



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



2020 Interim Report

* For identification purpose only

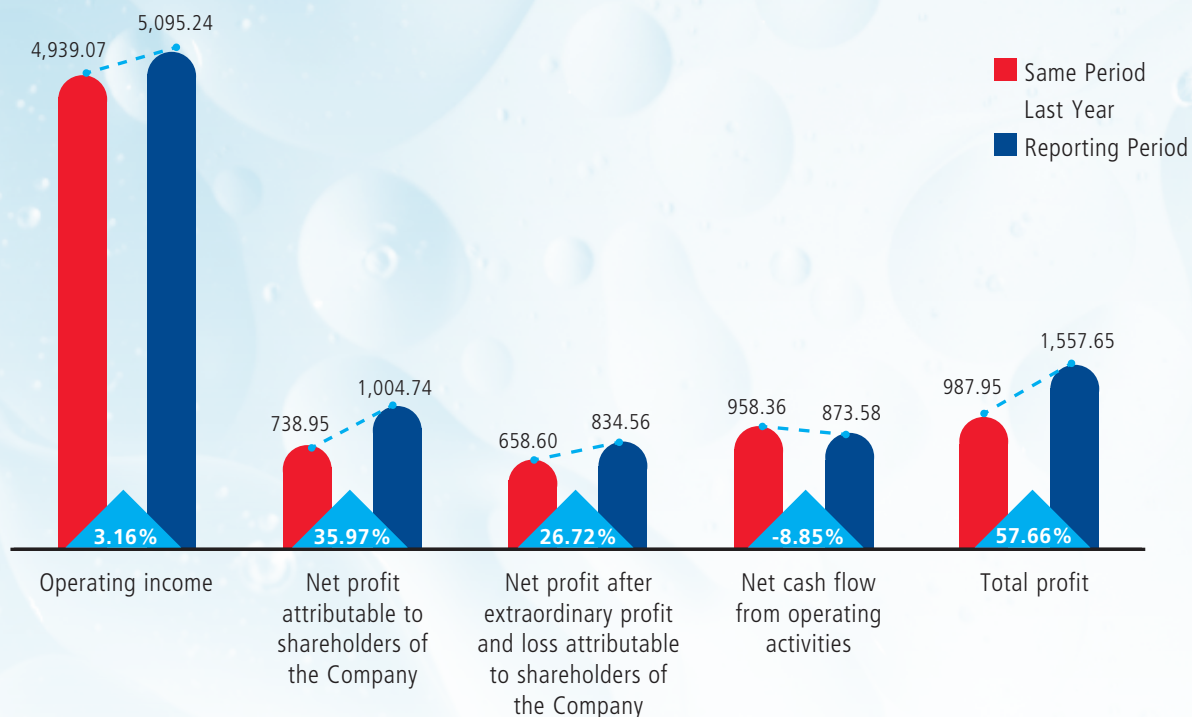
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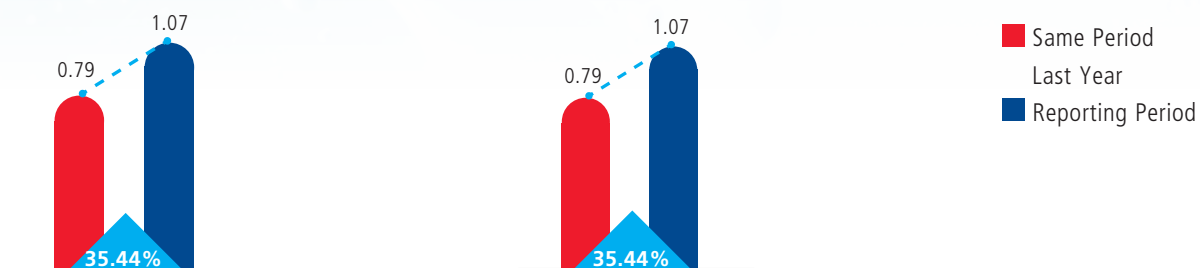
FINANCIAL HIGHLIGHTS

Major Financial Indicators (RMB in millions)



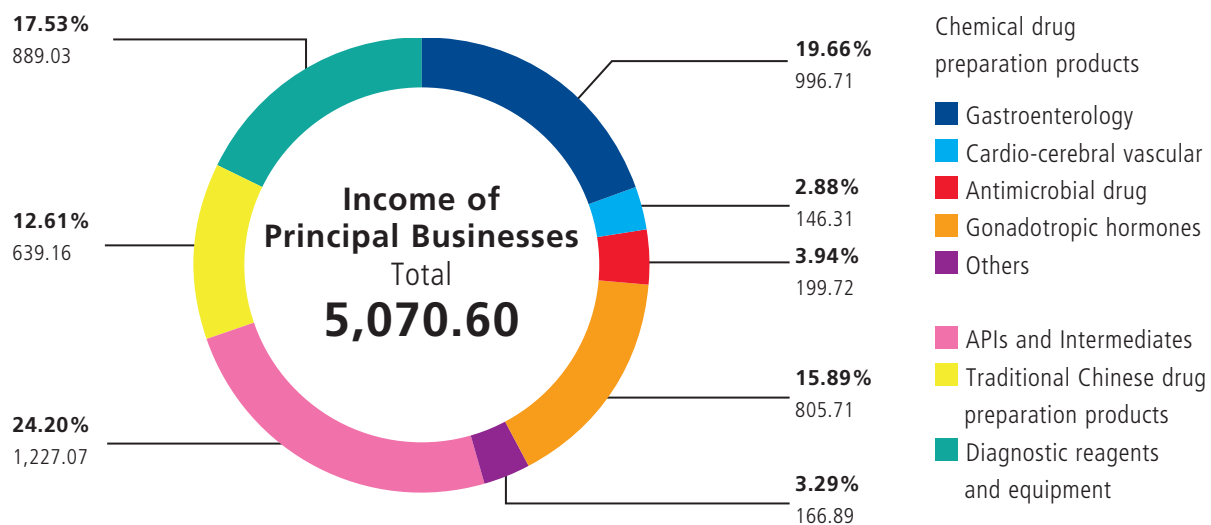
Basic earnings per share (RMB/share)

Diluted earnings per share (RMB/share)



Composition of Principal Business (RMB in million)

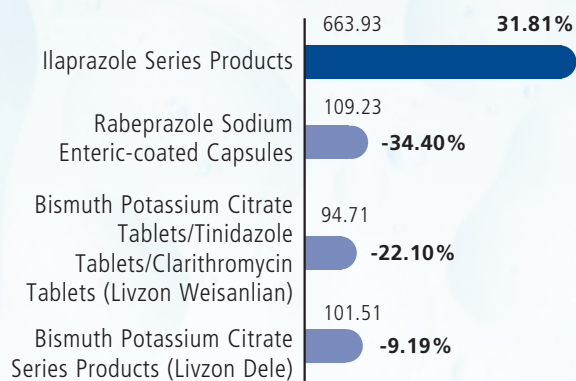
By sector



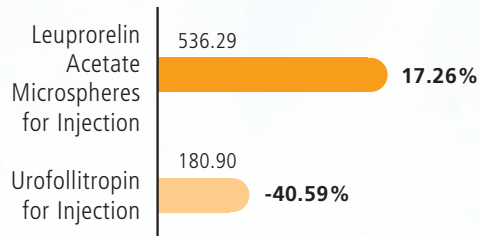
FINANCIAL HIGHLIGHTS

INCOME FROM SALES OF KEY PRODUCTS DURING THE REPORTING PERIOD (RMB IN MILLIONS) AND YEAR-ON-YEAR CHANGE

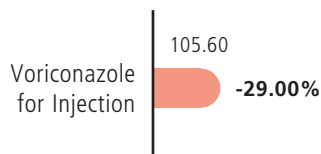
Drug preparation products: gastroenterology



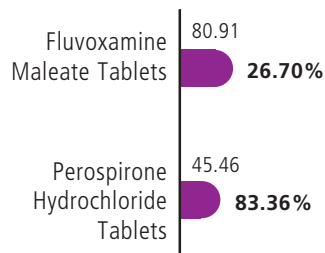
Drug preparation products: gonadotropic hormones



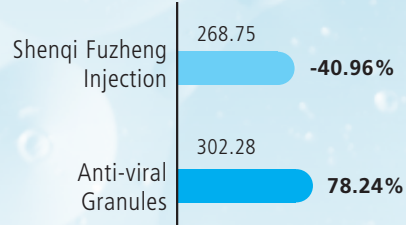
Drug preparation products: antimicrobials



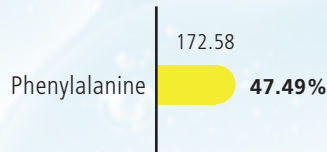
Drug preparation products: others - psychiatry



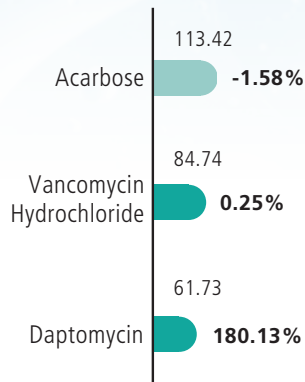
Drug preparation products: traditional Chinese drug preparation



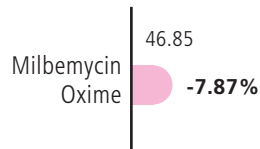
APIs: food additives - human use



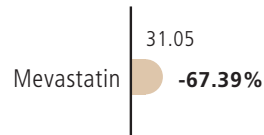
APIs: fermentation drugs - human use



APIs: veterinary drugs



Intermediates: human use



SECTION I IMPORTANT NOTICE AND DEFINITIONS

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 interim 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 Report has been considered and approved in the third meeting of the 10th session of the Board of the Company. All the Directors attended the third meeting of the 10th session of the Board.

The Group has prepared the financial report in accordance with China Accounting Standards for Business Enterprises. The 2020 interim financial statements and notes thereof (collectively the "Financial Report") prepared by the Group according to China Accounting Standards for Business Enterprises have not been audited. The Report has been reviewed by the audit committee of the Company.

The Company does not intend to pay interim cash dividends, issue bonus shares or transfer any capital reserve to share capital.

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.

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 (Management Discussion and Analysis)" 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, and do not constitute substantive undertakings of the Company to investors. 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.

SECTION I IMPORTANT NOTICE AND DEFINITIONS

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

SECTION I IMPORTANT NOTICE AND DEFINITIONS

DEFINITIONS *(continued)*

"Reporting Period" or "Period"	the six months ended from 1 January to 30 June 2020
"Same Period Last Year" or "Previous Period"	the six months ended from 1 January to 30 June 2019
"End of the Previous Year"	31 December 2019
"Beginning of the Reporting Period", "Beginning of the Period" or "Beginning of the Year"	1 January 2020
"End of the Reporting Period" or "End of the Period"	30 June 2020
"CSRC"	China Securities Regulatory Commission
"Shenzhen Stock Exchange"	Shenzhen Stock Exchange
"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

SECTION I IMPORTANT NOTICE AND DEFINITIONS

DEFINITIONS *(continued)*

"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》)
"Restricted A Shares Incentive Scheme"	the Restricted A Shares Incentive Scheme (Revised Draft) considered and approved at the 2015 first extraordinary general meeting 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 (天誠實業有限公司)
"Begol"	Guangzhou Begol Trading Holdings Limited* (廣州市保科力貿易公司)
"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)

SECTION I IMPORTANT NOTICE AND DEFINITIONS

DEFINITIONS *(continued)*

"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)
"Livzon Biologics"	Livzon Biologics 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

* *For identification purpose only*

SECTION I IMPORTANT NOTICE AND DEFINITIONS

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
"Japanese Yen"	Japanese Yen, the lawful currency of Japan
"Euro"	Euro, the official currency for 19 nations in European Union
"Cninfo"	www.cninfo.com.cn (巨潮資訊網)
"Company's website"	the website of the Company (www.livzon.com.cn)

SECTION II COMPANY PROFILE AND MAJOR FINANCIAL INDICATORS

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)	Not 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 address 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".

Note 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

SECTION II COMPANY PROFILE AND MAJOR FINANCIAL INDICATORS

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. OTHER INFORMATION

1. CONTACT DETAILS OF THE COMPANY

Whether the registered address of the Company, the office address and postal code of the Company, the Company website and the e-mail address changed during the Reporting Period

☐ Applicable ☒ Not applicable

There was no change in the registered address, office address and postal code, company website and email address of the Company during the Reporting Period. Please refer to the 2019 Annual Report for details.

2. INFORMATION DISCLOSURE AND PLACES FOR INSPECTION

Whether the information disclosure and the places for inspection changed during the Reporting Period

☐ Applicable ☒ Not applicable

There was no change in the names of designated newspapers for information disclosure by the Company, no change in the website designated by CSRC for publication of interim report and no change in the place for inspection of interim report of the Company during the Reporting Period. Please refer to the 2019 Annual Report for details.

3. OTHER RELEVANT INFORMATION

Whether other relevant information changed during the Reporting Period

☐ Applicable ☒ Not applicable

There was no change in other relevant information of the Company during the Reporting Period. Please refer to the 2019 Annual Report for details.

SECTION II COMPANY PROFILE AND MAJOR FINANCIAL INDICATORS

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

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

Items	Period	Previous Period	Year-on-Year Change
Operating income	5,095,238,317.69	4,939,065,593.94	3.16%
Net profit attributable to Shareholders of the Company	1,004,743,610.08	738,947,763.69	35.97%
Net profit attributable to the Shareholders of the Company after deducting the extraordinary gain or loss	834,559,221.59	658,598,640.08	26.72%
Net cash flow from operating activities	873,576,936.06	958,363,504.62	-8.85%
Total profit	1,557,648,101.96	987,950,152.13	57.66%
Weighted average return on net assets (%)	8.74%	6.79%	Increased by 1.95 percentage points
Return on equity attributable to Shareholders of the Company (%)	9.05%	7.02%	Increased by 2.03 percentage points
Ratio of equity attributable to Shareholders of the Company to total assets (%)	64.32%	62.41%	Increased by 1.91 percentage points

Items	End of the Period	Beginning of the Period	Year-on-Year Change
Total assets	17,251,823,846.85	17,976,463,117.21	-4.03%
Total liabilities	4,716,912,635.01	5,701,225,543.51	-17.26%
Net assets attributable to the Shareholders of the Company	11,096,584,487.53	11,166,752,446.51	-0.63%
Share capital	940,773,461.00	934,762,675.00	0.64%
Shareholders' equity per share attributable to the Shareholders of the Company	11.80	11.95	-1.26%

Items	Period	Previous Period Before adjustment	After adjustment	Year-on-Year Change
Basic earnings per share (RMB/share)	1.07	1.03	0.79	35.44%
Diluted earnings per share (RMB/share)	1.07	1.03	0.79	35.44%
Basic earnings per share after deducting the extraordinary gain or loss (RMB/share)	0.89	0.92	0.71	25.35%

Note: As the Company completed the conversion of capital reserve into share capital in July 2019, the data of earnings per share for the Same Period Last Year has been adjusted in accordance with 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) 942,283,673

Fully diluted earnings per share based on the most updated share capital

Dividends payable to preferred shares 0.00
Fully diluted earnings per share based on the most updated share capital (RMB/share) 1.07

SECTION II COMPANY PROFILE AND MAJOR FINANCIAL INDICATORS

V. 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

VI. ITEMS AND AMOUNTS OF EXTRAORDINARY GAINS AND LOSSES

☒ Applicable ☐ Not applicable

Items	Unit: RMB Amounts
Gains and losses on disposal of non-current assets (including the written-off portion of provisions made for asset impairment)	108,228,700.30
Government grants included in profit and loss for the Period (except for government grants closely associated with corporate businesses, entitled at fixed amount or fixed level according to the national unified standards)	103,041,173.85
Gains and losses on fair value changes derived from holding of financial assets held for trading, derivative financial assets, financial liabilities held for trading, derivative financial liabilities, and investment income generated on disposal of financial assets held for trading, derivative financial assets, financial liabilities held for trading, derivative financial liabilities and other debt investments, except for effective hedging activities related to the ordinary operating business of the Company	2,792,143.10
Other non-operating income and expenditure apart from the above items	-11,911,061.27
Less: income tax effect	27,494,283.12
Effect of minority interests (after tax)	4,472,284.37
Total	170,184,388.49

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 Reporting Period, 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.

SECTION III SUMMARY OF ACTIVITIES

I. PRINCIPAL BUSINESSES OF THE COMPANY DURING THE REPORTING PERIOD

During the Reporting Period, 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 (麗珠得樂(枸橼酸鉍鉀)) products, Rabeprazole Sodium Enteric-Coated Capsules (麗倍樂(雷貝拉唑鈉腸溶膠囊)), Weisanlian (Bismuth Potassium Citrate Tablets/Tinidazole Tablets/Clarithromycin Tablets (維三聯(枸橼酸鉍鉀片/替硝唑片/克拉霉素片)), 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)), Voriconazole for Injection (麗福康(注射用伏立康唑)), Fluvoxamine Maleate Tablets (瑞必樂(馬來酸氟伏沙明片)), Perospirone Hydrochloride Tablets (康爾汀(鹽酸哌羅匹隆片)), Shenqi Fuzheng Injection (參芪扶正注射液), and Anti-viral Granules (抗病毒顆粒); 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), Vancomycin Hydrochloride (鹽酸萬古霉素), Daptomycin (達托霉素), Milbemycin Oxime (米爾貝肟) and Ceftriaxone Sodium (頭孢曲松鈉); and diagnostic reagents such as Diagnostic Kit for IgM/IgG Antibody to Coronavirus (2019-nCoV) (Colloidal Gold) (新型冠狀病毒(2019-nCoV) IgM/IgG抗體檢測試劑盒(膠體金法)), Diagnostic Kit for IgM Antibody to Mycoplasma Pneumonia (Colloidal Gold) (肺炎支原體IgM抗體檢測試劑盒(膠體金法)) and Diagnostic Kit for Antibody to Human Immunodeficiency Virus (ELISA) (人類免疫缺陷病毒抗體檢測試劑盒(酶聯免疫法)).

II. MATERIAL CHANGES IN MAJOR ASSETS

1. Material Changes in Major Assets

Major assets	Details of material changes
Equity assets	Decreased by 12.16%, there was no material change in the Reporting Period.
Fixed assets	Increased by 5.56%, there was no material change in the Reporting Period.
Intangible assets	Increased by 2.88%, there was no material change in the Reporting Period.
Construction in progress	Decreased by 21.80%, there was no material change in the Reporting Period.
Other receivables	Increased by 85.15%, mainly due to the fact that the related payment for part of the options under the 2018 Share Options Incentive Scheme of the Company exercised in June this year had not been received.
Development expenditure	Increased by 25.45%, there was no material change in the Reporting Period.
Long-term receivables	Decreased by 100%, mainly because long-term receivables due within one year were transferred to non-current assets due within one year as the credit period changed.
Other equity instrument investments	Increased by 19.74%, there was no material change in the Reporting Period.

2. Major Foreign Assets

☐ Applicable ☒ Not applicable

SECTION III SUMMARY OF ACTIVITIES

III. ANALYSIS OF CORE COMPETITIVE STRENGTHS

The Group adheres to the three major strategies of “talent strategy, product strategy and market strategy” and upholds the mission of prioritizing the quality of life of its patients with the goal of becoming a leading pharmaceutical enterprise within the industry. The Group continuously improved the efficiency of management control and governance standards, accelerated the steady progress in research and development and enhanced marketing management continuously, thereby achieving stable growth in the performance results. During the Reporting Period, the Group’s core competitive strengths were further consolidated and enhanced, which 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, 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 focuses 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, the Group 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 specialized 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 business processes of production, scientific research and sales of its products. During the Reporting Period, 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 drugs, 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. Through measures such as proactively introducing domestic and foreign experts and innovative talents, increasing R&D investments and developing overseas strategic alliances, the Group has established a clear and diverse R&D pipeline for products, focusing on medicine products such as antitumor, assisted reproduction, gastrointestinal, psychotropic and neurological drugs, which has further enhanced the R&D competitiveness of the Group.

SECTION IV OPERATION DISCUSSION AND ANALYSIS (MANAGEMENT DISCUSSION AND ANALYSIS)

I. BUSINESS SCOPE

For principal businesses of the Group during the Reporting Period, please refer to Section III “PRINCIPAL BUSINESSES OF THE COMPANY DURING THE REPORTING PERIOD” of the Report.

II. SUMMARY

The whole country was under severe impact of the novel coronavirus disease (COVID-19) from the beginning of 2020, and was motivated to fight the pandemic. The Company took immediate actions and donated materials and supplies to alleviate the situation and showed support, and adopted active measures to prevent and control the pandemic while ensuring the proper development of our various businesses to minimize the adverse impact of the pandemic.

During the Reporting Period, the Group recorded an operating income of RMB5,095.24 million, representing an increase of 3.16% as compared with RMB4,939.07 million in the Same Period Last Year; a net profit of RMB1,330.73 million, representing an increase of 59.46% as compared with RMB834.53 million in the Same Period Last Year; and a net profit attributable to Shareholders of the Company of RMB1,004.74 million, representing an increase of 35.97% as compared with RMB738.95 million in the Same Period Last Year. Excluding extraordinary gains and losses, the Company's net profit attributable to its Shareholders generated from principal businesses in the first-half of 2020 was RMB834.56 million, representing an increase of 26.72% as compared with RMB658.60 million in the Same Period Last Year.

During the Reporting Period, the progress of the major tasks in various business segments of the Group was set out as follows:

(1) Chemical and traditional Chinese drug preparation products

During the Reporting Period, the Group's business in drug preparation products recorded sales revenue of RMB2,954.50 million which accounted for 57.99% of the Group's operating income during the Period. Among which, chemical drug preparation products recorded sales revenue of RMB2,315.34 million, representing a decrease of 11.66% year-on-year, and traditional Chinese drug preparation products recorded sales revenue of RMB639.16 million, representing a decrease of 9.91% year-on-year.

In respect of marketing, during the first half of 2020, the sudden outbreak of the pandemic adversely affected daily lives and work of the public, and there was a substantial drop in outpatient and emergency visits in hospitals. The marketing team of the Group took proactive actions in introducing our major products such as Anti-viral Granules (抗病毒顆粒), Pediatric Lung-heat Cough Granules (小兒肺熱咳喘顆粒), and Shenqi Fuzheng Injection (參芪扶正注射液) into the list of Guidelines for the Diagnosis and Treatment of COVID-19 (新冠肺炎診療相關指南). Simultaneously, the marketing team made use of various new media to initiate online promotion campaigns of our OTC drugs. With these combined offline and online efforts, we further extended our products reach to cover more terminals such as chain pharmacies and other outlets, and our retail sales also recorded rapid growth, especially for Anti-viral Granules (抗病毒顆粒). Moreover, we continued to uphold “Three Marketing Approaches” as our marketing guidelines with implementation as follows: (i) marketing with application of academic aspects continued and a number of online and offline academic promotion campaigns were organized during the pandemic period; (ii) market coverage of our key product varieties and their evaluation of effective performance were enhanced, as a result, the number of hospitals applying Ilaprazole Sodium for Injection (注射用艾普拉唑鈉) and the sales of which recorded a rapid growth; (iii) tapping into additional hospitals through the development and increased production of other varieties within our Ilaprazole family (艾普拉唑組合); and (iv) optimization of our sales team: the deployment of the frontline salesmen was rapidly enhanced and income from frontline sales steadily increased; continuously improving the sales team of psychiatry with coverage extending to the whole country; as such, the sales of psychiatric drugs such as Perospirone Hydrochloride Tablets (鹽酸哌羅匹隆片) and Fluvoxamine Maleate Tablets (馬來酸氟伏沙明片) increased rapidly year-on-year.

SECTION IV OPERATION DISCUSSION AND ANALYSIS (MANAGEMENT DISCUSSION AND ANALYSIS)

II. SUMMARY *(continued)*

(1) Chemical and traditional Chinese drug preparation products *(continued)*

In respect of research and development ("R&D"), the Group continued to focus on innovative drugs and high-barrier complex preparations with continuous emphasis on cutting-edge technologies and unmet clinical demand, and accelerated innovation and upgrade. During the Reporting Period, our matrix R&D management structure was optimized. The project management was carried out from two dimensions, i.e. progress and quality. Our medical team, clinical team, and KA department worked hand in hand and jointly made great leaps in R&D progress in core products under research. The clinical research quality management system (cQMS) was established to optimize and integrate the various processes of clinical research. Special pharmaceutical inspections and clinical audits were carried out according to the progress of the varieties under research, which had effectively eliminated the potential risks in the scientific research quality system and the project development processes. In the first half of 2020, the application of registration for Octreotide Acetate Microspheres for Injection (注射用醋酸奥曲肽微球) was accepted. The notice of clinical trial of Aripiprazole Microspheres for Injection (注射用阿立哌唑微球) (1 month sustained release) was obtained and its phase I clinical trial was started. The phase III clinical trial of Triptorelin Acetate Microspheres for Injection (注射用醋酸曲普瑞林微球) (1-month sustained release) was conducted in smooth progress. Tinidazole Tablets (替硝唑片) obtained approval of generic quality consistency evaluation. The registration and application of generic quality consistency evaluation for Isosorbide Bononitrate Tablets (單硝酸異山梨酯片) and Cefodizime Sodium for Injection (注射用頭孢地噻鈉) were completed.

During the Reporting Period, despite the impact of the pandemic, our overseas sales of drug preparation products still continued, with continuous penetration into new international markets. The market access and sales of products of gonadotropic hormones, gastroenterology, psychiatry and anti-infective drugs, etc. in countries and regions, including Pakistan, Philippines and Central America, continued to make progress with sales in overseas markets increased by 14.39% as compared with the Same Period Last Year.

In order to strengthen our drug life cycle management and drug safety risk management, the Group formulated and issued a series of relevant management systems and methods, including drug traceability, license holders of drug marketing and unannounced inspection. We also formulated and issued the Contingency Plan for Material Drug Safety Incident, Responsive Process of Sampling Inspection and Responsive Process of Manufacturing On-site Inspection for Drug Registration, giving guidance to each of our manufacturing subsidiaries in their daily standard management and contingent responses of emergency events. In order to eliminate any blind spot during quality management processes and prevent any regional and systemic risks, the quality management head office of the Company formulated 740 inspection rules for six GMP systems, and conducted comprehensive and systematic checks on the quality risks of the related key product varieties according to these inspection rules, which further facilitated the healthy operation of our quality management system. As at 30 June 2020, the quality management head office conducted a total of 8 quality audits, consisting of 5 interactive inspections and 3 special inspections, for 4 drug preparation enterprises, which effectively promoted the continuous improvement of the quality management systems of each subsidiary. Moreover, a set of special inspection for anti-viral products was formulated. Two special inspections were carried out on the Anti-viral Granules (抗病毒顆粒) of Sichuan Guangda to ensure compliance with the production requirements and stability of quality for anti-viral products.

SECTION IV OPERATION DISCUSSION AND ANALYSIS (MANAGEMENT DISCUSSION AND ANALYSIS)

II. SUMMARY *(continued)*

(2) APIs and intermediates

In the Reporting Period, our API business department adhered to the guiding concepts of “Ensuring Safety and Environmental Protection, Improving Quality, and Reducing Costs” and continuously strengthened efforts in EHS, quality, R&D, production, and sales, etc. During the Reporting Period, the Group’s businesses in APIs and intermediates recorded sales revenue of RMB1,227.07 million, representing an increase of 0.66% year-on-year, which accounted for 24.08% of the Group’s operating income during the Period, and its overall gross profit margin increased by 4.14 percentage points as compared with that of the Same Period Last Year, with continuous enhancement in profitability.

In respect of marketing, with the continuous increase in overseas registration of our key products and the additional approval of CEP certificates, the market competitiveness and market share of our APIs in overseas markets further increased. Especially, sales of Daptomycin (達托霉素) and other high-end antibiotic products grew rapidly year-on-year. The sales of Doramectin (多拉菌素), a veterinary drug product, increased significantly in South America. While we worked closely with major animal healthcare companies worldwide to foster sales of high-end pet drug products, we accelerated development in the domestic pet drug preparation market.

During the Reporting Period, our R&D capabilities in the field of APIs continued to improve. The Fermentation R&D Center and the Synthesis R&D Center continued to research and develop new products and optimize the technology of existing products concurrently, and promoted R&D in peptide drugs, microbial fermentation, semi-synthetic and fully synthetic API products. We completed the pilot test of 4 peptide products, and completed the independent R&D and commercialization of Pimavanserin Tartrate (酒石酸匹莫范色林). In addition, we facilitated strain modification of Acarbose (阿卡波糖) and other varieties. As we developed API products, we coordinated the Group’s existing product lines and R&D lines, ensuring the progress of “Integration of starting materials, APIs and drug preparation”.

During the Reporting Period, we continued to increase investment in safety and environmental protection. Meanwhile, we optimized our product technology and enhanced gross profit margin of products by strengthening cost analysis in every production aspect. While compliance with GMP requirements turned to be a usual practice, each of our production enterprises actively applied for international certifications. As at the End of the Reporting Period, in respect of APIs, 24 varieties passed the on-site inspections of international certification, 46 varieties have obtained certificates of international certification during the validity period (of which 11 have passed the FDA on-site inspection and 9 varieties have obtained CEP certificates), and a total of 41 varieties under production have carried out registration for 206 projects in 83 countries (regions).

SECTION IV OPERATION DISCUSSION AND ANALYSIS (MANAGEMENT DISCUSSION AND ANALYSIS)

II. SUMMARY *(continued)*

(3) Biologics

During the Reporting Period, Livzon MAB focused on the three major aspects, i.e. project focus, team enhancement and platform optimization, to facilitate its key tasks. The key tasks were as follows: (i) accelerating the advancement of ongoing R&D projects with all efforts. Recombinant Tumor Enzyme Specific Interferon α -2b Fc Fusion for Injection (注射用重組腫瘤酶特異性干擾素 α -2b Fc融合蛋白) and Recombinant Anti-human IL-17A/F Humanized Monoclonal Antibody Injection (重組抗人IL-17A/F人源化單克隆抗體注射液) were approved for clinical trials; (ii) continuously enriching our R&D pipeline through introduction or independent R&D to increase projects for new products; (iii) improving the team building in all aspects of project R&D, combining external recruitment with internal training, improving and strengthening the R&D team of new drugs, and strengthening the registration and project management team; and (iv) continuously improving and upgrading the technology of the existing new drug R&D of antibody and evaluation technology platform and the T-cell therapy technology R&D platform, while exploring the introduction and development of new technologies in R&D fields of other cutting-edge drug.

During the Reporting Period, Livzon MAB's R&D projects made important progress. Among them, Recombinant Human Chorionic Gonadotropin for Injection (注射用重組人絨促性素) passed the drug registration and manufacturing on-site inspection in early June, and was in progress of the registration test, and Livzon MAB would also achieve a breakthrough for launching its first product in the market. In addition, preparation for sales of Recombinant Human Chorionic Gonadotropin (重組人絨促性素) in overseas markets commenced, and the preparation for drug registration was in progress. Meanwhile, preliminary business negotiations also started in South Korea, Russia, Egypt, South Africa, United States and other regions.

(4) Diagnostic reagents and equipment

Affected by the pandemic, sales of our existing respiratory tract products were hit hard by the decline of outpatient and inpatient visits to terminal medical institutions. In mid-March 2020, Diagnostic Kit for IgM/IgG Antibody to Coronavirus (2019-nCoV) (Colloidal Gold) (新型冠狀病毒(2019-nCoV) IgM/IgG抗體檢測試劑盒(膠體金法)) of Livzon Diagnostics was approved for domestic market launch. Later, this product passed the European Union (EU) CE certification and met the access conditions for the EU market, and applications for import registration were submitted in many countries. Because of the pandemic outbreak overseas, the demand for COVID-19 diagnostic products in export markets increased significantly, giving an important support to the growth of the Group's overall performance. During the Reporting Period, the Group's diagnostic reagents and equipment recorded sales revenue of RMB889.03 million, representing an increase of 143.35% year-on-year, which accounted for 17.45% of the Group's operating income during the Period.

During the Reporting Period, Livzon Diagnostics made important progress in research and development, with a series of products having been approved for the launch: diagnostic kit for interleukin-IL-6 (Chemiluminescence method) (白介素IL-6測定試劑盒(化學發光法)), diagnostic kit for HBV nucleic acid (HBV核酸檢測試劑), diagnostic kit for HCV nucleic acid (HCV核酸檢測試劑), diagnostic kit for HBV nucleic acid (one-shot method) (HBV核酸檢測試劑(一步法)), chemiluminescence analyzer for 60-speed single-person (60速單人份化學發光分析儀), diagnostic kit for 5 projects of the myositis-related autoantibody (magnetic barcode immunofluorescence method) (肌炎5項目自身抗體檢測試劑盒(磁條碼免疫螢光法)), diagnostic kit for 3 projects of the vasculitis-related autoantibody (magnetic barcode immunofluorescence method) (血管炎3項目自身抗體檢測試劑盒(磁條碼免疫螢光法)) and diagnostic kit for anti-nuclear antibody (magnetic barcode immunofluorescence method) (ANA-17) (抗核抗體檢測試劑盒(磁條碼免疫螢光法)(ANA-17)) all received registration certificates.

With export of our COVID-19 diagnostic products, Livzon Diagnostics established overseas sales departments, which laid a solid foundation for other diagnostic products to expand overseas markets in the future. As at 30 June 2020, Livzon Diagnostics had a total of 15 varieties under production which had completed CE registration of EU. The quality management head office of the Company conducted 6 special inspections on the diagnostic kits for novel coronavirus of Livzon Diagnostics to ensure compliance with the production requirements and stability of quality for antiviral products.

SECTION IV OPERATION DISCUSSION AND ANALYSIS (MANAGEMENT DISCUSSION AND ANALYSIS)

II. SUMMARY *(continued)*

(5) Functions and strategies: implementation of the three core strategies

After the occurrence of the outbreak of novel coronavirus disease (COVID-19) in early 2020, the Company responded quickly and donated RMB5.4825 million in cash and approximately RMB11.76 million worth of drugs, diagnostic kits and equipment to fight the pandemic in fulfilling our corporate social responsibilities.

During the Reporting Period, under the management guideline of “talent strategy, product strategy and market strategy”, all functional departments of the Group cooperated actively and accomplished major tasks as follows: (i) the Group optimized its organizational structure and institutional settings and enhanced overall performance in terms of efficiency and quality; (ii) during the Reporting Period, the Group introduced top talents from around the world, which covered the fields of biologics, chemical medicine, peptide, etc.; (iii) we reshaped our corporate culture system and established a set of highly united core values and organized a series of corporate cultural activities; (iv) in order to improve the utilization efficiency of the raised funds of the Company and increase shareholder returns, idle raised funds were applied for cash management without affecting the implementation of fund-raising projects and the usage of funds raised; and (v) in order to minimize the risk of price fluctuations in our main raw materials required in production and operation, and to ensure the steady development of the Company’s business, subsidiaries such as Xinbeijiang Pharmaceutical carried out commodity futures hedging activities.

During the Reporting Period, the Group considered and approved “the Resolution on the Repurchase of Part of the Public Shares Scheme”. As at 30 June 2020, the Company made a total repurchase of 5,946,108 A Shares of the Company through centralized bidding transactions, representing approximately 0.63% of the total issued share capital of the Company as at the End of the Reporting Period. The highest purchase price was RMB44.88 per share and the lowest purchase price was RMB38.95 per share. Total amount of funds used was RMB243,439,270.82 (including the transaction costs).

III. ANALYSIS OF PRINCIPAL BUSINESSES

1. Summary

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

☒ 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 asset 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 asset 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.

SECTION IV OPERATION DISCUSSION AND ANALYSIS (MANAGEMENT DISCUSSION AND ANALYSIS)

III. ANALYSIS OF PRINCIPAL BUSINESSES (continued)

4. Income and costs

(1) Composition of principal businesses

Unit: RMB

		Period		Previous Period		Year-on-year change
		Amount	As a percentage of income from principal businesses	Amount	As a percentage of income from principal businesses	
Total income from principal businesses		5,070,600,012.43	100.00%	4,914,745,307.40	100.00%	3.17%
By sector						
Chemical drug preparation products	Gastroenterology	996,705,292.95	19.66%	945,389,757.68	19.24%	5.43%
	Cardio-cerebral vascular	146,308,943.35	2.88%	155,253,213.18	3.16%	-5.76%
	Antimicrobial drug	199,724,361.44	3.94%	318,989,415.99	6.49%	-37.39%
	Gonadotropic hormones	805,711,954.81	15.89%	894,569,395.35	18.20%	-9.93%
	Others	166,893,707.79	3.29%	306,770,940.03	6.24%	-45.60%
APIs and intermediates		1,227,068,601.74	24.20%	1,218,996,494.87	24.80%	0.66%
Traditional Chinese drug preparation products		639,155,481.10	12.61%	709,446,688.37	14.44%	-9.91%
Diagnostic reagents and equipment		889,031,669.25	17.53%	365,329,401.93	7.43%	143.35%
By region						
Domestic		4,018,148,776.81	79.24%	4,248,447,776.90	86.44%	-5.42%
Overseas		1,052,451,235.62	20.76%	666,297,530.50	13.56%	57.96%

SECTION IV OPERATION DISCUSSION AND ANALYSIS (MANAGEMENT DISCUSSION AND ANALYSIS)

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

Unit: RMB

	Income from principal businesses	Costs of principal businesses	Gross profit margin	Year-on-year change in income from principal businesses	Year-on-year change in costs of principal businesses	Year-on-year change in gross profit margin
By sector						
Chemical drug preparation products	2,315,344,260.34	542,017,556.05	76.59%	-11.66%	-3.04%	Decreased by 2.08 percentage points
APIs and intermediates	1,227,068,601.74	801,029,071.35	34.72%	0.66%	-5.34%	Increased by 4.14 percentage points
Traditional Chinese drug preparation products	639,155,481.10	165,919,742.97	74.04%	-9.91%	-5.94%	Decreased by 1.10 percentage points
Diagnostic reagents and equipment	889,031,669.25	209,066,693.56	76.48%	143.35%	50.05%	Increased by 14.62 percentage points
By region						
Domestic	4,018,148,776.81	1,247,744,765.49	68.95%	-5.42%	-2.79%	Decreased by 0.84 percentage points
Overseas	1,052,451,235.62	470,288,298.44	55.31%	57.96%	7.52%	Increased by 20.95 percentage points

With adjusted basis of data statistics of the principal businesses of the Company during the Reporting Period, data of the principal businesses of the Company in the most recent year after adjustment on year-end basis

☐ Applicable ☒ Not applicable

During the Reporting Period, the Group's principal businesses generated income of RMB5,070.60 million, representing an increase of RMB155.85 million or 3.17% as compared with RMB4,914.75 million for the Same Period Last Year. In particular, income from chemical drug preparation products decreased by 11.66% year-on-year and income from APIs and intermediates increased by 0.66% year-on-year.

