB11,702,474.28 to directly subscribe for the above shares and/or indirectly subscribe for the such shares through the holding of the limited partnership shares of the employee shareholding platform. In December 2019, pursuant to the Capital Increase Agreement of Zhuhai Livzon Diagnostics Inc., the total shares of Zhuhai Livzon Diagnostics Inc. increased from 88,232,932 shares to 92,876,771 shares with par value of RMB1 per share. The increased number of shares were subscribed by Zhuhai Haoxun Enterprise Management Consulting Partnership (Limited Partnership) (珠海豪訊企業管理諮詢合夥企業(有限合夥)), Zhuhai Yichen Enterprise Management Consulting Partnership (Limited Partnership) (珠海熠臣企業管理諮詢合夥企業(有限合夥)) and Zhuhai Qijing Enterprise Management Consulting Partnership (Limited Partnership) (珠海啟靖企業管理諮詢合夥企業(有限合夥)) at the consideration of RMB11,702,474 and the subscription amount has been paid by 31 December 2019. Upon the capital increase, the Company's shareholding in Zhuhai Livzon Diagnostics Inc. was changed from 41.5% to 39.425%, and the Company could still exercise control over this company.

② Effect of transaction on non-controlling interests and equity attributable to the owners of the parent company

Item	Zhuhai Livzon Diagnostics Inc.	
	Equity transfer	Other changes
Cost of purchase/consideration for disposal:		
Cash	21,122,892.00	0.00
Fair value of non-cash assets	0.00	0.00
Total cost of purchase/consideration for disposal	21,122,892.00	0.00
Less: net asset shares of the subsidiary calculated based on the percentage of shares acquired/disposed of	14,726,345.74	-910,034.25
Difference	6,396,546.26	910,034.25
In which: adjusted capital reserve	6,396,546.26	910,034.25

(Unless specified otherwise, all amounts are denominated in RMB)

VII. EQUITY IN OTHER ENTITIES *(continued)***2. Equity in joint ventures or associates****(1) Summarized accounting information for other non-important joint ventures or associates**

Item	Balance at the end of the Year/ Amount for the Year	Balance at the beginning of the Year/ Amount for the Last Year
Associates:		
Total carrying amount of investment	171,498,988.56	188,106,109.58
Total amount calculated by percentage of shareholding net profit	-10,686,084.85	-6,186,649.16
other comprehensive income	155,384.33	-2,889.51
total comprehensive income	-10,530,700.52	-6,189,538.67

(2) Explanation of major restriction on capacity of capital transfer from associates or joint ventures to the Company

Nil.

VIII. RISKS MANAGEMENT OF FINANCIAL INSTRUMENTS

The major financial instruments of the Company include cash, bills receivable and accounts receivable, financing receivable, other receivables, non-current assets due within one year, other current assets, financial assets held for trading, other equity instrument investments, long-term receivables, bills payable and accounts payable, other payables, short-term borrowings and financial liabilities held for trading. The details of these financial instruments are disclosed in the respective notes. The financial risk of these financial instruments and financial management policies used by the Company to minimize the risk are disclosed as below. The management of the Company manages and monitors the exposure of these risks to ensure the above risks are controlled in the limited range.

1. Management objectives and policies of risks

The operation activities of the Company are subject to various financial risks: market risks (mainly including foreign exchange risks and interest rate risks), credit risks and liquidity risks. The Company formulates an overall risk management plan with respect to the unforeseeability of the financial market in order to minimise the potential adverse impacts on the financial performance of the Company.

(Unless specified otherwise, all amounts are denominated in RMB)

VIII. RISKS MANAGEMENT OF FINANCIAL INSTRUMENTS (continued)**1. Management objectives and policies of risks** (continued)**(1) Foreign exchange risks**

The Company conducts its operation primarily in China. Substantially all of the transactions were denominated and settled in Renminbi. However, the Company still has certain imports and exports businesses regarding APIs and diagnostic reagents that are settled in U.S. dollar and Japanese Yen. The Company's businesses outside China (mainly in Hong Kong) are settled in Hong Kong dollars. In addition, the Company will have foreign currency loans according to the operating needs. In respect of the above, the Company still exposes to certain foreign exchange risks. Taking into account the foreign exchange risks acceptable by the Company, the Company adopted non-hedging foreign currency forward contracts to control foreign exchange risk. However, as to the foreign exchange risk in loans, the Company shall closely monitor the trend of the exchange rate of Renminbi, and timely adjust the extent of borrowings, so as to minimise its risks.

Financial assets and liabilities in foreign currencies held by the Company expressed in Renminbi are stated below:

① 31 December 2019

Unit: RMB' 000

Item	HKD item	USD item	Euro item	JPY item	CHF item	MOP item
Financial assets in foreign currency:						
Cash	14,312.18	931,451.72	815.90	746.60	0.00	3,041.46
Financial assets held for trading	6,162.97	0.00	0.00	0.00	0.00	0.00
Accounts receivables	0.00	258,275.29	155.45	0.00	0.00	549.90
Other receivables	1,206.30	135.44	0.00	0.00	0.00	505.81
Other current assets	0.00	93,481.08	0.00	0.00	0.00	0.00
Other equity instrument investments	330,608.20	0.00	0.00	0.00	0.00	0.00
Subtotal:	352,289.65	1,283,343.53	971.35	746.60	0.00	4,097.17
Financial liabilities in foreign currency:						
Short-term borrowings	0.00	209,470.99	0.00	0.00	0.00	0.00
Accounts payables	0.00	3,869.37	44.28	11,211.44	1,563.89	0.00
Other payables	530.52	8,151.26	0.00	0.00	0.00	0.00
Subtotal:	530.52	221,491.62	44.28	11,211.44	1,563.89	0.00

(Unless specified otherwise, all amounts are denominated in RMB)

VIII. RISKS MANAGEMENT OF FINANCIAL INSTRUMENTS (continued)**1. Management objectives and policies of risks** (continued)**(1) Foreign exchange risks** (continued)

② 31 December 2018

Unit: RMB' 000

Item	HKD item	USD item	Euro item	JPY item	MOP item
Financial assets in foreign currency:					
Cash	595,328.54	153,621.03	219.83	0.00	4,970.48
Financial assets held for trading	7,272.46	0.00	0.00	0.00	0.00
Accounts receivables	0.00	313,988.66	0.00	1,344.74	3,027.72
Other receivables	1,308.11	114.72	0.00	0.00	715.55
Other current assets	90,095.64	0.00	0.00	0.00	0.00
Other equity instrument investments	326,704.01	0.00	0.00	0.00	0.00
Subtotal:	1,020,708.76	467,724.41	219.83	1,344.74	8,713.75
Financial liabilities in foreign currency:					
Accounts payables	0.00	95.76	44.46	0.00	3,603.12
Other payables	2,591.03	8,345.12	0.00	0.00	0.00
Subtotal:	2,591.03	8,440.88	44.46	0.00	3,603.12

As at 31 December 2019, in respect of Company's financial assets and liabilities denominated in Hong Kong dollar, U.S. dollar, Euro, Japanese Yen and Macau dollar, should the value of RMB appreciate or depreciate by 5% against Hong Kong dollar, U.S. dollar, Euro, Japanese Yen and Macau dollar, and other factors remain unchanged, the Company would be subject to an increase or decrease in profit of approximately RMB70,330,328.21 (31 December 2018: approximately RMB74,270,996.80).

(2) Interest rate risk

The Company's exposures to interest rate risk are mainly arising from interest-bearing liabilities such as bank borrowings and bonds payables. The interest rates are affected by the macro monetary policies of China, hence the Company will face the risks arising from fluctuation of interest rates in the future.

The finance department of the head office of the Company continues to monitor the level of interest rate. The rise in the interest rate will increase the cost of additional interest bearing liabilities and the interest expenses of the Company's outstanding interest-bearing liabilities of which the interests are calculated at floating rates, and impose material adverse impact on the financial results of the Company. The management will make timely adjustment based on the updated market conditions. The directors of the Company consider that the future changes in the interest rate will have no material adverse impact on the operating results of the Company.

VIII. RISKS MANAGEMENT OF FINANCIAL INSTRUMENTS *(continued)***1. Management objectives and policies of risks** *(continued)***(3) Credit risk**

Credit risk is primarily attributable to cash and cash equivalents, restricted cash at bank, accounts receivables and other receivables. In respect of cash at banks, they were placed at several banks with good reputations, for which the credit risk was limited. In respect of receivables, the Company shall assess the credit limit granted to customers for credit purpose. Moreover, as the customer base is large, the credit risk on accounts receivables is not concentrated. In respect of the settlement of bills receivables, since more quality bills such as bank acceptance bills are used, it's expected that there should be no significant credit risks as for whether the Company determines to hold for redemption upon maturity or endorse for payment to external parties based on capital requirements. In addition, the provision made on accounts receivables and other receivables are adequate to manage the credit risk.

Among the accounts receivables of the Company, the accounts receivable of the top five customers accounted for 9.42% (2018: 14.05%); among the other receivables of the Company, the other receivables of the top five customers accounted for 50.58% (2018: 27.18%).

(4) Liquidity risk

Liquidity risk refers to the risks that the Company will not be able to meet its obligations associated with its financial liabilities that are settled by delivering cash or other financial assets.

The Company adopts prudent liquidity risk management for the sufficient supply of monetary funds and liquidity. It secures readily available credit loans from banks mainly by maintaining adequate monetary funds and banking facilities. Apart from indirect financing from banks, a number of financing channels were available, such as direct financing by inter-bank market including short-term financing bills and medium term financing bills, corporate bonds etc. These instruments can effectively reduce the effects of scale of financing and the macro monetary policies of China on indirect bank financing, which shall secure adequate funds in a flexible manner.

(Unless specified otherwise, all amounts are denominated in RMB)

VIII. RISKS MANAGEMENT OF FINANCIAL INSTRUMENTS (continued)**1. Management objectives and policies of risks** (continued)**(4) Liquidity risk** (continued)

As at the date of the balance sheet, the contractual cash flows of financial assets and financial liabilities are presented below by term of maturity:

① 31 December 2019

Item	Within 1 year	1-2 years	2-5 years	Over 5 years	Total
Financial assets:					
Monetary fund	8,855,408,402.78	0.00	0.00	0.00	8,855,408,402.78
Financial assets held for trading	17,191,861.74	0.00	0.00	0.00	17,191,861.74
Bills receivables	952,945,194.97	0.00	0.00	0.00	952,945,194.97
Accounts receivables	1,472,438,936.26	0.00	0.00	0.00	1,472,438,936.26
Other receivables	91,848,022.04	0.00	0.00	0.00	91,848,022.04
Non-current assets due within one year	17,497,288.62	0.00	0.00	0.00	17,497,288.62
Other current assets	93,481,080.00	0.00	0.00	0.00	93,481,080.00
Long-term receivables	0.00	10,828,143.63	0.00	0.00	10,828,143.63
Subtotal:	11,500,810,786.41	10,828,143.63	0.00	0.00	11,511,638,930.04
Financial liabilities:					
Short-term borrowings	1,360,840,657.32	0.00	0.00	0.00	1,360,840,657.32
Financial liabilities held for trading	13,916.00	0.00	0.00	0.00	13,916.00
Bills payables	715,986,816.20	0.00	0.00	0.00	715,986,816.20
Accounts payables	547,102,924.99	0.00	0.00	0.00	547,102,924.99
Other payables	2,016,490,501.54	0.00	0.00	0.00	2,016,490,501.54
Subtotal:	4,640,434,816.05	0.00	0.00	0.00	4,640,434,816.05

② 31 December 2018

Item	Within 1 year	1-2 years	2-5 years	Over 5 years	Total
Financial assets:					
Monetary fund	8,587,927,272.41	0.00	0.00	0.00	8,587,927,272.41
Financial assets held for trading	15,934,738.20	0.00	0.00	0.00	15,934,738.20
Bills receivables	1,029,370,542.77	0.00	0.00	0.00	1,029,370,542.77
Accounts receivables	1,381,706,955.95	0.00	0.00	0.00	1,381,706,955.95
Other receivables	49,482,179.59	0.00	0.00	0.00	49,482,179.59
Non-current assets due within one year	10,869,100.00	0.00	0.00	0.00	10,869,100.00
Other current assets	90,095,643.32	0.00	0.00	0.00	90,095,643.32
Long-term receivables	0.00	10,351,302.50	9,948,207.26	0.00	20,299,509.76
Subtotal:	11,165,386,432.24	10,351,302.50	9,948,207.26	0.00	11,185,685,942.00
Financial liabilities:					
Short-term borrowings	1,500,000,000.00	0.00	0.00	0.00	1,500,000,000.00
Financial liabilities held for trading	85,294.16	0.00	0.00	0.00	85,294.16
Bills payables	718,590,036.85	0.00	0.00	0.00	718,590,036.85
Accounts payables	636,324,506.52	0.00	0.00	0.00	636,324,506.52
Other payables	1,967,100,817.25	0.00	0.00	0.00	1,967,100,817.25
Non-current liabilities due within one year	400,000.00	0.00	0.00	0.00	400,000.00
Long-term borrowings	0.00	0.00	0.00	700,000.00	700,000.00
Subtotal:	4,822,500,654.78	0.00	0.00	700,000.00	4,823,200,654.78

VIII. RISKS MANAGEMENT OF FINANCIAL INSTRUMENTS *(continued)***2. Capital management**

The capital management policies are made to keep the continuous operation of the Company, to enhance the return to shareholders, to benefit other related parties and to maintain the best capital structure to minimize the cost of capital.

For the maintenance or adjustment of the capital structure, the Company might adjust financing method, the amount of dividends paid to shareholders, return capital to shareholders, issue new shares and other equity instrument or make an asset disposal to reduce the liabilities.

The Company monitors the capital structure with capital-to-debt ratio. The ratio is calculated as total liabilities/total assets. On 31 December 2019, the Company's capital-to-debt ratio is 31.71% (31 December 2018: 32.62%).

3. Transfer of financial assets**(1) Transferred financial assets that are not derecognized in their entirety**

Nil.

(2) Financial assets transferred and ceased to be recognized but with involvement of the transferor

On 31 December 2019, the Company's carrying amounts of bank acceptance bills undue and endorsed to suppliers for settling account payables is RMB241,040,490.61 (31 December 2018: RMB132,021,509.40); the Company has no commercial acceptance bills undue and endorsed to suppliers for settling account payables (31 December 2018: RMB0.00). On 31 December 2019, the due dates fall into 1 to 8 months. In accordance with the Law of Negotiable Instruments, the holders of the Derecognized Bills have a right of recourse against the Group if the PRC banks default (the "Continuing Involvement"). In the opinion of the Company, the Company has transferred substantially all risks and rewards. Accordingly, the full carrying amounts of them and the associated account payables have been derecognized. The maximum loss and the undiscounted cash flows from the Continuing Involvement and repurchasing is equal to their carrying amounts. In the opinion of the Company, the fair values of the Continuing Involvement are not significant.

In 2019, no gain or loss was generated by the Company on the date of transfer of the bills. The Company had no current or accumulated gain or expense arising from the Continuing Involvement in financial assets which had been derecognized. The endorsement was incurred evenly throughout the year.

(Unless specified otherwise, all amounts are denominated in RMB)

IX. FAIR VALUE

Based on the inputs of the lowest level that are of great significance to the measurement as a whole in the fair value measurement, the fair value can be categorized as:

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: Observable inputs other than the quoted market price of assets or liabilities in Level 1, either directly (the prices) or indirectly (derived from prices).
- Level 3: Any input that is not based on observable market data (unobservable inputs) is used for assets or liabilities.

(1) Items and amounts measured at fair value

As at 31 December 2019, assets and liabilities measured at fair value are listed as follows based on the three hierarchies set out below:

Item	Level 1 fair value measurement	Level 2 fair value measurement	Level 3 fair value measurement	Total
I. Recurring fair value measurement				
(I) Financial assets held for trading				
1. Debt instrument investments	895,270.68	0.00	0.00	895,270.68
2. Equity instrument investments	14,198,906.96	0.00	0.00	14,198,906.96
3. Derivative financial assets	0.00	2,097,684.10	0.00	2,097,684.10
(II) Other equity instrument investments	0.00	242,276,462.91	237,461,345.95	479,737,808.86
Total assets measured at fair value on a recurring basis	15,094,177.64	244,374,147.01	237,461,345.95	496,929,670.60
(III) Financial liabilities held for trading				
1. Derivative financial liabilities	0.00	13,916.00	0.00	13,916.00
Total liabilities measured at fair value on a recurring basis	0.00	13,916.00	0.00	13,916.00
II. Non-recurring fair value measurement				
Held-for-sale assets	0.00	0.00	0.00	0.00
Total assets measured at fair value on a non-recurring basis	0.00	0.00	0.00	0.00
Total liabilities measured at fair value on a non-recurring basis	0.00	0.00	0.00	0.00

In 2019, there were no transfers of the fair value measurements between level 1 and level 2 and no transfers into or out of level 3.

For financial instruments with active market, the Company measures fair value at quoted price in active market; the Company's debt instruments investment and equity instruments investment held for trading were listed for trading in Shenzhen Stock Exchange and Hong Kong Stock Exchange, the fair value was determined based on the closing price on the last trading date in the Reporting Period.

For financial instrument without active market, the Company measures fair value using valuation techniques. Valuation models used are mainly cash flow discount model and market comparable entity model. Inputs include non-risk interest rate, base rate, foreign exchange rate, credit spread, liquidity premium, lack of liquidity discount, etc.

(Unless specified otherwise, all amounts are denominated in RMB)

IX. FAIR VALUE (continued)**(2) Information about the fair value measurement of level 2**

Item	Fair value at the End of the Year	Valuation techniques
Derivative financial assets	2,097,684.10	The fair value is measured at the forward exchange rates quoted by the respective matured contract
Other equity instrument investments – GLOBAL HEALTH SCIENCE	219,218,806.41	The fair value is determined by the equity amount stated in the entitlement advice provided by the counterparty
Other equity instrument investments – Nextech V Oncology S.C.S., SICAV-SIF	23,057,656.50	The fair value is determined by the equity amount stated in the entitlement advice provided by the counterparty
Derivative financial liabilities	13,916.00	The fair value is measured at the forward exchange rates quoted by the respective matured contract

(3) The quantitative information of important unobservable input used in the Level 3 fair value measurement

Item	Fair value at the End of the Year	Valuation techniques
Other equity instrument investments-China Resources Bank Of Zhuhai Co., Ltd.	112,172,260.00	Market method
Other equity instrument investments-Others	125,289,085.95	Cost method

X. RELATED PARTIES AND RELATED TRANSACTIONS**1. Parent company of the Company**

Name of parent company	Place of registration	Nature of business	Registered capital (RMB0'000)	Percentage of the entity's shareholding held by the parent company (%)	Percentage of the entity's voting rights held by the parent company (%)
Joincare Pharmaceutical Industry Group Co., Ltd. (健康元藥業集團股份有限公司)	Shenzhen	Production and operation of oral liquid, drugs and healthcare food	193,803.33	23.68	23.68

Notes to the parent company of the Company:

As of 31 December 2019, the Company's parent company and its subsidiaries held a total of 418,878,625 shares in the Company, representing 44.81% of the total share capital of the Company. Among these shares, 17,306,329 legal person shares were held in the name of Guangzhou Begol Trading Holdings Limited (廣州保科力貿易公司) and the transfer procedures were not completed. The transfer procedures for other shares were completed.

The ultimate controller of the Company: Zhu Baoguo

(Unless specified otherwise, all amounts are denominated in RMB)

X. RELATED PARTIES AND RELATED TRANSACTIONS (continued)**2. The Company's subsidiaries**

Please refer to note VII.1. for the details of subsidiaries.

3. Joint ventures and associates of the Company

Please refer to note V.11. and note VII.2. for the details of the joint ventures and associates.

Other joint ventures and associates entered into transactions with the Company during the year, or during the prior period with remaining closing balance were as follows:

Name of joint ventures and associates	Relationship with the Group
Guangdong Blue Treasure Pharmaceutical Co., Ltd. (廣東藍寶製藥有限公司)	Associate
Jiangsu Nike Medical Equipment Co., Ltd. (江蘇尼科醫療器械有限公司)	Associate
Shenzhen City Youbao Technology Co., Ltd. (深圳市有寶科技有限公司)	Associate
AbCyt Therapeutics Inc.	Associate
L&L Biopharma, Co. Ltd. (上海健信生物醫藥科技有限公司)	Associate
DOSERNA INC	Associate
Zhuhai Sanmed Biotech Inc. (珠海聖美生物診斷技術有限公司)	Associate
Aetio Biotherapy Inc	Associate

4. Other related parties of the Company

Name of related parties	Relationship with the Group
Shenzhen Haibin Pharmaceutical Co., Ltd. (深圳市海濱製藥有限公司)	A company controlled by the parent company
Xinxiang Haibin Pharmaceutical Co., Ltd. (新鄉海濱藥業有限公司)	A company controlled by the parent company
Jiaozuo Joincare Pharmaceutical Industry Co., Ltd. (焦作健康元生物製品有限公司)	A company controlled by the parent company
Zhuhai Joincare Pharmaceutical Co., Ltd. (珠海健康元生物醫藥有限公司)	A company controlled by the parent company
Health Pharmaceutical (China) Co., Ltd. (健康藥業(中國)有限公司)	A company controlled by the parent company
Shenzhen Taitai Pharmaceutical Co., Ltd. (深圳太太藥業有限公司)	A company controlled by the parent company
Shenzhen Taitai Biotechnology Co., Ltd. (深圳太太生物科技有限公司)	A company controlled by the parent company
Shenzhen Taitai Gene Engineering Co., Ltd. (深圳太太基因工程有限公司)	A company controlled by the parent company
Topsino Industries Limited (天誠實業有限公司)	A company controlled by the parent company
Guangzhou Joincare Respiratory Drugs Engineering Technology Co., Ltd. (廣州健康元呼吸藥物工程技術有限公司)	A company controlled by the parent company
Joincare Pharmaceutical Group Industry Co., Ltd.	A company controlled by the parent company
EPIRUS SWITZERLAND GmbH	A subsidiary of the company in which a Director of the Company is holding position
LUNGLIFE AI, INC.	A company in which a Director of the Company is holding position
Zhuhai Medpha Biotechnology Co., Ltd. (珠海麥得發生物科技股份有限公司)	A company in which a senior management of the Company is holding position
Zhuhai Xianghetai Investment Management Partnership (Limited Partnership) (珠海祥和泰投資管理合夥企業(有限合夥))	An enterprise controlled by a senior management of the Company
Zhuhai Hengqin New Area Guanlian Gu Investment Partnership (Limited Partnership)(珠海橫琴新區觀聯谷投資合夥企業(有限合夥))	An enterprise controlled by a director of the subsidiary of the Company
Zhuhai Zhenghe Co., Ltd. (珠海正禾企業有限公司)	An enterprise controlled by a director of the subsidiary of the Company
Zhuhai Zhong Hui Yuan Investment Partnership (Limited Partnership) (珠海中匯源投資合夥企業(有限合夥))	An enterprise controlled by a Director
Zhuhai Liying Investment Management Partnership (Limited Partnership) (珠海麗英投資管理合夥企業(有限合夥))	An enterprise controlled by a Director
Directors, Supervisors and other senior managements	Key managements

(Unless specified otherwise, all amounts are denominated in RMB)

X. RELATED PARTIES AND RELATED TRANSACTIONS (continued)**5. Related transactions****(1) Purchase and sales**

① Purchase of goods, receipt of services

Related party	Description of related party transaction	Pricing basis and decision making procedures of the related party transactions	For the Current Year	For the Previous Year
Guangdong Blue Treasure Pharmaceutical Co., Ltd. (廣東藍寶製藥有限公司)	Raw materials	The market price	3,177,069.88	1,199,464.89
Shenzhen Haibin Pharmaceutical Co., Ltd. (深圳市海濱製藥有限公司)	Raw materials	The market price	33,812,589.00	45,576,186.61
Joicare Pharmaceutical Industry Group Co., Ltd. (健康元藥業集團股份有限公司)	Finished goods	The market price	341,451.84	408,382.72
Shenzhen Taitai Pharmaceutical Co., Ltd. (深圳太太藥業有限公司)	Finished goods	The market price	1,446.37	1,672.13
Shenzhen Taitai Biotechnology Co., Ltd. (深圳太太生物科技有限公司)	Finished goods	The market price	26,400.00	0.00
Zhuhai Sanmed Biotech Inc. (珠海聖美生物診斷技術有限公司)	Finished goods	The market price	728,893.83	502,381.39
LUNGLIFE AI, INC.	Raw materials	The market price	40,287.49	382,217.65
Jiaozuo Joicare Pharmaceutical Industry Co., Ltd. (焦作健康元生物製品有限公司)	Raw materials	The market price	288,017,792.41	344,378,058.38
Purchase of goods in aggregate			326,145,930.82	392,448,363.77
Jiaozuo Joicare Pharmaceutical Industry Co., Ltd. (焦作健康元生物製品有限公司)	Water and power	The market price	16,347,160.93	10,279,028.82
Zhuhai Sanmed Biotech Inc. (珠海聖美生物診斷技術有限公司)	Test	The market price	16,000.00	0.00
Receipt of services in aggregate			16,363,160.93	10,279,028.82

(Unless specified otherwise, all amounts are denominated in RMB)

X. RELATED PARTIES AND RELATED TRANSACTIONS (continued)**5. Related transactions** (continued)**(1) Purchase and sales** (continued)

② Sales of goods, provision of services

Related party	Description of related party transaction	Pricing basis and decision making procedures of the related party transactions	For the Current Year	For the Previous Year
Guangdong Blue Treasure Pharmaceutical Co., Ltd. (廣東藍寶製藥有限公司)	Finished goods	The market price	35,646,830.76	20,339,946.77
Jiaozuo Joicare Pharmaceutical Industry Co., Ltd. (焦作健康元生物製品有限公司)	Raw materials	The market price	8,747,588.89	57,331,039.08
Shenzhen Haibin Pharmaceutical Co., Ltd. (深圳市海濱製藥有限公司)	Finished goods	The market price	637,304.13	277,798.02
Shenzhen Taitai Pharmaceutical Co., Ltd. (深圳太太藥業有限公司)	Finished goods	The market price	477,876.11	631,529.35
Zhuhai Sanmed Biotech Inc. (珠海聖美生物診斷技術有限公司)	Finished goods and raw materials	The market price	1,015,965.22	197,201.34
Zhuhai Medpha Biotechnology Co., Ltd. (珠海麥得發生物科技股份有限公司)	Macromolecule materials	Based on negotiation	194,218.22	0.00
Xinxiang Haibin Pharmaceutical Co., Ltd. (新鄉海濱藥業有限公司)	Raw materials	The market price	0.00	73,103.45
Sales of goods in aggregate			46,719,783.33	78,850,618.01
Guangdong Blue Treasure Pharmaceutical Co. Ltd. (廣東藍寶製藥有限公司)	Water and power	The market price	5,757,828.10	4,112,149.53
Zhuhai Joicare Pharmaceutical Co., Ltd. (珠海健康元生物醫藥有限公司)	Water and power	The market price	0.00	194,495.79
Zhuhai Sanmed Biotech Inc. (珠海聖美生物診斷技術有限公司)	Water and power	The market price	530,136.90	0.00
Provision of services in aggregate			6,287,965.00	4,306,645.32
Shenzhen Haibin Pharmaceutical Co., Ltd. (深圳市海濱製藥有限公司)	Processing fee and check	Based on negotiation	185,402.53	3,000.00
Zhuhai Sanmed Biotech Inc. (珠海聖美生物診斷技術有限公司)	Processing fee and check	Based on negotiation	1,090.91	2,900.00
Jiaozuo Joicare Pharmaceutical Industry Co., Ltd. (焦作健康元生物製品有限公司)	Processing fee and check	Based on negotiation	141,165.95	0.00
Joicare Pharmaceutical Industry Group Co., Ltd. (健康元藥業集團股份有限公司)	Processing fee and check	Based on negotiation	686,587.19	0.00
Shenzhen Taitai Pharmaceutical Co., Ltd. (深圳太太藥業有限公司)	Processing fee and check	Based on negotiation	146,085.46	0.00
Provision of services in aggregate			1,160,332.04	5,900.00

(Unless specified otherwise, all amounts are denominated in RMB)

X. RELATED PARTIES AND RELATED TRANSACTIONS (continued)

5. Related transactions (continued)

(2) Related party leases

① The Company as a lessor

Name of lessee	Type of leased assets	Lease income recognized for the Current Year	Lease income recognized for the Previous Year
Zhuhai Joicare Pharmaceutical Co., Ltd. (珠海健康元生物醫藥有限公司)	Plant & buildings, equipment	0.00	37,705.46
Health Pharmaceutical (China) Co., Ltd. (健康藥業(中國)有限公司)	Plant & buildings	91,486.98	90,588.96
Zhuhai Sanmed Biotech Inc. (珠海聖美生物診斷技術有限公司)	Plant & buildings	3,194,214.90	1,063,242.67

② The Company as a lessee

Name of lessor	Type of leased assets	Lease expenses recognized for the Current Year	Lease expenses recognized for the Previous Year
Joicare Pharmaceutical Industry Group Co., Ltd. (健康元藥業集團股份有限公司)	Plant & buildings	779,431.52	772,346.94
Jiaozuo Joicare Pharmaceutical Industry Co., Ltd. (焦作健康元生物製品有限公司)	Plant & buildings, equipment	1,779,770.12	501,192.96

(3) Related party asset transfers and debt restructuring

Related party	Description of related party transaction	For the Current Year	For the Previous Year
Zhuhai Sanmed Biotech Inc. (珠海聖美生物診斷技術有限公司)	Procurement of equipment	0.00	5,456,389.12
Jiaozuo Joicare Pharmaceutical Industry Co., Ltd. (焦作健康元生物製品有限公司)	Sales of equipment	393,176.83	0.00
Jiaozuo Joicare Pharmaceutical Industry Co., Ltd. (焦作健康元生物製品有限公司)	Procurement of equipment	0.00	1,083,645.67
Zhuhai Joicare Pharmaceutical Co., Ltd. (珠海健康元生物醫藥有限公司)	Procurement of equipment	0.00	9,971,615.14
LUNGLIFE AI, INC.	Procurement of equipment	0.00	799,570.58
LUNGLIFE AI, INC.	Acquisition of technical know-how	0.00	6,583,554.46
L&L Biopharma, Co. Ltd. (上海健信生物醫藥科技有限公司)	Acquisition of technical know-how	1,886,792.40	3,886,792.40
AbCyte Therapeutics Inc.	Acquisition of technical know-how	702,140.00	13,585,800.00
Xinxiang Haibin Pharmaceutical Co., Ltd. (新鄉海濱藥業有限公司)	Sales of equipment	601,509.31	0.00

(Unless specified otherwise, all amounts are denominated in RMB)

X. RELATED PARTIES AND RELATED TRANSACTIONS (continued)**5. Related transactions** (continued)**(4) Related party guarantees**

- ① The details on the guarantees provided to the subsidiaries by the Company were set out as follows

A. Bank loans guaranteed

Amount denominated: RMB' 0,000

Name of guaranteed party	Actual date of event (Signing date of the Agreement)	Balance at the End of the Year	Actual guaranteed amount	Guaranteed amount	Description and type of guarantee	Period of guarantee
Livzon Group Livzon Pharmaceutical Factory (麗珠集團麗珠製藥廠)	2016.11.30	2,322.32	2,322.32	17,000.00	Opening the letter of Guarantee and bank acceptance bills, joint liability guarantee	2016.11.30-2019.11.30 (Bank of Communications)
Livzon Group Livzon Pharmaceutical Factory (麗珠集團麗珠製藥廠)	2018.05.07	6,340.17	6,340.17	20,000.00	Opening bank acceptance bills, joint liability guarantee	2018.04.08-2020.04.08 (Industrial and Commercial Bank of China)
Zhuhai Livzon Diagnostics Inc. (珠海麗珠試劑股份有限公司)	2017.10.09	3,582.82	3,582.82	10,000.00	Opening the letter of guarantee and bank acceptance bills, joint liability guarantee	2017.08.22-2022.08.21 (Standard Chartered Bank)
Zhuhai Livzon Diagnostics Inc. (珠海麗珠試劑股份有限公司)	2019.10.16	314.14	314.14	4,000.00	Opening the letter of guarantee, joint liability guarantee	2019.10.16-2022.07.17 (Bank of China)
Livzon MABPharm Inc. (珠海市麗珠單抗生物技術有限公司)	2016.06.22	1,864.31	1,864.31	5,000.00	Opening bank acceptance bills, joint liability guarantee	2016.06.22-2019.12.26 (Bank of Communications)
Zhuhai FTZ Livzon Hecheng Pharmaceutical Manufacturing Co., Ltd. (珠海保稅區麗珠合成製藥有限公司)	2016.12.26	175.00	175.00	20,000.00	Opening the letter of guarantee, joint liability guarantee	2016.12.26-2019.12.26 (Bank of Communications)
Zhuhai FTZ Livzon Hecheng Pharmaceutical Manufacturing Co., Ltd. (珠海保稅區麗珠合成製藥有限公司)	2017.10.09	7,129.29	7,129.29	12,000.00	Opening bank acceptance bills, joint liability guarantee	2017.08.22-2022.08.21 (Standard Chartered Bank)

(Unless specified otherwise, all amounts are denominated in RMB)

X. RELATED PARTIES AND RELATED TRANSACTIONS (continued)**5. Related transactions** (continued)**(4) Related party guarantees** (continued)

- ① The details on the guarantees provided to the subsidiaries by the Company were set out as follows (continued)