SECTION IV OPERATION DISCUSSION AND ANALYSIS (MANAGEMENT DISCUSSION AND ANALYSIS)

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)*

The sales income and year-on-year change of key drug preparation products during the Reporting Period are as follows: the sales income generated by key gonadotropic hormones products Leuporelin Acetate Microspheres for Injection (注射用醋酸亮丙瑞林微球) amounted to RMB536.29 million, representing a year-on-year increase of 17.26%, and the sales income generated by Urofollitropin (尿促卵泡素) amounted to RMB180.90 million, representing a year-on-year decrease of 40.59%. The sales income generated by key gastroenterological product Ilaprazole series (艾普拉唑系列) amounted to RMB663.93 million, representing a year-on-year increase of 31.81%. In particular, the sales income generated by Ilaprazole Enteric-Coated Tablet (艾普拉唑腸溶片) amounted to RMB408.58 million, representing a year-on-year decrease of 10.45%; the sales income generated by Ilaprazole Sodium for Injection (注射用艾普拉唑鈉) amounted to RMB255.35 million, representing a year-on-year increase of 437.85%; the sales income generated by Rabeprazole (雷貝拉唑) amounted to RMB109.23 million, representing a year-on-year decrease of 34.40%; the sales income generated by the Bismuth Potassium Citrate series (得樂系列) amounted to RMB101.51 million, representing a year-on-year decrease of 9.19%; the sales income generated by Livzon Weisanlian (麗珠維三聯) amounted to RMB94.71 million, representing a year-on-year decrease of 22.10%. The sales income generated by key psychiatric products, Fluvoxamine Maleate Tablets (馬來酸氟伏沙明片) and Perospirone Hydrochloride Tablets (鹽酸哌羅匹隆片) amounted to RMB80.91 million and RMB45.46 million respectively, representing a year-on-year increase of 26.70% and 83.36% respectively. The sales income generated by key antimicrobial product Voriconazole for Injection (注射用伏立康唑) amounted to RMB105.60 million, representing a year-on-year decrease of 29.00%. The sales income generated by traditional Chinese drug preparation product Shenqi Fuzheng Injection (參芪扶正注射液) amounted to RMB268.75 million, representing a year-on-year decrease of 40.96%. The sales income generated by Anti-viral Granules (抗病毒顆粒) amounted to RMB302.28 million, representing a year-on-year increase of 78.24%.

The income and year-on-year change of key APIs and intermediates are as follows: the sales income generated by Phenylalanine (苯丙氨酸) amounted to RMB172.58 million, representing a year-on-year increase of 47.49%; the sales income generated by Acarbose (阿卡波糖) amounted to RMB113.42 million, representing a year-on-year decrease of 1.58%; the sales income generated by Vancomycin Hydrochloride (鹽酸萬古霉素) amounted to RMB84.74 million, representing a year-on-year increase of 0.25%; the sales income generated by Daptomycin (達托霉素) amounted to RMB61.73 million, representing a year-on-year increase of 180.13%; the sales income generated by Milbemycin Oxime (米爾貝肟) amounted to RMB46.85 million, representing a year-on-year decrease of 7.87%; and the sales income generated by Mevastatin (美伐他汀) amounted to RMB31.05 million, representing a year-on-year decrease of 67.39%.

The sales growth was primarily due to the Company's ongoing dedication of marketing system reforms and implementation of refined management. In addition, the sales of the Company's products relating to prescription medicines did not reach the expected level due to the impact of the COVID-19 outbreak. Nevertheless, a substantial increase in the sales of Anti-viral Granules (抗病毒顆粒) and Ilaprazole Sodium for Injection (注射用艾普拉唑鈉) as compared with that during the first half of the previous year together with additional sales of diagnostics kits for antibody to novel coronavirus, which safeguarded the continuous growth in the Group's overall performance.

During the Reporting Period, the Group's total costs of principal businesses amounted to RMB1,718.03 million, representing a decrease of RMB2.94 million or 0.17% as compared with RMB1,720.97 million in the Same Period Last Year, which was mainly due to decreased costs resulted from improved technology process of the API segment.

SECTION IV OPERATION DISCUSSION AND ANALYSIS (MANAGEMENT DISCUSSION AND ANALYSIS)

III. ANALYSIS OF PRINCIPAL BUSINESSES *(continued)*

4. Income and costs *(continued)*

(3) Income from principal businesses by region

Unit: RMB

Regions	Amount for the Period		Amount for the Previous Period	
	Income from principal businesses	Costs of principal businesses	Income from principal businesses	Costs of principal businesses
Domestic	4,018,148,776.81	1,247,744,765.49	4,248,447,776.90	1,283,589,909.44
Overseas	1,052,451,235.62	470,288,298.44	666,297,530.50	437,384,949.93
Total	5,070,600,012.43	1,718,033,063.93	4,914,745,307.40	1,720,974,859.37

(4) Major customers and suppliers

During the Reporting Period, sales to the five largest customers of the Group accounted for 8.60% (Same Period Last Year: 8.55%) of income from principal businesses of the Group, while amount of purchases from the five largest suppliers of the Group accounted for approximately 29.69% (Same Period Last Year: 39.52%) of the Group's total amount of purchases of raw materials. The five largest customers have been customers of the Group for 5.5 years on average, and the five largest suppliers have been suppliers of the Group for 10.1 years on average.

5. Expenses

During the Reporting Period, four types of expenses, including selling expenses, administrative expenses, R&D expenses and finance expenses, incurred by the Group amounted to RMB1,925.99 million in aggregate, representing a year-on-year decrease of RMB301.89 million or 13.55%, the details of which are set out in the following table:

Unit: RMB

Item	Amount for the Period	Amount for the Previous Period	Year-on-year change	Reason for material changes
Selling expenses	1,414,807,205.96	1,796,846,255.61	-21.26%	No material changes during the Reporting Period
Administrative expenses	294,150,602.43	255,211,847.01	15.26%	No material changes during the Reporting Period
R&D expenses	306,436,137.69	288,459,672.08	6.23%	No material changes during the Reporting Period
Finance expenses	-89,402,680.69	-112,639,576.24	20.63%	No material changes during the Reporting Period
Total	1,925,991,265.39	2,227,878,198.46	-13.55%	

During the Reporting Period, the total income tax expenses were RMB226.92 million, representing an increase of RMB73.50 million or 47.90% year-on-year, which was mainly due to the increase in provision of income tax expenses as a result of profit growth.

SECTION IV OPERATION DISCUSSION AND ANALYSIS (MANAGEMENT DISCUSSION AND ANALYSIS)

III. ANALYSIS OF PRINCIPAL BUSINESSES *(continued)*

6. Investment in research and development

✓ Applicable ☐ Not applicable

During the Reporting Period, the Group's total expenditure relating to research and development amounted to approximately RMB349.83 million (Previous Period: RMB344.22 million), representing an increase of 1.63% year-on-year, accounting for approximately 3.15% of the net assets attributable to Shareholders of the Company and approximately 6.87% (Previous Period: 6.97%) of the Group's total operating income in the Reporting Period.

During the Reporting Period, saved as described above, the details of the Group's R&D efforts in various business areas were as follows:

(1) Chemical drug preparation

General drug preparation: 20 projects are in the development track, of which 1 project that has been submitted for production approval, and 2 projects which have received notices/approval for clinical trial. Ryanodex for Injection (注射用丹曲林鈉) has been submitted for production approval, Blonanserlin Tablets (布南色林片) has received the notice of approval for clinical trial, and Paclitaxel Polymeric Micelles for Injection (注射用紫杉醇聚合物膠束) has received approval for clinical trial and is ready to enter the clinical trial stage.

Generic quality consistency evaluation: A total of 19 projects, of which applications have been submitted for 5 projects; Amlodipine Besylate Capsules (苯磺酸氨氯地平膠囊), Clarithromycin Tablets (克拉霉素片), Omeprazole Sodium for Injection (注射用奧美拉唑鈉), Isosorbide Mononitrate Tablets (單硝酸異山梨酯片) and Cefodizime Sodium for Injection (注射用頭孢地噻鈉) have been filed for registration.

Complex drug preparation: 6 projects are in the development track, of which Triptorelin Acetate Microspheres for Injection (注射用醋酸曲普瑞林微球) (1-month sustained release) is in phase III clinical trial, Aripiprazole Microspheres for Injection (注射用阿立哌唑微球) (1-month sustained release) is in phase I clinical trial, Leuporelin Microspheres (亮丙瑞林微球) (3-month sustained release) has completed phase I moral approval, Octreotide Acetate Microspheres for Injection (注射用醋酸奧曲肽微球) is in the process of registration assessment, Triptorelin Pamoate Microspheres for Injection (注射用雙脛萘酸曲普瑞林微球) has completed pharmaceutical and pre-clinical research, and Goserelin Acetate Sustained-Release Implant (醋酸戈舍瑞林緩釋植入劑) (1-month sustained release) is in the stage of pharmaceutical research technical optimization.

SECTION IV OPERATION DISCUSSION AND ANALYSIS (MANAGEMENT DISCUSSION AND ANALYSIS)

III. ANALYSIS OF PRINCIPAL BUSINESSES *(continued)*

6. Investment in research and development *(continued)*

(2) APIs and intermediates

Fermentation R&D Center: 9 projects are in the development track, of which Oritavancin (奧利萬星), Telavancin (特拉萬星) and Dalbavancin (達巴萬星) were preparing for registration application; pilots trials for 4 polypeptide products have been completed; strain modification and fermentation optimization for Acarbose (阿卡波糖) and other products are continuing.

Synthesis R&D center: 11 projects are in the development track. The independent R&D and industrialization for Pimavanserin Tartrate (酒石酸匹莫範色林) and another project have been completed. The industrialization for 1 introduced project has been completed, and preliminary research for 3 projects have been completed.

(3) Biologics

8 projects are in the development track. Among which, the patient enrollment for phase III clinical trial 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) is near completion; 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 conducting phase Ib/II clinical trial for thymic cancer indications; Recombinant Tumor Enzyme Specific Interferon α -2b Fc Fusion for Injection (注射用重組腫瘤酶特異性干擾素 α -2b Fc融合蛋白) and Recombinant Anti-human IL-17A/F Humanized Monoclonal Antibody Injection (重組抗人IL-17A/F人源化單克隆抗體注射液) were approved for clinical trials and are preparing to commence phase I clinical trial. Humanized Dual Targeting Autologous CAR-T (人源化雙特異性自體CAR-T細胞注射液) is conducting POC clinical trial; and Recombinant Human Folitropin Alfa for Injection (重組人促卵泡激素注射液) is in the stage of pre-clinical trial.

(4) Diagnostic reagents and equipment

Among the 10 projects of the chemiluminescence platform: T-cell diagnostic kit for tuberculosis virus infection (結核病毒感染T細胞檢測試劑) is in the stage of clinical trial; diagnostic kit for anti-cyclic citrullinated polypeptide antibody (anti-CCP antibody) (抗環瓜氨酸多肽抗體(抗CCP抗體)檢測試劑) is in the registration stage; diagnostic kit for anti-double-stranded DNA antibody (抗雙鏈DNA抗體檢測試劑) is in the registration stage; diagnostic kit for mycoplasma pneumonia antibody (IgM) (肺炎支原體抗體(IgM)檢測試劑) proceeded to registration testing stage; and diagnostic kit for anti-Mullerian hormone (AMH) (抗繆勒管激素(AMH)檢測試劑) is in the registration stage.

3 projects of the molecular nucleic acid platform are under research.

1 project of liquid chip multiple platforms: among which, diagnostic kit for 7 types of autoimmune hepatitis (magnetic barcode immunofluorescence method) (自身免疫性肝炎 (7項) (磁條碼免疫熒光法)) is in the stage of clinical trial.

3 projects of the fluorescent chromatography platform: among these projects, diagnostic kit for mycoplasma pneumoniae IgM (fluorescent immunochromatography) (肺炎支原體IgM檢測試劑盒(螢光免疫層析法)) has completed clinical trials and has entered the registration stage; diagnostic kit for chlamydia pneumoniae IgM antibody (fluorescent immunochromatography) (肺炎衣原體IgM抗體檢測試劑盒(螢光免疫層析法)) and diagnostic kit for influenza A/B virus antigen (fluorescence Immunochromatography) (甲型/乙型流感病毒抗原檢測試劑盒(螢光免疫層析法)) are in the stage of clinical trials.

SECTION IV OPERATION DISCUSSION AND ANALYSIS (MANAGEMENT DISCUSSION AND ANALYSIS)

IV. ANALYSIS OF NON-PRINCIPAL BUSINESSES

✓ Applicable □ Not applicable

Unit: RMB

Item	Amount	As a percentage of total profit	Reason for occurrence	Sustainability
Investment income	112,652,614.84	7.23%	Mainly due to the gains generated from disposal of equity of Jiangsu Ni Ke Medical Device Co., Ltd. (江蘇尼科醫療器械有限公司) during the Period.	No
Gains or losses arising from changes in fair value	-4,551,829.33	-0.29%	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	-13,267,639.71	-0.85%	Mainly due to provision for inventory depreciation.	No
Credit impairment loss	-7,185,319.32	-0.46%	Mainly due to provision for credit impairment loss on account receivables.	Yes
Non-operating income	904,921.05	0.06%	Mainly due to income generated from disposal of waste products during the Period.	No
Non-operating expenditure	12,815,982.32	-0.82%	Mainly due to donation expenditures associated with COVID-19 pandemic during the Period.	No
Other income	104,846,562.33	6.73%	Mainly due to the government subsidies received during the Period.	Yes

V. ANALYSIS OF FINANCIAL POSITION

1. Material changes in composition of assets

Unit: RMB

Item	End of the Reporting Period		End of the Same Period Last Year		Change 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	7,281,679,591.58	42.21%	7,767,982,705.34	46.03%	-3.82%	No material changes
Accounts receivable	1,675,090,515.91	9.71%	1,758,612,952.69	10.42%	-0.71%	No material changes
Inventories	1,433,632,498.76	8.31%	1,036,661,443.83	6.14%	2.17%	No material changes
Investment properties	—	—	—	—	—	—
Long-term equity investments	150,064,997.19	0.87%	181,718,000.07	1.08%	-0.21%	No material changes
Fixed assets	3,335,758,118.28	19.34%	3,216,999,943.29	19.06%	0.28%	No material changes
Construction in progress	182,591,585.75	1.06%	205,414,501.40	1.22%	-0.16%	No material changes
Short-term loans	270,884,146.53	1.57%	—	—	1.57%	No material changes

SECTION IV OPERATION DISCUSSION AND ANALYSIS (MANAGEMENT DISCUSSION AND ANALYSIS)

V. ANALYSIS OF FINANCIAL POSITION *(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 held for trading (excluding derivative financial assets)	15,094,177.64	-1,264,841.67	-	-	-	-	13,829,335.97
2. Derivative financial assets	2,097,684.10	-2,017,937.44	-	-	-	-	79,746.66
3. Other debt investments	-	-	-	-	-	-	-
4. Other equity instrument investments	479,737,808.86	-	22,062,821.86	-	72,659,050.20	-	574,459,680.92
Subtotal of financial assets	496,929,670.60	-3,282,779.11	22,062,821.86	-	72,659,050.20	-	588,368,763.55
Investment properties	-	-	-	-	-	-	-
Productive biological assets	-	-	-	-	-	-	-
Others	-	-	-	-	-	-	-
Total	496,929,670.60	-3,282,779.11	22,062,821.86	-	72,659,050.20	-	588,368,763.55
Financial liabilities	13,916.00	-1,269,050.22	-	-	-	-	1,282,966.22

Whether there were material changes in the measurement of major assets of the Company during the Reporting Period

☐ Yes ☒ No

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

☒ Applicable ☐ Not applicable

As at the End of the Reporting Period, the balance of bills receivables pledged to the banks applied by the Group was RMB152.1672 million. The balance of the actual deposit paid by the Company and its subsidiaries for the businesses such as execution of futures hedging activities and letter of credit was RMB1.7107 million.

SECTION IV OPERATION DISCUSSION AND ANALYSIS (MANAGEMENT DISCUSSION AND ANALYSIS)

V. ANALYSIS OF FINANCIAL POSITION *(continued)*

4. Material changes in consolidated balance sheet items

Item	Unit: RMB		
	30 June 2020	31 December 2019	Year-on-year change
Other receivables	170,060,026.19	91,848,022.04	85.15%
Long-term receivables	—	10,828,143.63	-100.00%
Short-term loans	270,884,146.53	1,360,840,657.32	-80.09%
Financial liabilities held for trading	1,282,966.22	13,916.00	9,119.36%
Treasury shares	243,439,270.82	—	—
Other comprehensive income	51,750,704.19	26,403,971.65	96.00%

Reasons for the year-on-year change of over 30% in the relevant data:

- (1) A year-on-year increase of 85.15% in other receivables was mainly due to the fact that the related payment for part of the options under the 2018 Share Options Incentive Scheme of the Company exercised in June this year had not been received.
- (2) A year-on-year decrease of 100.00% in long-term receivables was mainly due to transfer of long-term receivables due within one year to non-current assets due within one year as the credit period changed.
- (3) A year-on-year decrease of 80.09% in short-term loans was mainly due to repayment of loans during the Period.
- (4) A year-on-year increase of 9,119.36% in financial liabilities held for trading was mainly due to change in exchange rates leading to change in fair value of forward foreign exchange contracts.
- (5) The amount of treasury shares was RMB243,439,270.82 as at the End of the Reporting Period, which was mainly due to the repurchase of A Shares of the Company during the Period.
- (6) A year-on-year increase of 96.00% in other comprehensive income was mainly due to changes in fair value of other equity instrument investments.

Asset-liability ratio

The asset-liability ratios of the Group as at 30 June 2020 and 31 December 2019 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 31.71% as at 31 December 2019 to 27.34% as at 30 June 2020.

SECTION IV OPERATION DISCUSSION AND ANALYSIS (MANAGEMENT DISCUSSION AND ANALYSIS)

V. ANALYSIS OF FINANCIAL POSITION *(continued)*

5. Material changes in consolidated income statement items

Unit: RMB

Item	Amount for the Period	Amount for the Previous Period	Year-on-year change
Investment income	112,652,614.84	-3,842,092.53	3,032.06%
Credit impairment loss	-7,185,319.32	-10,436,940.03	31.15%
Gains on disposal of assets	-83,421.97	937,832.83	-108.90%
Non-operating income	904,921.05	2,032,462.39	-55.48%
Non-operating expenditure	12,815,982.32	4,003,453.13	220.12%
Total profit	1,557,648,101.96	987,950,152.13	57.66%
Income tax expenses	226,919,520.61	153,424,317.37	47.90%
Net profit attributable to the shareholders of the parent company	1,004,743,610.08	738,947,763.69	35.97%
Profit or loss from minority interests	325,984,971.27	95,578,071.07	241.07%
Other comprehensive net income after taxation	25,670,889.38	-1,260,651.40	2,136.32%

Reasons for year-on-year change of over 30% in the relevant data:

- (1) A year-on-year increase of 3,032.06% in investment income was mainly due to the gains generated from disposal of equity of Jiangsu Ni Ke Medical Device Co., Ltd. (江蘇尼科醫療器械有限公司) during the Period.
- (2) A year-on-year increase of 31.15% in credit impairment loss was mainly due to a decrease in provision for credit impairment on receivables during the Period as compared with that during the Previous Period.
- (3) A year-on-year decrease of 108.90% in gains on disposal of assets was mainly due to gains on disposal of fixed assets during the Previous Period.
- (4) A year-on-year decrease of 55.48% in non-operating income was mainly due to the clean up of confirmed non-payable amounts by transferring into non-operating income in the Previous Period.
- (5) A year-on-year increase of 220.12% in non-operating expenditure was mainly due to donation expenditures associated with COVID-19 pandemic during the Period.
- (6) A year-on-year increase of 57.66% in total profit was mainly due to the substantial growth in sales of diagnostic kits for antibody to novel coronavirus and Anti-viral Ganules (抗病毒顆粒), which were driven by the market demands, and the boosting sales performance of Ilaprazole Sodium for Injection (注射用艾普拉唑鈉), as well as the gains from disposal of equity of Jiangsu Ni Ke Medical Device Co., Ltd. (江蘇尼科醫療器械有限公司).
- (7) A year-on-year increase of 47.90% in income tax expenses was mainly due to profit growth for the Period leading to a corresponding increase in the provision for income tax expenses.
- (8) A year-on-year increase of 35.97% in net profit attributable to shareholders of the parent company was mainly due to the substantial growth in sales of diagnostic kits for antibody to novel coronavirus and Anti-viral Ganules (抗病毒顆粒), which were driven by the market demands, and the boosting sales performance of Ilaprazole Sodium for Injection (注射用艾普拉唑鈉), as well as the gains from disposal of equity of Jiangsu Ni Ke Medical Device Co., Ltd. (江蘇尼科醫療器械有限公司).
- (9) A year-on-year increase of 241.07% in profit or loss from minority interests was mainly due to an increase in profit from non-wholly owned subsidiaries during the Period, resulting in a corresponding increase in profit or loss from minority interests.
- (10) A year-on-year increase of 2,136.32% in other comprehensive net income after taxation was mainly due to changes in fair value of other equity instrument investments.

SECTION IV OPERATION DISCUSSION AND ANALYSIS (MANAGEMENT DISCUSSION AND ANALYSIS)

V. ANALYSIS OF FINANCIAL POSITION *(continued)*

6. Material changes in consolidated cash flow items

Unit: RMB

Item	Amount for the Period	Amount for the Previous Period	Year-on-year change
Sub-total of cash inflows from financing activities	674,688,357.82	29,811.30	2,263,096.70%
Sub-total of cash outflows from financing activities	3,018,602,307.88	1,632,988,401.46	84.85%
Net cash flows from financing activities	-2,343,913,950.06	-1,632,958,590.16	-43.54%
Net increase in cash and cash equivalents	-1,574,216,922.32	-799,561,609.31	-96.89%

Reasons for year-on-year change of over 30% in the relevant data:

- (1) Sub-total of cash inflows from financing activities increased by 2,263,096.70% year-on-year, which was mainly due to the increase in loans during the Period as compared with that during the Previous Period.
- (2) Sub-total of cash outflows from financing activities increased by 84.85% year-on-year, which was mainly due to distribution of cash dividends and payment for repurchase of A Shares during the Period.
- (3) Net cash flows from financing activities decreased by 43.54% year-on-year, which was mainly due to distribution of cash dividends and payment for repurchase of A Shares during the Period.
- (4) Net increase in cash and cash equivalents decreased by 96.89% year-on-year, which was mainly due to the distribution of cash dividends and payment for repurchase of A Shares during the Period.

Reasons for material differences between the net cash flow from operating activities of the Company during the Reporting Period and the net profit for the Reporting Period

☐ Applicable ☒ Not applicable

7. Material changes in the composition or sources of profit of the Company during the Reporting Period

☐ Applicable ☒ Not applicable

There were no material changes in the composition or sources of profit of the Company during the Reporting Period.

SECTION IV OPERATION DISCUSSION AND ANALYSIS (MANAGEMENT DISCUSSION AND ANALYSIS)

V. ANALYSIS OF FINANCIAL POSITION *(continued)*

8. Liquidity and financial resources

As at 30 June 2020, the Group's cash at bank and on hand amounted to RMB7,281.68 million (31 December 2019: RMB8,855.41 million), which arose primarily from operating income of the Company and receipt of consideration for the transfer of equity interest in a subsidiary in 2017, which was used primarily for daily operation and investment activities of the Company as well as distribution of dividends.

Fiscal policy and objectives: The Group has a comprehensive and prudent financial management system in place with the objectives to ensure the security of corporate funds, provide support for production operation and business development and reasonably increase the return of the Group's funds. During the Reporting Period, in order to avoid the risk arising from price movements of major raw materials used in production and operation, the controlling subsidiaries of the Company carried out futures hedging activities, please refer to the relevant contents of "XVI. Significant Events of Subsidiaries of the Company" in Section V of the Report for details.

During the Reporting Period, the credit facilities that may be applied for with approval from the Board and the general meeting of the Company amounted to RMB15,215.00 million and the actual amount of credit applied to the banks for use amounted to RMB821.36 million.

Unit: RMB

Item	End of the Period (30 June 2020)			End of the Previous Year (31 December 2019)		
	Amount in foreign currency	Translation rate	Amount in RMB	Amount in foreign currency	Translation rate	Amount in RMB
Cash on hand:	–	–	220,030.43	–	–	126,821.79
– RMB	–	–	202,497.43	–	–	109,590.98
– USD	700.00	7.0795	4,955.65	700.00	6.9762	4,883.34
– Euro	1,579.87	7.9610	12,577.35	1,579.87	7.8155	12,347.47
Bank deposits:	–	–	7,270,777,814.85	–	–	8,851,796,592.01
– RMB	–	–	6,523,841,819.95	–	–	7,903,329,660.13
– HKD	8,192,562.36	0.91344	7,483,414.14	14,642,464.71	0.89578	13,116,427.05
– USD	104,035,481.61	7.0795	736,519,192.05	133,419,180.83	6.9762	930,758,889.31
– Japanese Yen	0.00	0.065808	0.00	11,650,001.00	0.064086	746,601.96
– Euro	100,866.68	7.9610	802,999.64	102,814.97	7.8155	803,550.41
– MOP	2,401,791.51	0.8870	2,130,389.07	3,494,729.58	0.8703	3,041,463.15
Others:	–	–	10,681,746.30	–	–	3,484,988.98
RMB	–	–	9,463,211.72	–	–	1,601,286.68
HKD	1,334,006.16	0.91344	1,218,534.58	1,334,878.88	0.89578	1,195,757.80
USD	0.00	7.0795	0.00	98,613.07	6.9762	687,944.50
Total	–	–	7,281,679,591.58	–	–	8,855,408,402.78

As at 30 June 2020, the balance of the Group's borrowings amounted to RMB270.88 million (31 December 2019: RMB1,360.84 million), accounting for 1.57% of total assets (31 December 2019: 7.57%), of which the balance of short-term borrowings due within one year amounted to RMB270.88 million (31 December 2019: RMB1,360.84 million), accounting for 1.57% of the total assets (31 December 2019: 7.57%) and the balance of long-term borrowings due after one year amounted to RMB0.00 million (31 December 2019: RMB0.00 million), accounting for 0.00% of the total assets (31 December 2019: 0.00%). During the Reporting Period, the Group's repayment of bank borrowings due amounted to RMB1,629.71 million. There was no distinct seasonal demand for each of the above borrowings.

SECTION IV OPERATION DISCUSSION AND ANALYSIS (MANAGEMENT DISCUSSION AND ANALYSIS)

V. ANALYSIS OF FINANCIAL POSITION *(continued)*

9. Capital structure

The Group's capital comprises Shareholders' equity and liabilities. As at 30 June 2020, Shareholders' equity amounted to RMB12,534.91 million, total liabilities amounted to RMB4,716.91 million and total assets amounted to RMB17,251.82 million. In particular, the Group's current liabilities amounted to RMB4,302.32 million (31 December 2019: RMB5,293.65 million), representing a decrease of 18.73% as compared with that of the End of the Previous Year; total non-current liabilities amounted to RMB414.59 million (31 December 2019: RMB407.57 million), representing an increase of 1.72% as compared with that of the End of the Previous Year. During the Reporting Period, repayment of debt amounted to RMB1,629.71 million (Repayment of debt in the Previous Period was RMB1,500.00 million).

As at the End of the Reporting Period, equity attributable to Shareholders of the Company amounted to RMB11,096.58 million (31 December 2019: RMB11,166.75 million), representing a decrease of 0.63% as compared with that of the End of the Previous Year. Minority interests amounted to RMB1,438.33 million (31 December 2019: RMB1,108.49 million), representing an increase of 29.76% as compared with that of the End of the Previous Year.

10. Capital commitments

Item	Balance at the End of the Period	Unit: RMB
		Balance at the Beginning of the Period
Contracted but not recognized in the financial statements – Commitments for purchase and construction of long-term assets	379,338,751.79	165,369,398.32
Total	379,338,751.79	165,369,398.32

11. Interest rate

As at 30 June 2020, the aggregate interest-bearing bank and other borrowings amounted to RMB270.88 million (31 December 2019: RMB1,359.29 million). The interest rate structure: RMB0.00 million accrued interest at a floating interest rate and RMB270.88 million accrued interest at a fixed annualized interest rate of 2.48% per annum.

12. Maturity analysis of outstanding liabilities

	30 June 2020	Unit: RMB in millions 31 December 2019
Within one year	956.42	2,076.83
1-2 years	—	—
2-5 years	—	—
Over 5 years	—	—
Total	956.42	2,076.83

SECTION IV OPERATION DISCUSSION AND ANALYSIS (MANAGEMENT DISCUSSION AND ANALYSIS)

V. ANALYSIS OF FINANCIAL POSITION *(continued)*

13. Gearing ratio

The gearing ratios as at 30 June 2020 and 31 December 2019 were calculated by dividing total liabilities by Shareholders' equity of the Group as at the respective dates. The gearing ratio of the Group decreased from 16.92% as at 31 December 2019 to 7.63% as at 30 June 2020.

14. Interest expenses and capitalisation

	Period	Unit: RMB Previous Period
Interest expenses ^(Note)	7,012,674.28	5,219,055.56
Capitalised interest	—	—
Total interest expenses	7,012,674.28	5,219,055.56

Note: Interest expenses are mainly due to loans of the Company.

15. Foreign exchange risks

Details of foreign exchange risks of the Group are set out in "Note VIII. RISKS 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 functional currency of the Company, in case of sales, purchases and investment/financing businesses which are not settled in RMB, corresponding foreign exchange exposures may arise. With "prevention and control of risk and locking in profit" as its management goal, the Company has established the "Management System for Foreign Exchange Risk", which requires a certain hedging ratio, to minimize the impact arising from fluctuations of exchange rates on the business of the Company by monitoring and controlling its foreign exchange risks through the use of foreign exchange financial derivatives.

16. Contingent liabilities

As at 30 June 2020, the Group had no significant contingent liabilities.

17. Pledge of assets

As at 30 June 2020, the assets of the Company subject to pledge were as follows:

	30 June 2020 (RMB)	Reasons for being subject to restriction
Assets pledged:		
Bills receivable	152,167,183.53	Pledged bills receivables for the bill pool business ^{note}
Other monetary funds	1,710,660.36	Deposits under guarantee of letter of guarantee, letter of credit and futures hedging activities
Total	153,877,843.89	

Note: On 23 April 2018, the thirteenth meeting of the ninth session of the Board of the Company reviewed and passed the "Resolution on Conducting Bills Pooling Business" and agreed that an amount of up to RMB1.4 billion for conducting bills pooling business would be shared by the Company and its subsidiaries, such amount may be utilized on rolling basis. As at 30 June 2020, the amount of bills receivables pledged by the Company and Xinbeijiang Pharmaceutical to the banks amounted to RMB145.9281 million and RMB6.2391 million respectively.

SECTION IV OPERATION DISCUSSION AND ANALYSIS (MANAGEMENT DISCUSSION AND ANALYSIS)

V. ANALYSIS OF FINANCIAL POSITION *(continued)*

18. Employees, remuneration, pension scheme and training

As at 30 June 2020, the Group had 8,020 (31 December 2019: 9,019) employees. The remuneration of the employees was determined by the Group mainly according to the laws and regulations of the PRC, the Company's economic performance and by reference to remuneration level in the market. During the Reporting Period, total wages, bonuses, allowances, compensation, welfare, housing funds and social insurance paid to the employees by the Group amounted to RMB587.68 million (Payment in the Previous Period was RMB535.64 million).

During the Reporting Period, 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.

During the Reporting Period, the Company continued to attach importance to the development and cultivation of internal 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; in active response to the notice of the Human Resources and Social Security Bureau of Guangdong Province on proper job training, various forms of trainings were provided, including organizing proper job trainings for employees, further studies for on-job master (doctorate) degrees, continuing education for professional technical staff of various fields and joint postgraduate programmes in cooperation with relevant universities, intelligent office software application trainings for staff of basic to intermediate level, induction trainings for new employees and induction trainings for fresh graduates to be organized in August 2020; online courses for improvement of management skills for management members of great potential were provided by introducing an external training platform, with new and diverse course contents for improving learning efficiency and effectiveness.

Meanwhile, since the Beginning of the Reporting Period, the Company has reviewed the training data of the Group according to the disclosure requirements of the Environmental, Social and Governance Report to ensure the accuracy and scientific nature of the training data of the Group. The Company comprehensively upgraded further the quality of trainings through classification of training participants, enriching the training courses, inviting internal (external) high-quality lecturers and experts in various fields, while at the same time educated the Group's employees on the contents and strengths in the aspects of quality control, production control, safety and environmental protection, financial system, human resources administration system, information system and product knowledge so as to enable employees to have a comprehensive understanding of the corporate culture of the Group, enhance their professional and technical capabilities and further promote the harmonious unification between employees and teams to develop an excellent team to confront difficult challenges.

SECTION IV OPERATION DISCUSSION AND ANALYSIS (MANAGEMENT DISCUSSION AND ANALYSIS)

V. ANALYSIS OF FINANCIAL POSITION *(continued)*

19. Investments

Subscription for additional registered capital of Atom Bioscience by Livzon Equity Investment Company

On 17 January 2020, after review and approval by the management of the Company, 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) ("Livzon Equity Investment Company"), a wholly-owned subsidiary of the Company, entered into the Capital Contribution Agreement of Jiangsu Atom Bioscience and Pharmaceutical Co., Ltd. (the "Capital Contribution Agreement") with Jiangsu Atom Bioscience and Pharmaceutical Co., Ltd.* (江蘇新元素醫藥科技有限公司) ("Atom Bioscience"), SHI Dongfang, Changzhou Tongxin Equity Investment Enterprise (Limited Partnership)* (常州同信股權投資企業(有限合夥)), Changzhou Xinshi Venture Investment Partnership (Limited Partnership)* (常州鑫氏創業投資合夥企業(有限合夥)) and Xiamen Jinyuan Kaitai Zhanhong Healthy Growth Venture Investment Partnership (Limited Partnership)* (廈門金圓凱泰展鴻健康成長創業投資合夥企業(有限合夥)). Pursuant to the Capital Contribution Agreement, Livzon Equity Investment Company will make a capital contribution of RMB70,091,000 to subscribe for an additional registered capital of Atom Bioscience of RMB2,250,639, accounting for 7.8215% of the registered capital of Atom Bioscience upon completion of the capital contribution. The board of directors of Atom Bioscience comprises of seven directors, among which one is appointed by Livzon Equity Investment Company.

Atom Bioscience is mainly engaged in the research and development of human medicine, veterinary medicine, pesticide, health products and chemical products, technology transfer, technical consultancy, and cooperation projects of products.

Upon completion of the capital contribution, the Company will commence cooperation with Atom Bioscience pursuant to the relevant requirements under the Capital Contribution Agreement with respect to the related products including the innovative drugs for treatment of metabolic diseases and tumours. The investment is in line with the strategic layout of the medium and long-term research and development pipelines of the Company.

Save as disclosed above, during the Reporting Period, 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 2019 annual report of the Company.

SECTION IV OPERATION DISCUSSION AND ANALYSIS (MANAGEMENT DISCUSSION AND ANALYSIS)

VI. INVESTMENT

1. Overall particulars

☒ Applicable ☐ Not applicable

Amount of investment for the Period (RMB)	Amount of investment for the Previous Period (RMB)	Year-on-year Change
70,091,000.00	52,311,205.00	33.99%

2. Material equity investments during the Reporting Period

☒ 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 at balance sheet date	Expected return	Investment profit or loss in the Period	Litigation involved	Disclosure date (if any)	Disclosure index (if any)
Jiangsu Atom Bioscience & Pharmaceutical Co., Ltd. (江蘇新元素醫藥科技有限公司)	It is primarily engaged in the research and development of human medicine, veterinary drugs, agricultural chemicals, healthcare products and chemical products, technological transfer, technical consultancy and project cooperation of products.	Capital contribution	70,091,000.00	7.8215%	Self-owned funds	Shi Dongfang, etc. ^{Note 1}	Long term	Chemical drugs	Capital contribution was completed	-	-	No	See Note 2 for details	See Note 2 for details
Total	-	-	70,091,000.00	-	-	-	-	-	-	-	-	-	-	-

- Notes: 1. Partners include Shi Dongfang (史東方), Changzhou Tongxin Equity Investment Enterprise (Limited Partnership) (常州同信股權投資企業 (有限合夥)), Changzhou Xinshi Venture Investment Partnership (Limited Partnership) (常州鑫氏創業投資合夥企業 (有限合夥)) and Xiamen Jinyuan Kaitai Zhanhong Healthy Growth Venture Investment Partnership (Limited Partnership) (廈門金圓凱泰展鴻健康成長創業投資合夥企業 (有限合夥)).
2. Disclosure date and disclosure index: For details of the above equity investment, please refer to the Announcement on Foreign Investment of Livzon Pharmaceutical Group Inc. issued by the Company on 18 January 2020 (Announcement No.: 2020-004).

3. Ongoing material non-equity investments during the Reporting Period

☐ Applicable ☒ Not applicable

SECTION IV OPERATION DISCUSSION AND ANALYSIS (MANAGEMENT DISCUSSION AND ANALYSIS)

VI. INVESTMENT (continued)

4. Financial assets measured at fair value

✓ Applicable ☐ Not applicable

Unit: RMB

Type of assets	Initial investment cost	Gains or losses on fair value change for the Period	Accumulated change in fair value included in equity	Amount of purchase during the Period	Amount of disposal during the Period	Accumulated gains on investment	Amount at the End of the Period	Sources of fund
Equities	4,283,499.50	-1,274,254.56	–	–	–	1,373,566.81	12,924,652.40	Own funds
Funds	150,000.00	9,412.89	–	–	–	–	904,683.57	Own funds
Derivative financial assets	2,097,684.10	-2,017,937.44	–	–	–	–	79,746.66	Own funds
Financial assets measured at fair value through other comprehensive income	436,801,952.60	–	87,566,728.32	70,091,000.00	–	3,462,133.50	574,459,680.92	Own funds
Total	443,333,136.20	-3,282,779.11	87,566,728.32	70,091,000.00	–	4,835,700.31	588,368,763.55	–

Note: The accumulated gains on investment are gains within five years.