A. Bank loans guaranteed (continued)

Amount denominated: RMB' 0,000

Name of guaranteed party	Actual date of event (Signing date of the Agreement)	Balance at the End of the Year	Actual guaranteed amount	Guaranteed amount	Description and type of guarantee	Period of guarantee
Livzon Group Fuzhou Fuxing Pharmaceutical Co., Ltd. (麗珠集團福州福興醫藥有限公司)	2018.08.07	3,608.51	3,608.51	10,000.00	Opening bank acceptance bills, joint liability guarantee	2018.07.20-2023.07.19 (Standard Chartered Bank)
Sichuan Guangda Pharmaceutical Manufacturing Co., Ltd. (四川光大製藥有限公司)	2018.08.07	3,012.63	3,012.63	5,000.00	Opening bank acceptance bills, joint liability guarantee	2018.07.20-2023.07.19 (Standard Chartered Bank)
Livzon Group (Ningxia) Pharmaceutical Manufacturing Co., Ltd. (麗珠集團(寧夏)製藥有限公司)	2018.08.07	11,804.26	11,804.26	14,000.00	Opening bank acceptance bills, joint liability guarantee	2018.07.20-2023.07.19 (Standard Chartered Bank)
Jiaozuo Livzon Hecheng Pharmaceutical Manufacturing Co., Ltd. (焦作麗珠合成製藥有限公司)	2018.08.07	4,551.70	4,551.70	5,000.00	Opening bank acceptance bills, joint liability guarantee	2018.07.20-2023.07.19 (Standard Chartered Bank)
Livzon Group Xinbeijiang Pharmaceutical Manufacturing Inc. (麗珠集團新北江製藥股份有限公司)	2018.08.07	1,927.30	1,927.30	8,100.00	Opening bank acceptance bills, joint liability guarantee	2018.07.20-2023.07.19 (Standard Chartered Bank)
Zhuhai Livzon Pharmaceutical Trading Co., Ltd. (珠海市麗珠醫藥貿易有限公司)	2019.07.10	6,886.23	6,886.23	8,000.00	Opening bank acceptance bills, joint liability guarantee	2019.07.10—2020.07.10 (Minsheng Bank)
Total actual amount guaranteed for subsidiaries during the Reporting Period			118,302.41			
Total balance of actual amount guaranteed for subsidiaries at the end of the Reporting Period			53,518.69			

(Unless specified otherwise, all amounts are denominated in RMB)

X. RELATED PARTIES AND RELATED TRANSACTIONS (continued)**5. Related transactions** (continued)**(4) Related party guarantees** (continued)

- ① The details on the guarantees provided to the subsidiaries by the Company were set out as follows (continued)

B. Bill pledges guaranteed

On 23 April 2018, the thirteenth meeting of the Ninth Session of the Board of Directors of the Company reviewed and approved “the Resolution on Conducting Notes Pool Business” and agreed that an amount not exceeding RMB1.4 billion for conducting notes pool business is to be shared by the Company and its subsidiaries. The amount of funds may be re-utilized. As of 31 December 2019, the bill pledges guaranteed are as follows:

Amount denominated: RMB' 0,000

Guarantor	Pledgee	Bill pledge amount receivable	Name of guaranteed party	Description of guarantee	Guaranteed amount	Period of guarantee
The Company	Industrial and Commercial Bank of China (工商銀行)	1,152.75	Livzon Group Limin Pharmaceutical Manufacturing Factory (麗珠集團利民製藥廠)	Opening bank acceptance bills, joint liability guarantee	212.08	Till 2020.05.24
			Livzon Group Livzon Pharmaceutical Factory (麗珠集團麗珠製藥廠)	Opening bank acceptance bills, joint liability guarantee	736.78	Till 2020.05.21
			Zhuhai FTZ Livzon Hecheng Pharmaceutical Manufacturing Co., Ltd. (珠海保稅區麗珠合成製藥有限公司)	Opening bank acceptance bills, joint liability guarantee	679.11	Till 2020.07.15
			Livzon Group Livzon Pharmaceutical Factory (麗珠集團麗珠製藥廠)	Opening bank acceptance bills, joint liability guarantee	3,973.42	Till 2020.06.24
	China Merchants Bank (招商銀行)	19,688.32	Jiaozuo Livzon Hecheng Pharmaceutical Manufacturing Co., Ltd. (焦作麗珠合成製藥有限公司)	Opening bank acceptance bills, joint liability guarantee	6,038.46	Till 2020.06.18
			Livzon Group Fuzhou Fuxing Pharmaceutical Co., Ltd. (麗珠集團福州福興醫藥有限公司)	Opening bank acceptance bills, joint liability guarantee	840.74	Till 2020.06.19
			Sichuan Guangda Pharmaceutical Manufacturing Co., Ltd. (四川光大製藥有限公司)	Opening bank acceptance bills, joint liability guarantee	1,255.16	Till 2020.06.16
			Livzon Group (Ningxia) Pharmaceutical Manufacturing Co., Ltd. (麗珠集團(寧夏)製藥有限公司)	Opening bank acceptance bills, joint liability guarantee	6,283.22	Till 2020.06.24
			Livzon Group Limin Pharmaceutical Manufacturing Factory (麗珠集團利民製藥廠)	Opening bank acceptance bills, joint liability guarantee	176.64	Till 2020.04.11
Total balance of actual amount guaranteed for subsidiaries at the end of the Reporting Period					20,195.61	

② Subsidiaries' guarantees to subsidiaries

Lizhu (Hong Kong) Co., Limited (麗珠(香港)有限公司) provided guarantee for Ando Development Limited (安滔發展有限公司) in respect of the borrowings of USD 30 million granted by Hongkong and Shanghai Banking Corporation Limited with a guarantee period from 20 February 2019 to 5 December 2020.

(Unless specified otherwise, all amounts are denominated in RMB)

X. RELATED PARTIES AND RELATED TRANSACTIONS *(continued)*

5. Related transactions *(continued)*

(4) Related party guarantees *(continued)*

③ Guarantee provided to the Company by related parties

Joincare Pharmaceutical Industry Group Co., Ltd., the other shareholder of Livzon MABPharm Inc. has provided a "Letter of Undertaking for Counter Guarantee", pursuant to which it has undertaken to provide a joint liability guarantee for 35.75% of the obligation of the Company under the guarantee granted to Livzon MABPharm Inc. and the guarantee period of which will be expired on the expiry date of the Company's obligation thereunder.

Zhuhai Zhenghe Co., Ltd. (珠海正禾企業有限公司), the other shareholder of Zhuhai Livzon Diagnostics Inc. (珠海麗珠試劑股份有限公司) has provided a "Letter of Undertaking for Counter Guarantee", pursuant to which it has undertaken to provide counter guarantee for 49% of the abovementioned guarantee credit for Zhuhai Livzon Diagnostics Inc. (珠海麗珠試劑股份有限公司) and the guarantee period of which will be expired on the expiry date of the credit.

Zhuhai Zhong Hui Yuan Investment Partnership (Limited Partnership) (珠海中匯源投資合夥企業 (有限合夥)), the other shareholder of Livzon Group Xinbeijiang Pharmaceutical Manufacturing Inc. (麗珠集團新北江製藥股份有限公司) has provided a "Letter of Undertaking for Counter Guarantee", pursuant to which it has undertaken to provide a joint liability guarantee for 8.44% of the obligation of the Company under the guarantee granted to Livzon Group Xinbeijiang Pharmaceutical Manufacturing Inc. and the guarantee period of which will be expired on the expiry date of the Company's obligation thereunder.

(Unless specified otherwise, all amounts are denominated in RMB)

X. RELATED PARTIES AND RELATED TRANSACTIONS (continued)**5. Related transactions** (continued)**(5) Remuneration of key management personnel**

- ① Directors', supervisors' and senior management's remuneration is disclosed as follows

2019

Amount denominated: RMB' 0,000

	Fees of Director/ Supervisor	Salaries and allowances	Social insurance	Housing provident fund	Bonus	Signing bonus	Compensation for loss of office	Others	Total
Directors:									
Zhu Baoguo (朱保國)	325.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	325.00
Tao Desheng (陶德勝)	300.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	300.00
Tang Yanggang (唐陽剛)	6.60	101.54	3.05	1.27	227.66	0.00	0.00	1.50	341.62
Xu Guoxiang (徐國祥)	226.80	92.31	3.98	1.27	94.62	0.00	0.00	9.05	428.03
Fu Daotian (傅道田)	5.40	67.50	1.73	0.00	20.00	0.00	0.00	43.00	137.63
Qiu Qingfeng (邱慶豐)	7.20	0.00	0.00	0.00	0.00	0.00	0.00	0.00	7.20
Independent Directors:									
Xu Yanjun (徐焱軍)	9.60	0.00	0.00	0.00	0.00	0.00	0.00	0.00	9.60
Guo Guoqing (郭國慶)	5.60	0.00	0.00	0.00	0.00	0.00	0.00	0.00	5.60
Wang Xiaojun (王小軍)	7.20	0.00	0.00	0.00	0.00	0.00	0.00	0.00	7.20
Zheng Zhihua (鄭志華)	9.60	0.00	0.00	0.00	0.00	0.00	0.00	0.00	9.60
Xie Yun (謝耘)	9.60	0.00	0.00	0.00	0.00	0.00	0.00	0.00	9.60
Tian Qiusheng (田秋生)	2.40	0.00	0.00	0.00	0.00	0.00	0.00	0.00	2.40
Wong Kam Wa (黃錦華)	2.40	0.00	0.00	0.00	0.00	0.00	0.00	0.00	2.40
Supervisors:									
Wang Maolin (汪卯林)	4.20	50.77	4.38	1.27	63.97	0.00	0.00	0.00	124.59
Tang Yin (湯胤)	3.60	0.00	0.00	0.00	0.00	0.00	0.00	0.00	3.60
Huang Huamin (黃華敏)	3.60	0.00	0.00	0.00	0.00	0.00	0.00	0.00	3.60
Other senior management:									
Yang Daihong (楊代宏)	0.00	83.08	4.43	1.27	130.93	0.00	0.00	0.00	219.71
Si Yanxia (司燕霞)	0.00	81.23	4.42	1.27	73.00	0.00	0.00	0.00	159.92
Zhou Peng (周鵬)	0.00	70.85	4.41	1.27	249.38	0.00	0.00	0.00	325.91
Huang Yuxuan (黃喻璇)	0.00	64.82	3.79	2.87	188.24	0.00	0.00	0.28	260.00
Dai Weiguo (戴衛國)	0.00	109.76	2.22	0.00	0.00	0.00	0.00	0.00	111.98
Yang Liang (楊亮)	0.00	55.85	4.38	1.27	57.87	0.00	0.00	0.00	119.37
Total	928.80	777.71	36.79	11.76	1,105.67	0.00	0.00	53.83	2,914.56

Mr. Dai Weiguo was appointed in April 2019; Mr. Tian Qiusheng was appointed in October 2019; Mr. Wong Kam Wa was appointed in October 2019; Mr. Guo Guoqing has retired in July 2019; Mr. Fu Daotian has resigned in September 2019; Mr. Wang Xiaojun has retired in September 2019.

(Unless specified otherwise, all amounts are denominated in RMB)

X. RELATED PARTIES AND RELATED TRANSACTIONS (continued)**5. Related transactions** (continued)**(5) Remuneration of key management personnel** (continued)

- ① Directors', supervisors' and senior management's remuneration is disclosed as follows (continued)

2018

Amount denominated: RMB' 0,000

	Fees of Director/ Supervisor	Salaries and allowances	Social insurance	Housing provident fund	Bonus	Signing bonus	Compensation for loss of office	Others	Total
Directors:									
Zhu Baoguo (朱保國)	9.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	9.00
Tao Desheng (陶德勝)	7.20	110.77	4.82	1.16	203.38	0.00	0.00	40.37	367.70
Fu Daotian (傅道田)	7.20	72.84	2.39	0.00	43.65	0.00	0.00	0.00	126.08
Xu Guoxiang (徐國祥)	7.20	92.30	4.57	1.16	213.85	0.00	0.00	16.31	335.39
Qiu Qingfeng (邱慶豐)	7.20	0.00	0.00	0.00	0.00	0.00	0.00	0.00	7.20
Independent Directors:									
Xu Yanjun (徐焱軍)	9.60	0.00	0.00	0.00	0.00	0.00	0.00	0.00	9.60
Guo Guoqing (郭國慶)	9.60	0.00	0.00	0.00	0.00	0.00	0.00	0.00	9.60
Wang Xiaojun (王小軍)	9.60	0.00	0.00	0.00	0.00	0.00	0.00	0.00	9.60
Zheng Zhihua (鄭志華)	9.60	0.00	0.00	0.00	0.00	0.00	0.00	0.00	9.60
Xie Yun (謝耘)	9.60	0.00	0.00	0.00	0.00	0.00	0.00	0.00	9.60
Supervisors:									
Wang Maolin (汪卯林)	4.20	50.77	4.65	1.16	77.92	0.00	0.00	13.31	152.01
Tang Yin (湯胤)	3.60	0.00	0.00	0.00	0.00	0.00	0.00	0.00	3.60
Huang Huamin (黃華敏)	3.60	0.00	0.00	0.00	0.00	0.00	0.00	0.00	3.60
Other senior management:									
Tang Yanggang (唐陽剛)	0.00	79.97	2.71	2.38	163.36	0.00	0.00	17.97	266.39
Yang Daihong (楊代宏)	0.00	83.08	4.74	1.16	114.63	0.00	0.00	31.88	235.49
Lu Wenqi (陸文岐)	0.00	47.38	0.00	0.66	100.44	0.00	0.00	16.28	164.76
Si Yanxia (司燕霞)	0.00	73.85	4.71	1.16	141.35	0.00	0.00	29.50	250.57
Zhou Peng (周鵬)	0.00	67.31	4.69	1.16	222.27	0.00	0.00	30.75	326.18
Huang Yuxuan (黃瑜璇)	0.00	50.73	1.55	2.50	127.32	0.00	0.00	7.10	189.20
Yang Liang (楊亮)	0.00	55.85	4.66	1.16	111.62	0.00	0.00	18.38	191.67
Total	97.20	784.85	39.49	13.66	1,519.79	0.00	0.00	221.85	2,676.84

Mr. Tang Yanggang (唐陽剛) was appointed in July 2018; Mr. Lu Wenqi (陸文岐) has resigned in July 2018; Ms. Huang Yuxuan (黃瑜璇) was appointed in September 2018.

(Unless specified otherwise, all amounts are denominated in RMB)

X. RELATED PARTIES AND RELATED TRANSACTIONS (continued)**5. Related transactions** (continued)**(5) Remuneration of key management personnel** (continued)

② Individuals with highest emoluments

The emoluments of two and four of the five highest paid individuals were directors of the Company for 2018 and 2019, respectively. The rest were senior management of the Company (three and one for 2018 and 2019, respectively). The remuneration of the five highest paid individuals were already disclosed in note X.5.(5) "Remuneration of key management personnel", the emoluments of the five highest paid individuals were within the following bands:

Item	2019	2018
Number of individuals within the band of \$0-\$1,000,000	—	—
Number of individuals within the band of \$1,000,001-\$1,500,000	—	—
Number of individuals within the band of \$1,500,001-\$2,000,000	—	—
Number of individuals within the band of \$2,000,001-\$2,500,000	—	—
Number of individuals within the band of \$2,500,001-\$3,000,000	1	2
Number of individuals within the band of \$3,000,001-\$3,500,000	3	2
Number of individuals within the band of \$3,500,001-\$4,000,000	—	1
Number of individuals within the band of \$4,000,001-\$4,500,000	1	—

③ Emoluments band of senior management

Item	2019	2018
Number of individuals within the band of \$0-\$1,000,000	—	—
Number of individuals within the band of \$1,000,001-\$1,500,000	3	1
Number of individuals within the band of \$1,500,001-\$2,000,000	1	3
Number of individuals within the band of \$2,000,001-\$2,500,000	1	1
Number of individuals within the band of \$2,500,001-\$3,000,000	1	2
Number of individuals within the band of \$3,000,001-\$3,500,000	2	2
Number of individuals within the band of \$3,500,001-\$4,000,000	—	1
Number of individuals within the band of \$4,000,001-\$4,500,000	1	—

(Unless specified otherwise, all amounts are denominated in RMB)

X. RELATED PARTIES AND RELATED TRANSACTIONS *(continued)*

5. Related transactions *(continued)*

(6) Other affiliated transactions

On 8 November 2019, the 34th meeting of the ninth session of the Board of directors of the Company considered and approved the "Proposal on the Sale of Some Equity of Holding Subsidiaries and Related Transaction" and agreed that the Company would transfer its 9.5% equity interest (totally 8,382,100 shares) in Zhuhai Livzon Diagnostics Inc. (珠海麗珠試劑股份有限公司) to Zhuhai Liying Investment Management Partnership (Limited Partnership) (珠海麗英投資管理合夥企業(有限合夥)) at a consideration of RMB21,122,892. The two parties signed the Zhuhai Lizhu Reagent Co., Ltd. Share Transfer Agreement. According to the agreement, the Company has received the first payment of RMB14,112,000 for the equity transfer, and the remaining amount will be paid before 31 December 2020.

The cash dividend of RMB735,912.64 allocated to the corresponding shares of equity interests that have not yet been paid by Zhuhai Zhong Hui Yuan Investment Partnership (Limited Partnership) (珠海中匯源投資合夥企業(有限合夥)) attributed to the Company.

(Unless specified otherwise, all amounts are denominated in RMB)

X. RELATED PARTIES AND RELATED TRANSACTIONS (continued)**6. Amounts due from/to related parties****(1) Amounts due from related parties**

Item	Related parties	Balance at the End of the Year		Balance at the Beginning of the Year	
		Gross amount	Provision for bad debts	Gross amount	Provision for bad debts
Bills receivables	Xinxiang Haibin Pharmaceutical Co., Ltd. (新鄉海濱藥業有限公司)	600,000.00	0.00	0.00	0.00
Sub-total of bills receivables		600,000.00	0.00	0.00	0.00
Accounts receivables	Guangdong Blue Treasure Pharmaceutical Co. Ltd. (廣東藍寶製藥有限公司)	14,005,640.00	141,456.96	0.00	0.00
Accounts receivables	Joincare Pharmaceutical Industry Group Co., Ltd. (健康元藥業集團股份有限公司)	146,240.48	1,447.78	0.00	0.00
Accounts receivables	Shenzhen Haibin Pharmaceutical Co., Ltd. (深圳市海濱製藥有限公司)	337,130.00	16,777.70	0.00	0.00
Accounts receivables	Jiaozuo Joincare Pharmaceutical Industry Co., Ltd. (焦作健康元生物製品有限公司)	0.00	0.00	0.00	0.00
Accounts receivables	Shenzhen Taitai Pharmaceutical Co., Ltd. (深圳太太藥業有限公司)	415,862.33	58,098.72	250,727.88	2,507.28
Accounts receivables	Zhuhai Sanmed Biotech Inc. (珠海聖美生物診斷技術有限公司)	75,644.81	764.01	43,093.37	1,568.85
Sub-total of accounts receivables		14,980,517.62	218,545.17	293,821.25	4,076.13
Prepayments	Joincare Pharmaceutical Industry Group Co., Ltd. (健康元藥業集團股份有限公司)	126,840.00	0.00	25,983.80	0.00
Sub-total of prepayments		126,840.00	0.00	25,983.80	0.00
Other receivables	Joincare Pharmaceutical Industry Group Co., Ltd. (健康元藥業集團股份有限公司)	0.00	0.00	240.00	24.00
Other receivables	Guangdong Blue Treasure Pharmaceutical Co. Ltd. (廣東藍寶製藥有限公司)	984,818.54	13,590.50	530,858.53	5,308.59
Other receivables	Zhuhai Sanmed Biotech Inc. (珠海聖美生物診斷技術有限公司)	25,076.38	253.27	178,043.93	1,780.44
Other receivables	Shenzhen Haibin Pharmaceutical Co., Ltd. (深圳市海濱製藥有限公司)	124,161.94	4,134.59	0.00	0.00
Sub-total of accounts receivables		1,134,056.86	17,978.36	709,142.46	7,113.03
Non-current assets due within one year	Zhuhai Zhong Hui Yuan Investment Partnership (Limited Partnership) (珠海中匯源投資合夥企業(有限合夥))	10,486,396.62	0.00	10,869,100.00	0.00
Non-current assets due within one year	Zhuhai Liying Investment Management Partnership (Limited Partnership) (珠海麗英投資管理合夥企業(有限合夥))	7,010,892.00	0.00	0.00	0.00
Sub-total of non-current assets due within one year		17,497,288.62	0.00	10,869,100.00	0.00
Long-term receivables	Zhuhai Zhong Hui Yuan Investment Partnership (Limited Partnership) (珠海中匯源投資合夥企業(有限合夥))	10,828,143.63	0.00	20,299,509.76	0.00
Sub-total of long-term receivables		10,828,143.63	0.00	20,299,509.76	0.00
Other non-current assets	AbCyte Therapeutics Inc.	14,287,940.00	0.00	13,585,800.00	0.00
Other non-current assets	L&L Biopharma, Co. Ltd. (上海健信生物醫藥科技有限公司)	0.00	0.00	1,886,792.40	0.00
Other non-current assets	Zhuhai Sanmed Biotech Inc. (珠海聖美生物診斷技術有限公司)	1,564,630.06	0.00	1,353,430.06	0.00
Other non-current assets	LUNGLIFE AI, INC.	0.00	0.00	1,053,767.89	0.00
Sub-total of other non-current assets		15,852,570.06	0.00	17,879,790.35	0.00

(Unless specified otherwise, all amounts are denominated in RMB)

X. RELATED PARTIES AND RELATED TRANSACTIONS (continued)**6. Amounts due from/to related parties** (continued)**(2) Amounts due to related parties**

Item	Related parties	Balance at the End of the Year	Balance at the Beginning of the Year
Bills payables	Jiaozuo Joicare Pharmaceutical Industry Co., Ltd. (焦作健康元生物製品有限公司)	99,379,985.40	51,931,079.39
Bills payables	Shenzhen Haibin Pharmaceutical Co., Ltd. (深圳市海濱製藥有限公司)	19,067,180.00	9,701,962.00
Bills payables	Guangdong Blue Treasure Pharmaceutical Co. Ltd. (廣東藍寶製藥有限公司)	0.00	597,080.00
Sub-total of bills payables		118,447,165.40	62,230,121.39
Payables	Guangdong Blue Treasure Pharmaceutical Co. Ltd. (廣東藍寶製藥有限公司)	108,560.00	0.00
Payables	Shenzhen Haibin Pharmaceutical Co., Ltd. (深圳市海濱製藥有限公司)	7,214,020.00	0.00
Payables	Joicare Pharmaceutical Industry Group Co., Ltd. (健康元藥業集團股份有限公司)	0.00	12,960.00
Payables	Jiaozuo Joicare Pharmaceutical Industry Co., Ltd. (焦作健康元生物製品有限公司)	103,335,544.53	198,530,203.10
Payables	Zhuhai Sanmed Biotech Inc. (珠海聖美生物診斷技術有限公司)	920,007.97	6,113,884.26
Sub-total of payables		111,578,132.50	204,657,047.36
Dividends payable	Zhuhai Zhenghe Co., Ltd. (珠海正禾企業有限公司)	81,760,934.22	90,004,303.71
Dividends payable	Zhuhai Zhong Hui Yuan Investment Partnership (Limited Partnership) (珠海中匯源投資合夥企業(有限合夥))	1,466,606.04	0.00
Sub-total of dividends payable		83,227,540.26	90,004,303.71
Other payables	Jiaozuo Joicare Pharmaceutical Industry Co., Ltd. (焦作健康元生物製品有限公司)	7,106,655.80	5,787,078.06

XI. SHARE-BASED PAYMENT**1. General information about share-based payment**

Total equity instruments granted during the Current Period by the Company (Share)	15,203,080
Total equity instruments exercised during the Current Period by the Company (Share)	12,678,580
Total equity instruments of the Company expired during the Current Period (Share)	—
Range of exercise price of share option of the Company outstanding and remaining term of contract as at the End of the Period	Note 1
Range of exercise price of other equity instruments of the Company and remaining term of contract as at the End of the Period	Note 2

(Unless specified otherwise, all amounts are denominated in RMB)

XI. SHARE-BASED PAYMENT *(continued)*

1. General information about share-based payment *(continued)*

Note 1: Share Option

① On 5 September 2018, the “Resolution on 2018 Share Options Incentive Scheme (Revised Draft) and its summary”, the “Resolution on Administrative Measures for Appraisal System of the 2018 Share Options Incentive Scheme of Livzon Pharmaceutical Group Inc.*” and the “Resolution on the General Meeting For Granting Mandate to the Board to Deal with Matters Regarding the 2018 Share Options Incentive Scheme” were considered and approved at the 2018 Third Extraordinary General Meeting, the 2018 Third Class Meeting of A Shareholders and the 2018 Third Class Meeting of H Shareholders. On 11 September 2018, the “Resolution in Relation to the Adjustment of the List of Incentive Participants of the First Grant and the Quantity to be Granted for the First Grant under 2018 Share Options Incentive Scheme” and the “Resolution on the Related Matters of the First Grant of 2018 Share Options Incentive Scheme” were considered and approved at the 19th Meeting of the Ninth Session of the Board, pursuant to which, 11 September 2018 was set as the date of grant, on which 17,475,500 Share Options were granted to 1,050 incentive participants at an exercise price of RMB47.01 per share option.

On 18 September 2019, the 32nd meeting of the ninth session of the Board of Directors of the Company considered and approved the “Resolution relating to Cancellation of Certain Share Options under the 2018 Share Option Incentive Plan”, 254,995 share options that have been granted but not yet exercised by 17 incentive participants who resigned due to personal reasons and did not meet the incentive conditions are cancelled. After the completion of the cancellation, the number of incentive participants for the first grant of the 2018 share options incentive scheme of the Company was adjusted from 1,050 to 1,033, while the number of share options under the first grant was adjusted from 22,718,150 to 22,463,155.

The exercise periods for the granted Share Options and schedule for each exercise period are as follows:

Exercise arrangement	Duration	Exercise proportion
First exercise period for Share Options under the First Grant	Commencing on the first trading day after expiry of the 12-month period from the registration completion date of the First Grant and ending on the last trading day of the 24-month period from the registration completion date of the First Grant	40%
Second exercise period for Share Options under the First Grant	Commencing on the first trading day after expiry of the 24-month period from the registration completion date of the First Grant and ending on the last trading day of the 36-month period from the registration completion date of the First Grant	30%
Third exercise period for Share Options under the First Grant	Commencing on the first trading day after expiry of the 36-month period from the registration completion date of the First Grant and ending on the last trading day of the 48-month period from the registration completion date of the First Grant	30%

Performance target at the Company level: An individual granted with Share Options under the Incentive Scheme will be assessed annually and the exercising of Share Options shall be conducted annually for the three accounting years during the Exercise period, subject to the incentive participant achieving the performance target as the condition of the exercising of the Share Options. For the Share Options granted under the First Grant, the target of performance assessment are as follows:

Exercise period	Target of performance assessment
First Exercise period	Based on the net profit of 2017, the compound growth rate of net profit for 2018 is no less than 15%;
Second Exercise period	Based on the net profit of 2017, the compound growth rate of net profit for 2019 is no less than 15%;
Third Exercise period	Based on the net profit of 2017, the compound growth rate of net profit for 2020 is no less than 15%.

The aforesaid “net profit” and “compound growth rate of net profit” are calculated based on the net profit attributable to the shareholders of the listed company (net of non-recurring profit or loss), and excluding the net profit affected by the expenses incurred on the share-based payment under the Share Option Incentive Scheme. If the Company could not meet the above performance target, the Share Options of all incentive participants exercisable in the current year shall not be exercised and shall be cancelled by the Company.

(Unless specified otherwise, all amounts are denominated in RMB)

XI. SHARE-BASED PAYMENT *(continued)*

1. General information about share-based payment *(continued)*

Note 1: Share Option *(continued)*

The assessment of the incentive participants at individual level shall be conducted according to the Company's current requirements for remuneration and assessment, and the comprehensive appraisal results of the incentive participants for each assessment year will be graded as follows:

Appraisal results	Excellent	Good	Qualified	Fail
Exercise percentage	100%		80.00%	0.00%

If the performance target at the Company level for a year is attained, the actual personal exercise amount of an incentive participant for the year = exercise percentage × the scheduled personal exercise amount of the incentive participant for the year. If an incentive participant fails the assessment for a year, the Company shall cancel the Share Options concerned granted to the incentive participant which cannot be exercised any more.

②On 28 August 2019, the 31st meeting of the ninth session of the Board of Directors of the Company considered and approved the "Resolution relating to Relevant Issues concerning the Reserved Grant under the 2018 Share Options Incentive Scheme", the Board of Directors approved 28 August 2019 as the date of grant, on which 2,535,000 share options were granted to 145 incentive participants and the exercise price was RMB28.87 per A share.

On 18 September 2019, the 32nd meeting of the ninth session of the Board of Directors of the Company considered and approved the "Resolution relating to Adjusting the List of Incentive Participants under the Reserved Grant of the 2018 Share Options Incentive Scheme", the number of incentive participants under the reserved grant of the share option incentive plan was adjusted from 145 to 170.

On 28 October 2019, the Reserved Grant of the share options has completed registration. During the process of registration, 1 Incentive Participant was no longer qualified for incentive due to his resignation, and 2 Incentive Participants voluntarily gave up the Share Options to be granted by the Company due to personal reasons. Therefore, the number of Incentive Participants under the Reserved Grant is adjusted from 170 to 167, and the total number of Share Options under the Reserved Grant is adjusted from 2,535,000 to 2,524,500.

The exercise periods for the granted Share Options and schedule for each exercise period are as follows:

Exercise arrangement	Duration	Exercise proportion
First exercise period for Share Options under the Reserved Grant	Commencing on the first trading day after expiry of the 12-month period from the registration completion date of the Reserved Grant and ending on the last trading day of the 24-month period from the registration completion date of the Reserved Grant	50%
Second exercise period for Share Options under the Reserved Grant	Commencing on the first trading day after expiry of the 24-month period from the registration completion date of the Reserved Grant and ending on the last trading day of the 36-month period from the registration completion date of the Reserved Grant	50%

Performance target at the Company level: An individual granted with Share Options under the Scheme will be assessed annually and the exercising of Share Options shall be conducted annually for the two accounting years during the exercise period, subject to the incentive participant achieving the performance target as the condition of the exercising of the Share Options. For the Share Options granted under the Reserved Grant, the target of performance assessment are as follows:

Exercise period	Target of performance assessment
First exercise period	Based on the net profit of 2017, the compound growth rate of net profit for 2019 is no less than 15%;
Second exercise period	Based on the net profit of 2017, the compound growth rate of net profit for 2020 is no less than 15%.

The aforesaid "net profit" and "compound growth rate of net profit" are calculated based on the net profit attributable to the shareholders of the listed company (net of non-recurring profit or loss), and excluding the net profit affected by the expenses incurred on the share-based payment under the Scheme. If the Company could not meet the above performance target, the Share Options of all incentive participants exercisable in the current year shall not be exercised and shall be cancelled by the Company.

(Unless specified otherwise, all amounts are denominated in RMB)

XI. SHARE-BASED PAYMENT (continued)**1. General information about share-based payment** (continued)

Note 1: Share Option (continued)

The assessment of the incentive participants at individual level shall be conducted according to the Company's current requirements for remuneration and assessment, and the comprehensive appraisal results of the incentive participants for each assessment year will be graded as follows:

Appraisal results	Excellent	Good	Qualified	Fail
Exercise percentage	100%		80.00%	0.00%

If the performance target at the Company level for a year is attained, the actual personal exercise amount of an incentive participant for the year = exercise percentage × the scheduled personal exercise amount of the incentive participant for the year. If an incentive participant fails the assessment for a year, the Company shall cancel the Share Options concerned granted to the incentive participant which cannot be exercised any more.

Note 2: Other equity incentives

On 8 November 2019, the resolution on the Disposal of Certain Equity of a Holding Subsidiary and Connected Transaction was considered and approved at the 34th Meeting of the Ninth Session of the Board, pursuant to which it was agreed that 9.5% equity interests (totally 8,382,100 shares) in Zhuhai Livzon Diagnostics Inc. (珠海麗珠診斷股份有限公司) held by the Company shall be transferred to Zhuhai Liying Investment Management Partnership (Limited Partnership) (珠海麗英投資管理合夥企業(有限合夥)) at the consideration of RMB21,122,892. According to the Assets Appraisal Report on the valuation of the shareholders' equity as a whole of Zhuhai Livzon Diagnostics Inc. in relation to the Proposed Equity Transfer by Livzon Pharmaceutical Group Inc. (Huaya Zhengxin Appraisal Report [2019] No. A02-0011), the valuation of the shareholders' equity as a whole of Zhuhai Livzon Diagnostics Inc. with 30 June 2019 was RMB647.3075 million, and above equity transfer price was lower than its fair value, therefore it constitutes a share-based payment. The total share-based payment of the transaction is RMB40.4017 million, which should be amortized within 5 years according to the partnership agreement, and the amortisation for the year is RMB1.3467 million.

On 8 November 2019, the resolution on the Implementation of Employee Equity Incentive Scheme by a Holding Subsidiary was considered and approved at the 34th Meeting of the Ninth Session of the Board, pursuant to which, the total number of shares of new issuance by Zhuhai Livzon Diagnostics Inc. for implementation of employee equity incentive scheme shall not be more than 4,643,839 shares, and the scheme participants shall contribute a total of RMB11,702,474.28 to directly subscribe for the above shares or indirectly subscribe for the such shares through the holding of the limited partnership shares of the employee shareholding platform. In December 2019, pursuant to the Capital Increase Agreement of Zhuhai Livzon Diagnostics Inc., the total shares of Zhuhai Livzon Diagnostics Inc. increased from 88,232,932 shares to 92,876,771 shares with par value of RMB1 per share. The increased number of shares were subscribed by Zhuhai Haoxun Enterprise Management Consulting Partnership (Limited Partnership) (珠海豪迅企業管理諮詢合夥企業(有限合夥)), Zhuhai Yichen Enterprise Management Consulting Partnership (Limited Partnership) (珠海熠臣企業管理諮詢合夥企業(有限合夥)) and Zhuhai Qijing Enterprise Management Consulting Partnership (Limited Partnership) (珠海啟靖企業管理諮詢合夥企業(有限合夥)) at the consideration of RMB11,702,474. The subscription price is lower than the fair value, therefore it constitutes a share-based payment. The total share-based payment of the transaction is RMB20.7090 million, which should be amortized within 5 years according to the Partnership Agreement, and the amortisation for the year is RMB4.1418 million.

2. Equity settled share-based payments

Determination on fair value of equity instruments as the date of grant

Basis for determining quantity of exercisable equity instruments

Reasons for significant discrepancies between estimate of the Current Period and Last Period

Accumulated amount of equity settled share-based payments included in capital reserve

Total expense recognised for equity settled share-based payments for the Current Period

Black-Scholes Model,
market price

–

Nil

100,684,700.30

16,713,462.50

3. Cash settled share-based payments

Nil.