5. Investment in financial assets

(1) 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 Period	Gains or losses on fair value change for the Period	Accumulated change in fair value included in equity	Amount of purchase during the Period	Amount of disposal during the Period	Profit or loss for the Period	Carrying amount at the End of the Period	Accounting item	Sources of fund
Share	00135	Kunlun Energy	4,243,647.64	Measured at fair value	6,162,966.40	-1,577,497.60	–	–	–	-1,321,764.36	4,585,468.80	Financial assets measured at fair value	Own funds
Fund	206001	Penghua Fund	150,000.00	Measured at fair value	895,270.68	9,412.89	–	–	–	9,412.89	904,683.57	at fair value and whose changes are recorded in current profits or losses	Own funds
Share	000963	Huadong Medicine	39,851.86	Measured at fair value	8,035,940.56	303,243.04	–	–	–	395,534.40	8,339,183.60		Own funds
Other securities investment held at the End of the Period			–	–	–	–	–	–	–	–	–	–	–
Total			4,433,499.50	–	15,094,177.64	-1,264,841.67	–	–	–	-916,817.07	13,829,335.97	–	–

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

SECTION IV OPERATION DISCUSSION AND ANALYSIS (MANAGEMENT DISCUSSION AND ANALYSIS)

VI. INVESTMENT (continued)

5. Investment in financial assets (continued)

(2) Information on investment in derivatives

✓ Applicable ☐ Not applicable

Unit: RMB'000

Percentage of
investment
amount at
the End of
the Period
to the net
assets of
the Company
at the End
of the Period

Actual
gains or
losses
during
the
Period

Name of the operator of derivative investment	Connected relationship	Connected Transaction	Type of derivative investment	Initial investment amount of derivative investment	Commencement date	Maturity date	Investment amount at the Beginning of the Period	Amount of purchase during the Period	Amount of disposal during the Period	Impairment provision (if any)	Investment amount at the End of the Period	Percentage of investment amount at the End of the Period to the net assets of the Company at the End of the Period	Actual gains or losses during the Period
Financial institution	Non-related party	No	Forward foreign exchange contract (sell)	583.75	2019-7-1	2020-1-13	592.97	-	592.20	-	-	-	-8.50
Financial institution	Non-related party	No	Forward foreign exchange contract (sell)	2,448.13	2019-8-5	2020-3-25	2,444.03	-	2,435.48	-	-	-	37.21
Financial institution	Non-related party	No	Forward foreign exchange contract (sell)	4,936.04	2019-9-6	2020-6-24	4,865.65	-	4,850.14	-	-	-	120.13
Financial institution	Non-related party	No	Forward foreign exchange contract (sell)	3,455.34	2019-10-11	2020-5-15	3,472.39	-	3,469.02	-	-	-	59.76
Financial institution	Non-related party	No	Forward foreign exchange contract (sell)	8,850.87	2019-11-12	2020-6-24	8,796.97	-	8,832.84	-	-	-	43.62
Financial institution	Non-related party	No	Forward foreign exchange contract (sell)	4,139.89	2019-12-3	2020-7-10	4,122.12	-	3,937.73	-	225.66	0.02%	-11.52
Financial institution	Non-related party	No	Forward foreign exchange contract (sell)	8,468.89	2020-1-7	2020-6-24	-	8,468.89	8,662.34	-	-	-	-186.89
Financial institution	Non-related party	No	Forward foreign exchange contract (sell)	11,474.46	2020-2-3	2020-9-18	-	11,474.46	8,013.76	-	3,631.85	0.33%	-90.68
Financial institution	Non-related party	No	Forward foreign exchange contract (sell)	9,372.77	2020-3-3	2020-12-25	-	9,372.77	2,384.09	-	7,065.55	0.64%	-18.61
Financial institution	Non-related party	No	Forward foreign exchange contract (sell)	10,777.88	2020-4-10	2020-12-25	-	10,777.88	1,196.49	-	9,594.60	0.86%	-6.22
Financial institution	Non-related party	No	Forward foreign exchange contract (sell)	7,017.35	2020-5-7	2020-12-25	-	7,017.35	176.81	-	6,829.31	0.62%	0.25
Financial institution	Non-related party	No	Forward foreign exchange contract (sell)	8,651.65	2020-6-2	2020-12-25	-	8,651.65	-	-	8,648.53	0.78%	-
Financial institution	Non-related party	No	Commodity futures contract (buy)	73.19	2020-5-22	2020-9-30	-	73.19	-	-	75.30	0.01%	-
Total				80,250.21	-	-	24,294.13	55,836.19	44,550.90	-	36,070.80	3.26%	-61.45

SECTION IV OPERATION DISCUSSION AND ANALYSIS (MANAGEMENT DISCUSSION AND ANALYSIS)

VI. INVESTMENT (continued)

5. Investment in financial assets (continued)

(2) Information on investment in derivatives (continued)

Name of the operator of derivative investment	Connected relationship	Connected Transaction	Type of derivative investment	Initial investment amount of derivative investment	Commencement date	Maturity date	Investment amount at the Beginning of the Period	Amount of purchase during the Period	Amount of disposal during the Period	Impairment provision (if any)	Investment amount at the End of the Period	Percentage of investment amount at the End of the Period to the net assets of the Company at the End of the Period	Actual gains or losses during the Period
Source of funds for investment in derivatives				Self-financing									
Litigation involved (if applicable)				Not applicable									
Disclosure date of the announcement in relation to the approval of investment in derivatives by the Board (if any)				5 June 2020, 8 May 2020									
Disclosure date of the announcement in relation to the approval of investment in derivatives by the shareholders' meeting (if any)				Not applicable									
Risk analysis of derivatives position held during the Reporting Period and explanation of control measures (including but not limited to market risk, liquidity risk, credit risk, operational risk, legal risk, etc.)				<p>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 rates 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 uncertainty 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 for hedging 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 measures, 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 business 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.</p> <p>In order to manage the uncertainty risk caused by price fluctuations of bulk commodities on the purchase cost of raw materials of the Company, financial derivatives such as commodity futures contracts are employed to hedge raw materials. The Company has formulated the "Measures for the Management of Commodity Futures Hedging Business" to standardize the management and risk control of commodity futures derivatives: 1. Market risk: the uncertainty of price changes of bulk commodities has led to greater market risk in futures business. Control measures: the Company's futures hedging business shall not carry out speculative trading, the operation principle of prudence and conservation shall be observed, the number of hedging transactions shall be strictly limited, such that it does not exceed the actual number of spot transactions, and the futures position shall not exceed the spot volume for hedging purpose. 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 system, clearly defined the division of responsibilities and approval process, and established an improved supervisory mechanism, so as to effectively reduce operational risk through risk control of business process, decision-making process and transaction process. 3. Legal risk: the Company's commodity futures hedging 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 business 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.</p>									
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 RMB-3.2870 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 Reporting Period as compared with those of the Same Period Last Year				No									
Specific opinion of independent Directors on investment in derivatives 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 this proposal, the relevant decision-making procedures were in compliance with the Company Law, the Securities Law, the Stock Listing Rules of the Shenzhen Stock Exchange and other relevant laws and regulations and the provisions in the Articles of Association of the Company. In summary, we concurred that the Company conducted foreign exchange derivatives trading business with its own funds within the limit approved by the Board.									

SECTION IV OPERATION DISCUSSION AND ANALYSIS (MANAGEMENT DISCUSSION AND ANALYSIS)

VII. DISPOSAL OF MATERIAL ASSETS AND EQUITY

1. Disposal of material assets

☐ Applicable ☒ Not applicable

2. Disposal of material equity

☒ Applicable ☐ Not applicable

Counterparty	Disposed Equity	Date of disposal	Trading Price (RMB0'000)	Net profit from the equity to the listed company from the beginning of the Period to the Date of Disposal (RMB0'000)	Impact of the Disposal on the Company	Percentage of the net profit from disposal of equity to the total net profit of the listed company	Pricing principle for disposal of equity	Connected Transaction	Connected with relationship with counterparty	Full transfer of property rights in the equity	Implemented as scheduled	Date of disclosure	Index of disclosure
Genesis Medtech Investment (HK) Limited	Jiangsu Ni Ke Medical Device Co., Ltd. (江蘇尼科醫療器械有限公司)	2020.6.30	12,162.81	-150.76	Increased the net profit attributable to the parent company by RMB86.8355 million for the Company	8.64%	Pricing by negotiation	No	N/A	Yes	Yes	See Note for details	See Note for details

Note: Disclosure date and disclosure index: For details of the above transaction, please refer to the Announcement of Livzon Pharmaceutical Group Inc. on the Disposal of 19.99% Equity Interest in Jiangsu Ni Ke Medical Device Co., Ltd. (江蘇尼科醫療器械有限公司) (Announcement No.: 2020-048) and the Update Announcement of Livzon Pharmaceutical Group Inc. on the Disposal of 19.99% Equity Interest in Jiangsu Ni Ke Medical Device Co., Ltd. (江蘇尼科醫療器械有限公司) (Announcement No.: 2020-076) issued by the Company on 27 May 2020 and 2 July 2020, respectively.

SECTION IV OPERATION DISCUSSION AND ANALYSIS (MANAGEMENT DISCUSSION AND ANALYSIS)

VIII. ANALYSIS OF MAJOR CONTROLLED AND INVESTED COMPANIES

1. Major subsidiaries and invested companies which contributed more than 10% of net profit of the Company

✓ 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	Primarily engaged in production and sale of self-made chemical drugs, biochemical drugs, microbiological preparations, antibiotics, etc.	450,000,000.00	3,256,313,431.28	1,257,230,176.08	1,409,237,120.98	587,516,718.19	500,597,851.99
Sichuan Guangda Pharmaceutical Manufacturing Co., Ltd. (四川光大製藥有限公司)	Subsidiary	Primarily engaged in R&D, production and sale of traditional Chinese medicine, major products include Anti-viral Granules, Dexamethasone Oral Paste, etc.	149,000,000.00	1,335,734,396.31	1,016,964,626.56	324,959,826.09	86,984,406.20	73,683,269.11
Livzon Group Limin Pharmaceutical Manufacturing Factory (麗珠集團利民製藥廠)	Subsidiary	Primarily 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	1,215,052,489.68	736,913,279.65	183,375,758.81	47,014,003.50	40,780,070.55
Shanghai Livzon Pharmaceutical Manufacturing Co., Ltd. (上海麗珠製藥有限公司)	Subsidiary	Primarily engaged in production of biochemical and polypeptide APIs, major products include biochemical APIs such as Menotropin and Chorionic Gonadotropin.	87,328,900.00	1,095,625,468.43	763,180,301.37	615,316,594.48	215,368,491.89	183,888,594.01
Zhuhai FTZ Livzon Hecheng Pharmaceutical Manufacturing Co., Ltd. (珠海保稅區麗珠合成製藥有限公司)	Subsidiary	Primarily engaged in production and operation of chemical APIs, major products include Cefuroxime Sodium, Cefodizime Sodium, Ceftriaxone Sodium, etc.	128,280,000.00	917,785,959.13	425,583,873.16	483,512,468.91	109,102,976.86	92,616,477.24
Livzon Group Xinbeijiang Pharmaceutical Manufacturing Inc. (麗珠集團新北江製藥股份有限公司)	Subsidiary	Primarily engaged in export of APIs, intermediate products and related technologies, major products include Pravastatin, Mevastatin, Salinomycin, etc.	239,887,700.00	3,002,551,878.12	1,221,119,877.25	887,603,266.00	259,260,344.25	191,266,033.64
Livzon Group Fuzhou Fuxing Pharmaceutical Co., Ltd. (麗珠集團福州福興醫藥有限公司)	Subsidiary	Primarily engaged in production of antibiotics APIs, intermediate and drug preparation products and chemical raw materials for pharmaceutical production, major products include Colistin Sulfate, Vancomycin, Phenylalanine, etc.	USD41,700,000	929,235,382.22	566,815,282.58	299,025,536.59	139,159,065.95	118,474,594.40
Zhuhai Livzon Diagnostics Inc. (珠海麗珠試劑股份有限公司)	Subsidiary	Primarily 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	1,210,515,432.96	588,208,590.25	890,775,488.59	466,146,298.84	395,834,769.49
Livzon MABPharm Inc. (珠海市麗珠單抗生物技術有限公司)	Subsidiary	Primarily engaged in technological R&D for biologics and antibody drugs.	1,411,200,500.00	743,331,502.38	698,642,865.30	259,914.35	-75,502,728.98	-75,507,025.19

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.

SECTION IV OPERATION DISCUSSION AND ANALYSIS (MANAGEMENT DISCUSSION AND ANALYSIS)

VIII. ANALYSIS OF MAJOR CONTROLLED AND INVESTED COMPANIES *(continued)*

2. Subsidiaries acquired and disposed of during the Reporting Period

☒ 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
Livzon Gene Diagnostics Inc.* (珠海市麗珠基因檢測科技有限公司)	Disposal	No material impact
Zhuhai Liheng Medical Diagnostic Products Co., Ltd.* (珠海立恒醫療診斷產品有限公司)	New Establishment	No material impact
Wenshan Livzon Sanqi Plantation Co., Ltd.* (文山麗珠三七種植有限公司)	Deregistration	No material impact

IX. FORECAST OF OPERATING RESULTS FOR JANUARY TO SEPTEMBER 2020

Warnings of and reasons for projected accumulated net loss or substantial change in accumulated net profit for the period from the beginning of the year to the end of the next reporting period as compared to the same period last year

☐ Applicable ☒ Not applicable

X. STRUCTURAL BODY CONTROLLED BY THE COMPANY

☐ Applicable ☒ Not applicable

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

The Company has proposed to spin off Livzon Diagnostics, a controlling subsidiary, for A share listing. After completion of the spin-off, the shareholding structure of the Company will remain unchanged and the Company will continue to maintain control over Livzon Diagnostics. Through the spin-off, Livzon Diagnostics as a subsidiary of the Company will be listed independently as a supplier of diagnostic reagents and equipment. By enhancing financial strength through the listing proceeds, the advantageous position of the Group as a whole in diagnostic reagents and equipment will be reinforced by leveraging the capital market. The spin-off will further enhance the profitability and comprehensive competitiveness of the Company and its subsidiary.

The proposal of the spin-off and A share listing of the controlling subsidiary, Livzon Diagnostics and other related matters have been considered and approved by the Board and the Supervisory Committee of the Company, pending for submission to the general meeting of the Company for consideration. Please refer to the announcement on the Proposal of the Spin-off and A Share Listing of a Subsidiary, namely Zhuhai Livzon Diagnostics Inc. and other relevant announcements of the Company published on the website of Cninfo (www.cninfo.com.cn) on 10 August 2020.

XII. 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 Reporting Period.

SECTION IV OPERATION DISCUSSION AND ANALYSIS (MANAGEMENT DISCUSSION AND ANALYSIS)

XIII. PROSPECTS FOR FUTURE DEVELOPMENT

For the second half of 2020, while closely monitoring the development of the pandemic, the Company will take various measures to alleviate its possible adverse impact on our business and maintain our normal production and operation activities with an aim to further implement our “three major strategies”. The Company will focus on the following aspects:

(1) Chemical and traditional Chinese drug preparation products

In the second half of 2020, our key deployment in marketing are as follows: (i) conduct multi-level key assessments on the rate of accomplishment and coverage for second-level and above hospitals, promote the development of medical institutions, and develop Ilaprazole in multiple ways; (ii) keep abreast of the latest development of national medical reform policies and local implementation measures, such as minimum procurement commitment and DRGs; (iii) establish the fourth sales terminal, the internet sales team, as soon as possible to carry out online and offline market activities, and actively facilitate the sales resumption of various product lines; (iv) in respect of overseas sales, further follow-up overseas registration and certification for drug preparation products to broaden sales varieties.

In respect of product R&D, projects under research will be carried out by stages and in a planned manner. A PM systematic mechanism, which is equipped with project dynamic hierarchical management, project assessment and incentive system, and project information security management, will be established. We shall continue to optimize the clinical research quality management system. The quality management head office of the Company will formulate annual audit plans and complete key project audits based on the progress of clinical trial projects. Internal and external training and talent recruitment will be strengthened to improve our overall R&D capability and build-up a stronger and more efficient R&D team.

In respect of production, we always consider quality and safety to be the top priorities. We will conduct investigations and inspections to carry out risk management and control in advance. The quality management head office of the Company will continue to focus on risk control of product quality with emphasis on control of sources of raw and auxiliary materials and production process, make more unannounced inspection, and further eliminate the risk of production quality in accordance with the inspection rules under the six systems of GMP. The GSP management will be continuously strengthened to empower daily supervision and management, so as to ensure the effective operation of our drug business quality management system. Material quality and safety incidents shall be avoided. Through refined management, we can rigorously maintain our edges in safety and environmental protection, quality and cost, and consolidate the competitiveness of our products.

(2) APIs and Intermediates

In the second half of 2020, our API business department will continue to adhere to the guiding philosophy of “Ensuring Safety and Environmental Protection, Improving Quality, and Reducing Costs” in order to minimize risk exposures, eliminate hidden dangers and avoid occurrence of any incident, while constantly strengthen the management of API business department and promote the integration of API’s production capacity.

To boost our sales, we will give greater effort in the market development for high-end antibiotics and pet medicines and establish a long-term, stable and mutually beneficial cooperation model with our strategic partners. Branch offices will be set up in key markets around the world. Our sales system and marketing team will be strengthened and a domestic sales team for pet drug preparations will be established.

In the second half of 2020, we will continue to put great emphasis on the steady development of R&D of new products and the technology advancement of existing varieties. The development progress of polypeptide projects will be accelerated. We will pay close attention to technology advancement of products with a focus on reduction in costs and enhancement of efficiency so as to further improve the overall profitability of APIs and our competitiveness in the industry.

(3) Biologics

In the second half of 2020, Livzon MAB will focus more on and effectively accelerate the R&D and clinical development of its core varieties, especially the clinical trial and technological certification of 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), phase II clinical trial of 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) and expanded clinical trials for different indications. Concurrently, phase I clinical trials on innovative projects, such as Recombinant Tumor Enzyme Specific Interferon α -2b Fc Fusion for Injection (注射用重組腫瘤酶特異性干擾素 α -2b Fc融合蛋白) and Recombinant Anti-human IL-17A/F Humanized Monoclonal Antibody Injection (重組抗人IL-17A/F人源化單克隆抗體注射液), will also be speeded up.

We shall also endeavor to obtain the approval for sale of Recombinant Human Chorionic Gonadotropin for Injection (注射用重組人絨促性素) in the market and comprehensively formulate its marketing strategy after market launch.

Meanwhile, we shall continue to introduce new projects and promote independent R&D to enrich our R&D pipeline. Moreover, external cooperation and technology transfer negotiation on projects under R&D will be carried out synchronously.

SECTION IV OPERATION DISCUSSION AND ANALYSIS (MANAGEMENT DISCUSSION AND ANALYSIS)

XIII. PROSPECTS FOR FUTURE DEVELOPMENT *(continued)*

(4) Diagnostic reagents and equipment

In the second half of 2020, the Company will implement integration of marketing resources of different product pipelines. With focus on terminal resources, we will strive to meet the sales target. We will place great importance on restoration of sales of the existing products and market launch of our new products. We target to realize our market layout for blood irradiators (血液輻照儀), autoimmune multi-devices (自免多重儀器), 60-speed luminous instruments (60速發光儀器), nucleic acid test equipment, and supporting reagents in the second half of 2020 and then pave the way for growth of sales in 2021.

In respect of R&D and production, the most important tasks in the second half of 2020 are to ensure the smooth progress of R&D plans for the molecular diagnostic platform (分子診斷平台), the chemiluminescence technology platform (化學發光技術平台), and the automatic liquid chip technology platform (全自動液相晶片技術平台), etc. Our production will focus on optimization of production, manufacturing conversion and supply assurance of new products and other tasks, so as to fully ensure the production deliveries and successful market launches of the Company's new products.

(5) Functions and strategies

In the second half of 2020, the Company will continue to closely monitor the development of the pandemic, adopt effective prevention measures, maintain our production and take initiatives to undertake social responsibility. The Company will continue to adhere to the "talent strategy, product strategy and market strategy", focus on the target of the share option incentive scheme and OKR requirements of the Company, and implement various tasks under the talent strategy, so as to enhance execution and management efficiency. We will recruit top talents in various specialities around the world to improve the team building of talents in each level of the R&D platforms. We will adopt the corporate culture and value, with patients' health and value creation for customers always being our greatest concern. We will continue to create conditions for improvements in personal growth and experience for our employees, and create long-term benefits for our shareholders.

In addition, for the medium and long-term strategic development of the Group, we will continue to utilize capital market platforms, capture opportunities offered by innovative policies to grow stronger and bigger, and pay close attention to new business and new technological opportunities in the domestic and foreign pharmaceutical industries.

XIV. 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 continuous progress of a new round of minimum procurement commitment made 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.

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 (反流性食管炎), Perospirone Hydrochloride Tablets (鹽酸哌羅匹隆片) 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.

SECTION IV OPERATION DISCUSSION AND ANALYSIS (MANAGEMENT DISCUSSION AND ANALYSIS)

XIV. RISKS AND RESPONSE MEASURES *(continued)*

2. 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 the first half of 2020, the second round of minimum procurement commitment was formally implemented, a total of 33 medical products are involved, covering the treatment areas of, among others, diabetes, hypertension and anti-tumor, and a total of 122 enterprises have participated. The average price reduction rate in this centralized procurement reached 53%, with maximum reduction rate up to 93%. With continuous implementation of the minimum procurement commitment policy, a normalized and standardized system of minimum procurement commitment will be established subsequently, more products will be included in the scope of centralized minimum procurement commitment, it is expected that drug prices may continue to present a downward trend within a certain period of time. (ii) Price reduction are also seen in the national insurance negotiations. Among the 150 drugs that entered into the negotiations in 2019, 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%.

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 the policy of minimum procurement commitment. As at the End of the Reporting Period, there are 7 products being produced by the Company including Cetirizine Hydrochloride Tablets (鹽酸西替利嗪片) and Clarithromycin Tablets (克拉霉素片) on the list of minimum procurement commitment, which generated an aggregate sales income of RMB28.51 million, representing 0.56% of the operating income of the Company during the Period. However, since the abovementioned products of the Company have not yet passed the consistency evaluation, such products did not participate in the bidding for minimum procurement commitment, therefore the production and operation of the Company were not affected. (ii) For adjustments made to the medical insurance catalogue, as Ilaprazole Sodium for Injection (注射用艾普拉唑鈉), 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. Moreover, the Company will also continue to innovate, research and develop innovative new drugs and high-end complex drug preparation and generic drug varieties 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. Composition of product portfolios will be continuously optimized.

SECTION IV OPERATION DISCUSSION AND ANALYSIS (MANAGEMENT DISCUSSION AND ANALYSIS)

XIV. RISKS AND RESPONSE MEASURES *(continued)*

3. 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. Also, after the product is successfully researched and produced, the scale of market sales may also be affected by numerous factors. On 30 March 2020, the State Administration for Market Regulation announced that the Administration Measures for Drug Registration (藥品註冊管理辦法) will come into effect on 1 July 2020, which has encouraged research and development and innovation in pharmaceutical products to enhance their availability: (i) by combining the development of pharmaceutical industry and the actual needs for clinical treatment in the PRC, and by making reference to international experience, a new chapter on accelerating the market registration procedure for drugs has been added and four accelerated channels including breakthrough treatment drugs, conditional approval, priority in evaluation and approval, and special approval have been established; (ii) drugs in shortage for urgent clinical use, drugs for children, drugs for rare diseases, drugs for material infectious diseases, vaccines in urgent demand for prevention and control of disease and innovative vaccines and other drugs listed in the Pharmaceutical Administration Law, Vaccine Administration Law and State Council documents are clearly included in the scope of accelerated market registration.

Response measures: the Administration Measures for Drug Registration emphasizes on the orientation of clinical value, encourages research and invention of new drugs, which have enhanced the efficiency in drug registration, in particular registration for innovative drugs. The Company will focus on innovative drugs and high-barrier complicated drug preparations, pay attention to unfulfilled clinical needs and invest in innovative research and development as we have always pursued in the past. Meanwhile, 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 drug preparations to ensure the long-term sustainable development of the Company.

4. Effect of the normalization of COVID-19 pandemic

The outbreak of novel coronavirus disease (COVID-19) at the beginning of 2020 affected the operation of the overall economy. During the aggravation of the pandemic, as efforts of medical professionals were more focused on frontline work to prevent and control the pandemic, the consultation rate of patients with other diseases had declined and the standard prescriptions issued by hospitals had reduced. The production and operation of the Company was also affected to a certain extent. On 8 May 2020, the State Council issued the Guidance Opinions on the Prevention and Control of the Normalization of Novel Coronavirus Infection (COVID-19) that unveiled a joint prevention and control mechanism to tackle the COVID-19 pandemic, and confirmed that the COVID-19 pandemic was under control in China with an optimistic trend of further stabilization and the prevention and control tasks have been changed from an emergency state to a normalized state. However, the pandemic continued to spread overseas.

Response measures: During the outbreak of the pandemic, the sales of some prescription drug products of the Company decreased under the impact of the outbreak. On the other hand, the Company has stepped up the development of diagnostic kits for the pandemic. The diagnostics kits for IgM/IgG antibody to novel coronavirus (colloidal gold) developed by Livzon Diagnostics, a controlling subsidiary of the Company, obtained approval for market launch and submitted import registration applications in many countries to supply both the domestic and overseas markets actively. Meanwhile, the sales of anti-viral granules of the Company increased significantly. As a result of the early resumption of work and production of Anti-viral Granules (抗病毒顆粒), there was a tight supply of masks for our employees at the early stage. However, with coordinated assistance of authorities such as the Zhuhai Science, Industry, Trade & Information Technology Bureau (珠海市科工貿信局), the Group was able to meet the needs of its production by importing masks from overseas in a timely manner. The pandemic changed the lifestyle of people, and the Company took the opportunity to organize a number of online academic promotional activities. In general, the overall impact of COVID-19 on the business of the Company was relatively small and risks were within control. The extent of subsequent impact will depend on the prevention and control of the pandemic on a global scale, the time of continuation, the prevention and control of the pandemic, and the responsive measures of enterprises. The Company will continue to pay attention to the development of the pandemic, tackle with any possible impact on the financial conditions and operating results of the Company, while adopting various measures at the same time to mitigate the adverse effect of the pandemic on corporate operations, to ensure that the production and operation activities are performed in a steady and orderly manner.

SECTION IV OPERATION DISCUSSION AND ANALYSIS (MANAGEMENT DISCUSSION AND ANALYSIS)

XIV. RISKS AND RESPONSE MEASURES *(continued)*

5. 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. Facing the threat of COVID-19 pandemic, in view of the fact that raw materials for Ilaprazole series (艾普拉唑系列) products, Shenqi Fuzheng Injection (參芪扶正注射液), Bismuth Potassium Citrate series (得樂系列) products, reproduction series products, endocrine products and psychiatric products, which are the Group's key drug preparation products, were either self-produced or supported by the entire industry chain within the Group, these raw materials were less affected by the COVID-19 pandemic. Despite of the relatively large increase in the price of raw materials for Anti-viral Ganules (抗病毒顆粒), the impact on the cost of Anti-viral Ganules (抗病毒顆粒) is under control since the Group has made strategic reserves of such raw materials and directly purchased such raw materials from suppliers of GAP bases. In addition, prices of raw materials for the Group's API segment has certain fluctuations as a result of the impact of COVID-19 pandemic and trading policies. However, with its strategic reserve procurement and futures hedging activities, the Company was able to control the cost of raw and auxiliary materials and coupled with the sufficient inventory of those raw and auxiliary materials necessary for our production during the Spring Festival, our production operation was not affected much by the COVID-19 pandemic.

6. 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.

SECTION IV OPERATION DISCUSSION AND ANALYSIS (MANAGEMENT DISCUSSION AND ANALYSIS)

XV. REPURCHASE, SALE OR REDEMPTION OF SECURITIES

On 26 March 2020, the Repurchase of Part of the Public Shares Scheme (the “Repurchase Scheme”) had been considered and approved at the 2020 second extraordinary general meeting, the 2020 first class meeting of A Shareholders and the 2020 first class meeting of H Shareholders of the Company. On 25 May 2020, the extension of the expiry date of the Repurchase Scheme to 25 December 2020 had been considered and approved at the 2019 annual general meeting, 2020 second class meeting of A Shareholders and 2020 second class meeting of H Shareholders of the Company. According to the Repurchase Scheme, the Company intends to repurchase part of its public A Shares by means of centralized bidding transactions through the trading system of the Shenzhen Stock Exchange. The repurchase price shall not exceed RMB45.00 per A Share. The aggregate amount of funds to be used by the Company for the repurchase shall not be less than RMB250 million (inclusive) and not more than RMB500 million (inclusive).

As at the End of the Reporting Period, the Company made a total repurchase of 5,946,108 A Shares of the Company (the “Repurchased A Shares”) by means of centralized bidding transactions, accounting for 0.63% and 0.96% of the total issued share capital (940,773,461 Shares) and the total issued A Shares (620,909,244 Shares) of the Company at the End of the Period, respectively. The highest purchase price was RMB44.88 per share; while the lowest purchase price was RMB38.95 per share. The aggregate amount of funds used for the repurchase was RMB243,439,270.82 (including the transaction costs). As at the End of the Reporting Period, cancellation of the Repurchased A Shares had not been completed.

Save as disclosed above, throughout the period from 1 January 2020 to 30 June 2020, neither the Company nor any of its subsidiaries repurchased, sold or redeemed any of the listed securities of the Company.

SECTION IV OPERATION DISCUSSION AND ANALYSIS (MANAGEMENT DISCUSSION AND ANALYSIS)

XVI. 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).

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.

SECTION IV OPERATION DISCUSSION AND ANALYSIS (MANAGEMENT DISCUSSION AND ANALYSIS)

XVI. NON-PUBLIC ISSUANCE OF A SHARES *(Continued)*

Historical events *(continued)*

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 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 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.

On 27 March 2019, the Company convened 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》)". Pursuant to which, the Board agreed (i) to transfer to Shanghai Lizhu the ownership of the product and technologies of 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))" (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)"; (ii) the Company would subsequently no longer invest in the Project by using the proceeds from the Issuance; (iii) 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)" from RMB163.9333 million to RMB198.455 million. Such resolution was considered and approved at the 2018 annual general meeting on 30 May 2019.

Progress of the Reporting Period

On 25 March 2020, the Company convened the thirty-seventh meeting of the ninth session of the Board to consider and approve 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 (《關於變更部分募集資金投資項目及調整投資計劃並將部分募集資金永久補充流動資金的議案》)". Pursuant to which, the Board approved (i) alteration to the sub-projects under 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 "Ilaprazole Project") and adjustment to the investment plan; (ii) alteration of use of proceeds of the sub-projects "Ilaprazole Optical Isomer Preparation (艾普拉唑光學異構體製劑)" and "Ilaprazole Compound Preparation (艾普拉唑復方製劑)" under the Ilaprazole Project to permanent replenishment of working capital; (iii) alteration to the sub-projects 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)" (the "Prolonged-action Microsphere Project") and adjustment to the investment plan; (iv) inclusion of a new sub-project of "Construction of the chemical drug lyophilized powder injection workshop (化藥凍乾粉針車間建設)" under the Ilaprazole Project; and (v) inclusion of a new sub-project of "Construction of sustained-release implants workshop (緩釋植入劑車間建設)" under the Prolonged-action Microsphere Project. Such resolution was considered and approved at the 2019 annual general meeting on 25 May 2020.

SECTION IV OPERATION DISCUSSION AND ANALYSIS (MANAGEMENT DISCUSSION AND ANALYSIS)

XVII.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 option 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.

SECTION IV OPERATION DISCUSSION AND ANALYSIS (MANAGEMENT DISCUSSION AND ANALYSIS)

XVII.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	Exercise Period	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	Exercise Period	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 A 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.

SECTION IV OPERATION DISCUSSION AND ANALYSIS (MANAGEMENT DISCUSSION AND ANALYSIS)

XVII.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 fixed 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.

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%).

SECTION IV OPERATION DISCUSSION AND ANALYSIS (MANAGEMENT DISCUSSION AND ANALYSIS)

XVII.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)*

	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 phrases 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 are 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 two exercise periods 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 (based on interest rates for one-year and two-year fixed deposits)
Volatility of underlying share	The volatility rates for the two exercise periods of share options are 25.90% and 22.99% respectively (based on the historical volatility rate of the SZSE Composite Index in the latest one year and two years respectively)
Dividend yield from underlying share	The dividend yields for the two exercise periods of share options are 3.4642% and 3.2656% respectively (based on the average dividend rate of the Company in the latest one year and two years respectively)

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

Note 2: The risk-free interest rate is based on the interest rate of fixed deposits in the corresponding exercise period of share options.

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, therefore the estimated value of the share options may be subjective and uncertain.

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 based on the 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%).

SECTION IV OPERATION DISCUSSION AND ANALYSIS (MANAGEMENT DISCUSSION AND ANALYSIS)

XVII.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)*

	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 2019, 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 in the 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, the amendment to the terms of the 2018 Share Options Incentive Scheme (the contents of amendment: 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 shall remain unchanged), 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.

SECTION IV OPERATION DISCUSSION AND ANALYSIS (MANAGEMENT DISCUSSION AND ANALYSIS)

XVII.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 under the First Grant from 1,116 to 1,050 and the 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 considered and approved the adjustment to the exercise price of share options under the First Grant from RMB47.01 per A share to RMB36.16 per A share and the adjustment to the number of share options granted under the First Grant from 17.4755 million to 22.71815 million, given that the Company had 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) the 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 was RMB36.16 per A share), since such 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 per A share, given that the exercise criteria for the first exercise period under the First Grant has been fulfilled.

SECTION IV OPERATION DISCUSSION AND ANALYSIS (MANAGEMENT DISCUSSION AND ANALYSIS)

XVII.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 (中國證券登記結算有限責任公司深圳分公司), the first exercise period of share options granted under the First Grant took effect from 22 November 2019 to 27 September 2020. The incentive participants were 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	Number of share options held as at 1 January 2020 (0'000 share options)	Number of share options exercised in the first exercise period (0'000 share options)	Number of share options held as at 30 June 2020 (0'000 share options)	Number of share options unexercised in the first exercise period (0'000 share options)
Mr. Tang Yanggang	Executive Director and President	20.2800	0	20.2800	8.1120
Mr. Tao Desheng ⁽³⁾	Vice Chairman and Non-executive Director	25.3500	10.1400	15.2100	0
Mr. Xu Guoxiang	Vice Chairman, Executive Director and Vice President	25.3500	0	25.3500	10.1400
Mr. Yang Daihong	Vice President	20.2800	0	20.2800	8.1120
Ms. Si Yanxia	Vice President and Chief Financial Officer	20.2800	5.0000	15.2800	3.1120
Mr. Zhou Peng	Vice President	13.5200	3.0000	10.5200	2.4080
Ms. Huang Yuxuan	Vice President	11.8300	0	11.8300	4.7320
Mr. Xu Peng	Vice President	10.1400	0	10.1400	4.0560
Mr. Yang Liang	Vice President, Secretary to the Board and Company Secretary	11.8300	4.7320	7.0980	0
Ms. Hou Xuemei ⁽⁴⁾	Mid-level management	10.1400	4.0560	6.0840	0
Mid-level management and relevant core personnel of the Company (1,024 persons)		2,077.3155	574.1506	1,503.1649	256.7756

SECTION IV OPERATION DISCUSSION AND ANALYSIS (MANAGEMENT DISCUSSION AND ANALYSIS)

XVII.SHARE OPTIONS INCENTIVE SCHEMES *(continued)*

1. The 2018 Share Options Incentive Scheme *(continued)*

First Grant *(continued)*

Notes:

- (1) The grant date of the aforesaid share options was 11 September 2018, and the exercise price was RMB47.01 per A Share (the exercise price was adjusted to RMB36.16 per A Share on 28 August 2019). For details of the validity period and exercise period, please refer to the relevant contents of "Incentive participants, maximum entitlement, validity period of the scheme" and "Vesting period, exercise period and exercise date" as set out above.
- (2) On 10 September 2018 (one day before the grant date), the closing price of A Shares of the Company was RMB36.66 per share.
- (3) Mr. Tao Desheng exercised 50,000 share options and 51,400 share options on 15 June 2020 and 19 June 2020 respectively. The weighted average closing price of the A Shares of the Company on 12 June 2020 and 18 June 2020 was RMB45.3.
- (4) Ms Hou Xuemei exercised 10,000 share options and 30,560 share options on 17 June 2020 and 19 June 2020 respectively. The weighted average closing price of the A Shares of the Company on 16 June 2020 and 18 June 2020 was RMB46.51. 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.
- (5) During the Reporting Period, except for Mr. Tao Desheng and Ms Hou Xuemei, the weighted average closing price of the A Shares of the Company for all other incentive participants in aggregate immediately prior to the exercise date was RMB41.05 per share.
- (6) Mr. Fu Daotian resigned as an executive Director and a 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).

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 was adjusted from 145 to 170, with the total number of share options under the Reserved Grant remained unchanged, and a total of 2.535 million share options would be granted to 170 incentive participants;

SECTION IV OPERATION DISCUSSION AND ANALYSIS (MANAGEMENT DISCUSSION AND ANALYSIS)

XVII.SHARE OPTIONS INCENTIVE SCHEMES *(continued)*

1. The 2018 Share Options Incentive Scheme *(continued)*

Reserved Grant *(continued)*

- (3) On 28 October 2019, registration of the Reserved Grant was completed. The abbreviation of the share option: Livzon JLC2. 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 2020 (0'000 share options)	Number of share options held as at 30 June 2020 (0'000 share options)
Mr. Dai Weiguo*	Vice President	13.00	13.00
Mid-level management and core personnel of the Company (166 persons)		239.45	239.45
Total 167 persons		252.45	252.45

Note: The grant date of the aforesaid share options was 28 August 2019 (As at 30 June 2020, the aforesaid share options have not been exercised), and the exercise price was RMB28.87 per share. For details of the validity period and exercise period of the aforesaid share options, please refer to the relevant contents in "Incentive participants, maximum entitlement, validity period of the scheme" and "Vesting period, exercise period and exercise date" as set out above. On 27 August 2019 (one day before the grant date), the closing price of A shares of the Company was RMB29.39 per share.

* Mr. Dai Weiguo resigned as a vice president of the Company on 29 May 2020, the 130,000 share options held by him which have not met the exercise conditions will be cancelled according to the relevant regulations (As at the disclosure date of the Report, the aforesaid 130,000 share options have not been cancelled).

During the Reporting Period, 6,010,786 share options have been exercised in the first exercise period of the First Grant. Therefore, as at the End of the Reporting Period, a total number of 18,976,869 ordinary A Shares of the Company may be issued under the 2018 Share Options Incentive Scheme (Revised), including 16,452,369 share options for First Grant and 2,524,500 share options for Reserved Grant, representing 2.02% of the total issued share capital of the Company as at the End of the Period.

As at 30 June 2020, save as disclosed above, all share options granted under the First Grant and the Reserved Grant have not been exercised, cancelled or lapsed.

SECTION IV OPERATION DISCUSSION AND ANALYSIS (MANAGEMENT DISCUSSION AND ANALYSIS)

XVII.SHARE OPTIONS INCENTIVE SCHEMES *(continued)*

2. The Subsidiary Share Option Scheme

Purpose of the scheme and 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 Option 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 option 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, advisers 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' 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.