(Unless specified otherwise, all amounts are denominated in RMB)

XII. COMMITMENTS AND CONTINGENCIES**1. Significant commitments****(1) Capital commitments**

Contracted but not recognised in the financial statement	Balance at the End of the Year	Balance at the Beginning of the Year
Commitments in relation to acquisition of long-term assets	165,369,398.32	52,554,161.77

(2) Operating lease commitments

As at the balance sheet date, the Company signed the non-cancellable operating leases as follows:

	Balance at the End of the Year
Minimum lease payments under non-cancellable operating leases payable	
Within one year from the balance sheet date	7,743,106.31
In the second year from the balance sheet date	3,742,761.60
In the third year from the balance sheet date	2,779,723.09
Subsequent years	307,896.00
Total	14,573,487.00

(3) Other commitments

Nil.

(4) Performance of previous commitments

The Company has duly performed the capital expenditure commitments and the operating lease commitments as at 31 December 2018 and the other commitments.

2. Contingencies

As at the balance sheet date, there were no significant contingencies required to be disclosed by the Company.

XIII. POST BALANCE SHEET DATE EVENTS**1. Profit distribution**

On 25 March 2020, the Company held the 37th Meeting of the ninth session of the Board and passed the resolution of 2019 annual profit distribution plan. With reference to the net profit of RMB359,229,803.87 realised by the parent company in 2019, after appropriation to statutory surplus reserve of 10% (RMB35,922,980.39) in accordance with relevant requirements, plus the opening undistributed profit of RMB4,476,751,249.86 and minus the dividends of RMB862,857,854.40 paid under 2018 annual profit distribution plan, the undistributed profit available for distribution to shareholders of the parent company in 2019 was RMB3,937,200,218.94.

Considering the capital requirement for the operation of the Company, the Board proposed the 2019 profit distribution plan for the Company: it is expected to distribute cash dividend of RMB11.50 (tax inclusive) for every 10 shares in a total amount of RMB1,074,977,076.25 (tax inclusive), based on the Company's total share capital of 934,762,675 shares as at the end of 2019. There will be no bonus shares, nor will the capital reserves be capitalized. If there is any change in the total issued share capital of the Company as a result of issue of new shares, option exercise of share incentive and repurchase of shares before implementing the distribution plan, the proportion of allocation will be adjusted in accordance with the principle of "the total amount of cash distribution remains unchanged".

The above mentioned profit distribution plan shall be submitted to the annual general meeting of 2019 for consideration and approval.

2. Repurchase of shares

On 5 March 2020, the Resolution on the Repurchase of Part of the Public Shares Scheme had been considered and approved on the 36th meeting of the ninth session of the Board of the Company. It was proposed that the Company intends to use its own fund amounting to not less than RMB250 million (inclusive) and not more than RMB500 million (inclusive) to repurchase part of its public A Shares by means of centralized bidding transactions, and all the shares repurchased shall be cancelled for reducing its registered capital. The repurchase price shall not exceed RMB45.00/share. The exact number of shares to be repurchased shall be the actual number of shares repurchased at the end of the repurchase period. The implementation period of the share repurchase shall be within nine (9) months from the date of the Company's general meeting at which the resolution on the repurchase scheme is considered and approved.

The repurchase scheme must be submitted to the general meeting, the class meeting of A Shareholders and the class meeting of H Shareholders of the Company for consideration and approval by way of a special resolution.

As at the date of the Report, the Company has no other non-adjustment events that needed to be disclosed after the balance sheet date.

3. Alteration to Certain Projects Invested with Proceeds and Adjustment to the Investment Plan

On 5 March 2020, the Resolution on Alteration to Certain Projects Invested with Proceeds and Adjustment to Investment Plan and Utilisation of Part of Proceeds for Permanent Replenishment of Working Capital had been considered and approved on the 37th meeting of the ninth session of the Board of the Company. It was approved that the Company may change the investments in certain sub-projects of "Project for indepth development and industrialization upgrade of innovative Ilaprazole series (艾普拉唑系列創新產品深度開發及產業化升級項目)", and make adjustment to investment plan. The resolution shall be submitted to the general meeting of the Company for consideration and approval.

(Unless specified otherwise, all amounts are denominated in RMB)

XIV. OTHER SIGNIFICANT MATTERS**1. Adjustment to the use of proceeds from Fund-Raising Investment Projects**

On 30 May 2019, the Resolution on the Transfer of the Assets Related to Part of Fund-Raising Investment Projects and Alteration to the Sub-Projects of the Fund-Raising Investment Projects (《關於轉讓涉及部分募集資金投資項目相關資產暨變更募集資金投資項目子項目的議案》) was considered and approved at the annual general meeting for the year 2018, the Second Class Meeting of A Shareholders for the year 2019 and the Second Class Meeting of H Shareholders for the year 2019, pursuant to which in view that the Company has transferred the project "Leuporelin Acetate Sustained Release Microspheres for Injection (3 months) (注射用醋酸亮丙瑞林緩釋微球(3個月))" to Shanghai Livzon Pharmaceutical Manufacturing Co., Ltd. (上海麗珠製藥有限公司) and the latter will continue to carry out relevant work such as clinical trials and application for production, it was agreed that the Company will no longer invest in the sub-project "Leuporelin Acetate Sustained Release Microspheres for Injection (3 months) (注射用醋酸亮丙瑞林緩釋微球(3個月))" under the "construction project for research & development platform for prolonged-action microsphere technologies (長效微球技術研發平台建設項目)" by using the proceeds from the Issuance and the balance of such proceeds of RMB30,385,800 will be adjusted to be used in the "construction project for microsphere workshop of Livzon Group Livzon Pharmaceutical Factory (麗珠集團麗珠製藥廠微球車間建設項目)". Upon the adjustment, it is intended to use a total of RMB194,319,100 from the proceeds to invest in the "construction project for microsphere workshop of Livzon Group Livzon Pharmaceutical Factory (麗珠集團麗珠製藥廠微球車間建設項目)" and the remaining investment amount will be supplemented by the self-raised funds of the Company.

The following table sets forth the fund-raising investment projects of the Company after adjustment:

No.	Investment project	Proceeds intended to be invested (RMB)
1	Project for indepth development and industrialization upgrade of innovative Ilaprazole series	450,000,000.00
2	Liquidity replenishment and bank loans repayment	362,480,366.77
3	Relocation and expansion project of Livzon Group Xinbeijiang Pharmaceutical Manufacturing Inc. (first phase)	143,289,400.00
4	Technological transformation project of bag infusion workshop for Livzon Group Limin Pharmaceutical Manufacturing Factory	53,117,300.00
5	Construction project for research & development platform for prolonged-action microsphere technologies	411,413,300.00
	In which: Construction project for microsphere workshop of Livzon Group Livzon Pharmaceutical Factory	194,319,100.00
Total		1,420,300,366.77

XIV. OTHER SIGNIFICANT MATTERS *(continued)***2. Medium to Long-term Business Partner Share Ownership Scheme (the “Ownership Scheme”)**

On 23 December 2019, the Resolution on the Medium to Long-term Business Partner Share Ownership Scheme (Draft) of the Company and its summary and the Resolution on granting mandate to the board of directors to deal with matters regarding the Medium to Long-term Business Partner Share Ownership Scheme of the Company at the general meeting had been considered and approved on the 35th meeting of the ninth session of the Board of the Company for the formulation of the Medium to Long-term Business Partner Share Ownership Scheme.

Target participants of the Ownership Scheme are the core management personnel who play an important role in the overall performance and medium to long-term development of the Company. Target participants for the respective phases of the Ownership Scheme shall be drawn up by the Board according to staff changes and appraisals, and shall be reviewed and determined by the general meeting.

Funds for the Ownership Scheme may come from the special fund set aside by the Company, employees' legal compensation, employees' self-raised funds and other means permitted by the laws and regulations. The special fund system of the Ownership Scheme shall be valid for ten years, with 2019 to 2028 as the years of assessment. During the years of assessment, the Board shall be responsible for setting aside the special fund according to the special fund set aside principles, and the special fund set aside shall be included in the management expenses of the current year. The special fund shall be set aside in accordance to the following principles:

- (1) The special fund shall be set aside with net profit attributable to the Shareholders of the Company after deducting the extraordinary gains or loss in 2018 (RMB947.2163 million) as the base. During the period of assessment (2019-2028), the Company will use the compound growth rate of net profit achieved in each year as the assessment indicator to calculate and set aside a progressive special fund for each period. The ratios are set out in details as below:

Compound growth rate of net profit achieved in each year of assessment (X)	Percentage of progressive special funds with a compound growth rate of over 15%
$X \leq 15\%$	0%
$15\% < X \leq 20\%$	25%
$20\% < X$	35%

The above “compound growth rate of net profit” indicator is calculated based on the audited net profit attributable to the Shareholders of the Company after deducting the extraordinary gains or loss, excluding the impact of the amount of special fund being set aside for the Ownership Scheme.

- (2) If the amount of special fund to be set aside exceeds 8% of the audited net profit attributable to the shareholders of the Company after deducting the extraordinary gains or loss in that year, the special fund shall be set aside in the amount of 8% of the audited net profit attributable to the shareholders of the Company after deducting the extraordinary gains or loss.
- (3) If the audited net profit attributable to the shareholders of the Company after deducting the extraordinary gains or loss in the current year decreases by 5% year-on-year comparing to that in the previous year due to the accrual of the special fund, no special fund shall be set aside for the year.

XIV. OTHER SIGNIFICANT MATTERS *(continued)*

2. Medium to Long-term Business Partner Share Ownership Scheme (the “Ownership Scheme”) *(continued)*

The special fund serves as the source of funds for the respective phases that will be subsequently established under the Ownership Scheme. The personnel and administration headquarters, the secretary to the Board and other departments shall be responsible for the pre-allocation of the aforementioned special fund among the participants according to the participants’ annual appraisal results and degree of contribution and implement the Ownership Scheme upon submission to the Board and general meeting for review.

Sources of shares in the Ownership Scheme are the underlying shares purchased through means as permitted by the laws and regulations, including purchases through the secondary market (including but not limited to auction transactions and block trades), repurchases of treasury shares by the Company, and participation in the subscription for the Company’s non-public issuance of shares.

The aggregate number of shares to be held in the respective phases of the Ownership Scheme that will be established and continued in the Ownership Scheme shall not exceed 10% of the total share capital of the Company, and the aggregate number of shares corresponding to the share of the Ownership Scheme (including all respective phases) to be held by a single employee shall not exceed 1% of the total share capital of the Company. The aggregate number of the underlying shares shall not include shares obtained by the holders prior to the initial public offering of shares by the Company, shares purchased through the secondary market and shares obtained through equity incentives.

The Ownership Scheme shall be implemented in ten phases. Within the ten years from 2019 to 2028, the ten independently existing phases of the Ownership Scheme shall be implemented on a rolling basis and, in principle, once a year, after determining whether the special fund for the previous year shall be set aside or not. The duration of the respective phases of the Ownership Scheme shall be 48 months, which is calculated from the time when the Company makes an announcement on the transfer of the last tranche of the underlying shares in each phase to the account in the name of the Ownership Scheme for the current phase. Lock-up periods of the underlying shares obtained by the Ownership Scheme:

- (1) the lock-up period of the underlying shares purchased by way of employees’ legal compensation and employees’ self-raised funds shall be 12 months, which is calculated from the time when the Company makes an announcement on the transfer of the last tranche of the underlying shares in each phase to the account in the name of the Ownership Scheme for the current phase;
- (2) the lock-up period of the underlying shares purchased by way of the special fund set aside by the Company shall be 36 months, which is calculated from the time when the Company makes an announcement on the transfer of the last tranche of the underlying shares in each phase to the account in the name of the Ownership Scheme for the current phase;
- (3) where the underlying shares of the Ownership Scheme is obtained by way of participating in the subscription for the Company’s non-public issuance of shares, the lock-up period shall be 36 months, which is calculated from the time when the Company makes an announcement on the deposit of shares obtained by way of non-public issuance to the account in the name of the Ownership Scheme for the current phase.

(Unless specified otherwise, all amounts are denominated in RMB)

XIV. OTHER SIGNIFICANT MATTERS (continued)**2. Medium to Long-term Business Partner Share Ownership Scheme (the "Ownership Scheme")** (continued)

Termination of the Ownership Scheme:

- (1) The respective phases shall automatically terminate after the expiration of their duration;
- (2) After the lock-up periods of the respective phases expire, and if the assets in the respective phases are all monetary funds, the respective phases may be terminated in advance;
- (3) If not all the shares are sold before the expiration of the duration of the respective phases, the duration of the respective phases may be extended upon the approval of holders with more than two-thirds of the effective voting rights present at the holders' meeting and the approval of the Board which are held three months before the expiration of the duration of the respective phases.

The aforesaid Ownership Scheme was approved by the 2020 first extraordinary general meeting of the Company on 11 February 2020.

3. Government grants**(1) Government grants included in deferred income shall be subsequently measured using total-value method**

Items of the grants	Type	Balance at the Beginning of the Year	Increase for the Year	Amount transferred to profit and loss for the Year	Other changes	Balance at the End of the Year	Items transferred to profit and loss for the Year	Related to assets/income
R&D and industrialization of innovative Ilaprazole series	Fiscal appropriation	28,639,541.39	0.00	2,741,375.06	0.00	25,898,166.33	Other income	Related to assets
R&D and industrialization of innovative Ilaprazole series	Fiscal appropriation	3,664,884.28	0.00	2,916,754.78	0.00	748,129.50	Other income	Related to income
Subsidy for R&D of Leuprorelin	Fiscal appropriation	3,681,725.00	0.00	3,681,725.00	0.00	0.00	Other income	Related to income
Strategic emerging industries in 2014 (sustained release microspheres)	Fiscal appropriation	18,700,000.00	0.00	2,000,000.00	0.00	16,700,000.00	Other income	Related to assets
Fund for industrialization of prolonged-action microsphere preparation	Fiscal appropriation	13,300,000.00	0.00	0.00	0.00	13,300,000.00	Other income	Related to assets
Construction project for industrialization of prolonged-action microsphere preparation (phase I)	Fiscal appropriation	0.00	100,000.00	2,500.00	0.00	97,500.00	Other income	Related to assets
Pilot-scale enlargement and industrialization of prolonged-action injection Microsphere products	Fiscal appropriation	2,400,000.00	0.00	0.00	0.00	2,400,000.00	Other income	Related to assets
Special funds for innovation-driven projects in 2015	Fiscal appropriation	93,000.00	0.00	93,000.00	0.00	0.00	Other income	Related to assets
Project subsidy from the Ministry of Industry and Information Technology	Fiscal appropriation	2,400,000.00	0.00	0.00	0.00	2,400,000.00	Other income	Related to assets
Project subsidy from the Ministry of Industry and Information Technology	Fiscal appropriation	2,059,750.00	0.00	231,000.00	0.00	1,828,750.00	Other income	Related to assets
Construction of drug conformity evaluation research center platform	Fiscal appropriation	1,520,000.02	0.00	159,999.96	0.00	1,360,000.06	Other income	Related to assets
R&D and industrialization of mouse nerve growth factor for injection	Fiscal appropriation	60,462,693.37	10,522,500.00	9,819,068.01	0.00	61,166,125.36	Other income	Related to assets
Demonstration project on the application of solar photovoltaic architecture	Fiscal appropriation	5,761,499.67	0.00	1,102,000.08	0.00	4,659,499.59	Other income	Related to assets

(Unless specified otherwise, all amounts are denominated in RMB)

XIV. OTHER SIGNIFICANT MATTERS (continued)**3. Government grants** (continued)**(1) Government grants included in deferred income shall be subsequently measured using total-value method** (continued)

Items of the grants	Type	Balance at the Beginning of the Year	Increase for the Year	Amount transferred to profit and loss for the Year	Other changes	Balance at the End of the Year	Items transferred to profit and loss for the Year	Related to assets/income
Subsidy for the tender of technological transformation project for PVC soft bag supported by provincial finance departments	Fiscal appropriation	3,928,581.84	0.00	408,365.76	0.00	3,520,216.08	Other income	Related to assets
Technological transformation project of Shenqi Fuzheng Injection with flexible bag	Fiscal appropriation	27,147,058.82	0.00	3,823,529.40	0.00	23,323,529.42	Other income	Related to assets
Provision for technological transformation funds and subsequent grants	Fiscal appropriation	8,848,245.80	0.00	1,129,563.36	0.00	7,718,682.44	Other income	Related to assets
Provision for technological transformation funds and subsequent grants	Fiscal appropriation	9,684,152.87	743,200.00	1,679,521.85	0.00	8,747,831.02	Other income	Related to assets
Energy efficiency improvement for distribution transformers under energy-saving and emission reduction projects	Fiscal appropriation	0.00	480,000.00	48,000.00	0.00	432,000.00	Other income	Related to assets
Shenqi Fuzheng Injection	Fiscal appropriation	1,029,987.68	0.00	1,029,987.68	0.00	0.00	Other income	Related to assets
Shenqi Fuzheng Injection	Fiscal appropriation	960,523.19	0.00	960,523.19	0.00	0.00	Other income	Related to income
R&D and industrialization team of chemical drug liquid preparation	Fiscal appropriation	1,500,000.00	0.00	0.00	0.00	1,500,000.00	Other income	Related to assets
Construction of production facilities for the GAP industrialization of astragalus at Hunyuan in Shanxi	Fiscal appropriation	4,641,357.94	0.00	0.00	0.00	4,641,357.94	Other income	Related to assets
R&D and production transformation of Gemifloxacin tablets	Fiscal appropriation	212,527.55	0.00	212,527.55	0.00	0.00	Other income	Related to assets
Research of technologies for the inspection of toxic substances from high-throughput aquatic products in Guangdong province	Fiscal appropriation	80,000.00	0.00	0.00	0.00	80,000.00	Other income	Related to income
Innovation capacity building of technology center (antibody laboratory)	Fiscal appropriation	3,184,403.74	0.00	1,115,532.21	0.00	2,068,871.53	Other income	Related to assets
Innovation capacity building of technology center (antibody laboratory)	Fiscal appropriation	415,602.60	0.00	86,916.48	0.00	328,686.12	Other income	Related to income
Achievement transfer of blood screening (BCI) nucleic acid detection testing	Fiscal appropriation	6,000,000.00	0.00	0.00	0.00	6,000,000.00	Other income	Related to assets
Technological upgrading and transformation projects of workshop for acarbose (APIs for α -glucosidase inhibitor)	Fiscal appropriation	785,714.32	0.00	107,142.84	0.00	678,571.48	Other income	Related to assets
R&D and industrialization of Statins	Fiscal appropriation	120,000.12	0.00	29,999.88	0.00	90,000.24	Other income	Related to assets
Scientific technology award and subsidy for technological innovative project	Fiscal appropriation	361,343.00	0.00	110,925.60	0.00	250,417.40	Other income	Related to assets
Scientific technology award and subsidy for technological innovative project	Fiscal appropriation	3,881,818.20	3,000,000.00	1,954,545.44	0.00	4,927,272.76	Other income	Related to income
Commissioner workstation	Fiscal appropriation	265,000.00	0.00	60,000.00	0.00	205,000.00	Other income	Related to assets
Industrial revitalisation supporting funds	Fiscal appropriation	5,919,500.01	0.00	1,158,000.00	0.00	4,761,500.01	Other income	Related to assets
Phase IV clinical study of innovative drug Ilaprazole	Fiscal appropriation	8,210,800.00	0.00	0.00	0.00	8,210,800.00	Other income	Related to assets
Government grant for industrial transformation	Fiscal appropriation	908,333.59	0.00	199,999.96	0.00	708,333.63	Other income	Related to assets
New industrialization development grant	Fiscal appropriation	2,004,166.50	0.00	350,000.04	0.00	1,654,166.46	Other income	Related to assets

(Unless specified otherwise, all amounts are denominated in RMB)

XIV. OTHER SIGNIFICANT MATTERS (continued)**3. Government grants** (continued)**(1) Government grants included in deferred income shall be subsequently measured using total-value method** (continued)

Items of the grants	Type	Balance at the Beginning of the Year	Increase for the Year	Amount transferred to profit and loss for the Year	Other changes	Balance at the End of the Year	Items transferred to profit and loss for the Year	Related to assets/income
Policy fund for leading industrial enterprises loan interests	Fiscal appropriation	966,666.61	0.00	200,000.00	0.00	766,666.61	Other income	Related to assets
Supporting funds for five advantageous industrial clusters and one high-tech industry	Fiscal appropriation	600,000.08	0.00	99,999.96	0.00	500,000.12	Other income	Related to assets
Set-up and research fund for postdoctoral station	Fiscal appropriation	100,000.00	0.00	100,000.00	0.00	0.00	Other income	Related to assets
Set-up and research fund for postdoctoral station	Fiscal appropriation	5,142.15	0.00	5,142.15	0.00	0.00	Other income	Related to income
Subsidy for new R&D institution	Fiscal appropriation	2,000,000.00	0.00	0.00	0.00	2,000,000.00	Other income	Related to assets
Capital project for innovation and entrepreneurship team funding program	Fiscal appropriation	9,750,000.00	1,250,000.00	750,000.00	1,000,000.00	9,250,000.00	Other income	Related to assets
R&D of innovative traditional Chinese medicine Qihuo Sugar (芪藜糖) capsule for kidney for cure for diabetes and kidney disease	Fiscal appropriation	1,000,000.00	0.00	0.00	0.00	1,000,000.00	Other income	Related to assets
Special fund for strategic emerging industries in Zhuhai	Fiscal appropriation	3,270,000.00	0.00	3,270,000.00	0.00	0.00	Other income	Related to assets
Fund for R&D and industrialization of innovative Ilaprazole series	Fiscal appropriation	5,600,000.00	0.00	0.00	0.00	5,600,000.00	Other income	Related to assets
Key projects of industrial core and key technologies of Zhuhai (Ryanodex)	Fiscal appropriation	0.00	3,000,000.00	0.00	0.00	3,000,000.00	Other income	Related to assets
Fund for key projects of industrial core and key technologies of Zhuhai (2nd batch)	Fiscal appropriation	0.00	2,000,000.00	0.00	0.00	2,000,000.00	Other income	Related to income
Innovative drug of Ilaprazole sodium for injection	Fiscal appropriation	2,400,000.00	0.00	0.00	0.00	2,400,000.00	Other income	Related to assets
Technological transformation projects of new cefuroxime	Fiscal appropriation	1,533,100.00	0.00	0.00	0.00	1,533,100.00	Other income	Related to assets
Internet benchmarking project for advanced drug manufacturing	Fiscal appropriation	0.00	1,000,000.00	45,000.00	100,000.00	855,000.00	Other income	Related to assets
Cleaner Production Audit Project	Fiscal appropriation	0.00	100,000.00	0.00	0.00	100,000.00	Other income	Related to assets
Green factory	Fiscal appropriation	0.00	300,000.00	0.00	0.00	300,000.00	Other income	Related to assets
HCG project construction	Fiscal appropriation	0.00	443,700.00	11,092.50	0.00	432,607.50	Other income	Related to assets
Sewage treatment system upgrade project	Fiscal appropriation	0.00	80,300.00	0.00	0.00	80,300.00	Other income	Related to assets
R&D and industrialization of Recombinant Human Chorionic Gonadotropin for Injection	Fiscal appropriation	0.00	1,500,000.00	62,500.00	0.00	1,437,500.00	Other income	Related to assets
Subsidies for online monitoring equipment and installations of coal-fired boilers	Fiscal appropriation	300,000.00	0.00	172,500.00	0.00	127,500.00	Other income	Related to assets
Funds for joint R&D and industrialization of integrated platform for molecular diagnostics	Fiscal appropriation	2,415,100.00	0.00	0.00	0.00	2,415,100.00	Other income	Related to assets
Project supporting fund for the first batch of special funds for scientific and technological innovation in 2019	Fiscal appropriation	0.00	600,000.00	0.00	0.00	600,000.00	Other income	Related to income
Provincial industrial innovation (provincial enterprise technology center) project in 2019	Fiscal appropriation	0.00	1,880,000.00	0.00	0.00	1,880,000.00	Other income	Related to income
Total		262,712,220.34	26,999,700.00	41,928,738.74	1,100,000.00	246,683,181.60		

(Unless specified otherwise, all amounts are denominated in RMB)

XIV. OTHER SIGNIFICANT MATTERS (continued)**3. Government grants** (continued)**(2) Government grants as included in the current profit or loss using the total method**

Grants projects	Type	Amounts included in the profits and losses in Last Year	Amounts included in the profits and losses in the Year	Presentation item in profits and losses	Related to asset/income
Export credit insurance subsidy (出口信保補貼)	Financial grant	2,750,248.42	1,558,716.00	Other income	Related to income
R&D subsidy (研究開發費補助)	Financial grant	10,272,200.00	5,625,042.16	Other income	Related to income
Guangdong Province Strategic Industry Core Technology Breakthrough Research Fund (2011) for MAB for Class I Treatment of Necrosis Factor in Human Tumour from Human Source (廣東省戰略新 興產業核心技術攻關(2011)類治療用人源化抗人腫 瘤壞死因子 α 單克隆抗體新藥的研製資金)	Financial grant	8,000,000.00	0.00	Other income	Related to income
Subsidies for Recombinant Human Chorionic Gonadotropin for Injection (注射用重組人絨 促性素(r-hCG)補貼)	Financial grant	0.00	1,500,000.00	Other income	Related to income
Shenqi Fuzheng Injection (參芪扶正注射液)	Financial grant	0.00	1,029,987.68	Other income	Related to assets
Shenqi Fuzheng Injection (參芪扶正注射液)	Financial grant	0.00	960,523.19	Other income	Related to income
Strategic Emerging Industries (Sustained Release Microspheres) (戰略性新興產業(緩釋微球))	Financial grant	0.00	2,000,000.00	Other income	Related to assets
Zhuhai Strategic Emerging Industries Special Project (珠海市戰略性新興產業專項)	Financial grant	0.00	3,270,000.00	Other income	Related to assets
R&D and Production Transformation of Gemifloxacin Tablets (吉米沙星片的研發及生產轉化)	Financial grant	0.00	212,527.55	Other income	Related to assets
Government Subsidy for Long-acting Microspheres Major New Drug Creation (長效微球重大新藥創制 政府補助)	Financial grant	4,565,450.00	1,513,600.00	Other income	Related to income
Government Subsidy for Long-acting Microspheres Major New Drug Creation (長效微球重大新藥創制 政府補助)	Financial grant	0.00	752,500.00	Other income	Related to assets
R&D and commercialisation of innovative drug of Ilaprazole series (艾普拉唑系列創新藥物研發及 產業化)	Financial grant	4,156,916.72	2,741,375.06	Other income	Related to assets
R&D and commercialisation of innovative drug of Ilaprazole series (艾普拉唑系列創新藥物研發及 產業化)	Financial grant	748,129.80	2,916,754.78	Other income	Related to income
Construction of Drug Conformity Evaluation Research Center Platform (藥物一致性評價研究中心 平台建設)	Financial grant	79,999.98	159,999.96	Other income	Related to assets
Conformity Evaluation Research of Quality of Varieties such as Livzon Dele (麗珠得樂等品種質量一致性 評價研究)	Financial grant	0.00	231,000.00	Other income	Related to assets
Internet Benchmarking Project for Advanced Drug Manufacturing (先進藥品製造互聯網標杆項目)	Financial grant	0.00	45,000.00	Other income	Related to assets
R&D and commercialisation of Recombinant Human Chorionic Gonadotropin for Injection (注射用重組 人絨促性素研發及產業化)	Financial grant	0.00	62,500.00	Other income	Related to assets
Construction of HCG Project (HCG項目建設)	Financial grant	0.00	11,092.50	Other income	Related to assets
Fiscal Subsidy and Operating Subsidy (財政補貼 及經營運營補貼)	Financial grant	9,739,275.10	86,853,701.65	Other income	Related to income

(Unless specified otherwise, all amounts are denominated in RMB)

XIV. OTHER SIGNIFICANT MATTERS (continued)**3. Government grants** (continued)**(2) Government grants as included in the current profit or loss using the total method** (continued)

Grants projects	Type	Amounts included in the profits and losses in Last Year	Amounts included in the profits and losses in the Year	Presentation item in profits and losses	Related to asset/income
R&D and Commercialisation of Mouse Nerve Growth Factor for Injection (注射用鼠神經生長因子研發及產業化)	Financial grant	3,408,167.35	9,819,068.01	Other income	Related to assets
Capital projects of innovation and entrepreneurship team funding program (創新創業團隊資助計劃資金項目)	Financial grant	1,616,666.67	2,100,000.00	Other income	Related to income
GAP project of astragalus (黃芪GAP項目)	Financial grant	0.00	57,600.00	Other income	Related to income
Interest Discount and Relevant Funds for Promoting Imports (進口貼息及配套資金)	Financial grant	0.00	230,965.50	Other income	Related to income
Supporting Funds for Headquarter Enterprises (總部企業扶持資金)	Financial grant	11,813,630.07	0.00	Non-operating income	Related to income
Promoting Imports of Foreign Trade Development Special Fund (外貿經濟發展專項資金)	Financial grant	1,800,427.56	2,817,438.06	Other income	Related to income
Safety emergency response drill expenses (安全生產應急演練費用)	Financial grant	50,000.00	0.00	Other income	Related to income
Subsidy for Rental and Property of the Investment and Promotion Center (區投促中心租金及物業費補貼)	Financial grant	163,636.20	0.00	Other income	Related to income
Technological Upgrading and Transformation Projects of Workshop for Acarbose (API of Glucosidase Inhibitor) (α -葡萄糖苷酶抑制劑類原料藥阿卡波糖生產車間工藝升級技術改造項目)	Financial grant	107,142.84	107,142.84	Other income	Related to assets
10KV Pharmaceutical Factory Line Relocation and Improvement Project at Tieta Road in Qingyuan City (清遠市鐵塔路10KV藥廠線路遷改項目)	Financial grant	4,022.18	0.00	Other income	Related to income
Subsidy for the Tender of Technology Upgrade Project for PVC Soft Bag Supported by Provincial Finance Departments (省財政支持技改招標項目補助金PVC軟袋)	Financial grant	253,365.76	194,365.80	Other income	Related to assets
Technical transformation project of Shenqi Fuzheng Injection with flexible bag (軟袋參芪扶正注射液技改項目)	Financial grant	2,852,941.18	1,213,999.92	Other income	Related to assets
Financial grant for the quality control technologies of Shenqi (參芪質量控制技術財政撥款)	Financial grant	0.00	2,823,529.44	Other income	Related to assets
Research on Shenqi International Clinical Trial and Registration (參芪國際臨床試驗與註冊研究)	Financial grant	5,000,000.00	0.00	Other income	Related to income
Development of key technology of codonopsis industry and big health products (黨參產業關鍵技術研究及大健康產品開發項目)	Financial grant	0.00	325,731.00	Other income	Related to income
Demonstration project on the application of solar photovoltaic architecture (太陽能光電建築應用示範項目)	Financial grant	1,102,000.08	1,102,000.08	Other income	Related to assets
Electricity Incentive Funds (用電獎勵資金)	Financial grant	0.00	326,600.00	Other income	Related to income
Subsidies for high and new technology enterprises and high and new technology products (高新技術企業及高新技術產品項目補貼)	Financial grant	533,000.00	60,000.00	Other income	Related to income

(Unless specified otherwise, all amounts are denominated in RMB)

XIV. OTHER SIGNIFICANT MATTERS (continued)**3. Government grants** (continued)**(2) Government grants as included in the current profit or loss using the total method** (continued)

Grants projects	Type	Amounts included in the profits and losses in Last Year	Amounts included in the profits and losses in the Year	Presentation item in profits and losses	Related to asset/income
Special Funds for Cooperative Innovation and Platform Environmental Construction (協同創新與平台環境 建設專項資金)	Financial grant	427,777.78	0.00	Other income	Related to assets
Local Education Surcharges and Training Subsidy from Jinqiao Management Committee (金橋管委會地方 教育費附加培訓補貼)	Financial grant	115,000.00	0.00	Other income	Related to income
Market Development Fund For Small and Medium Enterprises (中小企業開拓市場項目資金)	Financial grant	67,287.83	0.00	Other income	Related to income
Traditional Chinese Medicine Standardization Project of State Administration of Traditional Chinese Medicine (國家中醫藥管理局中藥標準化項目)	Financial grant	700,000.00	0.00	Other income	Related to assets
Traditional Chinese Medicine Standardization Project of State Administration of Traditional Chinese Medicine (國家中醫藥管理局中藥標準化項目)	Financial grant	829,400.00	0.00	Other income	Related to income
Provision for technology transformation funds and subsequent grants (技術改造資金撥款及事後補獎)	Financial grant	1,376,498.78	4,364,563.99	Other income	Related to income
Provision for technology transformation funds and subsequent grants (技術改造資金撥款及事後補獎)	Financial grant	1,538,110.49	2,762,846.69	Other income	Related to assets
R&D and commercialisation of Statins (降血脂 他汀類藥物的研發與產業化)	Financial grant	29,999.88	29,999.88	Other income	Related to assets
Technology transformation of recycling system of Acarbose project (阿卡波糖回收系統技術 改造項目)	Financial grant	35,000.00	46,238.52	Other income	Related to assets
Commissioner workstation (特派員工作站)	Financial grant	0.00	60,000.00	Other income	Related to assets
Special Fund and Encouraging funds for Energy Saving and Emission Reduction (節能減排專項資金及 獎勵金)	Financial grant	233,000.00	663,000.00	Other income	Related to income
Energy efficiency improvement for distribution transformers under energy-saving and emission reduction projects (節能減排項目配電變壓器 能效提升)	Financial grant	0.00	48,000.00	Other income	Related to assets
Scientific technology award and subsidy for technological innovative project (科學技術獎及 科技創新項目資助)	Financial grant	9,828,045.44	1,193,545.44	Other income	Related to income
Scientific technology award and subsidy for technological innovative project (科學技術獎及 科技創新項目資助)	Financial grant	110,925.60	203,925.60	Other income	Related to assets
Set-up and research fund for postdoctoral Station (博士後建站和科研補貼)	Financial grant	0.00	2,685,142.15	Other income	Related to income
Set-up and research fund for postdoctoral Station (博士後建站和科研補貼)	Financial grant	0.00	100,000.00	Other income	Related to assets
Financial support funds (財政扶持資金)	Financial grant	158,373,180.00	0.00	Non-operating income	Related to income

(Unless specified otherwise, all amounts are denominated in RMB)

XIV. OTHER SIGNIFICANT MATTERS (continued)**3. Government grants** (continued)**(2) Government grants as included in the current profit or loss using the total method** (continued)