SECTION IV OPERATION DISCUSSION AND ANALYSIS (MANAGEMENT DISCUSSION AND ANALYSIS)

XVII.SHARE OPTIONS INCENTIVE SCHEMES *(continued)*

2. The Subsidiary Share Option Scheme *(continued)*

Determination of exercise price and consideration for acceptance of share options

The exercise price of the share options under the Subsidiary Share Option Scheme is determined at the sole discretion of the board of directors of Livzon Biologics. Factors for consideration 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 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 share options and 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 or her 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 before the Livzon Biologics Listing Date.

SECTION IV OPERATION DISCUSSION AND ANALYSIS (MANAGEMENT DISCUSSION AND ANALYSIS)

XVII.SHARE OPTIONS INCENTIVE SCHEMES *(continued)*

2. The Subsidiary Share Option Scheme *(continued)*

Duration of share options and vesting period *(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 30 June 2020, the Subsidiary Share Option Scheme has not been implemented and therefore no Subsidiary Share Options were granted.

XVIII. 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 Ownership Scheme was approved by the 2020 first extraordinary general meeting on 11 February 2020.

Purpose of the 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 conferring rights and obligations to the holders and establishing the partnership mechanism of "enjoying the benefits and assuming the risk together" for business partners, it is expected to effectively advance and promote the change in capacity of the Company from "manager" to "partner", which is conducive 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 scheme

After consideration and approval by the general meeting, the Ownership Scheme will be implemented in ten phases. The Board shall be authorised subsequently to take charge of the utilization 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 de facto controllers shall not participate in the Ownership Scheme.

SECTION IV OPERATION DISCUSSION AND ANALYSIS (MANAGEMENT DISCUSSION AND ANALYSIS)

XVIII. 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 extraction 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 in that year. The extraction of special fund shall be determined according to the following principles:

The special fund shall be extracted on the basis of the net profit attributable to the Shareholders of the Company after deducting the extraordinary gains or losses in 2018. 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 set aside ratios are set out in detail 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 are: 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 considered 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 under the Ownership Scheme shall not exceed 10% of the total share capital of the Company, and the aggregate number of shares corresponding to the shares 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 voluntarily 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, one phase for each year will be implemented after determining whether the special fund for the previous year should be extracted or not. The duration of each respective phase 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.

SECTION IV OPERATION DISCUSSION AND ANALYSIS (MANAGEMENT DISCUSSION AND ANALYSIS)

XVIII. 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 are 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 registration 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 of 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 entrusted 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 the relevant taxes and fees according to the 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 expiration of the lock-up period of the respective phases of the Ownership Scheme, interests may be disposed of according to one of the following ways:
 - (i) to continue holding the underlying shares during the duration of the Ownership Scheme;
 - (ii) to sell the underlying shares that are purchased by the Ownership Scheme during 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 of disposal as permitted by the laws, administrative regulations, rules or normative documents.

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

SECTION V MAJOR EVENTS

I. ANNUAL GENERAL MEETING AND EXTRAORDINARY GENERAL MEETINGS CONVENED DURING THE REPORTING PERIOD

1. General Meetings during the Reporting Period

Meeting sessions	Type of meeting	Participation Percentage of Investors	Date of meeting	Disclosure date	Disclosure index
2020 First Extraordinary General Meeting	Extraordinary General Meeting	52.1342%	11 February 2020	12 February 2020	Announcement on Resolutions of the 2020 First Extraordinary General Meeting (Announcement No.: 2020-007), published on the website of Cninfo (www.cninfo.com.cn)
2020 Second Extraordinary General Meeting	Extraordinary General Meeting	50.7077%	26 March 2020	27 March 2020	Announcement on Resolutions of the 2020 Second Extraordinary General Meeting, the 2020 First Class Meeting of A Shareholders and 2020 First Class Meeting of H Shareholders (Announcement No.: 2020-025), published on the website of Cninfo (www.cninfo.com.cn)
2020 First Class Meeting of A Shareholders	Class Meeting	41.7078%			
2020 First Class Meeting of H Shareholders	Class Meeting	69.4665%			
2019 Annual General Meeting	Annual General Meeting	53.6976%	25 May 2020	26 May 2020	Announcement on Resolutions of the 2019 Annual General Meeting, 2020 Second Class Meeting of A Shareholders and 2020 Second Class Meeting of H Shareholders (Announcement No.: 2020-047), published on the website of Cninfo (www.cninfo.com.cn)
2020 Second Class Meeting of A Shareholders	Class Meeting	44.4783%			
2020 Second Class Meeting of H Shareholders	Class Meeting	71.5098%			
2020 Third Extraordinary General Meeting	Extraordinary General Meeting	54.2963%	30 June 2020	1 July 2020	Announcement on Resolutions of the 2020 Third Extraordinary General Meeting (Announcement No.: 2020-071), published on the website of Cninfo (www.cninfo.com.cn)

2. Holders of Preferred Shares with Resumed Voting Rights Requesting to Hold Extraordinary General Meeting

☐ Applicable ☒ Not applicable

SECTION V MAJOR EVENTS

II. CORPORATE GOVERNANCE

1. Overview

During the Reporting Period, the Company constantly enhances the corporate governance structure and strengthens the internal control systems of the Company strictly in 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 Main Board of 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, to achieve higher corporate governance standards.

The Board believes 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 Reporting Period, the decision-making and supervisory organs of the Company, including the general meetings, the Board and the Supervisory Committee, have all carried out management, decision-making and supervision strictly pursuant to the requirements of normative operation rules and internal control, with standardized and effective operation. The special committees of the Board have all performed their corresponding duties.

2. Compliance with the Corporate Governance Code

The Company confirmed that during the period from 1 January 2020 to 30 June 2020, the Company has 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 2019 Annual General Meeting of the Company due to urgent business trip.

3. Compliance with the Model Code

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 regarding securities transactions during the period from 1 January 2020 to 30 June 2020. All Directors and Supervisors have confirmed that they have complied with the standards as set out in the above-mentioned code during the period from 1 January 2020 to 30 June 2020. The Company has also made specific enquiries to all relevant employees in respect of compliance with the standards set out in the above-mentioned code by the employees, and noted that there has been no incident of non-compliance with the standards as set out in the above-mentioned code.

SECTION V MAJOR EVENTS

II. CORPORATE GOVERNANCE *(continued)*

4. 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. In addition, the Environmental, Social and Governance ("ESG") Committee (the "ESG Committee") was established by the tenth session of the Board on 30 June 2020 to promote the development and implementation of ESG affairs of the Group.

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 (On 30 June 2020, Mr. Xu Yanjun retired as an independent non-executive Director of the Company, the chairman of the Audit Committee and a member of the Remuneration and Assessment Committee after expiration of his term of office as a Director for 6 years. On the same date, Mr. Bai Hua was appointed as an independent non-executive Director of the tenth session of the Board and the chairman of the Audit Committee of the tenth session of the Board of the Company) and other committee members are Mr. Xie Yun and Mr. Zheng Zhihua. Mr. Xu Yanjun and Mr. Bai Hua both possess 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 review the arrangement in the Company for submission of reports in confidence by relevant employees of the Company in relation to concern of possible improprieties in financial reporting, internal control or other aspects.

The Audit Committee has reviewed the Group's unaudited interim results and interim report for the six months ended 30 June 2020 and agreed to submit the same to the Board for consideration.

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) (On 30 June 2020, Mr. Xu Yanjun retired as an independent non-executive Director of the Company, the chairman of the Audit Committee and a member of the Remuneration and Assessment Committee after expiration of his term of office as a Director for 6 years. On the same date, Mr. Bai Hua was appointed as an independent non-executive Director of the tenth session of the Board and a member of the Remuneration and Assessment Committee of the tenth session of the Board of the Company), 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.

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.

SECTION V MAJOR EVENTS

II. CORPORATE GOVERNANCE *(continued)*

4. Special Committees of the Board *(continued)*

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. Tao Desheng (non-executive Director) and Mr. Tang Yanggang (executive Director). The key responsibilities of the Strategy Committee are to conduct research on the Company's long-term development strategies and major investment decisions, and to give recommendations thereon.

Environmental, Social and Governance Committee

The ESG Committee under the tenth session of the Board is comprised of five Directors. The chairman of the committee is Mr. Zhu Baoguo (non-executive Director), and other committee members are Mr. Tang Yanggang (executive Director), Mr. Bai Hua, Mr. Zheng Zhihua and Mr. Wong Kam Wa (independent non-executive Directors). The key responsibilities of the ESG Committee are to review the ESG affairs of the Group and report to the Board on such matters, and to perform other responsibilities prescribed from time to time by Shenzhen Listing Rules and Hong Kong Listing Rules.

III. LITIGATION MATTERS

☐ Applicable ☒ Not applicable

During the Reporting Period, the Company did not have in any material litigation or arbitration matters.

IV. QUESTIONING FROM MEDIA

☐ Applicable ☒ Not applicable

During the Reporting Period, the Company was did not receive any general queries from the media.

V. MATTERS RELATED TO BANKRUPTCY REORGANISATION

☐ Applicable ☒ Not applicable

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

☐ Applicable ☒ Not applicable

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

SECTION V MAJOR EVENTS

VII. EXPLANATION ON CHANGES IN THE SCOPE OF CONSOLIDATION IN COMPARISON WITH FINANCIAL STATEMENTS FOR PREVIOUS ACCOUNTING PERIOD

☒ Applicable ☐ Not applicable

During the Reporting Period, explanation of changes in the scope of consolidated financial statements of the Company are as follows:

One new controlling subsidiary: Livzon Diagnostics, a controlling subsidiary of the Company, established Zhuhai Liheng Medical Diagnostic Products Co., Ltd. (珠海立恒醫療診斷產品有限公司) in June 2020 by contributing capital of RMB15.00 million, and is interested in 100% of its registered capital.

Reducing two controlling subsidiaries: The Company disposed of 30% equity interest in Livzon Gene in June 2020. Upon completion of such transfer of equity interest, the Company holds 30% equity interest in Livzon Gene and ceased to have controlling interest on it. Furthermore, Wenshan Livzon Sanqi Plantation Co., Ltd. (文山麗珠三七種植有限公司), a controlling subsidiary of the Company, was deregistered by the Company in accordance with the law in June 2020.

VIII. APPOINTMENT AND DISMISSAL OF ACCOUNTING FIRM

The 2019 Annual General Meeting of the Company considered and approved the re-appointment of Grant Thornton (Special General Partnership) as the auditor of the Company for the year 2020.

Whether the interim financial report has been audited

☐ Yes ☒ No

The interim report of the Company has not been audited.

IX. PUNISHMENT AND RECTIFICATION

☐ Applicable ☒ Not applicable

During the Reporting Period, the Company was not subject to any punishment or rectification.

X. DISCLOSURE OF RISKS OF LAW-VIOLATION, NON-COMPLIANCE AND DELISTING

☐ Applicable ☒ Not applicable

During the Reporting Period, the Company was not exposed to the risks of law-violation, non-compliance and delisting.

XI. INTEGRITY OF THE COMPANY AND ITS CONTROLLING SHAREHOLDER AND DE FACTO CONTROLLER

☐ Applicable ☒ Not applicable

Neither the Company nor its controlling shareholder or de facto controller has failed to comply with any effective court rulings or has failed to repay any substantial debt when they fall due.

SECTION V MAJOR EVENTS

XII. IMPLEMENTATION OF EQUITY INCENTIVE SCHEME, EMPLOYEE SHARE OWNERSHIP SCHEME OR OTHER EMPLOYEE INCENTIVES OF THE COMPANY

✓Applicable ☐Not applicable

Please refer to the relevant contents of “XVII. Share Options Incentive Schemes” and “XVIII. Medium to Long-term Business Partner Share Ownership Scheme” in Section IV of the Report for details.

XIII. SUBSTANTIAL CONNECTED TRANSACTIONS 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	Whether the approved amount is exceeded	Settlement method of connected transaction
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	2,239.02	1.94%	No	Settled through banks
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	19.45	0.02%	No	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	Procurement of goods	Procurement of raw materials	Determined by negotiation based on market price	14,449.74	12.51%	No	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	249.78	0.22%	No	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	2.12	0.00%	No	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	Procurement of goods	Procurement of raw materials	Determined by negotiation based on market price	1.81	0.00%	No	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	Receipt of services	Water, electricity and power	Determined by negotiation based on market price	1,039.51	8.01%	No	Settled through banks
Shanghai Fangyu Health Pharmaceutical Technology Co., Ltd. (上海方予健康醫藥科技有限公司)	Subsidiary of the controlling shareholder	Receipt of services	R&D	Determined by negotiation based on market price	651.50	5.02%	No	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	0.56	0.00%	No	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	Sale of goods	Sale of raw materials	Determined by negotiation based on market price	51.09	0.01%	No	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 raw materials	Determined by negotiation based on market price	62.52	0.01%	No	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	788.73	0.16%	No	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	11.65	0.00%	No	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	218.89	27.12%	No	Settled through banks

SECTION V MAJOR EVENTS

XIII. SUBSTANTIAL CONNECTED TRANSACTIONS 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	Whether the approved amount is exceeded	Settlement method of connected transaction
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	14.06	1.74%	No	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	1.32	0.16%	No	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	342.92	42.49%	No	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	Water, electricity and power	Determined by negotiation based on market price	98.70	12.23%	No	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	Determined by negotiation based on market price	4.58	1.65%	No	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	Determined by negotiation based on market price	159.79	57.49%	No	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	Determined by negotiation based on market price	38.98	5.38%	No	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	Determined by negotiation based on market price	133.80	18.46%	No	Settled through banks
Total					20,580.52	-	-	-
Details on substantial amount of returned products		Not applicable						
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 Reporting Period, the total amount of connected transactions actually conducted by the Company in the ordinary course of business was RMB205.8052 million. Among which, the connected transactions actually conducted in the ordinary course of business with Joincare, the controlling shareholder, and its subsidiaries amounted to approximately RMB189.2502 million, representing 35.88% of the projected amount (RMB527.4348 million) approved by the general meeting of the Company and the Board; the connected transactions actually conducted in the ordinary course of business with Blue Treasure Pharma amounted to approximately RMB13.8143 million, representing 20.74% of the projected amount (RMB66.6201 million) approved by the Board and the operating management of the Company; the connected transactions conducted in the ordinary course of business with Zhuhai Sanmed Biotech Inc. (珠海聖美生物診斷技術有限公司) amounted to RMB2.6061 million, representing 35.22% of the projected amount (RMB7.3994 million) approved by the Board; and the connected transactions conducted in the ordinary course of business with Zhuhai Medpha Biotechnology Co., Ltd. (珠海麥得發生物科技股份有限公司) amounted to RMB0.1346 million, representing 8.97% of the projected amount (RMB1.5000 million) approved by the Board and 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						

Note: For details on the above transactions, please refer to the Announcement on Signing Framework Agreement on Continuing Connected Transactions for Three Years from 2020 to 2022 between Livzon Pharmaceutical Group Inc. and Joincare Pharmaceutical Industry Group Co., Ltd. (健康元藥業集團股份有限公司) (Announcement No.: 2019-052), Announcement on Resolutions of 2019 Third Extraordinary General Meeting of Livzon Pharmaceutical Group Inc. (Announcement No.: 2019-073) and Announcement on Performance of Daily Connected Transactions for 2019 and Projected Daily Connected Transactions for 2020 of Livzon Pharmaceutical Group Inc. (Announcement No.: 2020-029) dated 17 August 2019, 16 October 2019 and 31 March 2020, respectively.

SECTION V MAJOR EVENTS

XIII. SUBSTANTIAL CONNECTED TRANSACTIONS DISCLOSED PURSUANT TO THE SHENZHEN LISTING RULES *(continued)*

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 asset (RMB'000)	Assessed value of transferred asset (RMB'000)	Consideration of transfer (RMB'000)	Settlement method of connected transaction	Profit or loss of transaction (RMB'000)	Date of disclosure	Index of disclosure
Zuhai Sanmed Biotech Inc. (珠海聖美生物診斷技術有限公司)	Associate	Disposal of equity	Disposal of 10% equity interest in Livzon Gene Diagnostics Inc. (珠海市麗珠基因檢測科技有限公司)	Pricing by negotiation	234.72	–	500.00	Settled through banks	265.28	N/A	N/A
Reason for significant difference between the transfer consideration and carrying value or assessed value (if any)						Not applicable					
Effect on operating results and financial position of the Company						There is no significant effect on the operating results and financial position of the Company					

Note: The Company had also transferred its 20% equity interest in Livzon Gene Diagnostics Inc. (珠海市麗珠基因檢測科技有限公司) to Zuhai 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)) based on the same pricing principle.

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

SECTION V MAJOR EVENTS

XIII. SUBSTANTIAL CONNECTED TRANSACTIONS DISCLOSED PURSUANT TO THE SHENZHEN LISTING RULES *(continued)*

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

Credits due from connected persons

Connected party	Relationship with connected party	Reason for occurrence	Use of non-operating funds	Balance at the Beginning of the Period (RMB'000)	Amount increased during the Period (RMB'000)	Amount recovered during the Period (RMB'000)	Interest rate	Interest for the Period (RMB'000)	Balance at the End of the Period (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	1,499.05	1,267.38	2,339.35	-	-	427.08
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	41.59	1.40	42.99	-	-	-
Joincare Pharmaceutical Industry Group Co., Ltd. (健康元藥業集團股份有限公司)	Controlling shareholder	Prepayment for procurement of finished products	No	12.68	10.63	19.31	-	-	4.00
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	166.54	267.34	267.01	-	-	166.87
AbCyte Therapeutics Inc.	Associate	Prepayments for transferring technical know-how	No	1,428.79	-	-	-	-	1,428.79
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	46.13	247.98	46.76	-	-	247.35
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 of the Company	Transfer of equity interest	No	2,131.45	38.90	1,100.00	-	-	1,070.35
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 of the Company	Transfer of equity interest	No	701.09	-	-	-	-	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	14.62	14.19	28.81	-	-	-
Joincare Haibin Pharmaceutical Co., Ltd. (健康元海濱藥業有限公司)	Subsidiary of the controlling shareholder	Sale of raw materials	No	-	70.65	0.65	-	-	70.00
Jiaozuo Joincare Pharmaceutical Industry Co., Ltd. (焦作健康元生物製品有限公司)	Subsidiary of the controlling shareholder	Prepayment for procurement of raw materials	No	-	55.82	-	-	-	55.82
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	-	13.17	13.17	-	-	-
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.							

SECTION V MAJOR EVENTS

XIII. SUBSTANTIAL CONNECTED TRANSACTIONS DISCLOSED PURSUANT TO THE SHENZHEN LISTING RULES (continued)

4. Credits and Debts with Connected Persons (continued)

Debts payable to connected persons

Connected party	Relationship with connected party	Reason for occurrence	Balance at the Beginning of the Period (RMB0'000)	Amount increased during the Period (RMB0'000)	Amount repaid during the Period (RMB0'000)	Interest rate	Interest for the Period (RMB0'000)	Balance at the End of the Period (RMB0'000)
Guangdong Blue Treasure Pharmaceutical Co., Ltd. (廣東藍寶製藥有限公司)	Associate	Procurement of raw materials	10.86	270.39	–	–	–	281.25
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	2,628.12	2,530.09	1,964.80	–	–	3,193.41
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	20,271.55	16,328.21	22,210.59	–	–	14,389.17
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	710.67	1,301.79	1,263.89	–	–	748.57
Zhuhai Sanmed Biotech Inc. (珠海聖美生物診斷技術有限公司)	Associate	Procurement of equipment	92.00	2.40	89.88	–	–	4.52
Zhuhai Zhenghe Co., Ltd. (珠海正禾企業有限公司)	An enterprise controlled by a director of a subsidiary of the Company	Dividends payable	8,176.09	–	8,176.09	–	–	–
Zhuhai Zhong Hui Yuan Investment Partnership (Limited Partnership) (珠海中匯源投資合夥企業 (有限合伙))	An enterprise controlled by a Director of the Company	Dividends payable	146.66	–	–	–	–	146.66
Topsino Industries Limited (天誠實業有限公司)	Subsidiary of the controlling shareholder	Dividends payable	–	1,869.27	–	–	–	1,869.27
Shanghai Fangyu Health Pharmaceutical Technology Co., Ltd. (上海方予健康醫藥科技有限公司)	Subsidiary of the controlling shareholder	Receipt of services	–	651.50	651.50	–	–	–

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.

5. Other Major Connected Transactions

✓ Applicable ☐ Not applicable

For details of other major connected transactions, please refer to “Connected Transactions Defined Pursuant to the 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 Reporting Period.

SECTION V MAJOR EVENTS

XIV. CONNECTED TRANSACTIONS DEFINED PURSUANT TO THE HONG KONG LISTING RULES

1. One-off Connected Transactions

Provision of Guarantees for Livzon MAB

The Company convened a Board meeting on 8 April 2020 to consider and approve the provision of joint liability guarantees to eight banks by the Company for Livzon MAB (in which the Company indirectly holds 55.13% equity interest) in its applications for financing facilities up to a total of RMB810,000,000 or equivalent foreign currencies (the “Livzon MAB Guarantees”).

To ensure the fairness and equivalence of the Livzon MAB Guarantees, Joicare (which indirectly holds 35.75% equity interest in Livzon MAB), upon approval by its shareholders, 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 8 April 2020, Joicare directly and indirectly held approximately 44.77% of the total issued share capital of the Company, and Livzon MAB is indirectly held as to 35.75% by Joicare. Therefore, Livzon MAB, an associate of Joicare, 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 7.25% of the Company’s latest audited net assets attributable to the parent company (RMB11,166.7524 million), the Livzon MAB Guarantees are therefore subject to consideration and approval at the shareholders’ general meeting of the Company. The Livzon MAB Guarantees have been considered and approved by the 2019 annual general meeting on 25 May 2020.

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.

On 20 March 2020, the Company signed a guarantee contract with the 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 the Bank of Communications to secure the credit facility granted to Livzon MAB by the Bank of Communications.

SECTION V MAJOR EVENTS

XIV. CONNECTED TRANSACTIONS DEFINED PURSUANT TO THE HONG KONG LISTING RULES *(Continued)*

2. Continuing Connected Transactions

During the Reporting Period, for the transactions actually conducted between the Group and Joincare (the controlling shareholder) and its subsidiaries which constituted “continuing connected transactions” as defined under Chapter 14A of the Hong Kong Listing Rules, please refer to “Connected Transactions Relating to Daily Operations” in the Section V of the Report (except for Blue Treasure Pharma and Zhuhai Medpha Biotechnology Co., Ltd. (珠海麥得發生物科技股份有限公司)).

Entering into the 2020 First Labour Services Framework Agreement

On 25 March 2020, upon consideration and approval by the Board, the Company entered into the 2020 First Labour Services Framework Agreement with Joincare. Pursuant to the 2020 First Labour Services Framework Agreement, during the period from 1 January 2020 to 31 December 2020, the Group will (1) provide labour services to Joincare Group, which mainly include trial production of drugs, research and development (“R&D”) and technology transfer before launch of drugs, processing services after launch of drugs, and commissioned production of drugs, with a cap of RMB15.8999 million (the “2020 Cap for Provision of Labour Services”); (2) receive labour services from Joincare Group, which mainly include (i) water, electricity, steam and sewage treatment, and (ii) R&D of drugs, with a cap of RMB33.79 million (the “2020 Cap for Receipt of Labour Services”).

Entering into the 2020 First Labour Services Framework Agreement may fully utilize the Group’s experience, technology and facilities in R&D and production of drugs, optimize the capacity utilization of the production workshops, enrich the Group’s product range and provide stable income for the Group. In addition, as Jiaozuo Hecheng and Shanghai Livzon Biotechnology Co., Ltd., Jiaozuo Branch (上海麗珠生物科技股份有限公司焦作分公司) (together with Jiaozuo Hecheng are both subsidiaries of the Company) are located inside the production site of Jiaozuo Joincare (a subsidiary of Joincare), they require the labour services from Jiaozuo Joincare for the provision of water, electricity, steam and sewage treatment. Shanghai Fangyu Health Pharmaceutical Technology Co., Ltd. (上海方予健康醫藥科技有限公司) (a subsidiary of Joincare) would provide R&D service of drugs to Shanghai Livzon (a subsidiary of the Company) by leveraging on its extensive experience in R&D of drugs which will help advance the progress in R&D of drugs.

As at 25 March 2020, Joincare directly and indirectly held approximately 44.77% equity interest in the Company, and was the controlling shareholder of the Company. Therefore, Joincare and its associates were connected persons of the Company, and the transactions contemplated under the 2020 First Labour Services Framework Agreement constituted continuing connected transactions of the Company under Chapter 14A of the Hong Kong Listing Rules. As the highest applicable percentage ratios of the 2020 Cap for Provision of Labour Services and the 2020 Cap for Receipt of Labour Services are higher than 0.1% but lower than 5%, respectively, the transactions contemplated under the 2020 First Labour Services Framework Agreement 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.

SECTION V MAJOR EVENTS

XV. MATERIAL CONTRACTS AND THEIR ENFORCEMENT

1. Custody, Hiring and Leasing

Custody

☐ Applicable ☒ Not applicable

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

(1) Guarantees

Credit Facility Guarantees

Unit: RMB0'000

External Guarantees of the Company and its Subsidiaries (Excluding Guarantees to its Subsidiaries)

Name of guaranteed party	Disclosure date of announcement relating to guaranteed amount	Guaranteed amount	Actual date of event (signing date of agreement)	Actual guaranteed amount	Type of guarantee	Period of guarantee	Performance completed or not	Related party guarantee
-	-	-	-	-	-	-	-	-
Total amount of external guarantees approved during the Reporting Period (A1)			-	Total amount of external guarantees actually occurred during the Reporting Period (A2)			-	-
Total amount of external guarantees approved at the End of the Reporting Period (A3)			-	Total amount of external guarantees actually occurred at the End of the Reporting Period (A4)			-	-

SECTION V MAJOR EVENTS

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

2. Major Guarantees *(continued)*

(1) Guarantees *(continued)*

Credit Facility Guarantees *(continued)*

Company's Guarantees to its Subsidiaries								
Name of guaranteed party	Disclosure date of announcement relating to guaranteed amount	Guaranteed amount	Actual date of event (signing date of agreement)	Actual guaranteed amount	Type of guarantee	Period of guarantee	Performance completed or not	Related party guarantee
Zhuhai Livzon Diagnostics Inc. (珠海麗珠試劑股份有限公司)	2020.4.9	4,000.00	2019.10.16	602.56	Joint liability guarantee	2019.10.16-2022.7.17	No	No
Zhuhai Livzon Diagnostics Inc. (珠海麗珠試劑股份有限公司)	2020.4.9	10,000.00	2020.6.10	728.76	Joint liability guarantee	2017.8.22-2025.6.1	No	No
Zhuhai Livzon Diagnostics Inc. (珠海麗珠試劑股份有限公司)	2020.4.9	20,000.00	2020.4.16	767.14	Joint liability guarantee	2020.4.16-2020.6.30	No	No
Livzon MABPharm Inc. (珠海市麗珠單抗生物技術有限公司)	2020.4.9	5,000.00	2020.3.20	443.68	Joint liability guarantee	2020.3.20-2023.2.28	No	No
Livzon Group Livzon Pharmaceutical Factory (麗珠集團麗珠製藥廠)	2020.4.9	17,000.00	2020.3.31	405.48	Joint liability guarantee	2020.3.31-2023.2.21	No	No
Livzon Group Livzon Pharmaceutical Factory (麗珠集團麗珠製藥廠)	2020.4.9	18,000.00	2020.6.11	8,033.42	Joint liability guarantee	2020.6.11-2021.5.26	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)	2020.4.9	5,000.00	2020.4.20	4,900.00	Joint liability guarantee	2020.4.20-2021.4.19	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)	2020.4.9	20,000.00	2020.3.30	175.00	Joint liability guarantee	2020.3.30-2023.2.21	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)	2020.4.9	12,000.00	2020.6.10	10,746.84	Joint liability guarantee	2017.8.22-2025.6.1	No	No
Livzon Group Xinbeijiang Pharmaceutical Manufacturing Inc. (麗珠集團新北江製藥股份有限公司)	2020.4.9	8,100.00	2020.6.10	1,456.57	Joint liability guarantee	2017.8.22-2025.6.1	No	No
Livzon Group Xinbeijiang Pharmaceutical Manufacturing Inc. (麗珠集團新北江製藥股份有限公司)	2020.4.9	4,000.00	2020.5.20	983.25	Joint liability guarantee	2020.5.20-2023.2.21	No	No
Livzon Group Xinbeijiang Pharmaceutical Manufacturing Inc. (麗珠集團新北江製藥股份有限公司)	2020.4.9	11,000.00	2019.7.2	536.82	Joint liability guarantee	2019.7.2-2020.12.31	No	No
Livzon Group (Ningxia) Pharmaceutical Manufacturing Co., Ltd. (麗珠集團(寧夏)製藥有限公司)	2020.4.9	12,000.00	2020.4.13	2,412.84	Joint liability guarantee	2020.4.13-2023.2.21	No	No
Livzon Group (Ningxia) Pharmaceutical Manufacturing Co., Ltd. (麗珠集團(寧夏)製藥有限公司)	2020.4.9	14,000.00	2020.6.10	10,390.45	Joint liability guarantee	2017.8.22-2025.6.1	No	No
Sichuan Guangda Pharmaceutical Manufacturing Co., Ltd. (四川光大製藥有限公司)	2020.4.9	10,000.00	2020.4.25	1,900.00	Joint liability guarantee	2020.4.24-2021.4.24	No	No

SECTION V MAJOR EVENTS

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

2. Major Guarantees *(continued)*

(1) Guarantees *(continued)*

Credit Facility Guarantees *(continued)*

Company's Guarantees to its Subsidiaries

Name of guaranteed party	Disclosure date of announcement relating to guaranteed amount	Guaranteed amount	Actual date of event (signing date of agreement)	Actual guaranteed amount	Type of guarantee	Period of guarantee	Performance completed or not	Related party guarantee
Sichuan Guangda Pharmaceutical Manufacturing Co., Ltd. (四川光大製藥有限公司)	2020.4.9	5,000.00	2020.6.10	1,450.86	Joint liability guarantee	2017.8.22-2025.6.1	No	No
Livzon Group Fuzhou Fuxing Pharmaceutical Co., Ltd. (麗珠集團福州福興醫藥有限公司)	2020.4.9	10,000.00	2020.6.10	3,938.08	Joint liability guarantee	2017.8.22-2025.6.1	No	No
Jiaozuo Livzon Hecheng Pharmaceutical Manufacturing Co., Ltd. (焦作麗珠合成製藥有限公司)	2020.4.9	8,000.00	2020.6.10	5,150.77	Joint liability guarantee	2017.8.22-2025.6.1	No	No
Zhuhai Livzon Pharmaceutical Trading Co., Ltd. (珠海市麗珠醫藥貿易有限公司)	2020.4.9	10,000.00	2019.7.10	6,927.86	Joint liability guarantee	2019.7.10-2020.7.10	No	No
Livzon Group Limin Pharmaceutical Manufacturing Factory (麗珠集團利民製藥廠)	2020.4.9	4,000.00	2020.6.10	186.00	Joint liability guarantee	2017.8.22-2025.6.1	No	No
Total amount of guarantees to its subsidiaries approved during the Reporting Period (B1)			1,042,900.00	Total amount of guarantees to its subsidiaries actually occurred during the Reporting Period (B2)				89,842.19
Total amount of guarantees to its subsidiaries approved at the End of the Reporting Period (B3)			1,042,900.00	Total amount of guarantees to its subsidiaries actually occurred at the End of the Reporting Period (B4)				62,136.40

Subsidiaries' Guarantees to Subsidiaries

Name of guaranteed party	Disclosure date of announcement relating to guaranteed amount	Guaranteed amount	Actual date of event (signing date of agreement)	Actual guarantee amount	Type of guarantee	Period of guarantee	Performance completed or not	Related party guarantee
-	-	-	-	-	-	-	-	-
Total amount of guarantees to subsidiaries approved during the Reporting Period (C1)			-	Total amount of guarantees to subsidiaries actually occurred during the Reporting Period (C2)				-
Total amount of guarantees to subsidiaries approved at the End of the Reporting Period (C3)			-	Total amount of guarantees to subsidiaries actually occurred at the End of the Reporting Period (C4)				-

SECTION V MAJOR EVENTS

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

2. Major Guarantees *(continued)*

(1) Guarantees *(continued)*

Credit Facility Guarantees *(continued)*

Total Guaranteed Amount of the Company (Total of the Above Three Items)			
Total amount of guarantees approved during the Reporting Period (A1+B1+C1)	1,042,900.00	Total amount of guarantees actually occurred during the Reporting Period (A2+B2+C2)	89,842.19
Total amount of guarantees approved at the End of the Reporting Period (A3+B3+C3)	1,042,900.00	Total amount of guarantees actually occurred at the End of the Reporting Period (A4+B4+C4)	62,136.40
Total amount of guarantees actually occurred (i.e. A4+B4+C4) as a percentage of net assets of the Company			5.60%
Including:			
Amount of guarantee provided to shareholders, de facto controllers and their related parties (D)			-
Amount of debt guarantee directly or indirectly provided to a guaranteed party with a gearing ratio exceeding 70% (E)			-
Portion of total guaranteed amount exceeding 50% of net assets (F)			-
Total guaranteed 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

Pledge and guarantee of bills

The thirteenth meeting of the ninth session of the Board of the Company considered and approved the "Resolution on Conducting Bills Pooling Business" and agreed that an amount of up to RMB1.4 billion for conducting bills pooling business would be shared by the Company and its subsidiaries, such amount may be utilized on rolling basis. As at 30 June 2020, the pledge and guarantee of bills were as follows:

Unit: RMB0'000

Guarantor	Pledgee	Pledged amount of bills receivable	Name of guaranteed party	Description of guarantee	Guaranteed amount	Period of guarantee
The Company	Industrial and Commercial Bank of China	50.00	-	-	-	-
	China Merchants Bank	14,542.81	Gutian Fuxing Pharmaceutical Co., Ltd. (古田福興醫藥有限公司)	Opening bank acceptance bills, joint liability guarantee	498.18	Till 10 December 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	3,514.93	Till 22 December 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	641.34	Till 18 November 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	1,824.62	Till 16 December 2020
			Livzon Group Livzon Pharmaceutical Factory (麗珠集團麗珠製藥廠)	Opening bank acceptance bills, joint liability guarantee	5,070.91	Till 17 January 2021
			Livzon Group Limin Pharmaceutical Manufacturing Factory (麗珠集團利民製藥廠)	Opening bank acceptance bills, joint liability guarantee	702.83	Till 11 December 2020
			Sichuan Guangda Pharmaceutical Manufacturing Co., Ltd. (四川光大製藥有限公司)	Opening bank acceptance bills, joint liability guarantee	1,284.16	Till 17 December 2020
			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	176.47	Till 19 December 2020
Total balance of actual guaranteed amount for subsidiaries at the End of the Reporting Period					13,713.44	

SECTION V MAJOR EVENTS

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

2. Major Guarantees *(continued)*

(1) Guarantees *(continued)*

Guarantees 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 Liying Investment Management Partnership (Limited Partnership) (珠海麗英投資管理合夥企業(有限合夥)), 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 9.025% 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 Wealth Management

☐ Applicable ☒ Not applicable

During the Reporting Period, the Company had no entrusted wealth management.

4. Other material contracts

☐ Applicable ☒ Not applicable

The Company did not have any other material contracts during the Reporting Period.

5. Other Material Transactions

During the Reporting Period, save as disclosed herein, the Company did not enter into other material transactions.

SECTION V MAJOR EVENTS

XVI. SIGNIFICANT EVENTS OF SUBSIDIARIES OF THE COMPANY

✓ Applicable ☐ Not applicable

Subscription for additional registered capital of Atom Bioscience by Livzon Equity Investment Company

For details on the subscription for additional registered capital of Atom Bioscience by Livzon Equity Investment Company, please refer to the relevant contents of “V. Analysis of Financial Position – 19. Investments” in Section IV of the Report.

Launch of Futures Hedging Activities by Controlling Subsidiaries

On 7 May 2020, the Board of the Company considered and approved the Resolution on the Launch of Futures Hedging Activities by Controlling Subsidiaries, and agreed that the controlling subsidiaries of the Company, namely, Xinbeijiang Pharmaceutical, Fuzhou Fuxing, Ningxia Pharmaceutical and Sichuan Guangda, may carry out commodity futures hedging activities (the “Futures Hedging Activities”). The total deposit planned to be invested in the Futures Hedging Activities shall not exceed RMB20.00 million. The subsidiaries of the Company shall carry out the Futures Hedging Activities in a hedging principle of avoiding the risk of fluctuation in raw material price and stabilizing purchase costs, and no speculative transaction is allowed.

The Group carries out the Futures Hedging Activities for a purpose of avoiding the risks arising from the fluctuation in the prices of principal raw materials used in production and operation. The transaction relating to standardized futures contracts listed on domestic futures exchanges shall be carried out in combination with plans of sales and production procurement to hedge the price fluctuation risks in the transactions in the spot market, thereby stabilizing procurement costs and guaranteeing the steady business development of the Group.

Disposal of 19.99% Equity Interest in Ni Ke Company

On 23 May 2020, the Company, Yongyi Yu (ultimate beneficial owner and founder of Ni Ke Company), Zijin Zhonghao (Zhejiang) Investment Co., Ltd.* (紫金中浩(浙江)投资有限公司), Wu Guangming (吳光明) and other shareholders of Ni Ke Company (each party above collectively, the “Selling Shareholders”), and Jiangsu Ni Ke Medical Device Co., Ltd.* (江蘇尼科醫療器械有限公司) (“Ni Ke Company”) entered into the Equity Transfer Agreement in relation to Jiangsu Ni Ke Medical Device Co., Ltd. (the “Equity Transfer Agreement”) with Genesis Medtech Investment (HK) Limited (“Genesis”). Pursuant to the Equity Transfer Agreement, Genesis agreed to acquire 80% equity interest held by the Selling Shareholders in Ni Ke Company for a consideration of RMB515.9250 million or its US dollar equivalent. As at 23 May 2020, the Company held 19.99% equity interest in Ni Ke Company, and the consideration for the disposal of the 19.99% equity interest held by the Company (the “Disposal”) was approximately RMB121.5075 million.

Ni Ke Company is an invested company of the Company. It is principally engaged in production and sales of medical device products. The Disposal can effectively realize the withdrawal of the investment project of the Company, thereby enabling the Company to put more focus on its principal businesses in innovative medicines.

The Company has received the consideration for the Disposal in total amount of USD17,221,671.08 (equivalent to RMB121,628,052.00) on 30 June 2020. Based on the Company’s preliminary estimates and calculations, after the deduction of related expenses such as investment costs and taxes, it is estimated that the net profit of the Company attributable to the shareholders of the parent company will increase by approximately RMB85.2399 million as a result of the Disposal. The final realizable net profit shall be subject to the audited report of the Company for the year 2020.