Grants projects	Type	Amounts included in the profits and losses in Last Year	Amounts included in the profits and losses in the Year	Presentation item in profits and losses	Related to asset/income
Supporting funds for disaster recovery and reconstruction (災後扶持資金)	Financial grant	2,383,778.68	0.00	Non-operating income	Related to income
Provincial development funds for the service and trade industry (省級服務貿易發展資金)	Financial grant	650,000.00	0.00	Other income	Related to income
Patent (Intellectual Property) Support Fund (專利(知識產權)資助資金)	Financial grant	645,800.00	252,200.00	Other income	Related to income
Recycling technology of tobramycin waste oil project (妥布黴素廢棄油的回收再生技術實施項目)	Financial grant	200,000.00	0.00	Other income	Related to income
Capitalisation research and application of proprietary technology of preparation of Acarbose (製備阿卡波糖的專利技術產業化研究與應用)	Financial grant	520,000.00	0.00	Other income	Related to income
Optimization of structural effect of sea organisms and valuation of anti-tumor activity (海洋微生物構效優化與抗腫瘤活性評價)	Financial grant	300,000.00	0.00	Other income	Related to income
Policy fund for leading industrial enterprises loan interests (工業龍頭企業貸款貼息政策資金)	Financial grant	200,000.04	200,000.00	Other income	Related to assets
Government grant for industrial transformation (工業轉型政府扶持資金)	Financial grant	199,999.79	199,999.92	Other income	Related to assets
Reward Fund for Industry Growth and Production Expansion (工業保值增長及增產獎勵)	Financial grant	100,000.00	635,000.00	Other income	Related to income
New industrialization development funds (新型工業化發展資金)	Financial grant	350,000.17	300,000.04	Other income	Related to assets
Industrial revitalisation supporting funds (產業振興扶持資金)	Financial grant	1,158,000.00	1,158,000.00	Other income	Related to assets
Industrial supporting funds (產業扶持資金)	Financial grant	1,400,523.99	649,800.00	Other income	Related to income
Supporting funds for five advantageous industrial clusters and one high-tech industry (五優一新扶持資金)	Financial grant	99,999.96	150,000.00	Other income	Related to assets
Employment Assurance and Re-employment and Attraction to Graduates of Tertiary Academic Institutions Subsidy (企業穩崗及再就業和吸納高校畢業生補貼款)	Financial grant	1,151,827.83	1,266,571.21	Other income	Related to income
New Scientific Research Institution Subsidy (新型科研機構補助資金)	Financial grant	213,575.72	0.00	Other income	Related to assets
New Scientific Research Institution Subsidy (新型科研機構補助資金)	Financial grant	18,292.10	0.00	Other income	Related to income
Enterprise Technology Center Innovation Capacity Development (Antibody Laboratory) (企業技術中心創新能力建設(抗體藥物試驗室))	Financial grant	1,115,532.18	1,115,532.21	Other income	Related to assets
Enterprise Technology Center Innovation Capacity Development (Antibody Laboratory) (企業技術中心創新能力建設(抗體藥物試驗室))	Financial grant	86,916.48	86,916.48	Other income	Related to income

(Unless specified otherwise, all amounts are denominated in RMB)

XIV. OTHER SIGNIFICANT MATTERS (continued)**3. Government grants** (continued)**(2) Government grants as included in the current profit or loss using the total method** (continued)

Grants projects	Type	Amounts included in the profits and losses in Last Year	Amounts included in the profits and losses in the Year	Presentation item in profits and losses	Related to asset/income
Special funds for industry and informatization (工業和信息化專項資金)	Financial grant	1,359,000.00	790,400.00	Other income	Related to income
Special funds for industry and informatization (工業和 信息化專項資金)	Financial grant	231,000.00	0.00	Other income	Related to assets
Supporting subsidy for "The Thousand Talents Plan" and subsidy for talents introduction and cultivation ("千人計劃"配套補貼及引才育才補貼)	Financial grant	0.00	734,897.69	Other income	Related to income
Subsidy for major provincial projects (省區域重大項目 補助)	Financial grant	0.00	520,000.00	Other income	Related to income
Awards for Integration of Informatization and Industrialization Standard Scheme (兩化融合貫 標獎勵)	Financial grant	0.00	500,000.00	Other income	Related to income
Bounties for import and export growth to BRICS countries (對金磚國家進出口增長獎勵金)	Financial grant	0.00	204,739.00	Other income	Related to income
Special funds for project transformation and upgrading of traditional industry (傳統產業轉型升 級項目專項資金)	Financial grant	0.00	700,000.00	Other income	Related to income
Subsidy for external recruitment (外出招聘補貼)	Financial grant	0.00	4,000.00	Other income	Related to income
Incentive funds for expansion of export scale (擴大 出口規模獎勵基金)	Financial grant	0.00	457,800.00	Other income	Related to income
Subsidy for online monitoring equipment for coalfired boilers (燃煤鍋爐在線監控設備裝置補助)	Financial grant	45,000.00	172,500.00	Other income	Related to assets
Others	Financial grant	2,594,200.00	81,395.56	Non-operating income	Related to income
Total		257,704,892.65	154,959,775.56		

(3) Government grants refunded during the Year

Nil.

(Unless specified otherwise, all amounts are denominated in RMB)

XIV. OTHER SIGNIFICANT MATTERS *(continued)***4. Leases**

The Company had adopted a simplified approach for short-term leases and leases of low value assets and did not recognized right-of-use assets and lease liabilities. The expense of short-term leases, leases of low value assets and variable lease payments not included in the measurement of lease liabilities are included in the expenses in the current period as follows:

Item	2019
Short-term leases	5,281,904.49
Leases of low value assets	8,882,289.72
Total	14,164,194.21

As at the date of the balance sheet, other than the matters mentioned above, the Company has no other significant events that need to be disclosed.

XV. NET CURRENT ASSETS AND TOTAL ASSETS LESS CURRENT LIABILITIES**1. Net current assets**

Item	Balance at the End of the Year	Balance at the Beginning of the Year
Current assets	12,873,202,408.62	12,471,728,254.44
Less: Current liabilities	5,293,657,403.71	5,369,578,000.87
Net current assets	7,579,545,004.91	7,102,150,253.57

2. Total assets less current liabilities

Item	Balance at the End of the Year	Balance at the Beginning of the Year
Total assets	17,976,463,117.21	17,437,346,860.38
Less: Current liabilities	5,293,657,403.71	5,369,578,000.87
Total assets less current liabilities	12,682,805,713.50	12,067,768,859.51

(Unless specified otherwise, all amounts are denominated in RMB)

XVI. NOTES TO THE KEY COMPONENTS OF FINANCIAL STATEMENTS OF THE PARENT COMPANY**1. Bills receivables**

Type of bill	Balance at the End of the Year			Balance at the Beginning of the Year		
	Book balance	Provision for bad debts	Carrying value	Book balance	Provision for bad debts	Carrying value
Bank acceptance bills	569,150,368.41	0.00	569,150,368.41	606,560,125.42	0.00	606,560,125.42
Total	569,150,368.41	0.00	569,150,368.41	606,560,125.42	0.00	606,560,125.42

(1) Bills receivables that were pledged at the End of the Year

Item	Pledged amount at the End of the Year
Bank acceptance bills	208,410,681.31
Total	208,410,681.31

As of 31 December 2019, bills with carrying amount of RMB208,410,681.31 (31 December 2018: RMB335,767,075.30) were pledged for bank acceptance bills.

(2) Bills receivable endorsed or discounted at the End of the Year but not yet mature at the date of balance sheet

Item	Amount derecognized at the End of the Year	Amount not derecognized at the End of the Year
Bank acceptance bills endorsed but not yet mature	92,167,755.80	0.00
Bank acceptance bills discounted but not yet mature	0.00	0.00
Total	92,167,755.80	0.00

For the Year, the bank acceptance bills issued by the Company to banks amounted to RMB0.00 (the last year: RMB0.00). As the main risks such as interest risks and returns related to these bank acceptance bills were transferred to the bank, the Company derecognised the undue bank acceptance bills that had been discounted. The discounted fee amounted to RMB0.00 (the last year: RMB0.00).

(Unless specified otherwise, all amounts are denominated in RMB)

XVI. NOTES TO THE KEY COMPONENTS OF FINANCIAL STATEMENTS OF THE PARENT COMPANY (continued)**1. Bills receivables** (continued)

(3) There were no bills transferred into accounts receivables for non-performance by the issuer at the End of the Year.

(4) Classification by the method of bad debt provision

Type	Balance at the End of the Year					Balance at the Beginning of the Year				
	Book balance		Provision for bad debts			Book balance		Provision for bad debts		
	Percentage		Expected credit			Percentage (%)		Expected credit		
	Amount	(%)	Amount	loss rate (%)	Carrying value	Amount	Percentage (%)	Amount	loss rate (%)	Carrying value
Provision for bad debts on an individual basis	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Provision for bad debts on a portfolio basis	569,150,368.41	100.00	0.00	0.00	569,150,368.41	606,560,125.42	100.00	0.00	0.00	606,560,125.42
In which:										
Bank acceptance bills	569,150,368.41	100.00	0.00	0.00	569,150,368.41	606,560,125.42	100.00	0.00	0.00	606,560,125.42
Total	569,150,368.41	100.00	0.00	0.00	569,150,368.41	606,560,125.42	100.00	0.00	0.00	606,560,125.42

(5) There is no bills receivables actually written-off for the Year.

2. Accounts receivables**(1) Disclosure using the ageing analysis method**

Ageing	Balance at the End of the Year	Balance at the Beginning of the Year
Within 1 year		
In which: Within 3 months (including 3 months)	596,856,891.36	541,031,907.54
4-6 months (including 6 months)	44,700,183.60	47,382,575.41
7-12 months (including 12 months)	16,135,445.33	17,746,072.48
Sub-total within 1 year:	657,692,520.29	606,160,555.43
1-2 years (including 2 years)	5,523,228.05	6,125,246.53
2-3 years (including 3 years)	1,792,998.15	1,429,082.94
Over 3 years	4,338,888.23	4,847,407.00
Sub-total	669,347,634.72	618,562,291.90
Less: Provisions for bad debts	16,743,531.90	16,818,362.82
Total	652,604,102.82	601,743,929.08

(Unless specified otherwise, all amounts are denominated in RMB)

XVI. NOTES TO THE KEY COMPONENTS OF FINANCIAL STATEMENTS OF THE PARENT COMPANY (continued)

2. Accounts receivables (continued)

(2) Disclosure according to the method of provisions for bad debts

Type	Balance at the End of the Year					Balance at the Beginning of the Year				
	Gross amount		Provisions for bad debts			Gross amount		Provisions for bad debts		
	Amount	Percentage (%)	Amount	Expected credit		Amount	Percentage (%)	Amount	Expected credit	
				loss rate (%)	Carrying value				loss rate (%)	Carrying value
Provisions for bad debts on an individual basis	3,835,417.28	0.57	3,835,417.28	100.00	0.00	5,198,757.18	0.84	5,198,757.18	100.00	0.00
In which:										
Due from other customers	3,835,417.28	0.57	3,835,417.28	100.00	0.00	5,198,757.18	0.84	5,198,757.18	100.00	0.00
Provisions for bad debts on a portfolio basis	665,512,217.44	99.43	12,908,114.62	1.94	652,604,102.82	613,363,534.72	99.16	11,619,605.64	1.89	601,743,929.08
In which:										
Due from other customers	665,512,217.44	99.43	12,908,114.62	1.94	652,604,102.82	613,363,534.72	99.16	11,619,605.64	1.89	601,743,929.08
Total	669,347,634.72	100.00	16,743,531.90	2.50	652,604,102.82	618,562,291.90	100.00	16,818,362.82	2.72	601,743,929.08

Provisions for bad debts on an individual basis:

Name	Balance at the End of the Year			Reason for provision made
	Gross amount	Provisions for bad debts	Expected credit loss rate (%)	
Loan	3,835,417.28	3,835,417.28	100.00	Not expected to be recoverable
Total	3,835,417.28	3,835,417.28	100.00	

Provisions for bad debts on a portfolio basis:

Item on a portfolio basis: Due from other customers

	Balance at the End of the Year		
	Accounts receivables	Provisions for bad debts	Expected credit loss rate (%)
Within 3 months (including 3 months)	596,856,891.36	6,227,408.27	1.04
4-6 months (including 6 months)	44,700,183.60	2,192,018.88	4.90
7-12 months (including 12 months)	16,135,445.33	1,616,178.46	10.02
1-2 years (including 2 years)	5,523,228.05	1,105,515.40	20.02
2-3 years (including 3 years)	1,733,949.15	1,204,473.66	69.46
Over 3 years	562,519.95	562,519.95	100.00
Total	665,512,217.44	12,908,114.62	1.94

(Unless specified otherwise, all amounts are denominated in RMB)

XVI. NOTES TO THE KEY COMPONENTS OF FINANCIAL STATEMENTS OF THE PARENT COMPANY *(continued)***2. Accounts receivables** *(continued)***(3) Provisions for bad debts made, recovered and reversed during the Year**

	Amount of provision for bad debts
Balance at the Beginning of the Year	16,818,362.82
Provisions made for the Period	112,864.20
Recoveries or reversals during the Period	–
Write-off for the Period	187,695.12
Balance at the End of the Year	16,743,531.90

As at 31 December 2019 and 31 December 2018, the Company had no accounts receivables that are past due but not impaired.

(4) Actual write-off of receivables for the Year

Item	Amount written-off
Accounts receivables actually written off	187,695.12

(5) The balance of account receivables with five largest entities by creditors at the End of the Year

The total of account receivables with five largest amount for the balance at the End of the Year by creditors was RMB96,442,713.78 for the Year, or 14.41% of the total balance of account receivables at the End of the Year, the aggregate balance of corresponding provisions for bad debts as at the End of the Year was RMB956,402.59.

(6) There is no derecognised accounts receivables in the Company due to the transfer of financial assets.**(7) There is no amount of assets or liabilities for which accounts receivable have been transferred but involvement continues in the Company.**

(Unless specified otherwise, all amounts are denominated in RMB)

XVI. NOTES TO THE KEY COMPONENTS OF FINANCIAL STATEMENTS OF THE PARENT COMPANY (continued)**3. Other receivables**

Item	Balance at the End of the Year	Balance at the Beginning of the Year
Dividend receivables	573,412,484.96	599,078,865.48
Other receivables	1,046,628,737.15	1,180,580,106.85
Total	1,620,041,222.11	1,779,658,972.33

(1) Dividend receivables

Item	Balance at the End of the Year	Balance at the Beginning of the Year
Livzon Group Limin Pharmaceutical Manufacturing Factory (麗珠集團利民製藥廠)	391,650,975.80	391,650,975.80
Zuhai Livzon Diagnostics Inc. (珠海麗珠試劑股份有限公司)	85,098,115.20	93,677,948.76
Livzon Group Fuzhou Fuxing Pharmaceutical Co., Ltd. (麗珠集團福州福興醫藥有限公司)	0.00	113,749,940.92
Livzon Group Xinbeijiang Pharmaceutical Manufacturing Inc. (麗珠集團新北江製藥股份有限公司)	94,113,393.96	0.00
Guangdong Blue Treasure Pharmaceutical Co. Ltd. (廣東藍寶製藥有限公司)	2,550,000.00	0.00
Sub-total:	573,412,484.96	599,078,865.48
Less: Provision for bad debts	0.00	0.00
Total	573,412,484.96	599,078,865.48

(2) Other receivables

① Disclosure by nature of the amount

Item	Balance at the End of the Year	Balance at the Beginning of the Year
Reserve fund	9,250,491.90	8,275,477.20
Other receivables of each company within the scope of combination	1,034,412,033.49	1,170,264,619.43
Borrowing due from external entities	5,000,000.00	5,000,000.00
Others	4,179,488.58	3,119,429.56
Sub-total	1,052,842,013.97	1,186,659,526.19
Less: Provision for bad debts	6,213,276.82	6,079,419.34
Total	1,046,628,737.15	1,180,580,106.85

(Unless specified otherwise, all amounts are denominated in RMB)

XVI. NOTES TO THE KEY COMPONENTS OF FINANCIAL STATEMENTS OF THE PARENT COMPANY (continued)**3. Other receivables** (continued)**(2) Other receivables** (continued)

② Provision made for bad debts

As at the End of the Year, provision for bad debts at step 1:

Type	Gross amount	Expected credit losses rate over the next 12 months (%)	Provision for bad debts	Carrying value	Reason
Provision for bad debts on an individual basis	573,412,484.96	0.00	0.00	573,412,484.96	
Dividend receivable	573,412,484.96	0.00	0.00	573,412,484.96	Expected to be recoverable
Provision for bad debts on a portfolio basis	1,034,412,033.49	0.00	0.00	1,034,412,033.49	
Other receivables of each combined company	1,034,412,033.49	0.00	0.00	1,034,412,033.49	Expected to be recoverable
Total	1,607,824,518.45	0.00	0.00	1,607,824,518.45	

As at the End of the Year, provision for bad debts at step 2:

Type	Gross amount	Expected credit losses rate over the lifetime (%)	Provision for bad debts	Carrying value	Reason
Provision for bad debts on an individual basis	0.00	0.00	0.00	0.00	–
Provision for bad debts on a portfolio basis	18,192,521.04	32.85	5,975,817.38	12,216,703.66	
Other receivables	18,192,521.04	32.85	5,975,817.38	12,216,703.66	–
Total	18,192,521.04	32.85	5,975,817.38	12,216,703.66	

As at the End of the Year, provision for bad debts at step 3:

Type	Gross amount	Expected credit losses rate over the lifetime (%)	Provision for bad debts	Carrying value	Reason
Provision for bad debts on an individual basis	237,459.44	100.00	237,459.44	0.00	
Other receivables	237,459.44	100.00	237,459.44	0.00	Not expected to be recoverable
Provision for bad debts on a portfolio basis	0.00	0.00	0.00	0.00	–
Total	237,459.44	100.00	237,459.44	0.00	

(Unless specified otherwise, all amounts are denominated in RMB)

XVI. NOTES TO THE KEY COMPONENTS OF FINANCIAL STATEMENTS OF THE PARENT COMPANY (continued)**3. Other receivables** (continued)**(2) Other receivables** (continued)

- ③ Provision for bad debts made, recovered or reversed during the Year

Provision for bad debts	Step 1 Expected credit losses over the next 12 months	Step 2 Expected credit losses over the lifetime (without impairment of credit)	Step 3 Expected credit losses over the lifetime (with impairment of credit)	Total
Balance at the Beginning of the Year	0.00	5,841,959.90	237,459.44	6,079,419.34
Balance at the Beginning of the Year transferred for the Period				
– Transferred to step 2	0.00	0.00	0.00	0.00
– Transferred to step 3	0.00	0.00	0.00	0.00
– Reversed in step 2	0.00	0.00	0.00	0.00
– Reversed in step 1	0.00	0.00	0.00	0.00
Provisions made for the Period	0.00	133,857.48	0.00	133,857.48
Reversals for the Period	0.00	0.00	0.00	0.00
Write-off for the Period	0.00	0.00	0.00	0.00
Settlement for the Period	0.00	0.00	0.00	0.00
Other changes	0.00	0.00	0.00	0.00
Balance at the End of the Year	0.00	5,975,817.38	237,459.44	6,213,276.82

- ④ No other receivables were actually written off during the Year.