SECTION V MAJOR EVENTS

XVII. PLEDGE OF SHARES BY CONTROLLING SHAREHOLDER

☐ Applicable ☒ Not applicable

XVIII. DIVIDENDS AND BONUS SHARES

On 25 May 2020, the Company held the 2019 Annual General Meeting to consider and approve the distribution of cash dividend of RMB11.50 (tax inclusive) for every 10 shares in a total amount of RMB1,074,977,076.25 (tax inclusive) (the "Cash Dividends") to all Shareholders of the Company, 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 incentives and repurchase of shares before implementing the distribution plan, the proportion of allocation would be adjusted in accordance with the principle of "the total amount of cash distribution remains unchanged". The final dividend was RMB1.1500552 per share, which is calculated based on the total number of shares to be entitled to the Cash Dividends on the record date of shareholdings as determined for the implementation of the 2019 Annual Profit Distribution Plan.

The distribution of the Cash Dividends for the Company's A Shares was completed on 4 June 2020, and the distribution of the Cash Dividends for the Company's H Shares was completed on 29 June 2020.

The Company has proposed not to distribute interim dividends, nor bonus shares, for the six months ended 30 June 2020. During the six months ended 30 June 2019, the Company did not distribute any dividends.

XIX. UNDERTAKINGS FULFILLED DURING THE REPORTING PERIOD OR NOT YET FULFILLED AS AT THE END OF THE REPORTING PERIOD BY THE PARTIES TO THE UNDERTAKINGS SUCH AS THE DE FACTO CONTROLLER, SHAREHOLDERS, RELATED PARTIES, PURCHASERS OF THE COMPANY AND THE COMPANY

☐ Applicable ☒ Not applicable

XX. EXPLANATION GIVEN BY THE BOARD OF DIRECTORS AND THE SUPERVISORY COMMITTEE ON THE ISSUANCE OF A "NON-STANDARD AUDIT REPORT" BY THE ACCOUNTING FIRM

☐ Applicable ☒ Not applicable

During the Reporting Period, no explanations are required to be given by the Supervisory Committee and the independent directors as no "Non-standard Audit Report" has been issued by the accounting firm.

XXI. EXPLANATION GIVEN BY THE BOARD OF DIRECTORS ON THE "NON-STANDARD AUDIT REPORT" FOR THE PREVIOUS YEAR

☐ Applicable ☒ Not applicable

XXII. PLANS FOR PROFIT DISTRIBUTION AND CONVERSION OF CAPITAL RESERVE INTO SHARE CAPITAL FOR THE REPORTING PERIOD

☐ Applicable ☒ Not applicable

SECTION V MAJOR EVENTS

XXIII. 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 (黃芪) 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 (陝西) Province from 2018 to 2020.

Major tasks in 2020:

- (i) Completing the training on standardized Huangqi (黃芪) 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.

SECTION V MAJOR EVENTS

XXIII. SOCIAL RESPONSIBILITY *(continued)*

1. Performance of Social Responsibility of Targeted Poverty Alleviation *(continued)*

(2) Summary of targeted poverty alleviation during the Reporting Period

① Industry-based poverty alleviation

During the Reporting Period, 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 25 workers for its self-built base and jointly constructed base, including 10 impoverished people (including workers at the base and processing staff at the workshop).

② Health-based poverty alleviation

During the Reporting Period, the Company launched chronic disease poverty alleviation projects in Jiange County and Pingwu County in Sichuan Province.

(3) Effectiveness of targeted poverty alleviation

Indicators		Unit	Quantity/Progress
I.	Overall situation	—	—
	Including: 1. Funds	RMB0'000	7.29
	2. Value of resources donated	RMB0'000	200.00
	3. Number of registered poor people lifted out of poverty	Person	10
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	4.29
	1.4 Number of registered poor people lifted out of poverty	Person	10
	2. Health-based poverty alleviation	—	—
	Including: 2.1 Amount invested in medical and healthcare resources for poverty-stricken regions	RMB0'000	203.00

SECTION V MAJOR EVENTS

XXIII. 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 the second half of 2020 is as follows:

- (i) Datong Livzon will employ approximately 30 local workers for its self-built base and jointly-constructed base, including approximately 10 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 Mononitrate 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.

In respond to the Targeted Poverty Alleviation Strategy of the PRC, Joincare and the Group, which take social welfares 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, Jiange County and Pingwu County 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 30 June 2020, there were a total of 10 contracted poverty counties, among which 9 were counties and one was natural reserve at state level, and there were more than 2,000 registered poor people. The objective of the “Poverty Alleviation against Chronic Diseases” program for the second half of 2020 is to donate drugs to areas including Xinjiang, Tibet and Jilin.

SECTION V MAJOR EVENTS

XXIII. SOCIAL RESPONSIBILITY *(continued)*

2. Major Environmental Events

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

✓ Yes ☐ No ☐ Not applicable

(i) Fuzhou Fuxing

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)	Pollutant discharge standards implemented (mg/L)	Total amount of discharge (t)	Total amount of discharge approved (t/a)	Excessive discharge
Fuzhou Fuxing	Chemical oxygen demand	Intermittent	1	The northwest side of the factory	66.5	100	29.93	124.5	Nil
	Ammonia nitrogen				0.44	15	0.198	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.

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. Three sets of waste gas treatment devices for fermentation, tank-receiving stations, and environmental protection have been newly built, so that the waste gas could be discharged after meeting the standard through multi-stage of water spray treatment.

SECTION V MAJOR EVENTS

XXIII. SOCIAL RESPONSIBILITY *(continued)*

2. Major Environmental Events *(continued)*

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

(i) Fuzhou Fuxing *(continued)*

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 (《年產巴龍霉素20噸、特拉萬星2噸、噴司他汀1.8噸、達托霉素3噸、替考拉寧3噸、單硫酸卡那霉素30萬十億、米爾貝肟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 (《年產粘桿菌素預混劑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 "Environmental Impact Report on the Two-stage High-end Antibiotic Projects by Livzon Group Fuzhou Fuxing Pharmaceutical Co., Ltd. (《麗珠集團福州福興醫藥有限公司二階段高端抗生素項目環境影響報告書》)" was approved on 18 March 2020. 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 occurrence of environmental emergency incidents, 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. The company carried out the joint emergency drill in respect of solvent leakage on 19 April 2020 and the comprehensive emergency drill in respect of fire accident on 23 June 2020.

SECTION V MAJOR EVENTS

XXIII. SOCIAL RESPONSIBILITY (continued)

2. Major Environmental Events (continued)

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

(i) Fuzhou Fuxing (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 Fuqing 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) Xinbeijiang Pharmaceutical

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
Xinbeijiang Pharmaceutical	Chemical oxygen demand	Intermittent	1	Sewage treatment workshop	99.518	240	53.66	162.46	Nil
	Ammonia nitrogen				2.91	70	1.36	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.

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". In the first quarter of 2020, the company invested over RMB1 million to make alteration to the "Pre-treatment" process and the treatment results are now satisfactory with stability in discharging water. The treated waste water was discharged through the municipal pipeline network into Qingyuan Henghe Sewage Treatment Plant.

SECTION V MAJOR EVENTS

XXIII. SOCIAL RESPONSIBILITY *(continued)*

2. Major Environmental Events *(continued)*

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

(ii) Xinbeijiang Pharmaceutical *(continued)*

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，分級響應；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

SECTION V MAJOR EVENTS

XXIII. SOCIAL RESPONSIBILITY (continued)

2. Major Environmental Events (continued)

(1) 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	Excessive discharge
								total amount of discharge (t/a)	
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	88.98	192	9.1299	42.05	Nil
	Ammonia nitrogen (NH3-N)				2.55	40	0.2535	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/m³)	Standard adopted for pollutant discharge (mg/m³)	Total amount of discharge (t)	Approved total amount of discharge (t/a)	Excessive discharge
	Sulphur dioxide	Organized continuous emission	3	Boiler room	4.33	50	0.06	/	Nil
	Nitrogen oxide	Organized continuous emission	3	Boiler room	68.17	150	1.136	/	Nil
	Particulate matter	Organized continuous emission	3	Boiler room	5.2	20	0.065	/	Nil
	Hydrogen chloride	Organized continuous emission	7	Workshop	1.6	100	0.152	/	Nil
	Non-methane hydrocarbons	Organized continuous emission	7	Workshop	4.47	120	1.553	/	Nil
	Non-methane hydrocarbons	Organized continuous emission	1	RTO	2.98	120	0.126	/	Nil
	Nitrogen oxide	Organized continuous emission	1	RTO	31	120	1.738	/	Nil
	Sulphur dioxide	Organized continuous emission	1	RTO	7	500	0.41	/	Nil

Notes: 1. The discharge concentration of pollutants in waste water represents the average concentration by online monitoring from the master discharge outlet 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.

2. The discharge concentration of pollutants in discharge outlet of waste gas represents the average concentration detected by the qualified third party engaged, of which the boiler exhaust adopted the Emission Standard for Boiler Atmospheric Pollutants in Guangdong Province (DB 44/765-2019) (《廣東省鍋爐大氣污染物排放標準》(DB 44/765-2019)); while the waste gases exhausted from workshops and waste water stations adopted the Period II Class 2 standard limits of the Air Pollutant Emission Limits (DB44/27-2001) (《大氣污染物排放限值》(DB44/27-2001)), which is the local standards applicable to the Guangdong Province.

SECTION V MAJOR EVENTS

XXIII. SOCIAL RESPONSIBILITY *(continued)*

2. Major Environmental Events *(continued)*

(1) 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 + air floatation/ozonation advanced treatment” 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, total phosphorus 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 (DB 44/765-2019) (《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.

SECTION V MAJOR EVENTS

XXIII. SOCIAL RESPONSIBILITY *(continued)*

2. Major Environmental Events *(continued)*

(1) 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)	Approved		Excessive discharge
							Total amount of discharge (t)	total amount of discharge (t/a)	
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	44.3	120	6.354	108	Nil
	Ammonia nitrogen				9.02	35	1.31	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.

SECTION V MAJOR EVENTS

XXIII. SOCIAL RESPONSIBILITY *(continued)*

2. Major Environmental Events *(continued)*

(1) 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 + nitrogen removal by denitrification + 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. In 2019, the company invested RMB340,000 for upgrading the treatment facilities of sewage and waste gases with adoption of “lye-spraying + UV photolysis + active carbon adsorption” process. The environmental emission was far below the emission limits after such upgrade.

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. The second amendment of the contingency plan was made in June 2020 with the version number GTFXY2013-01 Second Amendment, which was considered and approved by the professionals and in the filing process.

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.

SECTION V MAJOR EVENTS

XXIII. SOCIAL RESPONSIBILITY (continued)

2. Major Environmental Events (continued)

(1) 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 included the program of acute toxicity tests for sewage, which were made available to the public after being examined by and filed with the Ningde Environment Protection Bureau and the 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)	Approved total		
							Total amount of discharge (t)	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	34.7	110	3.88	Nil	Nil
	Ammonia nitrogen				1.1	15	1.25	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 \leq 110 mg/L, ammonia nitrogen \leq 15 mg/L, while the data detected by third party inspection firm was adopted as the discharge concentration.

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.

SECTION V MAJOR EVENTS

XXIII. SOCIAL RESPONSIBILITY *(continued)*

2. Major Environmental Events *(continued)*

(1) 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 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.

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 out 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.

SECTION V MAJOR EVENTS

XXIII. SOCIAL RESPONSIBILITY *(continued)*

2. Major Environmental Events *(continued)*

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

(vi) Ningxia Pharmaceutical

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	Excessive discharge
								total amount of discharge (t/a)	
Ningxia Pharmaceutical	Chemical oxygen demand	Continuous	1	Sewage treatment workshop on north side of factory zone	104	200	61.94	247.71	Nil
	Ammonia nitrogen				0.38	25	0.21	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/m³)	Standard adopted for pollutant discharge (mg/m³)	Total amount of discharge (t)	Approved total amount of discharge (t/a)	Excessive discharge
	Sulphur dioxide	Continuous	1	Boiler workshop	41	200	19.77	156.816	Nil
	Nitrogen oxide	Continuous		on north side of	134	200	19.1	156.816	Nil
	Particulate matter	Continuous		factory zone	24.7	30	1.76	23.522	Nil
	Volatile organic compounds	Continuous	10	Fermentation	12.5	120	15.79	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 second quarter (tested on 30 March 2020), 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 adopted standard was the standard limits stipulated in Schedule I of the Air Pollutant Discharge Standards for Pharmaceutical Industry (GB37823-2019) (《製藥工業大氣污染物排放標準》(GB37823-2019)) and the amount of discharge was calculated by the amount of exhaust gas emission and the discharge concentration recorded by the monitoring report.

SECTION V MAJOR EVENTS

XXIII. SOCIAL RESPONSIBILITY *(continued)*

2. Major Environmental Events *(continued)*

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

(vi) Ningxia Pharmaceutical *(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. From January to June 2020, a number of environmental treatment improvement projects have been completed, including installing a cover to the sewage tank of 201-2 workshop to centralize the collection of waste gases for treatment, installing one spare waste gas collection fan in the pre-aeration tank of the sewage workshop, centralizing exhaust gases from materials tanks in 203-1 workshop for collection and treatment, replacing the gas inlet pipes which are used for waste gas emissions from 202 workshop to enter the boiler for combustion, and planting 1,000 trees for greening project, while the upgrading for treatment of waste gas from 102 workshop was still in progress.

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. In June 2020, approval from Ningxia Pingluo Industrial Park Administrative Association (寧夏平羅工業園區管委會) was obtained for the approval of the environmental impact of the Doramectin (多拉菌素) production line technology improvement project. Currently, the environmental protection and acceptance inspection work for the completed projects with an annual additional output of 160 tonnes of Mevastatin (美伐他汀) and 120 tonnes of Lovastatin (洛伐他汀) are underway. 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.

SECTION V MAJOR EVENTS

XXIII. SOCIAL RESPONSIBILITY *(continued)*

2. Major Environmental Events *(continued)*

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

(vi) Ningxia Pharmaceutical *(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 2020, 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.

SECTION V MAJOR EVENTS

XXIII. SOCIAL RESPONSIBILITY (continued)

2. Major Environmental Events (continued)

(1) 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	121.68	220	6.62	60.8	Nil
	Ammonia-nitrogen			in industrial wastewater workshop	6.61	35	0.36	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.

SECTION V MAJOR EVENTS

XXIII. SOCIAL RESPONSIBILITY *(continued)*

2. Major Environmental Events *(continued)*

(1) 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，分級響應；部門合作，分級負責；科學預防，高效處置)". 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 on environmental protection knowledge and policies and on distillation residue leak on 12 March 2020 and 20 June 2020, respectively, according to the relevant 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》) to enhance the environmental protection knowledge of staff, and the drills have 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 leak detection and repair (LDAR) of volatile organic compounds had commenced, the automated monitoring equipment was under normal operation in the first half of 2020 and the data were accurate, valid and authentic.

XXIV. OTHER SIGNIFICANT EVENTS

During the Reporting Period, save as disclosed herein, the Company had no significant investment, material acquisition or disposal involving any subsidiary or associated company, nor other significant events which are required to be disclosed.

SECTION VI CHANGES IN EQUITY AND SHAREHOLDERS

I. CHANGES IN SHARES

1. Changes in Shares

As at 30 June 2020, the share capital structure of the Company was as follows:

Unit: share(s)

	Before the current change		Increase/Decrease (+,-) due to the current change Issuance of new shares		After the current change	
	Number	Percentage		Sub-total	Number	Percentage
I. Shares subject to selling restrictions	19,401,124	2.07%	149,040	149,040	19,550,164	2.08%
1. Shares held by State Government						
2. Shares held by State-owned entities	17,306,329	1.85%	0	0	17,306,329	1.84%
3. Shares held by other domestic holders	2,094,795	0.22%	149,040	149,040	2,243,835	0.24%
Including: Shares held by domestic entities						
Shares held by domestic natural persons	2,094,795	0.22%	149,040	149,040	2,243,835	0.24%
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	915,361,551	97.93%	5,861,746	5,861,746	921,223,297	97.92%
1. Ordinary shares denominated in RMB	595,497,334	63.71%	5,861,746	5,861,746	601,359,080	63.92%
2. Domestically listed foreign shares						
3. Overseas listed foreign shares	319,864,217	34.22%	0	0	319,864,217	34.00%
4. Others						
III. Total number of shares	934,762,675	100.00%	6,010,786	6,010,786	940,773,461	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 (中國證券登記結算有限責任公司深圳分公司).

Reasons for changes in shares

✓ Applicable ☐ Not applicable

Since the first grant of the 2018 Share Options Incentive Scheme of the Company was in the first exercise period, a total of 6,010,786 share options were exercised by the incentive participants (including the Directors and senior management of the Company) and the total number of shares of the Company increased by 6,010,786 shares accordingly.

SECTION VI CHANGES IN EQUITY AND SHAREHOLDERS

I. CHANGES IN SHARES *(continued)*

1. Changes in Shares *(continued)*

Approval of changes in shares

☒ Applicable ☐ Not applicable

On 18 September 2019, the Resolution on Fulfillment of Exercise Conditions for the First Exercise Period of the First Grant under the 2018 Share Options Incentive Scheme of the Company was considered and approved at the thirty-second meeting of the ninth session of the Board, which resolved that the exercise conditions for the first exercise period of the first grant under the 2018 Share Options Incentive Scheme of the Company had been achieved, and agreed that the 1,033 incentive participants who had fulfilled the exercise conditions might exercise their 8,985,262 share options in the first exercise period at the exercise price of RMB36.16 per A share.

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 assets 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

SECTION VI CHANGES IN EQUITY AND SHAREHOLDERS

1. 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
Begol	17,306,329	—	—	17,306,329	Shares pledged, shares locked up and shares subject to selling restrictions before initial offering	Not confirmed
Tao Desheng (陶德勝)	454,762	—	76,050	530,812	Locked shares held by the senior management	N/A
Xu Guoxiang (徐國祥)	454,762	—	—	454,762	Locked shares held by the senior management	N/A
Tang Yanggang (唐陽剛)	152,252	—	—	152,252	Locked shares held by the senior management	N/A
Yang Daihong (楊代宏)	290,894	—	—	290,894	Locked shares held by the senior management	N/A
Si Yanxia (司燕霞)	196,862	—	37,500	234,362	Locked shares held by the senior management	N/A
Zhou Peng (周鵬)	124,923	—	—	124,923	Locked shares held by the senior management	N/A
Huang Yuxuan (黃瑜璇)	39,381	—	—	39,381	Locked shares held by the senior management	N/A
Yang Liang (楊亮)	90,065	—	35,490	125,555	Locked shares held by the senior management	N/A
Lu Wenqi (陸文岐)	290,894	—	—	290,894	Locked shares held by the senior management	See note 2
Total	19,401,124	—	149,040	19,550,164	—	—

Notes:

- 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 (中國證券登記結算有限責任公司深圳分公司). The increase in the number of shares with selling restrictions for some senior management officers was due to the pro-rata adjustment made to the locked shares as a result of an increase in the number of shares held after exercising their share options.
- Mr. Lu Wenqi resigned as a 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 expiration of six months after the expiry of his term of office.

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 disclosure date of the Report.

SECTION VI CHANGES IN EQUITY AND SHAREHOLDERS

II. ISSUE AND LISTING OF SECURITIES

Issue of securities (excluding preferred shares) during the Reporting Period

☐ Applicable ☒ Not applicable

III. NUMBER OF SHAREHOLDERS AND SHAREHOLDINGS IN THE COMPANY

Total number of ordinary shareholders at the End of the Reporting Period

36,910 (including 36,887 A Shareholders)

Total number of preferred shareholders with resumed voting rights at the End of the Reporting Period (if any)

0

Ordinary Shareholders Holding more than 5% or Shareholdings of the Top 10 Ordinary Shareholders

Name of shareholder	Nature of shareholder	Class of shares	Shareholding percentage	Number of ordinary shares held at the End of the Period (shares)	Change during the Period (shares)	Number of ordinary shares held with selling restrictions (shares)	Number of ordinary shares held without selling restrictions (shares)	Pledge or lock-up	
								Share status	Number
HKSCC Nominees Limited <i>(Note 2)</i>	Foreign entity	H Share	33.99%	319,736,757	+1,940	–	319,736,757	–	–
Joincare	Domestic non-State owned entity	A Share	23.53%	221,376,789	–	–	221,376,789	–	–
Hong Kong Securities Clearing Company Limited	Foreign entity	A Share	4.00%	37,614,388	+25,557,647	–	37,614,388	–	–
Begol	State-owned entity	A Share	1.84%	17,306,329	–	17,306,329	–	Pledged and locked up	17,306,329
Haibin Pharma	Domestic non-State owned entity	A Share	1.79%	16,830,835	–	–	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	1.28%	12,056,741	–	–	12,056,741	–	–
Industrial and Commercial Bank of China – Lombard China Times Pioneer Stock A (中國工商銀行股份有限公司—中國時代先鋒股票型發起式證券投資基金)	Others	A Share	0.92%	8,672,255	+6,091,177	–	8,672,255	–	–
Foresea Life Insurance Co., Ltd. – Huatai combination of participating insurance products (前海人壽保險股份有限公司—分紅保險產品華泰組合)	Others	A Share	0.83%	7,809,820	+6,309,820	–	7,809,820	–	–
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	0.68%	6,409,696	-1,549,125	–	6,409,696	–	–
Livzon Pharmaceutical Group Inc. Special Securities Account for Repurchases (麗珠醫藥集團股份有限公司回購專用證券賬戶)	Domestic non-State owned entity	A Share	0.63%	5,946,108	+5,946,108	–	5,946,108	–	–

Description of strategic investors or general legal persons who became Top 10 shareholders through placement of new shares

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 for the Takeover of Listed Companies (《上市公司收購管理辦法》).

SECTION VI CHANGES IN EQUITY AND SHAREHOLDERS

III. NUMBER OF SHAREHOLDERS AND SHAREHOLDINGS IN THE COMPANY

(continued)

Shareholdings of Top 10 Ordinary Shareholders without Selling Restrictions

Name of shareholder	Number of ordinary shares held without selling restrictions at the End of the Reporting Period	Class of shares	
		Class of shares	Number
HKSCC Nominees Limited	319,736,757	Overseas listed foreign shares	319,736,757
Joincare	221,376,789	Ordinary shares denominated in RMB	221,376,789
Hong Kong Securities Clearing Company Limited	37,614,388	Ordinary shares denominated in RMB	37,614,388
Haibin Pharma	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
Industrial and Commercial Bank of China – Lombard China Times Pioneer Stock A (中國工商銀行股份有限公司－中歐時代先鋒股票型發起式證券投資基金)	8,672,255	Ordinary shares denominated in RMB	8,672,255
Foresea Life Insurance Co., Ltd. – Huatai combination of participating insurance products (前海人壽保險股份有限公司－分紅保險產品華泰組合)	7,809,820	Ordinary shares denominated in RMB	7,809,820
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)	6,409,696	Ordinary shares denominated in RMB	6,409,696
Livzon Pharmaceutical Group Inc. Special Securities Account for Repurchases (麗珠醫藥集團股份有限公司回購專用證券賬戶)	5,946,108	Ordinary shares denominated in RMB	5,946,108
National Social Security Fund 108 (全國社保基金－零八組合)	5,661,133	Ordinary shares denominated in RMB	5,661,133
Description of connection or acting-in-concert relationship among the top 10 shareholders without selling restrictions and between the top 10 shareholders without selling restrictions and the top 10 ordinary 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 for the Takeover of Listed Companies (《上市公司收購管理辦法》).		
Description of the top 10 ordinary shareholders involved in margin financing and securities lending business (if any)	Not applicable		

Notes:

- The shareholdings of the above top 10 shareholders are listed in accordance with the data in the register of members as at 30 June 2020 provided by the Shenzhen Branch of China Securities Depository and Clearing Corporation Limited (中國證券登記結算有限責任公司深圳分公司) and Tricor Investor Services Limited (卓佳證券登記有限公司) in Hong Kong.
- 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.

Whether any of the top 10 ordinary shareholders and the top 10 ordinary shareholders without selling restrictions of the Company conducted any transactions on agreed repurchases during the Reporting Period

☐ Yes ☒ No

The top 10 ordinary shareholders and the top 10 ordinary shareholders without selling restrictions of the Company did not conduct any transactions on agreed repurchases during the Reporting Period.

SECTION VI CHANGES IN EQUITY AND SHAREHOLDERS

IV. CHANGE OF CONTROLLING SHAREHOLDER OR DE FACTO CONTROLLER

Change of Controlling Shareholder during the Reporting Period

☐ Applicable ☒ Not applicable

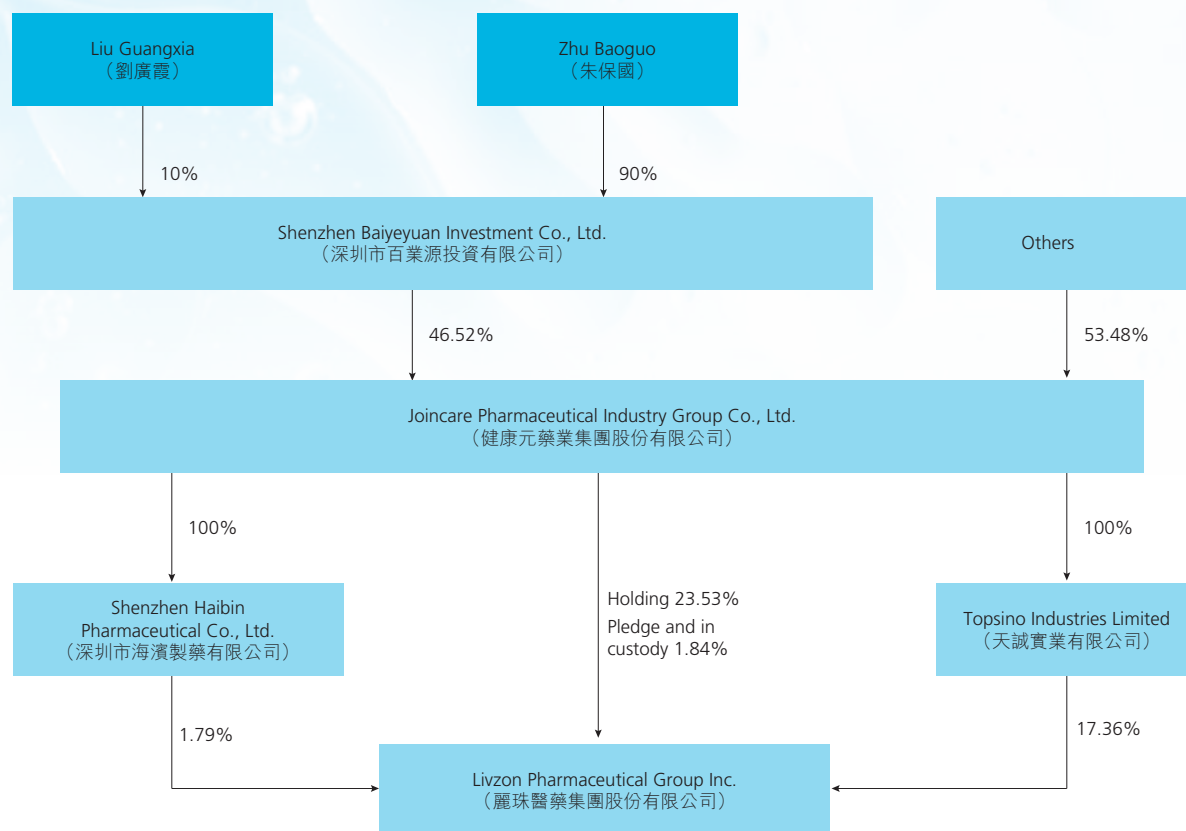
There was no change in the controlling shareholder of the Company during the Reporting Period.

Change of De Facto Controller during the Reporting Period

☐ Applicable ☒ Not applicable

There was no change in the de facto controller of the Company during the Reporting Period.

Structure chart on ownership and controlling relationship between the Company and its de facto controller as at the End of the Reporting Period



Notes:

1. Zhu Baoguo (朱保國) is the spouse of Liu Guangxia (劉廣霞).
2. The share options of the first grant under the 2018 Share Options Incentive Scheme of Joincare had entered the exercise period since 21 December 2019, and the exercise period was from 21 December 2019 to 20 December 2020, hence the share capital of Joincare changed to 1,947,537,633 shares as at 30 June 2020. During the period from 13 May 2020 to 30 June 2020, the holders of 2019 Non-public Issuance of Convertible Bonds of Baiyeyuan (First Tranche) exercised their rights of share conversion, which resulted in a decline in the number of shares in Joincare held by Baiyeyuan from 980,458,782 shares to 905,967,293 shares. Therefore, the shareholding in Joincare held by Baiyeyuan reduced from 50.59% to 46.52%.

SECTION VI CHANGES IN EQUITY AND SHAREHOLDERS

V. AS AT 30 JUNE 2020, 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 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 corporation	255,513,953 A Shares ⁽¹⁾	Long position	41.15%	27.16%
	Interest of controlled corporation	163,364,672 H Shares ⁽²⁾	Long position	51.07%	17.36%
Ms. Liu Guangxia (劉廣霞女士)	Interest of spouse	255,513,953 A Shares ⁽³⁾	Long position	41.15%	27.16%
		163,364,672 H Shares ⁽³⁾	Long position	51.07%	17.36%
Joincare	Beneficial owner	221,376,789 A Shares	Long position		
	Interest of controlled corporation	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		41.15%	27.16%
	Interest of controlled corporation	163,364,672 H Shares ⁽²⁾	Long position	51.07%	17.36%
Topsino	Beneficial owner	163,364,672 H Shares	Long position	51.07%	17.36%

Notes:

- (1) Among these shares, 238,683,118 shares and 16,830,835 shares were directly held by Joincare and its wholly-owned subsidiary, Haibin Pharma, respectively.
- (2) These shares were directly held 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 were directly held 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.

SECTION VII PREFERRED SHARES

☐ Applicable ☒ Not applicable

The Company had no preferred shares during the Reporting Period.

SECTION VIII CONVERTIBLE BONDS

☐ Applicable ☒ Not applicable

The Company had no convertible bonds during the Reporting Period.

SECTION IX DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

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

✓ Applicable ☐ Not applicable

Name	Position	Status of office	Number of shares held at the Beginning of the Period (shares)	Increase in shareholdings during the Period (shares)	Decrease in shareholdings during the Period (shares)	Other changes (shares)	Number of shares held at the End of the Period (shares)
Tao Desheng (陶德勝)	Vice Chairman, Non-executive Director	Current	606,350	–	–	101,400	707,750
Xu Guoxiang (徐國祥)	Vice Chairman, Executive Director, Vice President	Current	606,350	–	–	–	606,350
Tang Yanggang (唐陽剛)	Executive Director, President	Current	203,003	–	–	–	203,003
Yang Daihong (楊代宏)	Vice President	Current	387,859	–	–	–	387,859
Si Yanxia (司燕霞)	Vice President	Current	262,483	–	–	50,000	312,483
Zhou Peng (周鵬)	Vice President	Current	166,564	–	–	–	166,564
Huang Yuxuan (黃瑜璇)	Vice President	Current	52,508	–	–	–	52,508
Xu Peng (徐朋)	Vice President	Current	–	–	–	–	–
Yang Liang (楊亮)	Secretary to the Board, Vice President	Current	120,087	–	–	47,320	167,407
Dai Weiguo (戴衛國)	Vice President	Resigned	–	–	–	–	–
Total			2,405,204	–	–	198,720	2,603,924

Note: The number of shares held at the End of the Period by some Directors and senior management officers increased as a result of the exercise of share options during the Reporting Period.

SECTION IX DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

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

1. As at 30 June 2020, 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 corporation	255,513,953 A Shares ^{(1) (2)} 163,364,672 H Shares ^{(1) (3)}	41.15% 51.07%	27.16% 17.36%
Mr. Tao Desheng (陶德勝先生)	Beneficial owner Interest of spouse	859,850 A Shares ^{(4) (21)} 207,646 A Shares ^{(5) (6) (21)} 1,067,496 A Shares	0.17%	0.11%
Mr. Xu Guoxiang (徐國祥先生)	Beneficial owner	859,850 A Shares ^{(7) (21)}	0.14%	0.09%
Mr. Tang Yanggang (唐陽剛先生)	Beneficial owner	405,803 A Shares ^{(8) (21)}	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 corporation	905,967,293 shares ⁽⁹⁾	46.52%
	Livzon Biologics ⁽¹⁰⁾	Interest of controlled corporation	49,000,000 shares ^{(1) (11)}	39.33% ⁽¹⁴⁾
	Biologics Limited ⁽¹⁰⁾	Interest of controlled corporation	4,000 shares ^{(1) (12)}	100.00% ⁽¹⁰⁾
	Biotechnology Company ⁽¹⁰⁾	Interest of controlled corporation	250,000,000 (RMB) ^{(1) (13)}	100.00% ⁽¹⁰⁾
	Livzon MAB ⁽¹⁰⁾	Interest of controlled corporation	1,413,330,000 (RMB) ^{(1) (13)}	100.00% ⁽¹⁰⁾
Mr. Tang Yanggang (唐陽剛先生)	Xinbeijiang Pharmaceutical ⁽¹⁵⁾	Interest of controlled corporation	20,238,780 shares ⁽¹⁵⁾	8.44%
	Livzon Diagnostics ⁽¹⁶⁾	Interest of controlled corporation	8,382,100 shares ⁽¹⁶⁾	9.03%
Mr. Qiu Qingfeng (邱慶豐先生)	Joincare	Beneficial owner	717,409 shares ⁽¹⁸⁾	0.04%
Mr. Xu Guoxiang (徐國祥先生)	Livzon Diagnostics ⁽¹⁷⁾	Others	500,000 shares ⁽¹⁷⁾	0.54%
Mr. Yu Xiong (俞雄先生)	Joincare	Beneficial owner	800,000 shares ⁽¹⁹⁾	
		Interest of spouse	3,720 shares ⁽²⁰⁾	
			803,720 shares	0.04%

SECTION IX DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

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

1. **As at 30 June 2020, 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 46.52% 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 152,100 share options, which are able to subscribe for 152,100 A Shares of the Company pursuant to the 2018 Share Options Incentive Scheme of the Company.
- (5) These shares include 60,840 share options, which are able to subscribe for 60,840 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) During the period from 13 May 2020 to 30 June 2020, the holders of 2019 Non-public Issuance of Convertible Bonds of Baiyeyuan (First Tranche) exercised their rights of share conversion, which resulted in a decline in the number of shares in Joincare held by Baiyeyuan from 980,458,782 shares to 905,967,293 shares. Therefore, the shareholding in Joincare held by Baiyeyuan reduced from 50.59% to 46.52%.

SECTION IX DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

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

1. As at 30 June 2020, 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: *(continued)*

- (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, who directly holds 19.9234% equity interest in 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) These shares include 540,000 share options, which are able to subscribe for 540,000 A shares of Joincare pursuant to the 2018 Share Options Incentive Scheme of Joincare.
- (19) All of these shares are share options, which are able to subscribe for 800,000 A shares of Joincare pursuant to the 2018 Share Options Incentive Scheme of Joincare.
- (20) As these shares are held directly by Ms. Qian Lingyun (錢凌雲女士), the spouse of Mr. Yu Xiong, hence Mr. Yu Xiong is deemed to be interested in these shares.
- (21) For details of the aforesaid 2018 Share Options Incentive Scheme of the Company, please refer to the relevant information of the "Share Options Incentive Scheme" in Section IV of the Report.

SECTION IX DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

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

Name	Position	Type	Date	Reason
Xu Peng (徐朋)	Vice President	Appointed	20 April 2020	Appointed as a vice president of the Company after consideration and approval by the Board of the Company.
Dai Weiguo (戴衛國)	Vice President	Resigned	29 May 2020	Resigned voluntarily as the vice president of the Company and all positions in subsidiaries due to personal family and development reasons.
Bai Hua (白華)	Independent Non-executive Director	Appointed	30 June 2020	Appointed as an independent non-executive Director of the Company after consideration and approval by the 2020 Third Extraordinary General Meeting of the Company.
Yu Xiong (俞雄)	Non-executive Director	Appointed	30 June 2020	Appointed as a non-executive Director of the Company after consideration and approval by the 2020 Third Extraordinary General Meeting of the Company.
Yang Liang (楊亮)	Vice President	Appointed	30 June 2020	Appointed as a vice president of the Company after consideration and approval by the Board of the Company.
Xu Yanjun (徐焱軍)	Independent Non-executive Director	Retired	30 June 2020	Retired as an independent non-executive Director of the Company after expiration of his term of office as a Director for 6 years.

III. CHANGES IN THE BRIEF BIOGRAPHIES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

As at the date of the Report, changes in the brief biographies of Directors, Supervisors and senior management during their term of office required to be disclosed according to Rules 13.51(2) and 13.51B of the Hong Kong Listing Rules are set out below:

Mr. Zhou Peng ceased to be the chairman of Zhuhai Jinwan District Industry Development Association (珠海市金灣區產業發展協會會長) since June 2020 and was appointed as the vice chairman of the First Session of the Board of Directors of Zhuhai Technology Development Promotion Board (珠海市科技發展促進會第一屆理事會) with effect from June 2020.

SECTION IX DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

IV. LIST OF MEMBERS OF THE BOARD OF DIRECTORS AND THE SUPERVISORY COMMITTEE

As at the date of the Report, the Board of the Company is comprised of eleven Directors, including two executive Directors, four non-executive Directors and five independent non-executive Directors.

Executive Directors

Mr. Tang Yanggang (唐陽剛先生) (President)

Mr. Xu Guoxiang (徐國祥先生) (Vice Chairman and Vice President)

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)

Mr. Yu Xiong (俞雄先生) (Appointed as a Non-executive Director on 30 June 2020)

Independent Non-executive Directors

Mr. Bai Hua (白華先生) (Appointed as an Independent Non-executive Director on 30 June 2020)

Mr. Zheng Zhihua (鄭志華先生)

Mr. Xie Yun (謝耘先生)

Mr. Tian Qiusheng (田秋生先生)

Mr. Wong Kam Wa (黃錦華先生)

The Supervisory Committee of the Company is comprised of three Supervisors. As at the date of the Report, the Supervisors of the Company are:

Mr. Wang Maolin (汪卯林先生) (Chairman)

Mr. Huang Huamin (黃華敏先生)

Mr. Tang Yin (湯胤先生)

SECTION X INFORMATION ON CORPORATE BONDS

☐ Applicable ☒ Not applicable

The Company does not have corporate bonds issued by public offering and listed on the stock exchange.

SECTION XI FINANCIAL REPORT

I. AUDIT REPORT

Whether the interim report has been audited

☐ Yes ☒ No

The interim financial report of the Company is unaudited.

CONSOLIDATED AND COMPANY BALANCE SHEET

II. FINANCIAL STATEMENTS

Prepared by: Livzon Pharmaceutical Group Inc.

Unit: RMB

Item	Notes	Amount at the End of the Period		Amount at the Beginning of the Year	
		Consolidated	Company	Consolidated	Company
Current assets:					
Monetary fund	V. 1	7,281,679,591.58	5,814,785,031.97	8,855,408,402.78	7,772,918,903.18
Financial assets held for trading	V. 2	13,909,082.63	8,339,183.60	17,191,861.74	8,035,940.56
Bills receivables	V. 3	1,025,868,016.01	512,986,900.10	952,945,194.97	569,150,368.41
Accounts receivables	V. 4	1,675,090,515.91	668,452,358.56	1,472,438,936.26	652,604,102.82
Receivables financing					
Prepayments	V. 5	184,857,654.65	25,213,270.17	186,231,922.16	23,285,852.64
Other receivables	V. 6	170,060,026.19	2,458,533,191.21	91,848,022.04	1,620,041,222.11
In which: Interest receivable					
Dividends receivable		258,229.48	1,345,420,344.25	11,475,000.00	573,412,484.96
Inventories	V. 7	1,433,632,498.76	669,086,300.01	1,168,854,337.03	553,618,797.04
Contract assets					
Held-for-sale assets					
Non-current assets due within one year	V. 8	17,714,375.71	17,714,375.71	17,497,288.62	17,497,288.62
Other current assets	V. 9	112,500,445.39	1,500,644.53	110,786,443.02	4,752,848.61
Total current assets		11,915,312,206.83	10,176,611,255.86	12,873,202,408.62	11,221,905,323.99
Non-current assets:					
Debt investments					
Other debt investments					
Long-term receivables	V. 10			10,828,143.63	10,828,143.63
Long-term equity investments	V. 11	150,064,997.19	1,835,213,198.33	171,498,988.56	1,901,157,584.00
Other equity instrument investments	V. 12	574,459,680.92	118,629,608.84	479,737,808.86	118,629,608.84
Other non-current financial assets					
Investment properties					
Fixed assets	V. 13	3,335,758,118.28	87,697,654.44	3,160,096,367.19	83,020,764.96
Construction in progress	V. 14	182,591,585.75	265,954.47	233,489,857.85	114,259.61
Productive biological assets					
Oil and gas assets					
Right-of-use assets					
Intangible assets	V. 15	236,160,743.43	29,010,983.58	229,559,613.00	30,340,512.63
Development expenditure	V. 16	186,292,043.15		148,504,020.49	
Goodwill	V. 17	103,040,497.85		103,040,497.85	
Long-term deferred expenses	V. 18	112,778,114.48	5,305,488.32	111,340,713.49	5,645,604.20
Deferred tax assets	V. 19	197,658,759.63	38,842,215.00	182,659,491.39	32,547,576.65
Other non-current assets	V. 20	257,707,099.34	84,295,507.03	272,505,206.28	95,598,763.52
Total non-current assets		5,336,511,640.02	2,199,260,610.01	5,103,260,708.59	2,277,882,818.04
Total assets		17,251,823,846.85	12,375,871,865.87	17,976,463,117.21	13,499,788,142.03

CONSOLIDATED AND COMPANY BALANCE SHEET

Prepared by: Livzon Pharmaceutical Group Inc.

Unit: RMB

Item	Notes	Amount at the End of the Period		Amount at the Beginning of the Year	
		Consolidated	Company	Consolidated	Company
Current liabilities:					
Short-term loans	V. 21	270,884,146.53	200,000,000.00	1,360,840,657.32	1,151,369,666.66
Financial liabilities held for trading	V. 22	1,282,966.22		13,916.00	
Bills payables	V. 23	685,537,355.25	6,953,535.00	715,986,816.20	7,139,310.75
Accounts payables	V. 24	661,176,998.87	453,989,715.21	547,102,924.99	584,136,134.88
Receipts in advance					
Contract liabilities	V. 25	110,630,362.42	9,966,626.71	151,765,150.53	41,484,759.54
Employee benefits payables	V. 26	273,861,373.52	91,735,825.49	278,117,911.92	74,999,108.16
Tax and surcharge payables	V. 27	236,960,678.69	13,676,023.23	223,339,525.21	13,776,226.89
Other payables	V. 28	2,061,989,552.87	4,941,079,140.37	2,016,490,501.54	4,689,008,436.20
Of which: Interest payables					
Dividends payable		27,111,254.90	18,712,838.86	90,179,524.72	20,174.46
Held-for-sale liabilities					
Non-current liabilities due within one year					
Other current liabilities					
Total current liabilities		4,302,323,434.37	5,717,400,866.01	5,293,657,403.71	6,561,913,643.08
Non-current liabilities:					
Long-term loans					
Notes payables					
Leasing liabilities					
Long-term payables					
Long-term employee benefits payables					
Provisions					
Deferred gain	V. 29	233,266,861.97	71,502,157.94	246,683,181.60	72,502,157.94
Deferred tax liabilities	V. 19	111,322,338.67	15,382,588.42	90,884,958.20	16,309,446.79
Other non-current liabilities	V. 30	70,000,000.00		70,000,000.00	
Total non-current liabilities		414,589,200.64	86,884,746.36	407,568,139.80	88,811,604.73
Total liabilities		4,716,912,635.01	5,804,285,612.37	5,701,225,543.51	6,650,725,247.81
Share capital	V. 31	940,773,461.00	940,773,461.00	934,762,675.00	934,762,675.00
Other equity instruments					
Of which: Preferred shares					
Perpetual bonds					
Capital reserve	V. 32	1,375,551,973.66	1,738,740,773.08	1,163,404,748.17	1,527,410,001.24
Less: Treasury shares	V. 33	243,439,270.82	243,439,270.82		
Other consolidated earnings	V. 34	51,750,704.19	31,474,909.33	26,403,971.65	31,474,909.33
Special reserve					
Surplus reserve	V. 35	623,178,143.29	418,215,089.71	623,178,143.29	418,215,089.71
Undistributed profits	V. 36	8,348,769,476.21	3,685,821,291.20	8,419,002,908.40	3,937,200,218.94
Total equity attributable to shareholders of the parent company		11,096,584,487.53	6,571,586,253.50	11,166,752,446.51	6,849,062,894.22
Minority interests		1,438,326,724.31		1,108,485,127.19	
Total shareholders' (or owners') equity		12,534,911,211.84	6,571,586,253.50	12,275,237,573.70	6,849,062,894.22
Total liabilities and shareholders' (or owners') equity		17,251,823,846.85	12,375,871,865.87	17,976,463,117.21	13,499,788,142.03

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

CONSOLIDATED AND COMPANY INCOME STATEMENT

Prepared by: Livzon Pharmaceutical Group Inc.

Unit: RMB

Item	Notes	Amount for the Period		Amount for the Previous Period	
		Consolidated	Company	Consolidated	Company
I. Operating income	V.37	5,095,238,317.69	2,024,372,916.39	4,939,065,593.94	2,716,692,559.43
Less: Operating costs	V.37	1,733,841,353.17	1,349,422,326.45	1,734,581,556.01	1,645,034,856.38
Tax and surcharge	V.38	58,257,502.74	8,101,176.21	60,706,333.90	16,779,492.26
Selling expenses	V.39	1,414,807,205.96	715,411,096.19	1,796,846,255.61	936,968,077.46
Administrative expenses	V.40	294,150,602.43	102,901,259.75	255,211,847.01	71,366,649.03
R&D expenses	V.41	306,436,137.69	99,411,197.41	288,459,672.08	97,489,268.71
Finance expenses	V.42	-89,402,680.69	-76,200,183.05	-112,639,576.24	-104,762,878.62
Of which: Interest expenses		7,012,674.28	9,185,485.63	5,219,055.56	1,222,130.61
Interest income		96,201,073.75	86,477,468.28	119,416,636.64	106,461,340.80
Add: Other income	V.43	104,846,562.33	66,944,964.63	106,928,418.62	66,326,148.71
Investment income	V.44	112,652,614.84	944,718,999.64	-3,842,092.53	122,937,209.61
("-" represents losses)					
Of which: income from investment in associates and joint ventures		-4,702,830.92	-10,688,874.26	-6,388,109.51	-6,873,600.24
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.45	-4,551,829.33	303,243.04	-5,456,003.34	1,288,774.10
Credit impairment loss ("-" represents losses)	V.46	-7,185,319.32	-9,645,505.72	-10,436,940.03	-3,678,202.41
Asset impairment loss ("-" represents losses)	V.47	-13,267,639.71	-1,695,239.80	-14,109,578.25	-1,818,996.23
Gains from disposal of assets ("-" represents losses)	V.48	-83,421.97	-49,748.44	937,832.83	4,683.51
II. Operating profit ("-" represents losses)		1,569,559,163.23	825,902,756.78	989,921,142.87	238,876,711.50
Add: non-operating income	V.49	904,921.05	1,684.63	2,032,462.39	20,086.88
Less: non-operating expenditure	V.50	12,815,982.32	10,709,177.36	4,003,453.13	1,057,914.63
III. Total profit ("-" represents total losses)		1,557,648,101.96	815,195,264.05	987,950,152.13	237,838,883.75
Less: income tax expenses	V.51	226,919,520.61	-15,233,201.44	153,424,317.37	12,341,619.18
IV. Net profit ("-" represents net losses)		1,330,728,581.35	830,428,465.49	834,525,834.76	225,497,264.57
(I) Classified by continuing operations:					
Of which: net profit from continuing operations ("-" represents net losses)		1,330,728,581.35	830,428,465.49	834,525,834.76	225,497,264.57
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)		1,004,743,610.08	830,428,465.49	738,947,763.69	225,497,264.57
profit and loss attributable to minority interests ("-" represents net losses)		325,984,971.27		95,578,071.07	

CONSOLIDATED AND COMPANY INCOME STATEMENT

Prepared by: Livzon Pharmaceutical Group Inc.

Unit: RMB

Item	Notes	Amount for the Period		Amount for the Previous Period	
		Consolidated	Company	Consolidated	Company
V. Other comprehensive net income after taxation		25,670,889.38		-1,260,651.40	
Other comprehensive net income after taxation attributable to shareholders of the parent company		25,346,732.54		-2,016,474.82	
(I) Other comprehensive income not to be reclassified into profit or loss		18,436,298.01		-8,122,383.64	
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		18,436,298.01		-8,122,383.64	
4. Changes in fair value of enterprise's own credit risk					
5. Others					
(II) Other comprehensive income to be reclassified as profit or loss		6,910,434.53		6,105,908.82	
1. Other comprehensive income to be reclassified into profit or loss under the equity method					
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		6,910,434.53		6,105,908.82	
7. Others					
Other comprehensive net income after taxation attributable to minority interests		324,156.84		755,823.42	
VI. Total comprehensive income		1,356,399,470.73	830,428,465.49	833,265,183.36	225,497,264.57
Total comprehensive income attributable to shareholders of the parent company		1,030,090,342.62	830,428,465.49	736,931,288.87	225,497,264.57
Total comprehensive income attributable to minority interests		326,309,128.11		96,333,894.49	
VII. Earnings per share					
(I) Basic earnings per share	V.52	1.07		0.79	
(II) Diluted earnings per share	V.52	1.07		0.79	

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

CONSOLIDATED AND COMPANY CASH FLOW STATEMENT

Prepared by: Livzon Pharmaceutical Group Inc.

Unit: RMB

Item	Notes	Amount for the Period		Amount for the Previous Period	
		Consolidated	Company	Consolidated	Company
I. Cash flow from operating activities:					
Cash received from sales of goods and services rendered		5,020,092,292.00	2,193,250,420.19	4,935,141,475.18	2,757,032,169.95
Refund of taxes and levies		47,798,879.37	723,380.09	32,484,169.17	
Cash received relating to other operating activities	V.53	246,587,433.18	170,323,421.64	287,340,358.36	194,251,820.32
Sub-total of cash inflow from operating activities		5,314,478,604.55	2,364,297,221.92	5,254,966,002.71	2,951,283,990.27
Cash paid for purchase of goods and services rendered		1,441,100,245.75	1,500,470,392.47	1,100,036,842.40	1,680,354,027.29
Cash paid to and on behalf of employees		586,734,048.37	165,911,351.66	541,229,699.92	147,577,235.34
Payments for various taxes and levies		573,785,981.87	66,128,472.27	662,761,036.51	182,850,242.06
Cash paid relating to other operating activities	V.53	1,839,281,392.50	691,350,908.58	1,992,574,919.26	976,882,395.94
Sub-total of cash outflow from operating activities		4,440,901,668.49	2,423,861,124.98	4,296,602,498.09	2,987,663,900.63
Net cash flow from operating activities		873,576,936.06	-59,563,903.06	958,363,504.62	-36,379,910.36
II. Cash flow from investing activities:					
Cash received from disposal of investments		132,507,500.30	132,507,500.30	113,557,831.39	11,000,000.00
Cash received on investment income		14,470,694.01	87,740,406.56	5,160,277.02	97,590,643.41
Net cash received from disposal of fixed assets, intangible assets and other long-term assets		1,092,140.00	153,150.00	11,866.00	5,480.00
Net cash received from disposal of subsidiaries and other operating units		5,339,063.95	15,000,000.00		
Cash received relating to other investing activities	V.53	20,058,016.38		30,000,000.00	
Sub-total of cash inflow from investing activities		173,467,414.64	235,401,056.86	148,729,974.41	108,596,123.41
Cash payments for acquisition of fixed assets, intangible assets and other long-term assets		205,529,839.45	20,700,265.39	192,781,185.88	19,833,827.33
Cash payments for investments		71,332,723.74	3,000,000.00	82,696,726.80	7,795,000.00
Net cash paid for acquisition of subsidiaries and other operating units					
Cash paid relating to other investing activities	V.53	3,537,944.44		2,689,260.04	
Sub-total of cash outflow from investing activities		280,400,507.63	23,700,265.39	278,167,172.72	27,628,827.33
Net cash flow from investing activities		-106,933,092.99	211,700,791.47	-129,437,198.31	80,967,296.08

CONSOLIDATED AND COMPANY CASH FLOW STATEMENT

Prepared by: Livzon Pharmaceutical Group Inc.

Unit: RMB

Item	Notes	Amount for the Period		Amount for the Previous Period	
		Consolidated	Company	Consolidated	Company
III. Cash flow from financing activities:					
Cash received from investments		126,175,197.44	121,175,197.44		
Of which: cash received by subsidiaries from investments of minority interests					
Cash received from borrowings		543,579,914.03	100,000,000.00		
Cash received relating to other financing activities	V.53	4,933,246.35	224,573,269.91	29,811.30	651,798,713.43
Sub-total of cash inflow from financing activities		674,688,357.82	445,748,467.35	29,811.30	651,798,713.43
Cash paid on repayment of debts		1,629,711,030.60	1,250,000,000.00	1,500,000,000.00	1,500,000,000.00
Cash paid for distribution of dividends and profits or interest payments		1,145,452,006.46	1,061,756,974.75	132,719,055.56	5,219,055.56
Of which: dividends and profits paid to minority interests by subsidiaries		81,760,934.22		127,500,000.00	
Cash paid relating to other financing activities	V.53	243,439,270.82	243,439,270.82	269,345.90	7,349,101.31
Sub-total of cash outflow from financing activities		3,018,602,307.88	2,555,196,245.57	1,632,988,401.46	1,512,568,156.87
Net cash flow from financing activities		-2,343,913,950.06	-2,109,447,778.22	-1,632,958,590.16	-860,769,443.44
IV. Effect of changes in foreign exchange rates on cash and cash equivalents		3,053,184.67	-1,212,570.77	4,470,674.54	-103,082.28
V. Net increase in cash and cash equivalents		-1,574,216,922.32	-1,958,523,460.58	-799,561,609.31	-816,285,140.00
Add: Cash and cash equivalents at the beginning of the period		8,854,185,853.54	7,772,918,903.18	8,563,711,205.95	7,505,401,614.22
VI. Cash and cash equivalents at the end of the period		7,279,968,931.22	5,814,395,442.60	7,764,149,596.64	6,689,116,474.22

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

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

Unit: RMB

Prepared by: Livzon Pharmaceutical Group Inc.

Item	Amount for the Period												
	Shareholders' equity attributable to shareholders of the parent company												
	Other equity instruments				Other				Total				
	Share capital	Preferred shares	Perpetual bonds	Others	Capital reserve	Less: Treasury shares	comprehensive income	Special reserve	Surplus reserve	General risk provisions	Undistributed profits	Minority interest	shareholders' equity
I. Balance as at the End of the Previous Year	934,762,675.00				1,163,404,748.17		26,403,971.65	623,178,143.29			8,419,002,908.40	1,108,485,127.19	12,275,237,573.70
Add: Adjustment for changes in accounting policies													
Correction of accounting errors in prior period													
Merger of enterprises under common control													
Others													
II. Balance as at the Beginning of the Year	934,762,675.00				1,163,404,748.17		26,403,971.65	623,178,143.29			8,419,002,908.40	1,108,485,127.19	12,275,237,573.70
III. Increase/decrease during the Period ("—" represents decreases)	6,010,786.00				212,147,225.49	243,439,270.82	25,346,732.54				-70,233,432.19	329,841,597.12	259,673,638.14
(I) Total comprehensive income													
(II) Capital contributed and reduced by shareholders	6,010,786.00				222,724,493.69	243,439,270.82	25,346,732.54				1,004,743,610.08	326,309,128.11	1,356,399,470.73
1. Ordinary shares contributed by shareholders	6,010,786.00				211,339,235.76	243,439,270.82						7,921,116.71	-6,782,874.42
2. Capital contributed by holders of other equity instruments												6,666,667.00	-19,422,582.06
3. Share-based equity-settled payments												1,254,449.71	12,639,707.64
4. Others					11,385,257.93								
(III) Profit distribution											-1,074,977,042.27		-1,074,977,042.27
1. Transfer to surplus reserve													
2. Provision to general risk reserve													
3. Distribution to shareholders													
4. Others													
(IV) Inward transfer of shareholders' equity											-1,074,977,042.27		-1,074,977,042.27
1. Transfer of capital reserve 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					-10,577,268.20							-4,388,647.70	-14,965,915.90
IV. Balance as at the End of the Period	940,773,461.00				1,375,551,973.66	243,439,270.82	51,750,704.19	623,178,143.29			8,348,769,476.21	1,438,326,724.31	12,534,911,211.84

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

Prepared by: Livzon Pharmaceutical Group Inc.

Unit: RMB

Item	Amount for the Previous Period												
	Shareholders' equity attributable to shareholders of the parent company												
	Other equity instruments				Capital reserve	Less: Treasury shares	Other comprehensive income	Special reserve	Surplus reserve	General risk provisions	Undistributed profits	Minority interest	Total shareholders' equity
Share capital	Preferred shares	Perpetual bonds	Others										
I. Balance as at the End of the Previous Year	719,050,240.00				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	11,749,876,909.01
Add: Adjustment for changes in accounting policies													
Correction of accounting errors in prior period													
Merger of enterprises under common control													
Others													
II. Balance as at the Beginning of the Year	719,050,240.00				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	11,749,876,909.01
III. Increase/decrease during the Period	-2,028.00				5,088,403.86	-25,208.04	-2,016,474.82				-121,613,488.71	-57,122,736.02	-175,641,115.65
(I) Total comprehensive income													
(II) Capital contributed and reduced by shareholders	-2,028.00				-23,180.04	-25,208.04	-2,016,474.82				738,947,763.69	96,333,894.49	833,265,183.36
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				-23,180.04	-25,208.04					-862,857,854.40	-153,456,630.51	-1,016,314,484.91
(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 reserve to share capital											2,296,602.00		2,296,602.00
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 Period	719,048,212.00				1,367,338,793.53		-31,181,288.97		587,255,162.90		7,890,998,211.55	1,040,776,702.35	11,574,235,793.36
					5,111,583.90								5,111,583.90

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

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY OF THE COMPANY

Unit: RMB

Prepared by: Livzon Pharmaceutical Group Inc.

Item	Amount for the Period						
	Share capital	Preferred shares	Perpetual bonds	Others	Capital reserve	Less: Treasury shares	Other comprehensive income
I. Balance as at the End of the Previous Year	934,762,675.00				1,527,410,001.24		31,474,909.33
Add: Adjustments for changes in accounting policies							
Correction of accounting errors in prior period							
Others							
II. Balance as at the Beginning of the Year	934,762,675.00				1,527,410,001.24		31,474,909.33
III. Increase/decrease during the Period	6,010,786.00				211,330,771.84	243,439,270.82	
(I) Total comprehensive income							
(II) Capital contributed or reduced by shareholders	6,010,786.00				221,908,040.04	243,439,270.82	
1. Ordinary shares contributed by shareholders							
2. Capital contributed by holders of other equity instruments							
3. Share-based equity-settled payments							
4. Others							
(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 reserve 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							
Others							
IV. Balance as at the End of the Period	940,773,461.00				1,738,740,773.08	243,439,270.82	31,474,909.33
					-10,577,266.20		-10,577,268.20
							6,571,586,253.50

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY OF THE COMPANY

Prepared by: Livzon Pharmaceutical Group Inc.

Unit: RMB

Item	Amount for the Previous Period					
	Share capital	Preferred shares	Other equity instruments	Capital reserve	Less: Treasury shares	Other comprehensive income
			Perpetual bonds			Special reserve
						Surplus reserve
						Undistributed profits
						Total shareholders' equity
I. Balance as at the End of the Previous Year	719,050,240.00			1,776,897,983.73	25,208.04	382,292,109.32
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			1,776,897,983.73	25,208.04	382,292,109.32
III. Increase/decrease during the Period ("-" represents decrease)	-2,028.00			5,088,403.86	-25,208.04	-637,360,389.83
(I) Total comprehensive income						
(II) Capital contributed or reduced by shareholders	-2,028.00			-23,180.04	-25,208.04	225,497,264.57
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			-23,180.04	-25,208.04	
(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 reserve 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 Period	719,048,212.00			5,111,583.90		5,111,583.90
				1,731,986,387.59		6,672,717,368.94

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

NOTES TO (UNAUDITED) FINANCIAL STATEMENTS FOR THE FIRST HALF OF 2020

(Unless specified otherwise, all amounts are denominated in RMB)

I. COMPANY PROFILE

1. Overview

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) were completed.

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 the Shenzhen Branch of China Securities Depository and Clearing Corporation Limited (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.

NOTES TO (UNAUDITED) FINANCIAL STATEMENTS FOR THE FIRST HALF OF 2020

(Unless specified otherwise, all amounts are denominated in RMB)

I. COMPANY PROFILE (Continued)

1. Overview (Continued)

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 exercised options was 8,660,400. Capital verification for this exercise was completed on 27 March 2015 and the approval registration was completed by the Shenzhen Branch of China Securities Depository and Clearing Corporation Limited. The registered capital following the exercise 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 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 Not Yet 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 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.

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 exercised options was 1,285,700. Capital verification of this exercise was completed on 18 December 2015 and the approval registration was completed by the Shenzhen Branch of China Securities Depository and Clearing Corporation Limited. The Company’s share capital following the exercise 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 Not Yet 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 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 ordinary shares denominated in Renminbi (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 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.

NOTES TO (UNAUDITED) FINANCIAL STATEMENTS FOR THE FIRST HALF OF 2020

(Unless specified otherwise, all amounts are denominated in RMB)

I. COMPANY PROFILE (Continued)

1. Overview (Continued)

Pursuant to “the Resolution on Repurchase and Cancellation of Restricted Shares Granted But Not Yet 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 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] No.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 with a nominal value 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 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.

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 Not Yet 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 changed to RMB553,115,570. This capital reduction was validated and confirmed by the Capital Verification Reports (Ruihua 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 with a nominal value 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 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, the Company repurchased 2,028 shares at a price of RMB12.43 per share. After the repurchase and canceling of the shares, the Company’s share capital has changed to RMB719,048,212.00. This capital decrease was validated by the Capital Verification Report (Ruihua Yan Zi [2019] No.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 with a nominal value 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 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.

Pursuant to the “Resolution on 2018 Share Options Incentive Scheme (Revised Draft) and its summary” considered and approved by the 2018 Third Extraordinary General Meeting, the 2018 Third Class Meeting of A Shareholders and the 2018 Third Class Meeting of H Shareholders and the “Resolution on the Related Matters of the Reserved Grant of 2018 Share Options Incentive Scheme” considered and approved at the 31st Meeting of the 9th Session of the Board, the actual number of options exercised was 6,010,786 during the Period and the total share capital of the Company was increased to 940,773,461 shares as at 30 June 2020.

NOTES TO (UNAUDITED) FINANCIAL STATEMENTS FOR THE FIRST HALF OF 2020

(Unless specified otherwise, all amounts are denominated in RMB)

I. COMPANY PROFILE *(Continued)*

1. Overview *(Continued)*

The Company is engaged in the pharmaceutical manufacturing industry.

The scope of business for the Company was the production and sales of self-manufactured active pharmaceutical ingredients (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 patent medicines, biochemical reagents, as well as chemicals, food, information business, APIs for medicine, 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, APIs for antibiotics and their preparations, biological products (except for preventive biological products) and 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).

During the Reporting Period, there was no change in the principal activities of the Company.

The financial statements and notes to the financial statements of the Company were approved at the 3rd Meeting of the 10th Session of the Board on 25 August 2020.

2. Scope of consolidated financial statements

Please refer to this Note VII “Disclosure of interests in other entities” for names of subsidiaries included in the consolidation for the first six months of 2020. One more subsidiary was included in the consolidation during the Period when compared with the previous year while 2 subsidiaries were 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 gave a true and complete view of the consolidated and the Company’s financial position as at 30 June 2020, and the consolidated and the Company’s operating results and the consolidated and the Company’s cash flow and other relevant information for the first six months of 2020.

NOTES TO (UNAUDITED) FINANCIAL STATEMENTS FOR THE FIRST HALF OF 2020

(Unless specified otherwise, all amounts are denominated in RMB)

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(Continued)

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.

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 treatment 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 a number of transactions

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 recognized 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.

NOTES TO (UNAUDITED) FINANCIAL STATEMENTS FOR THE FIRST HALF OF 2020

(Unless specified otherwise, all amounts are denominated in RMB)

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(Continued)

5. Accounting treatment for business combinations *(Continued)*

(2) Business combinations involving enterprises not under common control

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 a number of transactions.

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.

NOTES TO (UNAUDITED) FINANCIAL STATEMENTS FOR THE FIRST HALF OF 2020

(Unless specified otherwise, all amounts are denominated in RMB)

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.

(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.

NOTES TO (UNAUDITED) FINANCIAL STATEMENTS FOR THE FIRST HALF OF 2020

(Unless specified otherwise, all amounts are denominated in RMB)

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

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:

- 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.

NOTES TO (UNAUDITED) FINANCIAL STATEMENTS FOR THE FIRST HALF OF 2020

(Unless specified otherwise, all amounts are denominated in RMB)

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(Continued)

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.

NOTES TO (UNAUDITED) FINANCIAL STATEMENTS FOR THE FIRST HALF OF 2020

(Unless specified otherwise, all amounts are denominated in RMB)

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.

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.

NOTES TO (UNAUDITED) FINANCIAL STATEMENTS FOR THE FIRST HALF OF 2020

(Unless specified otherwise, all amounts are denominated in RMB)

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(Continued)

10. Financial instruments (Continued)

(1) Recognition and De-recognition of financial instruments (Continued)

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.

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 derecognition of the financial assets.

NOTES TO (UNAUDITED) FINANCIAL STATEMENTS FOR THE FIRST HALF OF 2020

(Unless specified otherwise, all amounts are denominated in RMB)

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

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.

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 recognized 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.

NOTES TO (UNAUDITED) FINANCIAL STATEMENTS FOR THE FIRST HALF OF 2020

(Unless specified otherwise, all amounts are denominated in RMB)

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(Continued)

10. Financial instruments (Continued)

(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.

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.

NOTES TO (UNAUDITED) FINANCIAL STATEMENTS FOR THE FIRST HALF OF 2020

(Unless specified otherwise, all amounts are denominated in RMB)

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

10. Financial instruments (Continued)

(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.

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.

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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

B. Trade receivables

- Trade receivables portfolio 1: Amount due from other customers
- Trade receivables portfolio 2: Receivables of consolidated companies

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III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(Continued)

10. Financial instruments *(Continued)*

(6) Impairment of financial assets *(Continued)*

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:

- 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.

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III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(Continued)

10. Financial instruments *(Continued)*

(6) Impairment of financial assets *(Continued)*

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.

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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;
- 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.

NOTES TO (UNAUDITED) FINANCIAL STATEMENTS FOR THE FIRST HALF OF 2020

(Unless specified otherwise, all amounts are denominated in RMB)

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(Continued)

10. Financial instruments *(Continued)*

(7) Transfer of financial assets

Transfer of financial assets refers to the transfer or delivery 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.

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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.

NOTES TO (UNAUDITED) FINANCIAL STATEMENTS FOR THE FIRST HALF OF 2020

(Unless specified otherwise, all amounts are denominated in RMB)

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 cannot 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.

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(Unless specified otherwise, all amounts are denominated in RMB)

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 or 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.

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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.

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.

NOTES TO (UNAUDITED) FINANCIAL STATEMENTS FOR THE FIRST HALF OF 2020

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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 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.

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.

NOTES TO (UNAUDITED) FINANCIAL STATEMENTS FOR THE FIRST HALF OF 2020

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III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(Continued)

14. Long-term equity investment (Continued)

(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.

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.

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III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(Continued)

16. Fixed asset (Continued)

(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 %
Properties and 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.

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.

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III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(Continued)

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.

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III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(Continued)

19. Biological assets

(1) Determination of biological assets

Biological assets refer to assets comprising living animals and plants. 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.

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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.

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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.

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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.

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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.

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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.

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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 recognize 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.

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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.

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.

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III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

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.

If one of the above conditions is not fulfilled, the Company shall recognised 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 obtain 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 obtain 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.

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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.

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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 recognized 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.

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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.

NOTES TO (UNAUDITED) FINANCIAL STATEMENTS FOR THE FIRST HALF OF 2020

(Unless specified otherwise, all amounts are denominated in RMB)

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.

NOTES TO (UNAUDITED) FINANCIAL STATEMENTS FOR THE FIRST HALF OF 2020

(Unless specified otherwise, all amounts are denominated in RMB)

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.

(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.

NOTES TO (UNAUDITED) FINANCIAL STATEMENTS FOR THE FIRST HALF OF 2020

(Unless specified otherwise, all amounts are denominated in RMB)

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(Continued)

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:

(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.

NOTES TO (UNAUDITED) FINANCIAL STATEMENTS FOR THE FIRST HALF OF 2020

(Unless specified otherwise, all amounts are denominated in RMB)

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(Continued)

36. Significant accounting judgements and estimates *(Continued)*

(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 the relevant assets, discount rates to be applied and the expected period of benefits.

(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.

NOTES TO (UNAUDITED) FINANCIAL STATEMENTS FOR THE FIRST HALF OF 2020

(Unless specified otherwise, all amounts are denominated in RMB)

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

No.

(2) Changes in significant accounting estimates and correction to accounting errors

No.

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
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 1
Enterprise income tax	Turnover tax to be paid	Note 2

Note 1: 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 2: The applicable enterprise income tax rates are 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 珠生物科技有限公司) and 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

NOTES TO (UNAUDITED) FINANCIAL STATEMENTS FOR THE FIRST HALF OF 2020

(Unless specified otherwise, all amounts are denominated in RMB)

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 issued by the State Administration of Taxation (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), have reapplied and recognised as the high and new technology enterprises for the Period; 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) are entitled to preferential income tax policies applicable to high and new technology enterprises since 2019 for a valid period of three years; Shanghai Livzon Biotechnology Co., Ltd. (上海麗珠生物科技股份有限公司) is entitled to preferential income tax 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 enterprise taxation 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) and Longxi Livzon Shenyuan Medicine Co., Ltd. (隴西麗珠參源藥材有限公司) are exempted from enterprise income tax.

NOTES TO (UNAUDITED) FINANCIAL STATEMENTS FOR THE FIRST HALF OF 2020

(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 2020, "End of the Period" refers to 30 June 2020; "Period" refers to January to June 2020 and "Previous Period" refers to January to June 2019 in the following notes (including major notes to the financial statements of the Company).

1. Monetary funds

Items	Balance at the End of the Period			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 :	–	–	220,030.43	–	–	126,821.79
RMB	–	–	202,497.43	–	–	109,590.98
Euro	1,579.87	7.9610	12,577.35	1,579.87	7.8155	12,347.47
USD	700.00	7.0795	4,955.65	700.00	6.9762	4,883.34
Bank deposits:	–	–	7,270,777,814.85	–	–	8,851,796,592.01
RMB	–	–	6,523,841,819.95	–	–	7,903,329,660.13
HKD	8,192,562.36	0.91344	7,483,414.14	14,642,464.71	0.89578	13,116,427.05
Euro	100,866.68	7.9610	802,999.64	102,814.97	7.8155	803,550.41
USD	104,035,481.61	7.0795	736,519,192.05	133,419,180.83	6.9762	930,758,889.31
MOP	2,401,791.51	0.8870	2,130,389.07	3,494,729.58	0.8703	3,041,463.15
Japanese Yen	0.00	0.065808	0.00	11,650,001.00	0.064086	746,601.96
Of bank deposits: deposit with financial companies	–	–	–	–	–	–
Other monetary funds:	–	–	10,681,746.30	–	–	3,484,988.98
RMB	–	–	9,463,211.72	–	–	1,601,286.68
HKD	1,334,006.16	0.91344	1,218,534.58	1,334,878.88	0.89578	1,195,757.80
USD	0.00	7.0795	0.00	98,613.07	6.9762	687,944.50
Total			7,281,679,591.58			8,855,408,402.78
In which: total overseas deposits			530,124,804.43			822,034,509.84

NOTES TO (UNAUDITED) FINANCIAL STATEMENTS FOR THE FIRST HALF OF 2020

(Unless specified otherwise, all amounts are denominated in RMB)

V. NOTES TO THE COMPONENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

1. Monetary funds (Continued)

- ① Other monetary funds are mainly deposits for investments and deposits under guarantee of letter of guarantee, letter of credit and futures hedging activities, etc.
- ② Frozen funds in bank deposits and restricted funds relating to deposits under guarantee of letter of guarantee, letter of credit and futures hedging activities in other monetary funds were deducted from cash and cash equivalents in the cash flow statement. Apart from these 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, is 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 Period	Balance at the Beginning of the Year
Deposits under guarantee	1,710,660.36	1,222,549.24
Total	1,710,660.36	1,222,549.24

2. Financial assets held for trading

(1) Classification

Item	Balance at the End of the Period	Balance at the Beginning of the Year
Financial assets held for trading	13,909,082.63	17,191,861.74
In which: Debt instrument investments	904,683.57	895,270.68
Equity instrument investments	12,924,652.40	14,198,906.96
Derivative financial assets	79,746.66	2,097,684.10
Total	13,909,082.63	17,191,861.74

- ① The Company's investments in equity instruments and debt instruments for financial assets held for trading at the End of the Period 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 day in the Reporting Period.
- ② Derivative financial assets represent foreign currency forward contracts and gains from unexpired contracts measured at fair value which were recognised as financial assets as at the balance sheet date.

- (2) No restrictive financial asset measured at fair value through profit or loss was realised in the ending balance.
- (3) No hedging instruments in the ending balance and no hedging transactions have occurred during the Period.

NOTES TO (UNAUDITED) FINANCIAL STATEMENTS FOR THE FIRST HALF OF 2020

(Unless specified otherwise, all amounts are denominated in RMB)

V. NOTES TO THE COMPONENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

3. Bills receivable

Types of bills	Balance at the End of the Period			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	1,025,868,016.01	0.00	1,025,868,016.01	952,945,194.97	0.00	952,945,194.97
Commercial acceptance bills	0.00	0.00	0.00	50,000.00	50,000.00	0.00
Total	1,025,868,016.01	0.00	1,025,868,016.01	952,995,194.97	50,000.00	952,945,194.97

(1) Pledged bills receivables at the End of the Period

Type	Pledged amount at the End of the Period
Bank acceptance bills	152,167,183.53
Total	152,167,183.53

As of 30 June 2020, bills with carrying amount of RMB152,167,183.53 (31 December 2019: RMB212,142,008.83) were pledged for bank acceptance bills.

(2) Endorsed or discounted bills receivables not yet mature as of the balance sheet date at the End of the Period

Type	Derecognized amount at the End of the Period	Amount not derecognized at the End of the Period
Bank acceptance bills not yet mature but already endorsed	150,135,344.97	—
Bank acceptance bills not yet mature but already discounted	—	—
Total	150,135,344.97	—

During the Period, the Company discounted RMB0.00 bank acceptance bills (Previous Period: RMB0.00) to a bank. As the main risks (such as interest rate risk) 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 (Previous Period: RMB0.00).

NOTES TO (UNAUDITED) FINANCIAL STATEMENTS FOR THE FIRST HALF OF 2020

(Unless specified otherwise, all amounts are denominated in RMB)

V. NOTES TO THE COMPONENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

3. Bills receivable (Continued)

(3) There were no bills transferred into account receivables for non-performance by the issuer as at the End of the Period.

(4) Classification by method of provision for bad debts

Category	Balance at the End of the Period					Balance at the Beginning of the Year				
	Gross amount		Provision for bad debt			Gross amount		Provision for bad debt		
	Percentage		Expected credit loss			Percentage		Expected credit loss		
	Amount	(%)	Amount	rate (%)	Carrying value	Amount	(%)	Amount	rate (%)	Carrying value
Provision for bad debt made on individual basis	0.00	0.00	0.00	0.00	0.00	50,000.00	0.01	50,000.00	100.00	0.00
In which:										
Commercial acceptance bills	0.00	0.00	0.00	0.00	0.00	50,000.00	0.01	50,000.00	100.00	0.00
Provision for bad debt made collectively	1,025,868,016.01	100.00	0.00	0.00	1,025,868,016.01	952,945,194.97	99.99	0.00	0.00	952,945,194.97
In which:										
Bank acceptance bills	1,025,868,016.01	100.00	0.00	0.00	1,025,868,016.01	952,945,194.97	99.99	0.00	0.00	952,945,194.97
Total	1,025,868,016.01	100.00	0.00	0.00	1,025,868,016.01	952,995,194.97	100.00	50,000.00	0.01	952,945,194.97

(5) Provision for bad debt made, recovered or reversed during the Period

	Amount of provision for bad debt
Balance at the Beginning of the Year	50,000.00
Provision made for the Period	0.00
Recovery or reversal for the Period	50,000.00
Write-off for the Period	0.00
Balance at the End of the Period	0.00

(6) There was no actual write-off of bills receivable for the Period.