- ⑤ Other receivables with five largest amount by creditors at the End of the Year

Name of unit	Nature of receivables	Balance at the End of the Year	Ageing	Proportion to total other receivables at the End of the Year (%)	Balance of provision for bad debts at the End of the Year
Livzon Group (Ningxia) Pharmaceutical Manufacturing Co., Ltd. (麗珠集團(寧夏)製藥有限公司)	Current account	875,522,146.66	Within 1 year	83.16	0.00
Ando Development Limited (安瀾發展有限公司)	Current account	123,964,228.43	Within 1 year: RMB241,770.71; over 1 year: RMB123,722,457.72	11.77	0.00
Livzon Group Vaccine Engineering Inc. (麗珠集團疫苗工程股份有限公司)	Current account	21,011,797.39	Over 1 year: RMB15,012.74; over 1 year: RMB20,996,784.65	2.00	0.00
Wenshan Livzon Sanqi Plantation Co., Ltd. (文山麗珠三七種植有限公司)	Current account	8,957,463.81	Over 1 year	0.85	0.00
Zhuhai Lihe Medical Diagnostic Product Company Limited (珠海麗禾醫療診斷產品有限公司)	Current account	3,600,000.00	Over 1 year	0.34	0.00
Total	-	1,033,055,636.29	-	98.12	0.00

- ⑥ The Company has no derecognised other receivables out of transfer of financial assets.

- ⑦ The Company has no assets or liabilities formed by its continuous involvement of transferring other receivables.

(Unless specified otherwise, all amounts are denominated in RMB)

XVI. NOTES TO THE KEY COMPONENTS OF FINANCIAL STATEMENTS OF THE PARENT COMPANY (continued)

4. Long-term equity investments

Item	Balance at the End of the Year			Balance at the Beginning of the Year		
	Gross amount	Provision for impairment	Carrying value	Gross amount	Provision for impairment	Carrying value
Investments in subsidiaries	1,840,108,891.59	17,287,569.18	1,822,821,322.41	1,833,673,491.59	17,287,569.18	1,816,385,922.41
Investments in associates	79,536,261.59	1,200,000.00	78,336,261.59	90,952,187.34	1,200,000.00	89,752,187.34
Total	1,919,645,153.18	18,487,569.18	1,901,157,584.00	1,924,625,678.93	18,487,569.18	1,906,138,109.75

(1) Investments in subsidiaries

Investee	Balance at the Beginning of the Year	Increase during the Year	Decrease during the Year	Balance at the End of the Year	Provision for impairment for the Year	Balance of provision for impairment at the End of the Year
Zhuhai Livzon Baimeing Biological Materials Co., Ltd. (珠海麗珠-拜阿蒙生物材料有限公司)	3,934,721.95	0.00	0.00	3,934,721.95	0.00	0.00
Livzon Group Livzon Pharmaceutical Factory (麗珠集團麗珠製藥廠)	361,060,443.85	0.00	0.00	361,060,443.85	0.00	0.00
Sichuan Guangda Pharmaceutical Manufacturing Co., Ltd. (四川光大製藥有限公司)	170,872,457.35	0.00	0.00	170,872,457.35	0.00	0.00
Shanghai Livzon Pharmaceutical Manufacturing Co., Ltd. (上海麗珠製藥有限公司)	31,438,404.00	0.00	0.00	31,438,404.00	0.00	0.00
Zhuhai Modern Chinese Medicine High Technology Co., Ltd. (珠海現代中藥高科技有限公司)	4,539,975.00	0.00	0.00	4,539,975.00	0.00	0.00
Livzon Group Livzon Medical Research Centre (麗珠集團麗珠醫藥研究所)	6,004,000.00	0.00	0.00	6,004,000.00	0.00	0.00
Lizhu (Hong Kong) Co., Limited (麗珠(香港)有限公司)	408,610,100.01	0.00	0.00	408,610,100.01	0.00	0.00
Lian (Hong Kong) Co., Ltd. (麗安香港有限公司)	140,000,000.00	0.00	0.00	140,000,000.00	0.00	0.00
Ando Development Limited (安滔發展有限公司)	534,050.00	0.00	0.00	534,050.00	0.00	0.00
Livzon Group Xinbeijiang Pharmaceutical Manufacturing Inc. (麗珠集團新北江製藥股份有限公司)	378,259,319.91	0.00	0.00	378,259,319.91	0.00	17,287,569.18
Zhuhai Livzon Diagnostics Inc. (珠海麗珠試劑股份有限公司)	2,896,800.00	0.00	539,600.00	2,357,200.00	0.00	0.00
Livzon Group Livzon Pharmaceutical Marketing Ltd. (麗珠集團麗珠藥營銷有限公司)	12,008,000.00	0.00	0.00	12,008,000.00	0.00	0.00
Livzon Group Limin Pharmaceutical Manufacturing Factory (麗珠集團利民製藥廠)	184,301,219.52	0.00	0.00	184,301,219.52	0.00	0.00
Zhuhai Livzon Pharmaceutical Trading Co., Ltd. (珠海市麗珠藥貿易有限公司)	40,020,000.00	0.00	0.00	40,020,000.00	0.00	0.00
Livzon Group Vaccine Engineering Inc. (麗珠集團疫苗工程股份有限公司)	54,500,000.00	0.00	0.00	54,500,000.00	0.00	0.00
Wenshan Livzon Sanqi Plantation Co., Ltd. (文山麗珠三七種植有限公司)	4,694,000.00	0.00	0.00	4,694,000.00	0.00	0.00
Livzon Gene Diagnostics Inc. (珠海市麗珠基因檢測科技有限公司)	30,000,000.00	0.00	0.00	30,000,000.00	0.00	0.00
Gutian Fuxing Pharmaceutical Co., Ltd. (古田福興醫藥有限公司)	0.00	6,675,000.00	0.00	6,675,000.00	0.00	0.00
Zhuhai Livzon Microsphere Technology Co., Ltd.* (珠海市麗珠微球科技有限公司)	0.00	300,000.00	0.00	300,000.00	0.00	0.00
Total	1,833,673,491.59	6,975,000.00	539,600.00	1,840,108,891.59	0.00	17,287,569.18

(Unless specified otherwise, all amounts are denominated in RMB)

XVI. NOTES TO THE KEY COMPONENTS OF FINANCIAL STATEMENTS OF THE PARENT COMPANY (continued)**4. Long-term equity investments** (continued)**(2) Investments in associates and joint ventures**

Investee	Change during the Year									Balance of provision for impairment at the End of the Year	
	Balance at the Beginning of the Year	Investment acquired/new investment	Investment disposed of	Investment profit and loss under the equity method	Adjustment in other comprehensive income	Other equity changes	Cash dividend or profit distribution declared	Provision for impairment for the Year	Other		Balance at the End of the Year
①Associates											
Livzon Medical Electronic Equipment (Plant) Co., Ltd. (麗珠醫用電子設備(廠)有限公司)	1,200,000.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	1,200,000.00	1,200,000.00
Guangdong Blue Treasure Pharmaceutical Co. Ltd. (廣東藍寶製藥有限公司)	12,448,902.74	0.00	0.00	2,220,543.42	0.00	0.00	2,550,000.00	0.00	0.00	12,119,446.16	0.00
Jiangsu Nike Medical Equipment Co., Ltd.(江蘇尼科醫療器械有限公司)	30,038,251.43	0.00	0.00	3,200,534.92	0.00	0.00	0.00	0.00	0.00	33,238,786.35	0.00
Shenzhen City Youbao Technology Co., Ltd. (深圳市有寶科技有限公司)	1,040,814.43	0.00	0.00	-453.36	0.00	0.00	0.00	0.00	0.00	1,040,361.07	0.00
DOSERNA INC	6,000,992.75	0.00	0.00	-84,406.68	0.00	0.00	0.00	0.00	0.00	5,916,586.07	0.00
Zhuhai Sanmed Biotech Inc. (珠海聖美生物診斷技術有限公司)	40,223,225.99	0.00	0.00	-18,035,533.15	155,384.33	3,678,004.77	0.00	0.00	0.00	26,021,081.94	0.00
Total	90,952,187.34	0.00	0.00	-12,699,314.85	155,384.33	3,678,004.77	2,550,000.00	0.00	0.00	79,536,261.59	1,200,000.00

5. Operating income and operating cost**(1) Operating income and operating cost**

Item	For the Year		For the Last Year	
	Income	Cost	Income	Cost
Principal activities	4,877,324,620.53	3,027,365,300.72	4,624,369,399.18	2,769,742,007.02
Other activities	27,724,563.11	5,763,100.00	6,507,565.90	0.00
Total	4,905,049,183.64	3,033,128,400.72	4,630,876,965.08	2,769,742,007.02

The Company operates in a single operating segment in the PRC, i.e. the manufacture of pharmaceuticals. Accordingly, no operating segment of the Company is presented.

(Unless specified otherwise, all amounts are denominated in RMB)

XVI. NOTES TO THE KEY COMPONENTS OF FINANCIAL STATEMENTS OF THE PARENT COMPANY *(continued)***5. Operating income and operating cost** *(continued)***(2) Information of major business income**

① Presented by product types

Item	For the Year		For the Last Year	
	Income	Cost	Income	Cost
Chemical drug preparation products	3,879,472,530.54	2,439,798,092.31	3,343,455,920.01	2,022,121,888.20
Traditional Chinese drug preparation products	997,852,089.99	587,567,208.41	1,280,913,479.17	747,620,118.82
Total	4,877,324,620.53	3,027,365,300.72	4,624,369,399.18	2,769,742,007.02

② Presented by regions of operation

Item	For the Year		For the Last Year	
	Income	Cost	Income	Cost
Domestic	4,877,324,620.53	3,027,365,300.72	4,624,369,399.18	2,769,742,007.02
Total	4,877,324,620.53	3,027,365,300.72	4,624,369,399.18	2,769,742,007.02

③ Presented by recognition time of income

Item	For the Year		For the Last Year	
	Income	Cost	Income	Cost
Commodities (transferred at a point in time)	4,877,324,620.53	3,027,365,300.72	4,624,369,399.18	2,769,742,007.02
Total	4,877,324,620.53	3,027,365,300.72	4,624,369,399.18	2,769,742,007.02

6. Investment income

Item	For the Year	For the Last Year
Long-term equity investments income under cost method	244,233,560.40	771,485,900.94
Long-term equity investments income under equity method	-12,699,314.85	-15,239,316.17
Investment income from disposal of long-term equity investments	20,583,292.00	-5,630,777.04
Investment income from financial assets held for trading during its holding period	90,643.41	131,844.96
Dividend income from other equity instrument investments	2,272.18	0.00
Item	252,210,453.14	750,747,652.69

(Unless specified otherwise, all amounts are denominated in RMB)

XVII. SUPPORTING INFORMATION**1. Statement of non-recurring profit or loss**

Items	For the Year	For the Last Year
Profit or loss from disposal of non-current assets	460,273.31	15,792,181.49
Return, exemption and discharge of taxes resulting from approving ultra vires, or without formal approval or incidentally incurred	0.00	0.00
Government grants as included in the current profit or loss, however, except for those which are closely related to the normal business of an enterprise, comply with the policies of the State and are continuously entitled with specific amount or quantity according to certain standards	154,959,775.56	257,704,892.65
Funds occupation fees charged from non-financial enterprises	0.00	0.00
Gains resulting from the investment cost of the enterprise for the purpose of acquisition of the subsidiaries, joint operation and joint ventures is lower than the fair value of net identifiable assets of the investee as entitled at the time of receipt of the investment	0.00	0.00
Profit or loss from exchange of non-monetary assets	0.00	0.00
Profit or loss from investment or management of assets by the others	0.00	0.00
Provision for impairment of assets accrued due to force majeure factors, such as natural disasters	0.00	0.00
Profit or loss from debts restructuring	0.00	0.00
Enterprise restructuring fees, such as the expenses for employees' settlement and the integration fees	0.00	0.00
Profit or loss exceeding the fair value and generated from the transaction of which the transaction price is obviously unfair	0.00	0.00
Net profit or loss over the current period of the subsidiaries as a result of business combination under common control from the beginning of the year to the date of consolidation	0.00	0.00
Profit or loss from contingent issues irrelevant to the Company's normal business	0.00	0.00
Except for the efficient hedging related to the Company's normal business, profit or loss from changes in fair value as generated from financial assets and financial liabilities held for trading and gains from investment as a result of the disposal of financial assets and financial liabilities held for trading and debt investments	-9,792,768.00	-55,583,678.31
Reversals of provision for impairment of accounts receivable with individual impairment test	0.00	0.00
Profit or loss from entrusted loans	0.00	0.00
Profit or loss from fair value change of the investment properties that are subsequently measured under the fair value model	0.00	0.00
Effect on current profit or loss as a result of the onetime adjustments to current profit or loss under the tax, accounting and other laws and regulations	0.00	0.00
Custody fees income from entrusted operation	0.00	0.00
Other non-operating income and expenses other than the abovementioned items	-2,392,090.75	-32,985,967.52
Other profit or loss items as defined by the non-recurring profit or loss on-recurring profit or loss	0.00	0.00
Total non-recurring profit or loss	143,235,190.12	184,927,428.31
Less: Effect on income tax of non-recurring profit or loss	20,785,731.83	27,784,750.10
Less: Net effect of non-recurring profit or loss attributable to the Company's minority shareholders (after tax)	11,109,186.82	22,184,077.88
Non-recurring profit or loss attributable to the Company's ordinary shareholders	111,340,271.47	134,958,600.33

Note: As for the figures in the non-recurring profit or loss column, "+" represents the gains and income, "-" represents the loss or expense.

The Company recognizes non-recurring profit or loss items according to the Explanatory Announcement No.1 on Corporate Information Disclosure for the Public Offering of Securities-Non-recurring Profit or Loss (ZJHGG [2008] No. 43).

(Unless specified otherwise, all amounts are denominated in RMB)

XVII. SUPPORTING INFORMATION *(continued)***2. Rate of return on net assets and earnings per share****2019**

Profit during the reporting period	Rate of return on weighted average net assets (%)	Earnings per share	
		Basic earnings per share	Diluted earnings per share
Net profit attributable to the Company's ordinary shareholders	12.02	1.39	1.39
Net profit attributable to the Company's ordinary shareholders after a deduction of non-recurring profit or loss	11.00	1.27	1.27

2018

Profit during the reporting period	Rate of return on weighted average net assets (%)	Earnings per share	
		Basic earnings per share	Diluted earnings per share
Net profit attributable to the Company's ordinary shareholders	10.15	1.16	1.16
Net profit attributable to the Company's ordinary shareholders after a deduction of non-recurring profit or loss	8.89	1.02	1.02

XIII. LIST OF DOCUMENTS AVAILABLE FOR INSPECTION

- (I) Audited financial report of the Company for the twelve months ended 31 December 2019 prepared in accordance with the Accounting Standards for Business Enterprises in the PRC, which has been signed and sealed by the person-in-charge of the Company, the person-in-charge of the Company's financial affairs (mainly responsible for accounting work) and the person-in-charge of the accounting department (the head of the accounting department).
- (II) The original document of the auditors' report sealed by the accounting firm and signed and sealed by the certified public accountants.
- (III) Original copies of all documents and announcements of the Company which have been disclosed on designated websites as approved by CSRC during the Year.
- (IV) 2019 Annual Report of the Company in English and Chinese versions published on the website of Hong Kong Exchanges and Clearing Limited.

Livzon Pharmaceutical Group Inc.
Zhu Baoguo
Chairman

25 March 2020



Livzon,
Evergreen Life, Bright Future & Wisdom

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