NOTES TO (UNAUDITED) FINANCIAL STATEMENTS FOR THE FIRST HALF OF 2020

(Unless specified otherwise, all amounts are denominated in RMB)

V. NOTES TO THE COMPONENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

4. Account receivables

(1) Disclosed by aging analysis

Age	Balance at the End of the Period	Balance at the Beginning of the Year
Within 1 year		
In which: Within 3 months (including 3 months)	1,439,659,459.14	1,267,427,287.81
4-6 months (including 6 months)	183,272,171.63	158,989,752.29
7-12 months (including 12 months)	54,199,882.50	48,013,022.41
Subtotal within 1 year:	1,677,131,513.27	1,474,430,062.51
1-2 years (including 2 years)	30,928,151.58	26,691,843.97
2-3 years (including 3 years)	8,411,167.03	8,015,499.93
Over 3 years	13,880,675.93	16,240,758.37
Subtotal	1,730,351,507.81	1,525,378,164.78
Less: Provision for bad debt	55,260,991.90	52,939,228.52
Total	1,675,090,515.91	1,472,438,936.26

According to the credit policy of the Company, the Company usually grants a credit period ranging from 30 to 90 days to its customers.

(2) Disclosed by method of provision for bad debt

Category	Balance at the End of the Period					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 debt made on individual basis	4,612,603.73	0.27	4,612,603.73	100.00	0.00	5,324,302.69	0.35	5,324,302.69	100.00	0.00
In which:										
Due from other customers	4,612,603.73	0.27	4,612,603.73	100.00	0.00	5,324,302.69	0.35	5,324,302.69	100.00	0.00
Provision for bad debt made collectively	1,725,738,904.08	99.73	50,648,388.17	2.93	1,675,090,515.91	1,520,053,862.09	99.65	47,614,925.83	3.13	1,472,438,936.26
In which:										
Due from other customers	1,725,738,904.08	99.73	50,648,388.17	2.93	1,675,090,515.91	1,520,053,862.09	99.65	47,614,925.83	3.13	1,472,438,936.26
Total	1,730,351,507.81	100.00	55,260,991.90	3.19	1,675,090,515.91	1,525,378,164.78	100.00	52,939,228.52	3.47	1,472,438,936.26

NOTES TO (UNAUDITED) FINANCIAL STATEMENTS FOR THE FIRST HALF OF 2020

(Unless specified otherwise, all amounts are denominated in RMB)

V. NOTES TO THE COMPONENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

4. Account receivables (Continued)

(2) Disclosed by method of provision for bad debt (Continued)

Provision for bad debt made on an individual basis:

Description	Balance at the End of the Period			
	Gross amount	Provision for bad debts	Expected credit loss rate (%)	Reason for provision made
Payment for goods	4,612,603.73	4,612,603.73	100.00	Not expected to be recoverable
Total	4,612,603.73	4,612,603.73	100.00	

Provision for bad debt made collectively:

Item: Due from other customers

	Balance at the End of the Period		
	Account receivables	Provision for bad debt	Expected credit loss rate (%)
Within 3 months (including 3 months)	1,439,659,459.14	14,494,980.28	1.01
4-6 months (including 6 months)	183,272,171.63	9,115,395.45	4.97
7-12 months (including 12 months)	54,199,882.50	5,208,131.21	9.61
1-2 years (including 2 years)	30,928,151.58	6,542,184.63	21.15
2-3 years (including 3 years)	8,411,167.03	6,019,624.40	71.57
Over 3 years	9,268,072.20	9,268,072.20	100.00
Total	1,725,738,904.08	50,648,388.17	2.93

NOTES TO (UNAUDITED) FINANCIAL STATEMENTS FOR THE FIRST HALF OF 2020

(Unless specified otherwise, all amounts are denominated in RMB)

V. NOTES TO THE COMPONENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

4. Account receivables (Continued)

(3) Provision for bad debt made, recovered or reversed during the Period

	Amount of provision for bad debt
Balance at the Beginning of the Year	52,939,228.52
Provision made for the Period	6,584,632.20
Recovery or reversal for the Period	0.00
Write-off for the Period	4,263,651.38
Others	782.56
Balance at the End of the Period	55,260,991.90

As at 30 June 2020 and 31 December 2019, the Company had no overdue but unimpaired account receivables.

(4) Actual write-off of account receivables for the Period

Item	Amount written-off
Account receivables actually written off	4,263,651.38

(5) Aggregate amount of account receivables due from the top five parties at the End of the Period

The aggregate amount of account receivables due from the top five parties with the largest amounts at the End of the Period was RMB137,368,920.02 for the Period, representing 7.94% of the total amount of account receivables at the End of the Period, and the corresponding total balance of provision for bad debt at the End of the Period was RMB1,540,135.28.

(6) The Company has no derecognized account receivables due to the transfer of financial assets.

(7) The Company has no assets or liabilities formed by its continuous involvement of transferring account receivables

NOTES TO (UNAUDITED) FINANCIAL STATEMENTS FOR THE FIRST HALF OF 2020

(Unless specified otherwise, all amounts are denominated in RMB)

V. NOTES TO THE COMPONENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

5. Prepayments

(1) Disclosure of prepayments by aging analysis

Age	Balance at the End of the Period		Balance at the Beginning of the Year	
	Amount	Percentage (%)	Amount	Percentage (%)
Within 1 year	175,891,128.32	95.15	182,616,289.28	98.06
1-2 years	5,517,341.79	2.98	2,281,912.56	1.23
2-3 years	2,346,760.80	1.27	1,195,992.04	0.64
Over 3 years	1,102,423.74	0.60	137,728.28	0.07
Total	184,857,654.65	100.00	186,231,922.16	100.00

(2) Prepayments with five largest amounts by receivers of prepayments at the End of the Period

The aggregate amount of prepayments paid to the five largest receivers of prepayments at the End of the Period was RMB58,469,409.79 for the Period, representing 31.63% of the total balance of prepayments at the End of the Period.

6. Other receivables

Item	Balance at the End of the Period	Balance at the Beginning of the Year
Dividends receivable	258,229.48	11,475,000.00
Other receivables	169,801,796.71	80,373,022.04
Total	170,060,026.19	91,848,022.04

NOTES TO (UNAUDITED) FINANCIAL STATEMENTS FOR THE FIRST HALF OF 2020

(Unless specified otherwise, all amounts are denominated in RMB)

V. NOTES TO THE COMPONENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

6. Other receivables (Continued)

(1) Dividends receivable

Item	Balance at the End of the Period	Balance at the Beginning of the Year
Kunlun Energy (昆侖能源)	258,229.48	0.00
Guangdong Blue Treasure Pharmaceutical Co. Ltd. (廣東藍寶製藥有限公司)	0.00	11,475,000.00
Subtotal:	258,229.48	11,475,000.00
Less: Provision for bad debt	0.00	0.00
Total	258,229.48	11,475,000.00

(2) Other receivables

① Disclosure by aging analysis

Age	Balance at the End of the Period	Balance at the Beginning of the Year
Within 1 year		
In which: Within 3 months (including 3 months)	149,200,516.17	69,250,476.56
4-6 months (including 6 months)	10,036,722.16	4,726,783.91
7-12 months (including 12 months)	10,247,472.49	4,312,712.31
Subtotal within 1 year :	169,484,710.82	78,289,972.78
1-2 years	2,328,304.27	3,599,339.85
2-3 years	1,249,658.30	1,345,937.54
Over 3 years	7,311,662.54	7,118,503.43
Subtotal	180,374,335.93	90,353,753.60
Less: Provision for bad debt	10,572,539.22	9,980,731.56
Total	169,801,796.71	80,373,022.04

NOTES TO (UNAUDITED) FINANCIAL STATEMENTS FOR THE FIRST HALF OF 2020

(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)

② Disclosure by nature of amounts

Item	Balance at the End of the Period	Balance at the Beginning of the Year
Deposits under guarantee	667,523.73	764,547.20
Reserved fund	5,421,165.64	6,983,594.29
Related party balances	4,301,814.91	1,134,056.86
Borrowing due from external entities	5,000,000.00	5,000,000.00
Tax refund on exports	17,130,175.55	18,989,200.81
Lease expenses and deposits	2,020,669.78	2,037,670.75
Staff advances	37,706,483.87	26,559,073.37
Amounts of exercised options	96,174,824.32	0.00
Others	11,951,678.13	28,885,610.32
Total	180,374,335.93	90,353,753.60

③ Provision for bad debt

At the End of the Period, the provision for bad debt in Step 1 was as follows:

Category	Gross amount	Expected credit loss rate over the next 12 months (%)	Provision for bad debt	Carrying value	Reason
Provision for bad debt made on individual basis	96,433,053.80	0.00	0.00	96,433,053.80	
Dividends receivable	258,229.48	0.00	0.00	258,229.48	Recoverable
Amounts of exercised options	96,174,824.32	0.00	0.00	96,174,824.32	Recoverable
Provision for bad debt made collectively	0.00	0.00	0.00	0.00	—
Total	96,433,053.80	0.00	0.00	96,433,053.80	

NOTES TO (UNAUDITED) FINANCIAL STATEMENTS FOR THE FIRST HALF OF 2020

(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 for bad debt (Continued)

At the End of the Period, the provision for bad debt in Step 2 was as follows:

Category	Gross amount	Expected credit loss rate over the lifetime (%)	Provision for bad debt	Carrying value	Reason
Provision for bad debt made on individual basis	0.00	0.00	0.00	0.00	—
Provision for bad debt made collectively	83,226,659.70	11.53	9,599,687.31	73,626,972.39	
Other receivables	83,226,659.70	11.53	9,599,687.31	73,626,972.39	
Total	83,226,659.70	11.53	9,599,687.31	73,626,972.39	

At the End of the Period, the provision for bad debt in Step 3 was as follows:

Category	Gross amount	Expected credit loss rate over the lifetime (%)	Provision for bad debt	Carrying value	Reason
Provision for bad debt made on individual basis	972,851.91	100.00	972,851.91	0.00	
Other receivables	972,851.91	100.00	972,851.91	0.00	Not expected to be recoverable
Provision for bad debt made collectively	0.00	0.00	0.00	0.00	—
Total	972,851.91	100.00	972,851.91	0.00	

NOTES TO (UNAUDITED) FINANCIAL STATEMENTS FOR THE FIRST HALF OF 2020

(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 Period

	Step 1	Step 2	Step 3	
	Expected	Expected	Expected	
	credit loss	credit loss	credit loss	
	over the	over the	over the	
	next	lifetime	lifetime (with	
	12 months	(without	impairment	
Provision for bad debt	of credit)	of credit)	of credit)	Total
Balance at the Beginning of the Year	0.00	9,007,879.65	972,851.91	9,980,731.56
Movements of balance at the Beginning of the Year during the Period				
– Transferred to Step 2	0.00	0.00	0.00	0.00
– Transferred to Step 3	0.00	-53,050.03	53,050.03	0.00
– Reversed to Step 2	0.00	0.00	0.00	0.00
– Reversed to Step 1	0.00	0.00	0.00	0.00
Provision made for the Period	0.00	650,687.12	0.00	650,687.12
Reversals during the Period	0.00	0.00	0.00	0.00
Settlement during the Period	0.00	0.00	0.00	0.00
Write-off during the Period	0.00	0.00	53,050.03	53,050.03
Other changes	0.00	-5,829.43	0.00	-5,829.43
Balance at the End of the Period	0.00	9,599,687.31	972,851.91	10,572,539.22

- ⑤ Other receivables actually written off during the Period

Item	Amount written off
Other receivables actually written off	53,050.03

NOTES TO (UNAUDITED) FINANCIAL STATEMENTS FOR THE FIRST HALF OF 2020

(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)

- ⑥ Aggregate amount of other receivables due from the top five parties with the largest amounts at the End of the Period

Name of entity	Nature of amount	Balance of other receivables at the End of the Period	Age	Percentage in the total balance of other receivables at the End of the Period (%)	Provision for bad debts at the end of the Period
China Securities Depository and Clearing Corporation Limited (Shenzhen Branch) (中國證券登記結算深圳分公司)	Amount of exercised options	96,174,824.32	Within 3 months	53.32	0.00
Tax refunds on exports	Export tax refund	17,130,175.55	Within 3 months	9.50	161,412.95
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	2.77	5,000,000.00
Shenzhen Haibin Pharmaceutical Co., Ltd. (深圳市海濱製藥有限公司)	Processing fees	2,473,474.10	Within 3 months	1.37	24,982.09
Guangdong Blue Treasure Pharmaceutical Co., Ltd. (廣東藍寶製藥有限公司)	Power costs	1,724,289.12	Within 3 months	0.96	23,795.19
Total	-	122,502,763.09	-	67.92	5,210,190.23

- ⑦ The Company has not derecognised other receivables due to the transfer of financial assets.
- ⑧ The Company has no assets or liabilities formed by its continuous involvement of transferring other receivables.

NOTES TO (UNAUDITED) FINANCIAL STATEMENTS FOR THE FIRST HALF OF 2020

(Unless specified otherwise, all amounts are denominated in RMB)

V. NOTES TO THE COMPONENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

7. Inventories

(1) Inventories by types

Item	Balance at the End of the Period			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	415,597,904.71	7,570,761.42	408,027,143.29	308,065,385.96	4,836,258.42	303,229,127.54
Packaging materials	47,568,600.87	569,222.11	46,999,378.76	31,562,625.12	465,535.36	31,097,089.76
Goods in process	176,254,910.97	109,034.00	176,145,876.97	201,840,567.02	793,333.83	201,047,233.19
Finished goods	756,859,124.40	15,254,593.88	741,604,530.52	609,311,319.20	32,898,441.11	576,412,878.09
Sub-contracting materials	405,869.04	0.00	405,869.04	3,133,458.48	0.00	3,133,458.48
Low-value consumables	18,131,617.63	53,080.34	18,078,537.29	15,268,908.53	55,772.65	15,213,135.88
Goods in transit	1,357,028.59	0.00	1,357,028.59	0.00	0.00	0.00
Consumable biological assets	11,558,959.70	0.00	11,558,959.70	11,248,048.47	0.00	11,248,048.47
Proprietary semi-finished goods	30,322,629.78	867,455.18	29,455,174.60	28,696,528.65	1,223,163.03	27,473,365.62
Total	1,458,056,645.69	24,424,146.93	1,433,632,498.76	1,209,126,841.43	40,272,504.40	1,168,854,337.03

(2) Provision for diminution in value of inventories

Item	Balance at the Beginning of the Year	Increase during the Period		Decrease during the Period		Balance at the End of the Period
		Provision	Other	Reversed or written off	Other	
Raw materials	4,836,258.42	3,304,261.29	0.00	569,758.29	0.00	7,570,761.42
Packaging materials	465,535.36	266,475.00	0.00	162,788.25	0.00	569,222.11
Work in progress	793,333.83	0.00	0.00	684,299.83	0.00	109,034.00
Finished goods	32,898,441.11	9,518,749.12	0.00	27,162,596.35	0.00	15,254,593.88
Low-value consumables	55,772.65	0.00	0.00	2,692.31	0.00	53,080.34
Proprietary semi-finished goods	1,223,163.03	0.00	0.00	355,707.85	0.00	867,455.18
Total	40,272,504.40	13,089,485.41	0.00	28,937,842.88	0.00	24,424,146.93

NOTES TO (UNAUDITED) FINANCIAL STATEMENTS FOR THE FIRST HALF OF 2020

(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)

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 Period
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	Restore in value
Proprietary semifinished goods	The estimated selling price less the estimated costs of completion, selling expenses and related taxes	Sale and discard

(3) In the balance at the End of the Period 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 Period	Balance at the Beginning of the Year
Long-term receivables due within one year	17,714,375.71	17,497,288.62
Total	17,714,375.71	17,497,288.62

NOTES TO (UNAUDITED) FINANCIAL STATEMENTS FOR THE FIRST HALF OF 2020

(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 Period	Balance at the Beginning of the Year
Input VAT pending deduction/attestation	2,514,762.50	3,752,087.13
Remaining VAT credit	9,450,994.13	11,021,418.29
Advance payment of income tax	3,419,394.63	2,522,423.64
Cash management	95,893,516.39	93,481,080.00
Profit or loss from assets to be processed	1,221,777.74	9,433.96
Total	112,500,445.39	110,786,443.02

10. Long-term receivables

(1) Long-term receivables by nature

Item	Balance at the End of the Period			Balance at the Beginning of the Year			
	Gross amount	Provision for bad debts	Carrying value	Gross amount	Provision for bad debts	Carrying value	Range of discount rate
Receivables from equity transferred by installments	11,217,087.09	0.00	11,217,087.09	28,325,432.25	0.00	28,325,432.25	5%
Sub-total	11,217,087.09	0.00	11,217,087.09	28,325,432.25	0.00	28,325,432.25	
Less: Long-term receivables due within one year	11,217,087.09	0.00	11,217,087.09	17,497,288.62	0.00	17,497,288.62	
Total	0.00	0.00	0.00	10,828,143.63	0.00	10,828,143.63	

(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.

NOTES TO (UNAUDITED) FINANCIAL STATEMENTS FOR THE FIRST HALF OF 2020

(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 Period							Balance at the End of the Period	Balance of provision for impairment at the End of the Period
	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
Sub-total	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
Guangdong Blue Treasure Pharmaceutical Co. Ltd. (廣東藍寶製藥有限公司)	54,537,507.79	0.00	0.00	10,082,174.35	0.00	0.00	0.00	0.00	0.00
Jiangsu Ni Ke Medical Device Co., Ltd. (江蘇尼科醫療器械有限公司)	33,238,786.35	0.00	31,731,160.45	-1,507,625.90	0.00	0.00	0.00	0.00	0.00
Shenzhen City Youbao Technology Co., Ltd. (深圳市有寶科技有限公司)	1,040,361.07	0.00	0.00	30,228.73	0.00	0.00	0.00	0.00	0.00
AbCyte Therapeutics Inc. L&L Biopharma, Co. Ltd. (上海健信生物醫藥科技有限公司)	16,248,448.08 15,450,185.07	0.00 0.00	0.00 0.00	-569,845.48 -1,645,491.97	0.00 0.00	0.00 0.00	0.00 0.00	0.00 0.00	0.00 0.00
DOSERNA INC Zhuhai Sammed Biotech Inc.* (珠海聖美生物診斷技術有限公司)	5,916,586.07 26,021,081.94	0.00 0.00	0.00 0.00	-72,042.58 -9,972,377.44	0.00 0.00	0.00 0.00	0.00 0.00	0.00 0.00	0.00 0.00
Aetio Biotherapy Inc. Livzon Gene Diagnostics Inc. (珠海市麗珠基因檢測科技有限公司)	19,046,032.19 0.00	0.00 15,000,000.00	0.00 0.00	-806,769.94 -241,080.69	0.00 0.00	0.00 0.00	0.00 0.00	0.00 0.00	0.00 0.00
Sub-total	172,698,988.56	15,000,000.00	31,731,160.45	-4,702,830.92	0.00	0.00	0.00	0.00	0.00
Total	172,698,988.56	15,000,000.00	31,731,160.45	-4,702,830.92	0.00	0.00	0.00	0.00	0.00

NOTES TO (UNAUDITED) FINANCIAL STATEMENTS FOR THE FIRST HALF OF 2020

(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 Period	Balance at the Beginning of the Year
LUNGLIFE AI, INC.	3,256,569.07	3,209,525.99
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	112,172,260.00
Shanghai Haixin Pharmaceutical Co., Ltd. (上海海欣醫藥股份有限公司)	500,000.00	500,000.00
GLOBAL HEALTH SCIENCE	239,612,729.46	219,218,806.41
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.	14,866,945.74	14,652,183.88
SCC VENTURE VII 2018-C,L.P.	36,105,439.66	35,583,875.14
Nextech V Oncology S.C.S., SICAV-SIF	25,999,898.29	23,057,656.50
Yizun Biopharmaceutics (Shanghai) Co., Ltd. (羿尊生物醫藥(上海)有限公司)	30,000,000.00	30,000,000.00
Zhuhai Medpha Biotechnology Co., Ltd. (珠海麥得發生物科技股份有限公司)	1,000,000.00	1,000,000.00
Zhuhai Lifanda Biotechnology Co., Ltd. (珠海麗凡達生物技術有限公司)	280,000.00	280,000.00
ELICIO THERAPEUTICS, INC.	35,397,489.86	34,886,152.10
Jiangsu Atom Bioscience and Pharmaceutical Co., Ltd. (江蘇新元素醫藥科技有限公司)	70,091,000.00	0.00
Total	574,459,680.92	479,737,808.86

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.

NOTES TO (UNAUDITED) FINANCIAL STATEMENTS FOR THE FIRST HALF OF 2020

(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)

Item	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)	0.00	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)	25,000.00	0.00	0.00	0.00	—
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	1,326,326.46	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 Medpha Biotechnology 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	—
Jiangsu Atom Bioscience and Pharmaceutical Co., Ltd. (江蘇新元素醫藥科技有限公司)	0.00	0.00	0.00	0.00	—

13. Fixed assets

Item	Balance at the End of the Period	Balance at the Beginning of the Year
Fixed assets	3,335,758,118.28	3,160,096,367.19
Disposal of fixed assets	0.00	0.00
Total	3,335,758,118.28	3,160,096,367.19

NOTES TO (UNAUDITED) FINANCIAL STATEMENTS FOR THE FIRST HALF OF 2020

(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	2,894,343,158.23	2,452,068,833.01	75,781,355.61	361,392,294.26	5,783,585,641.11
2. Additions for the Period	103,013,017.02	264,101,383.69	1,260,990.31	19,823,162.05	388,198,553.07
(1) Acquisition	15,461,882.04	66,721,305.06	985,786.59	19,427,610.92	102,596,584.61
(2) Construction in progress transferred	87,551,134.98	197,380,078.63	0.00	395,551.13	285,326,764.74
(3) Others	0.00	0.00	275,203.72	0.00	275,203.72
3. Decrease for the Period	21,713,429.84	35,052,225.63	1,410,829.00	5,386,930.45	63,563,414.92
(1) Disposal or written-off	21,713,429.84	22,018,170.56	1,410,829.00	4,250,359.96	49,392,789.36
(2) Change in scope for consolidation	0.00	13,034,055.07	0.00	1,136,570.49	14,170,625.56
4. Balance at the End of the Period	2,975,642,745.41	2,681,117,991.07	75,631,516.92	375,828,525.86	6,108,220,779.26
II. Accumulated depreciation					
1. Balance at the Beginning 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
2. Additions for the Period	69,322,763.03	92,516,096.66	4,308,782.42	19,817,260.27	185,964,902.38
(1) Provision	69,322,763.03	92,516,096.66	4,050,901.63	19,817,260.27	185,707,021.59
(2) Other additions	0.00	0.00	257,880.79	0.00	257,880.79
3. Decrease for the Year	3,427,374.12	18,273,210.81	1,249,138.83	3,779,623.89	26,729,347.65
(1) Disposal or written-off	3,427,374.12	15,163,861.95	1,249,138.83	3,378,344.54	23,218,719.44
(2) Change in scope for consolidation	0.00	3,109,348.86	0.00	401,279.35	3,510,628.21
4. Balance at the End of the Period	1,007,748,783.09	1,399,102,283.00	53,851,819.00	257,967,345.15	2,718,670,230.24
III. Impairment provision					
1. Balance at the Beginning of the Year	30,776,742.25	31,756,451.49	72,835.46	1,448,569.21	64,054,598.41
2. Additions for the Period	179,328.33	0.00	0.00	9,655.43	188,983.76
(1) Provision	179,328.33	0.00	0.00	9,655.43	188,983.76
3. Decrease for the Period	9,312,532.57	1,057,693.23	0.00	80,925.63	10,451,151.43
(1) Disposal or written-off	9,312,532.57	1,057,693.23	0.00	80,925.63	10,451,151.43
4. Balance at the End of the Period	21,643,538.01	30,698,758.26	72,835.46	1,377,299.01	53,792,430.74
IV. Carrying amounts					
1. Carrying amount at the End of the Period	1,946,250,424.31	1,251,316,949.81	21,706,862.46	116,483,881.70	3,335,758,118.28
2. Carrying amount at the Beginning 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

During the Period, the amount of depreciation was RMB185,707,021.59 (Previous Period: RMB174,286,679.08).

NOTES TO (UNAUDITED) FINANCIAL STATEMENTS FOR THE FIRST HALF OF 2020

(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	65,591,806.97	24,765,340.43	0.00	40,826,466.54	
Machinery and equipment	33,299,612.80	24,583,289.35	4,524,116.81	4,192,206.64	
Electronic devices and others	4,293,964.39	3,981,242.99	79,537.11	233,184.29	
Total	103,185,384.16	53,329,872.77	4,603,653.92	45,251,857.47	

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	1,229,870.08
Machinery and equipment	6,452,369.90
Electronic devices and others	16,238,554.49
Total	23,920,794.47

⑤ Fixed assets with pending certificates for ownership

Item	Carrying amount	Reason for pending certificates for ownership
Plant and building	440,674,258.92	Being in progress

NOTES TO (UNAUDITED) FINANCIAL STATEMENTS FOR THE FIRST HALF OF 2020

(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 Period	Balance at the Beginning of the Year
Construction in progress	182,591,585.75	233,489,857.85
Construction supplies	0.00	0.00
Total	182,591,585.75	233,489,857.85

(1) Construction in progress

① Breakdown of construction in progress

Item	Balance at the End of the Period			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)	31,518,284.69	0.00	31,518,284.69	10,066,340.20	0.00	10,066,340.20
Improvement Project of Workshop of Hecheng Co. (合成公司車間改造項目)	4,608,144.03	0.00	4,608,144.03	1,993,880.22	0.00	1,993,880.22
Fuxing Company second phase project (福興公司二期項目)	446,510.00	0.00	446,510.00	25,649,773.33	0.00	25,649,773.33
Project of Shijiao New Factory (石角新廠項目)	44,973,525.46	0.00	44,973,525.46	13,679,116.59	0.00	13,679,116.59
Transformation Project of Pharmaceutical Factory Workshop (藥廠車間改造項目)	10,833,683.04	0.00	10,833,683.04	44,568,865.34	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)	29,921.86	0.00	29,921.86	80,123,187.68	0.00	80,123,187.68
Others	90,350,857.13	169,340.46	90,181,516.67	57,578,034.95	169,340.46	57,408,694.49
Total	182,760,926.21	169,340.46	182,591,585.75	233,659,198.31	169,340.46	233,489,857.85

NOTES TO (UNAUDITED) FINANCIAL STATEMENTS FOR THE FIRST HALF OF 2020

(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 Period	Transferred to fixed asset	Other deduction	Accumulated amount of the interest capitalised	In which: Interest capitalised for the Period	Interest capitalized rate for the Period (%)	Balance at the End of the Period
Guangda New Factory Project (光大新廠項目)	10,066,340.20	21,451,944.49	0.00	0.00	0.00	0.00	0.00	31,518,284.69
Improvement Project of Workshop of Hecheng Co. (合成公司車間改造項目)	1,993,880.22	2,614,263.81	0.00	0.00	0.00	0.00	0.00	4,608,144.03
Fuxing Company second phase project (福興公司二期項目)	25,649,773.33	36,327,015.58	61,530,278.91	0.00	0.00	0.00	0.00	446,510.00
Project of Shijiao New Factory (石角新廠項目)	13,679,116.59	36,442,897.34	5,148,488.47	0.00	0.00	0.00	0.00	44,973,525.46
Transformation Project of Pharmaceutical Factory Workshop (藥廠車間改造項目)	44,568,865.34	15,413,664.97	49,148,847.27	0.00	0.00	0.00	0.00	10,833,683.04
Pharmaceutical Factory (麗珠集團麗珠製藥廠微球車間建設項目)	80,123,187.68	42,085,582.37	122,178,848.19	0.00	0.00	0.00	0.00	29,921.86
Others	57,578,034.95	80,894,968.02	47,320,301.90	801,843.94	0.00	0.00	0.00	90,350,857.13
Total	233,659,198.31	235,230,336.58	285,326,764.74	801,843.94	0.00	0.00	0.00	182,760,926.21

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	4.88	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	93.67	Completion of some projects	Self-funding
Fuxing Company second phase project (福興公司二期項目)	258,256,114.30	24.00	Completion of some projects	Self-funding
Project of Shijiao New Factory (石角新廠項目)	377,005,000.00	13.29	Under construction	Self-funding and funds raised
Transformation Project of Pharmaceutical Factory Workshop (藥廠車間改造項目)	162,848,000.00	36.83	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)	262,445,000.00	46.57	Completion of some projects	Self-funding and funds raised
Others	—	—	—	Self-funding
Total	1,711,473,414.30	—	—	—

Other deduction mainly refers to transfer of long-term deferred expenses.

NOTES TO (UNAUDITED) FINANCIAL STATEMENTS FOR THE FIRST HALF OF 2020

(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 right	Patent and Technical know-how	Software	Trademark rights	Others	Total
I. Original book value						
1. Balance at the Beginning 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
2. Additions for the Period	0.00	12,719,066.18	2,189,944.82	0.00	0.00	14,909,011.00
(1) Acquisition	0.00	10,110,063.24	2,189,944.82	0.00	0.00	12,300,008.06
(2) Internal R&D	0.00	2,609,002.94	0.00	0.00	0.00	2,609,002.94
3. Decrease for the Period	0.00	0.00	1,609,353.61	0.00	0.00	1,609,353.61
(1) Disposal	0.00	0.00	1,609,353.61	0.00	0.00	1,609,353.61
4. Balance at the End of the Period	267,839,618.26	224,557,918.68	47,633,268.31	24,000.00	10,985,294.53	551,040,099.78
II. Accumulated amortisation						
1. Balance at the Beginning 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
2. Additions for the Period	2,500,176.58	2,822,815.52	2,435,623.75	0.00	549,264.72	8,307,880.57
(1) Provision	2,500,176.58	2,822,815.52	2,435,623.75	0.00	549,264.72	8,307,880.57
3. Decrease for the Period	0.00	0.00	1,609,353.61	0.00	0.00	1,609,353.61
(1) Disposal	0.00	0.00	1,609,353.61	0.00	0.00	1,609,353.61
4. Balance at the End of the Period	79,812,371.12	184,250,872.65	35,664,721.69	24,000.00	3,936,397.19	303,688,362.65
III. Provision for impairment						
1. Balance at the Beginning of the Year	981,826.94	10,209,166.76	0.00	0.00	0.00	11,190,993.70
2. Additions for the Period	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 Period	0.00	0.00	0.00	0.00	0.00	0.00
(1) Others	0.00	0.00	0.00	0.00	0.00	0.00
4. Balance at the End of the Period	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 Period	187,045,420.20	30,097,879.27	11,968,546.62	0.00	7,048,897.34	236,160,743.43
2. Carrying amount at the Beginning 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

Amortisation for the Period is RMB8,307,880.57 (RMB8,085,037.60 in the Previous Period).

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 Period is 6.26%.

NOTES TO (UNAUDITED) FINANCIAL STATEMENTS FOR THE FIRST HALF OF 2020

(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	4,352,650.04	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 Period		Decrease for the Period		Balance at the End of the Period
		Internal development expenditure	Other increase	Recognised as intangible assets	Recognised in profit or loss for the current period	
Biologics	128,082,430.27	39,323,754.22	0.00	0.00	0.00	167,406,184.49
Chemical drug preparation	20,421,590.22	1,073,271.38	0.00	2,609,002.94	0.00	18,885,858.66
Total	148,504,020.49	40,397,025.60	0.00	2,609,002.94	0.00	186,292,043.15

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

NOTES TO (UNAUDITED) FINANCIAL STATEMENTS FOR THE FIRST HALF OF 2020

(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 Period		Decrease for the Period		Balance at the End of the Period
		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 Period		Decrease for the Period		Balance at the End of the Period
		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

NOTES TO (UNAUDITED) FINANCIAL STATEMENTS FOR THE FIRST HALF OF 2020

(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)

Goodwill of the Company arose from its business combination involving enterprises not under common control in previous years.

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.

NOTES TO (UNAUDITED) FINANCIAL STATEMENTS FOR THE FIRST HALF OF 2020

(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 Period	Decrease for the Period		Balance at the End of the Period
			Amortisation for the Period	Other decrease	
Overhaul costs of fixed assets	5,549,715.18	3,953,872.60	2,089,506.81	0.00	7,414,080.97
Renovation costs of offices	18,325,647.11	1,242,264.11	1,563,533.85	1,521,490.34	16,482,887.03
Renovation costs of plants	73,321,191.55	4,032,943.34	3,246,965.36	0.00	74,107,169.53
Resins and fillers	11,970,142.90	3,480,088.51	3,564,605.86	0.00	11,885,625.55
Others	2,174,016.75	1,071,949.32	256,911.02	100,703.65	2,888,351.40
Total	111,340,713.49	13,781,117.88	10,721,522.90	1,622,193.99	112,778,114.48

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 Period		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	191,815,939.59	29,693,876.74	214,519,462.30	32,694,034.01
Accrued expenses	333,827,355.65	51,575,760.58	318,335,983.06	49,340,282.63
Deductible loss	14,666,359.81	2,199,953.97	55,912,256.31	8,683,035.79
Deferred income	226,479,945.03	33,971,991.75	235,440,184.36	35,316,027.66
Gains from unrealized intracompany transactions	459,803,335.04	68,970,500.26	359,954,727.97	53,993,209.20
Share incentive cost	29,123,398.36	4,368,510.31	17,535,316.39	2,630,814.70
Changes in fair value	759,405.40	147,338.70	13,916.00	2,087.40
Other deductible temporary difference	44,872,182.09	6,730,827.32	0.00	0.00
Sub-total	1,301,347,920.97	197,658,759.63	1,201,711,846.39	182,659,491.39
Deferred income tax liabilities:				
Valuation of financial instruments held for trading and derivative financial instruments	9,482,682.35	1,422,402.35	10,261,839.54	1,577,935.72
Changes in fair value of other equity instruments reclassified into other comprehensive income	87,532,540.51	13,890,171.68	65,981,056.41	10,334,176.80
Long-term equity investments under equity method	25,220,005.40	3,783,000.81	31,618,026.12	4,742,703.92
Accelerated depreciation of fixed assets	555,714,743.45	83,685,763.83	436,636,136.75	65,689,141.76
Gains from unrealized intracompany transactions	56,940,000.00	8,541,000.00	56,940,000.00	8,541,000.00
Sub-total	734,889,971.71	111,322,338.67	601,437,058.82	90,884,958.20

NOTES TO (UNAUDITED) FINANCIAL STATEMENTS FOR THE FIRST HALF OF 2020

(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 Period	Balance at the Beginning of the Year
Deductible temporary difference	288,886,058.18	307,751,097.06
Deductible loss	1,040,692,640.89	924,622,580.83
Total	1,329,578,699.07	1,232,373,677.89

(3) Deductible loss of deferred income tax assets not recognised will be due in the following years

Year	Balance at the End of the Period	Balance at the Beginning of the Year	Note
2020	47,491,873.28	47,491,873.28	
2021	94,405,938.69	97,337,885.51	
2022	138,309,668.67	138,177,103.20	
2023	210,594,144.25	210,580,038.62	
2024	387,417,791.29	392,706,421.60	
2025	145,560,441.60	0.00	
2027	0.00	635,203.47	
2028	0.00	8,935,708.33	
2029	0.00	15,136,971.03	
2032	1,245,859.22	1,245,859.22	
2033	6,578,221.60	6,578,221.60	
2034	2,841,372.33	2,841,372.33	
2035	613,570.38	0.00	
Indefinite	5,633,759.58	2,955,922.64	
Total	1,040,692,640.89	924,622,580.83	

NOTES TO (UNAUDITED) FINANCIAL STATEMENTS FOR THE FIRST HALF OF 2020

(Unless specified otherwise, all amounts are denominated in RMB)

V. NOTES TO THE COMPONENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

20. Other non-current assets

Item	Balance at the End of the Period	Balance at the Beginning of the Year
Remaining VAT credit	33,579,080.58	27,809,784.46
Prepayment for acquisition of project and equipment	127,921,249.06	136,915,395.63
Prepayment for acquisition of technical know-how	96,206,769.70	107,780,026.19
Total	257,707,099.34	272,505,206.28

21. Short-term loans

(1) Classification of short-term loans

Item	Balance at the End of the Period	Balance at the Beginning of the Year
Loans on credit	200,000,000.00	1,151,369,666.66
Loans on guarantee	70,884,146.53	209,470,990.66
Total	270,884,146.53	1,360,840,657.32

(2) The Company has no outstanding and overdue short-term loans.

22. Financial liabilities held for trading

Item	Balance at the End of the Period	Balance at the Beginning of the Year
Financial liabilities held for trading	1,282,966.22	13,916.00
In which:		
Derivative financial liabilities	1,282,966.22	13,916.00
Total	1,282,966.22	13,916.00

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.

NOTES TO (UNAUDITED) FINANCIAL STATEMENTS FOR THE FIRST HALF OF 2020

(Unless specified otherwise, all amounts are denominated in RMB)

V. NOTES TO THE COMPONENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

23. Bills payables

Type	Balance at the End of the Period	Balance at the Beginning of the Year
Bank acceptance bills	685,537,355.25	715,986,816.20
Total	685,537,355.25	715,986,816.20

There are no mature but unpaid bills payables for the Company for the Period.

24. Accounts payables

Item	Balance at the End of the Period	Balance at the Beginning of the Year
Within 3 months (including 3 months)	569,238,063.21	415,945,057.12
4 to 6 months (including 6 months)	30,563,214.97	55,979,763.56
7 to 12 months (including 12 months)	24,246,663.56	32,189,218.73
1 to 2 years (including 2 years)	14,333,014.55	10,985,075.55
Over 2 years	22,796,042.58	32,003,810.03
Total	661,176,998.87	547,102,924.99

As at the End of the Period, there was no important accounts payables ageing over 1 year.

25. Contract liabilities

Item	Balance at the End of the Period	Balance at the Beginning of the Year
Within 1 year	90,060,980.50	124,625,218.73
Over 1 year	20,569,381.92	27,139,931.80
Total	110,630,362.42	151,765,150.53

NOTES TO (UNAUDITED) FINANCIAL STATEMENTS FOR THE FIRST HALF OF 2020

(Unless specified otherwise, all amounts are denominated in RMB)

V. NOTES TO THE COMPONENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

25. Contract liabilities (Continued)

Of which, important contract liabilities ageing over 1 year

Item	Balance at the End of the Period	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)	4,699,474.19	The other party has not requested
for delivery Hunan Provincial Health Commission (湖南省衛生健康委員會)	2,217,708.62	The other party has not requested for delivery
Total	6,917,182.81	

The amount of income recognized in the Period which is included in the carrying amount of the contract liabilities at the beginning of the year is RMB89,137,463.27.

26. Employee benefits payables

Item	Balance at the Beginning of the Year	Increase for the Period	Decrease for the Period	Balance at the End of the Period
Short-term salary	276,125,277.73	568,572,353.52	572,597,918.68	272,099,712.57
Post-resignation benefits-defined contribution plans	94,177.19	16,320,873.22	16,051,389.46	363,660.95
Dismiss benefits	1,898,457.00	1,730,499.07	2,230,956.07	1,398,000.00
Other benefits due within 1 year	0.00	43,017.46	43,017.46	0.00
Total	278,117,911.92	586,666,743.27	590,923,281.67	273,861,373.52

(1) Short-term salary

Item	Balance at the Beginning of the Year	Additions for the Period	Decrease for the Period	Balance at the End of the Period
Salaries, bonuses, allowances and subsidies	230,803,045.49	493,328,019.41	527,769,774.75	196,361,290.15
Employee welfare	802,986.20	20,073,474.28	19,817,854.37	1,058,606.11
Social insurance	50,921.30	9,430,708.90	9,418,472.27	63,157.93
In which: 1. Medical insurances	37,838.63	8,353,722.23	8,348,996.69	42,564.17
2. Work-related injury insurances	8,101.39	366,389.37	359,274.10	15,216.66
3. Maternity insurances	4,981.28	710,597.30	710,201.48	5,377.10
Housing funds	226,085.00	15,038,949.38	14,624,057.50	640,976.88
Labour union fees and employee education fees	47,699.16	1,012,427.39	967,759.79	92,366.76
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	44,194,540.58	29,688,774.16	0.00	73,883,314.74
Total	276,125,277.73	568,572,353.52	572,597,918.68	272,099,712.57

NOTES TO (UNAUDITED) FINANCIAL STATEMENTS FOR THE FIRST HALF OF 2020

(Unless specified otherwise, all amounts are denominated in RMB)

V. NOTES TO THE COMPONENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

26. Employee benefits payables (Continued)

(2) Defined contribution plans

Item	Balance at the Beginning of the Year	Increase for the Period	Decrease for the Period	Balance at the End of the Period
Post-resignation benefits	94,177.19	16,320,873.22	16,051,389.46	363,660.95
In which: 1. Basic pension insurance	87,754.77	15,778,425.47	15,517,602.37	348,577.87
2. Unemployment insurance	6,422.42	542,447.75	533,787.09	15,083.08
Total	94,177.19	16,320,873.22	16,051,389.46	363,660.95

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.

27. Taxes payables

Item	Balance at the End of the Period	Balance at the Beginning of the Year
Value added tax	58,594,448.20	71,947,331.03
Urban maintenance and construction tax	5,449,919.46	3,570,666.23
Enterprise income tax	152,775,995.68	138,656,871.51
Property tax	7,595,446.44	2,989,371.15
Land use tax	2,057,776.89	886,913.11
Individual income tax	5,783,236.76	1,467,775.94
Stamp duty	476,802.97	349,942.67
Education surcharges	3,843,544.72	2,963,016.66
Flood prevention fee	20,300.76	20,300.76
Others	363,206.81	487,336.15
Total	236,960,678.69	223,339,525.21

NOTES TO (UNAUDITED) FINANCIAL STATEMENTS FOR THE FIRST HALF OF 2020

(Unless specified otherwise, all amounts are denominated in RMB)

V. NOTES TO THE COMPONENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

28. Other payables

Item	Balance at the End of the Period	Balance at the Beginning of the Year
Dividends payable	27,111,254.90	90,179,524.72
Other payables	2,034,878,297.97	1,926,310,976.82
Total	2,061,989,552.87	2,016,490,501.54

(1) Dividends payable

Item	Balance at the End of the Period	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	3,311,300.00
Staff shares of subsidiaries	2,419,800.00	2,419,800.00
Zhuhai Zhenghe Co., Ltd. (珠海正禾企業有限公司)	0.00	81,760,934.22
Topsino Industries Limited (天誠實業有限公司)	18,692,664.40	0.00
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	1,466,606.04
Total	27,111,254.90	90,179,524.72

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	—

NOTES TO (UNAUDITED) FINANCIAL STATEMENTS FOR THE FIRST HALF OF 2020

(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

Item	Balance at the End of the Period	Balance at the Beginning of the Year
Office expenses	56,665,470.33	62,531,895.56
Deposits under guarantees	108,697,209.02	74,422,212.64
Business promotion expenses	1,141,196,264.18	1,080,999,482.25
Technology transfer funds	3,217,513.02	3,356,753.82
Related party balances	7,485,716.61	7,106,655.80
Accrued expenses	679,703,022.01	664,512,411.31
Others	37,913,102.80	33,381,565.44
Total	2,034,878,297.97	1,926,310,976.82

The obligations of repurchasing restricted shares of the Directors, the senior management and their spouses amounted to RMB0.00 at the End of the Period.

Of which, the breakdown of accrued expenses were as follows:

Item	Balance at the End of the Period	Balance at the Beginning of the Year	Reason for outstanding at the End of the Period
Utilities expenses	11,935,164.62	15,850,454.31	Not yet paid
Research expenses	14,074,450.82	21,554,587.96	Not yet paid
Business promotion expenses	576,247,488.71	535,713,955.94	Not yet paid
Advertising expenses	266,371.28	266,371.28	Not yet paid
Business meeting expenses	17,633,433.50	30,473,617.98	Not yet paid
Auditing and information disclosure expenses	3,964,320.12	2,126,203.03	Not yet paid
Others	55,581,792.96	58,527,220.81	Not yet paid
Total	679,703,022.01	664,512,411.31	

29. Deferred income

Item	Balance at the Beginning of the Year	Increase for the Period	Decrease for the Period	Balance at the End of the Period	Reason
Government grants	246,683,181.60	4,633,600.00	18,049,919.63	233,266,861.97	
Total	246,683,181.60	4,633,600.00	18,049,919.63	233,266,861.97	

For details of the government grants included in deferred income, see Note XIV.3. Government grants.

NOTES TO (UNAUDITED) FINANCIAL STATEMENTS FOR THE FIRST HALF OF 2020

(Unless specified otherwise, all amounts are denominated in RMB)

V. NOTES TO THE COMPONENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

30. Other non-current liabilities

Item	Balance at the End of the Period	Balance at the Beginning of the Year
The overall relocation and expansion project of Sichuan Guangda Pharmaceutical Manufacturing	70,000,000.00	70,000,000.00
Total	70,000,000.00	70,000,000.00

31. Share capital

January to June 2020

Item	Balance at the Beginning of the Year		Changes for the Period (+ -)					Balance at the End of the Period	
	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	17,306,329	1.85	0.00	0.00	0.00	0.00	0.00	17,306,329	1.84
3. Other domestic shares	2,094,797	0.22	0.00	0.00	0.00	149,038	149,038	2,243,835	0.24
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	2,094,797	0.22	0.00	0.00	0.00	149,038	149,038	2,243,835	0.24
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	19,401,126	2.07	0.00	0.00	0.00	149,038	149,038	19,550,164	2.08
II. Shares not subject to selling restrictions									
1. Ordinary shares denominated in Renminbi	595,497,332	63.71	6,010,786	0.00	0.00	-149,038	5,861,748	601,359,080	63.92
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)	319,864,217	34.22	0.00	0.00	0.00	0.00	0.00	319,864,217	34.00
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	915,361,549	97.93	6,010,786	0.00	0.00	-149,038	5,861,748	921,223,297	97.92
III. Total number of shares	934,762,675	100.00	6,010,786	0.00	0.00	0.00	6,010,786	940,773,461	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 2,243,835 locked shares held by the senior management.

NOTES TO (UNAUDITED) FINANCIAL STATEMENTS FOR THE FIRST HALF OF 2020

(Unless specified otherwise, all amounts are denominated in RMB)

V. NOTES TO THE COMPONENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

31. Share capital (Continued)

January to June 2019

Item	Balance at the Beginning of the Year		Issuance of new shares	Changes for the Period (+ -)				Balance at the End of the Period	
	Amount	Percentage (%)		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	0.00	0.00	0.00	13,312,561	1.85
3. Other domestic shares	1,468,195	0.20	0.00	0.00	0.00	72,561	72,561	1,540,756	0.21
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	1,468,195	0.20	0.00	0.00	0.00	72,561	72,561	1,540,756	0.21
Funds and wealth	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	14,780,756	2.05	0.00	0.00	0.00	72,561	72,561	14,853,317	2.07
II. Shares not subject to selling restrictions									
1. Ordinary shares denominated in Renminbi	458,220,086	63.73	0.00	0.00	0.00	-74,589	-74,589	458,145,497	63.72
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	0.00	0.00	0.00	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	704,269,484	97.95	0.00	0.00	0.00	-74,589	-74,589	704,194,895	97.93
III. Total number of shares	719,050,240	100.00	0.00	0.00	0.00	-2,028	-2,028	719,048,212	100.00

In June 2019, the Company repurchased and cancelled 2,028 restricted shares held by one incentive participant who was not eligible for unlock conditions, as a result the number of Restricted Shares decreased by 2,028 shares; on 17 July 2018, Mr. Lu Wenqi resigned as Vice President of the Company, according to the relevant requirements of the Guidelines of Standardized Operation for Companies Listed on the Main Board of the Shenzhen Stock Exchange (《深圳證券交易所主板上市公司規範運作指引》), all the shares of the Company held by him shall be locked within six months from the date of his resignation, hence the number of Restricted Shares increased by 74,589 shares while the number of unrestricted shares decreased by 74,589 shares accordingly.

NOTES TO (UNAUDITED) FINANCIAL STATEMENTS FOR THE FIRST HALF OF 2020

(Unless specified otherwise, all amounts are denominated in RMB)

V. NOTES TO THE COMPONENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

32. Capital reserve

January to June 2020

Item	Balance at the Beginning of the Year	Additions for the Period	Decrease for the Period	Balance at the End of the Period
Share premium	1,091,114,796.32	211,339,235.76	0.00	1,302,454,032.08
Other capital reserve	72,289,951.85	11,385,257.93	10,577,268.20	73,097,941.58
Total	1,163,404,748.17	222,724,493.69	10,577,268.20	1,375,551,973.66

The increase in the share premium in the Period represented: an increase of share premium of RMB211,339,235.76 as a result of the effective exercise of 6,010,786 share options.

Other capital reserve increase in the Period includes: ① withdrawal of share incentive expenses of RMB11,385,257.93; ② transfer of corresponding capital reserve to profit and loss as a result the disposal of share capital calculated under the equity method.

January to June 2019

Item	Balance at the Beginning of the Year	Additions for the Period	Decrease for the Period	Balance at the End of the Period
Share premium	1,308,689,050.73	0.00	23,180.04	1,308,665,870.69
Other capital reserve	53,561,338.94	5,111,583.90	0.00	58,672,922.84
Total	1,362,250,389.67	5,111,583.90	23,180.04	1,367,338,793.53

The decrease in the capital premium for the Period represented the decrease of capital premium in the sum of RMB23,180.04 by the repurchase and cancellation of 2,028 shares held by an incentive participant who was not eligible for unlock conditions; the increase in other capital reserve for the Period represented withdrawal of share incentive expenses of RMB5,111,583.90.

NOTES TO (UNAUDITED) FINANCIAL STATEMENTS FOR THE FIRST HALF OF 2020

(Unless specified otherwise, all amounts are denominated in RMB)

V. NOTES TO THE COMPONENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

33. Treasury shares

January to June 2020

Item	Balance at the Beginning of the Year	Additions for the Period	Decrease for the Period	Balance at the End of the Period
Repurchase of A Shares	0.00	243,439,270.82	0.00	243,439,270.82

The increase of treasury shares during the period represented: the repurchase of 5,946,108 A Shares through centralized bidding transactions by the Company where an amount of RMB243,439,270.82 (transaction costs inclusive) was spent.

January to June 2019

Item	Balance at the Beginning of the Year	Increase for the Period	Decrease for the Period	Balance at the End of the Period
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 Period 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.

NOTES TO (UNAUDITED) FINANCIAL STATEMENTS FOR THE FIRST HALF OF 2020

(Unless specified otherwise, all amounts are denominated in RMB)

V. NOTES TO THE COMPONENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

34. Other comprehensive income

January to June 2020

Item	Balance at the Beginning of the Year ⁽¹⁾	Amount incurred before income tax for the Period	Less: amount recognized in other comprehensive income in the Previous Period transferred to profit or loss or retained earnings for the Period	For the Period			Balance at the End of the Period ^{(3) = (1) + (2)}
				Less: income tax expenses	Attributable to the parent company after tax ⁽²⁾	Attributable to non-controlling shareholders after tax	
I. Other comprehensive income items not to be re-classified into profit or loss	54,731,381.67	22,062,821.86	0.00	3,555,994.88	18,436,298.01	70,528.97	73,167,679.68
1. Change in fair value of other investments in equity instruments	54,731,381.67	22,062,821.86	0.00	3,555,994.88	18,436,298.01	70,528.97	73,167,679.68
II. Other comprehensive income items to be reclassified into profit or loss	-28,327,410.02	7,234,591.37	0.00	0.00	6,910,434.53	324,156.84	-21,416,975.49
1. Other comprehensive income to be reclassified into profit or loss under the equity method	155,384.33	0.00	0.00	0.00	0.00	0.00	155,384.33
2. Translation differences of financial statements denominated in foreign currency	-28,482,794.35	7,234,591.37	0.00	0.00	6,910,434.53	324,156.84	-21,572,359.82
Total of other comprehensive income	26,403,971.65	29,297,413.23	0.00	3,555,994.88	25,346,732.54	394,685.81	51,750,704.19

January to June 2019

Item	Balance at the Beginning of the Year ⁽¹⁾	Amount incurred before income tax for the Period	Less: amount recognized in other comprehensive income in the Previous Period transferred to profit or loss or retained earnings for the Period	For the Period			Balance at the End of the Period ^{(3) = (1) + (2)}
				Less: income tax expenses	Attributable to the parent company after tax ⁽²⁾	Attributable to non-controlling shareholders after tax	
I. Other comprehensive income items not to be re-classified into profit or loss	15,576,351.33	-4,080,987.42	4,706,081.54	-673,362.93	-8,122,383.64	8,677.61	7,453,967.69
1. Change in fair value of other investments in equity instruments	15,576,351.33	-4,080,987.42	4,706,081.54	-673,362.93	-8,122,383.64	8,677.61	7,453,967.69
II. Other comprehensive income items to be reclassified into profit or loss	-44,741,165.48	6,853,054.63	0.00	0.00	6,105,908.82	747,145.81	-38,635,256.66
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	-44,741,165.48	6,853,054.63	0.00	0.00	6,105,908.82	747,145.81	-38,635,256.66
Total of other comprehensive income	-29,164,814.15	2,772,067.21	4,706,081.54	-673,362.93	-2,016,474.82	755,823.42	-31,181,288.97

NOTES TO (UNAUDITED) FINANCIAL STATEMENTS FOR THE FIRST HALF OF 2020

(Unless specified otherwise, all amounts are denominated in RMB)

V. NOTES TO THE COMPONENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

35. Surplus reserve

January to June 2020

Item	Balance at the Beginning of the Year	Increase for the Period	Decrease for the Period	Balance at the End of the Period
Statutory surplus reserve	455,589,822.89	0.00	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	623,178,143.29	0.00	0.00	623,178,143.29

January to June 2019

Item	Balance at the Beginning of the Year	Increase for the Period	Decrease for the Period	Balance at the End of the Period
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

NOTES TO (UNAUDITED) FINANCIAL STATEMENTS FOR THE FIRST HALF OF 2020

(Unless specified otherwise, all amounts are denominated in RMB)

V. NOTES TO THE COMPONENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

36. Retained earnings

(1) Movement in retained earnings

Item	For the Period	For the Previous Period	Allocation or appropriation proportion
Retained earnings for the end of Last Year before adjustment	8,419,002,908.40	8,012,611,700.26	—
Adjustment for total retained earnings as at the beginning of the Year (+ for increase and – for decrease)	0.00	0.00	—
Retained earnings at the beginning of the Year after adjustment	8,419,002,908.40	8,012,611,700.26	
Add: Net earnings attributable to the owners of the parent company for the Period	1,004,743,610.08	738,947,763.69	—
Gain on disposal of other equity investments	0.00	2,296,602.00	—
Less: Appropriation to Statutory surplus reserve	0.00	0.00	10%
Appropriation to Discretionary surplus reserve	0.00	0.00	
Dividends payable to ordinary shares	1,074,977,042.27	862,857,854.40	
Dividends of ordinary shares capitalised	0.00	0.00	
Retained earnings at the end of the Period	8,348,769,476.21	7,890,998,211.55	

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.

NOTES TO (UNAUDITED) FINANCIAL STATEMENTS FOR THE FIRST HALF OF 2020

(Unless specified otherwise, all amounts are denominated in RMB)

V. NOTES TO THE COMPONENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

36. Retained earnings (Continued)

(2) Notes to appropriation of profits

Item	Unit: RMB' 000	
	For the Period	For the Previous Period
Dividends:		
Final dividends in respect of the year 2019 paid during the year (Note 1)	1,056,284.38	—
Final dividends in respect of the year 2018 paid during the year (Note 2)	—	—
Dividends proposed after the balance sheet date:		
Final dividends proposed for the year 2019 (Note 1)	1,074,977.04	—
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 was proposed to be distributed based on the Company's total share capital of 934,762,675 shares as at the end of 2019. There would be no bonus shares, nor would the capital reserves be capitalized. If there was any change in the total issued share capital of the Company as a result of issue of new shares, exercise of share options of share incentive plan and repurchase of shares before implementing the distribution plan, the proportion of allocation would be adjusted in accordance with the principle of "the total amount of cash distribution remains unchanged". After adjustment, the cash dividend was RMB11.500552 (tax inclusive) for every 10 shares and the total amount of distribution was RMB1,074,977,042.27 (tax inclusive). The profit distribution plan was approved at the general meeting held on 25 May 2020 and the payment amounted to RMB1,056,284,377.87.

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.

37. Operating income and operating cost

(1) Operating income and operating cost

Item	For the Period		For the Previous Period	
	Income	Cost	Income	Cost
Principal activities	5,070,600,012.43	1,718,033,063.93	4,914,745,307.40	1,720,974,859.37
Other activities	24,638,305.26	15,808,289.24	24,320,286.54	13,606,696.64
Total	5,095,238,317.69	1,733,841,353.17	4,939,065,593.94	1,734,581,556.01

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.

NOTES TO (UNAUDITED) FINANCIAL STATEMENTS FOR THE FIRST HALF OF 2020

(Unless specified otherwise, all amounts are denominated in RMB)

V. NOTES TO THE COMPONENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

37. Operating income and operating cost (Continued)

(2) Information of major business income

① Presented by product types

Item	For the Period		For the Previous Period	
	Income	Cost	Income	Cost
Chemical drug preparation products	2,315,344,260.34	542,017,556.05	2,620,972,722.23	558,994,276.64
API and Intermediates	1,227,068,601.74	801,029,071.35	1,218,996,494.87	846,246,039.78
Traditional Chinese drug preparation products	639,155,481.10	165,919,742.97	709,446,688.37	176,400,921.43
Diagnostic reagents and equipment	889,031,669.25	209,066,693.56	365,329,401.93	139,333,621.52
Total	5,070,600,012.43	1,718,033,063.93	4,914,745,307.40	1,720,974,859.37

② Presented by regions of operations

Item	For the Period		For the Previous Period	
	Income	Cost	Income	Cost
Domestic	4,018,148,776.81	1,247,744,765.49	4,248,447,776.90	1,283,589,909.44
Overseas	1,052,451,235.62	470,288,298.44	666,297,530.50	437,384,949.93
Total	5,070,600,012.43	1,718,033,063.93	4,914,745,307.40	1,720,974,859.37

③ Presented by recognition time of income

Item	For the Period		For the Previous Period	
	Income	Cost	Income	Cost
Commodities (recognized at a point in time)	5,070,600,012.43	1,718,033,063.93	4,914,745,307.40	1,720,974,859.37
Total	5,070,600,012.43	1,718,033,063.93	4,914,745,307.40	1,720,974,859.37

NOTES TO (UNAUDITED) FINANCIAL STATEMENTS FOR THE FIRST HALF OF 2020

(Unless specified otherwise, all amounts are denominated in RMB)

V. NOTES TO THE COMPONENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

38. Business taxes and surcharges

Item	For the Period	For the Previous Period
Urban maintenance and construction tax	24,780,695.36	26,441,111.47
Education surcharges	19,528,803.49	20,211,270.58
Land use tax	3,076,991.38	3,256,482.79
Property tax	7,995,659.39	8,306,355.37
Stamp duty	2,377,465.61	1,867,111.23
Vehicle and vessel usage tax	30,251.02	44,093.26
Environmental protection tax	154,399.89	321,681.78
Others	313,236.60	258,227.42
Total	58,257,502.74	60,706,333.90

Note: The basis of calculations for principal business taxes and surcharges taxes are disclosed in note IV. Taxation.

39. Selling expenses

Item	For the Period	For the Previous Period
Marketing and promotional expenses	1,220,908,175.35	1,619,937,068.23
Staff salaries	135,520,225.46	105,801,077.66
Transportation costs	26,503,309.99	25,431,388.42
Travelling expenses and entertainment	13,175,599.83	16,709,711.13
Business meeting expenses	863,153.60	13,608,944.58
Others	17,836,741.73	15,358,065.59
Total	1,414,807,205.96	1,796,846,255.61

40. Administrative expenses

Item	For the Period	For the Previous Period
Staff salaries	133,556,085.65	105,583,302.11
Share incentive expenses	12,242,614.92	4,686,435.12
Depreciation and amortisation	34,352,534.87	29,408,365.66
Loss on suspension of operations	29,393,556.42	28,171,982.60
Auditing fees	1,117,735.85	1,164,037.40
Others	83,488,074.72	86,197,724.12
Total	294,150,602.43	255,211,847.01

NOTES TO (UNAUDITED) FINANCIAL STATEMENTS FOR THE FIRST HALF OF 2020

(Unless specified otherwise, all amounts are denominated in RMB)

V. NOTES TO THE COMPONENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

41. R&D expenses

Item	For the Period	For the Previous Period
Material costs	68,795,560.56	90,282,687.53
Staff salaries	100,164,485.69	102,264,251.87
Share incentive expenses	397,092.72	425,148.78
Testing fees	76,936,202.42	43,707,577.23
Depreciation and amortization	26,424,715.60	26,152,286.78
Others	33,718,080.70	25,627,719.89
Total	306,436,137.69	288,459,672.08

42. Finance expenses

Item	For the Period	For the Previous Period
Interest expenses	7,012,674.28	5,219,055.56
Less: Interest income	96,201,073.75	119,416,636.64
Exchange (gains)/losses	-2,876,853.86	-113,107.21
Commission charges and others	2,662,572.64	1,671,112.05
Total	-89,402,680.69	-112,639,576.24

43. Other income

Items of grants (sources of other income)	For the Period	For the Previous Period	Related to assets/income
Government grants	15,555,123.79	19,595,465.45	Related to assets
Government grants	87,486,050.06	87,025,428.46	Related to income
Tax withholding commission charges	1,782,164.04	265,231.04	
Extra tax deductions for tax refunds	23,224.44	42,293.67	
Total	104,846,562.33	106,928,418.62	

For details of the government grants, please see the Note XIV. 3. Government grants.

NOTES TO (UNAUDITED) FINANCIAL STATEMENTS FOR THE FIRST HALF OF 2020

(Unless specified otherwise, all amounts are denominated in RMB)

V. NOTES TO THE COMPONENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

44. Investment income

Item	For the Period	For the Previous Period
Long-term equity investments income under equity method	-4,702,830.92	-6,388,109.51
Investment income from disposal of long-term equity investments	108,312,122.27	0.00
Investment income from financial assets held for trading during the holding period	348,024.60	316,710.39
Dividend income from other equity instrument investments	1,351,326.46	50,000.00
Investment income from disposal of financial assets held for trading	-614,541.79	2,179,306.59
Income generated from revaluation of remaining equity measured at fair value upon loss of control	7,958,514.22	0.00
Total	112,652,614.84	-3,842,092.53

45. Gains from changes in fair value

Sources of gains from changes in fair value	For the Period	For the Previous Period
Financial assets held for trading	-3,282,779.11	-374,370.50
In which: Debt instrument investments	9,412.89	14,400.92
Equity instrument investments	-1,274,254.56	6,798.70
Derivative financial assets	-2,017,937.44	-395,570.12
Financial liabilities held for trading	-1,269,050.22	-5,081,632.84
In which: Derivative financial liabilities	-1,269,050.22	-5,081,632.84
Total	-4,551,829.33	-5,456,003.34

46. Credit impairment loss ("-" represents losses)

Item	For the Period	For the Previous Period
Bad debt loss of bills receivables	50,000.00	-50,000.00
Bad debt loss of accounts receivables	-6,584,632.20	-9,784,575.64
Bad debt loss of other receivables	-650,687.12	-602,364.39
Total	-7,185,319.32	-10,436,940.03

NOTES TO (UNAUDITED) FINANCIAL STATEMENTS FOR THE FIRST HALF OF 2020

(Unless specified otherwise, all amounts are denominated in RMB)

V. NOTES TO THE COMPONENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

47. Asset impairment loss ("-" represents losses)

Item	For the Period	For the Previous Period
Loss on obsolete stocks	-13,078,655.95	-12,579,430.43
Impairment loss on fixed assets	-188,983.76	-1,530,147.82
Total	-13,267,639.71	-14,109,578.25

48. Gains on disposal of assets

Item	For the Period	For the Previous Period
Gains on disposal of fixed assets ("-" represents losses)	-83,421.97	937,832.83
Total	-83,421.97	937,832.83

49. Non-operating income

Item	For the Period	For the Previous Period	Amount charged to non-recurring gains or losses during the Period
Government grants	0.00	20,086.88	0.00
Gain on destruction or retirement of non-current assets	17,015.60	0.00	17,015.60
Income from scraps	440,411.41	518,677.58	440,411.41
Compensation income	33,127.99	547,334.30	33,127.99
Waiver of payables	121,010.03	745,000.00	121,010.03
Others	293,356.02	201,363.63	293,356.02
Total	904,921.05	2,032,462.39	904,921.05

The breakdown of government grants sets out below:

Items of the grants	For the Period	For the Previous Period	Related to assets/income	Notes
Others	0.00	20,086.88	Related to income	Received
Total	0.00	20,086.88		

NOTES TO (UNAUDITED) FINANCIAL STATEMENTS FOR THE FIRST HALF OF 2020

(Unless specified otherwise, all amounts are denominated in RMB)

V. NOTES TO THE COMPONENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

50. Non-operating expenses

Item	For the Period	For the Previous Period	Amount charged to nonrecurring gains or losses during the Period
Charitable donation expenses	9,098,143.36	1,096,328.67	9,098,143.36
Loss on destruction or retirement of non-current assets	1,897,017.67	848,144.71	1,897,017.67
Others	1,820,821.29	2,058,979.75	1,820,821.29
Total	12,815,982.32	4,003,453.13	12,815,982.32

51. Income tax expenses

(1) Breakdown of income tax expenses

Item	For the Period	For the Previous Period
Current income tax calculated according to tax laws and relevant rules	225,037,403.26	135,833,277.09
In which: Domestic enterprise income tax	224,887,171.38	135,833,277.09
Enterprise income tax in Hong Kong and Macau	150,231.88	0.00
Deferred income tax expenses	1,882,117.35	17,591,040.28
Total	226,919,520.61	153,424,317.37

(2) Reconciliation between income tax expenses and total profits sets out below:

Item	For the Period	For the Previous Period
Total profits	1,557,648,101.96	987,950,152.13
Income tax expenses calculated at statutory tax rates	389,412,025.49	246,987,538.03
Effect of different tax rates applicable to subsidiaries	-1,194,612.65	169,303.02
Effect of tax deduction	-168,383,540.77	-128,908,762.46
Effect of non-deductible expenses	-31,312,872.34	11,565,224.24
Credit (charge) on deductible temporary differences on which deferred income tax assets are not recognised for the year	501,673.28	-170,157.54
Deductible losses of deferred income tax assets that are not recognised for the year	37,782,753.60	18,890,267.19
Utilisation of deductible losses of deferred income tax assets that are not recognised in the previous year	-2,022,002.92	0.00
Others	2,136,096.92	4,890,904.89
Income tax expenses	226,919,520.61	153,424,317.37

NOTES TO (UNAUDITED) FINANCIAL STATEMENTS FOR THE FIRST HALF OF 2020

(Unless specified otherwise, all amounts are denominated in RMB)

V. NOTES TO THE COMPONENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

52. Earnings per share

Basic earnings per share was calculated by dividing the consolidated net profit attributable to the ordinary shareholders of the parent company by the weighted average number of ordinary shares of the parent company outstanding.

Diluted earnings per share was calculated by dividing the consolidated net profit attributable to the ordinary shareholders of the parent company after the adjustment of dilutive potential ordinary shares by the weighted average number of ordinary shares of the Company outstanding after adjustment. In calculating the weighted average number of shares increased after conversion of dilutive potential ordinary shares into issued ordinary shares, the dilutive potential ordinary shares which were issued in previous periods are assumed to be converted at the beginning of current year and the dilutive potential ordinary shares which were issued during the current year are assumed to be converted at the date of issue.

The calculation of basic and diluted earnings per share is as follows:

Calculation of earnings per share	For the Period	For the Previous Period
Net profit attributable to ordinary shareholders of the parent company	1,004,743,610.08	738,947,763.69
Of which: net profit from continuing operations	1,004,743,610.08	738,947,763.69
net profit from discontinued operations	0.00	0.00
Weighted average of ordinary shares of the Company outstanding	935,487,093	934,765,312
Effect of dilution-weighted average of ordinary shares (shares options)	2,133,279	0.00
Weighted average of ordinary shares of the Company outstanding after adjustment	937,620,372	934,765,312
Basic earnings per share	1.07	0.79
Of which: Basic earnings per share of continuing operations	1.07	0.79
Basic earnings per share of discontinued operations	0.00	0.00
Diluted earnings per share	1.07	0.79
Of which: Diluted earnings per share of continuing operations	1.07	0.79
Diluted earnings per share of discontinued operations	0.00	0.00

NOTES TO (UNAUDITED) FINANCIAL STATEMENTS FOR THE FIRST HALF OF 2020

(Unless specified otherwise, all amounts are denominated in RMB)

V. NOTES TO THE COMPONENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

53. Notes to cash flow statement item

(1) Cash received relating to other operating activities

Item	For the Period	For the Previous Period
Government grants	91,430,242.70	99,959,581.76
Interest income	96,201,073.75	119,416,636.64
Liquidated damages and compensation income	33,127.99	547,334.30
Income from scraps	440,411.41	518,677.58
Deposits for letter of credit/bank acceptance bills	4,379,376.46	21,207,970.08
Movements in capital and others	54,103,200.87	45,690,158.00
Total	246,587,433.18	287,340,358.36

(2) Cash paid relating to other operating activities

Item	For the Period	For the Previous Period
Office expenses	16,333,854.57	13,600,586.92
Travelling expenses	17,197,575.58	19,172,149.97
Entertainment expenses	20,892,218.03	18,213,146.16
Transportation and miscellaneous fees	37,799,347.87	35,786,286.13
Advertising expenses	210,800.00	458,404.00
Business meeting expenses	5,554,931.80	11,337,689.46
Auditing and information disclosure fees	2,832,381.25	4,694,632.24
Consultancy fees	6,336,888.45	8,077,319.95
R&D expenses	165,394,190.98	147,356,607.99
Bank charges	2,662,572.64	1,671,112.05
Business promotion expenses	1,461,076,806.65	1,644,517,808.26
Deposits for letter of credit and bank acceptance bills	4,822,487.58	825,012.32
Other expenses paid and current account	98,167,337.10	86,864,163.81
Total	1,839,281,392.50	1,992,574,919.26

NOTES TO (UNAUDITED) FINANCIAL STATEMENTS FOR THE FIRST HALF OF 2020

(Unless specified otherwise, all amounts are denominated in RMB)

V. NOTES TO THE COMPONENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

53. Notes to cash flow statement item (Continued)

(3) Cash received relating to other investing activities

Item	For the Period	For the Previous Period
Insurance claims	19,828,856.24	0.00
Compensation for demolition	0.00	30,000,000.00
Others	229,160.14	0.00
Total	20,058,016.38	30,000,000.00

(4) Cash paid relating to other investing activities

Item	For the Period	For the Previous Period
Deposits under guarantee	45,000.00	75,000.00
Foreign exchange forward contracts loss	3,492,944.44	2,614,260.04
Total	3,537,944.44	2,689,260.04

(5) Cash received relating to other financing activities

Item	For the Period	For the Previous Period
Collection and advance payment of individual income tax	4,933,246.35	29,811.30
Total	4,933,246.35	29,811.30

(6) Cash paid relating to other financing activities

Item	For the Period	For the Previous Period
Repurchase of shares	243,439,270.82	25,208.04
Collection and advance payment of individual income tax	0.00	244,137.86
Total	243,439,270.82	269,345.90

NOTES TO (UNAUDITED) FINANCIAL STATEMENTS FOR THE FIRST HALF OF 2020

(Unless specified otherwise, all amounts are denominated in RMB)

V. NOTES TO THE COMPONENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

54. Supplemental information to cash flow statement

(1) Supplemental information to cash flow statement

Supplemental information	For the Period	For the Previous Period
1. Reconciliation from net profit to cash flow from operating activities:		
Net profit	1,330,728,581.35	834,525,834.76
Add: Asset impairment loss	13,267,639.71	14,109,578.25
Credit impairment loss	7,185,319.32	10,436,940.03
Fixed assets depreciation	185,707,021.59	174,286,679.08
Intangible assets amortization	8,307,880.57	8,085,037.60
Long-term deferred expenses amortization	10,721,522.90	9,082,572.66
Loss on disposal of fixed assets, intangible assets and other long-term assets ("-" represents gains)	83,421.97	-937,832.83
Loss on retirement of fixed assets ("-" represents gains)	1,880,002.07	848,144.71
Loss on fair value change ("-" represents gains)	4,551,829.33	5,456,003.34
Finance expenses ("-" represents gains)	4,091,084.34	4,561,255.51
Investment losses ("-" represents gains)	-112,652,614.84	3,842,092.53
Decrease in deferred income tax assets ("-" represents increase)	-14,999,268.24	2,344,496.19
Increase in deferred income tax liabilities ("-" represents decrease)	16,881,385.59	15,246,544.09
Decrease in inventories ("-" represents increase)	-278,912,067.90	67,766,366.65
Decrease in operating items receivable ("-" represents increase)	-337,450,977.35	-325,571,089.64
Increase in operating items payable ("-" represents decrease)	21,546,468.01	134,280,881.69
Others	12,639,707.64	0.00
Net cash flow from operating activities	873,576,936.06	958,363,504.62
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	7,279,968,931.22	7,764,149,596.64
Less: Cash balance at the beginning of the period	8,854,185,853.54	8,563,711,205.95
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	-1,574,216,922.32	-799,561,609.31

NOTES TO (UNAUDITED) FINANCIAL STATEMENTS FOR THE FIRST HALF OF 2020

(Unless specified otherwise, all amounts are denominated in RMB)

V. NOTES TO THE COMPONENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

54. Supplemental information to cash flow statement (Continued)

(2) Net cash payment for acquisition of subsidiaries during the Period

Nil.

(3) Net cash received from disposal of subsidiaries during the Period

Item	For the Period
Cash or cash equivalents received during the Period from disposal of subsidiaries during the Period	15,000,000.00
Of which: Zhuhai Livzon Gene Diagnostics Ltd. (珠海市麗珠基因檢測科技有限公司)	15,000,000.00
Less: cash and cash equivalents held by subsidiaries on the date when the Company loses control	9,660,936.05
Of which: Zhuhai Livzon Gene Diagnostics Ltd. (珠海市麗珠基因檢測科技有限公司)	9,660,936.05
Add: Cash or cash equivalents received during the Period from disposal of subsidiaries during previous periods	0.00
Net cash received from disposal of subsidiaries	5,339,063.95

(4) Composition of cash and cash equivalents

Item	For the Period	For the Previous Period
I. Cash	7,279,968,931.22	7,764,149,596.64
Of which: Cash on hand	220,030.43	146,506.97
Bank deposits that are readily available for payment	7,270,777,814.85	7,762,147,488.29
Other monetary funds that are readily available for payment	8,971,085.94	1,855,601.38
II. Cash equivalents	0.00	0.00
Of which: Bond investments due within three months	0.00	0.00
III. Balance of cash and cash equivalents at the end of the period	7,279,968,931.22	7,764,149,596.64

Cash and cash equivalents excluded restricted cash and cash equivalents used by the Company.

NOTES TO (UNAUDITED) FINANCIAL STATEMENTS FOR THE FIRST HALF OF 2020

(Unless specified otherwise, all amounts are denominated in RMB)

V. NOTES TO THE COMPONENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

55. Assets with restricted ownership or right of use

Item	Carrying amount at the End of the Period	Reasons
Monetary funds – Other monetary funds	1,710,660.36	Deposits under guarantee of letter of guarantee, letter of credit and futures hedging activities
Bills receivables	152,167,183.53	Pledged bills receivables for the bill pool business
Total	153,877,843.89	

56. Monetary items denominated in foreign currencies

Item	Balance in Foreign Currency at the End of the Period	Exchange Rate	Equivalent RMB Balance at the End of the Period
Monetary funds			
In which: HKD	9,526,568.52	0.91344	8,701,948.72
Euro	102,446.55	7.961	815,576.99
USD	104,036,181.61	7.0795	736,524,147.70
MOP	2,401,791.51	0.887	2,130,389.07
Accounts receivables			
In which: USD	52,016,256.62	7.0795	368,249,088.74
Euro	272,360.00	7.961	2,168,257.96
MOP	2,486,992.08	0.887	2,205,961.97
JPY	5,960,592.00	0.065808	392,254.64
Dividends receivables			
In which: HKD	282,699.99	0.91344	258,229.48
Other receivables			
In which: HKD	1,346,541.72	0.91344	1,229,985.07
MOP	581,188.00	0.887	515,513.76
Other current assets			
In which: USD	13,545,238.56	7.0795	95,893,516.39
Accounts payables			
In which: USD	512,820.85	7.0795	3,630,515.21
JPY	123,675,600.20	0.065808	8,138,843.90
Euro	5,665.41	7.961	45,102.33
CHF	5,916.05	7.4434	44,035.53
MOP	804,384.00	0.887	713,488.61
Dividends payables			
In which: HKD	20,464,030.92	0.91344	18,692,664.40
Other payables			
In which: USD	1,777,903.52	7.0795	12,586,667.97
HKD	359,663.90	0.91344	328,531.39

NOTES TO (UNAUDITED) FINANCIAL STATEMENTS FOR THE FIRST HALF OF 2020

(Unless specified otherwise, all amounts are denominated in RMB)

VI. CHANGE TO CONSOLIDATION SCOPE

1. Disposal of subsidiaries

(1) Loss of control of subsidiaries by once disposal

Name of subsidiary	Amount of disposal for equity	Disposal ratio%	Mode of disposal	Time of ceased control	Recognition for the time of ceased control	Differences arising from disposal amount and portion of net assets held by disposal investment for the range of consolidated financial statement	Goodwill related to the subsidiary in the consolidated financial statement
Livzon Gene Diagnostics Inc. (珠海市麗珠基因檢測 科技有限公司)	15,000,000.00	30%	Sale	2020.6.1	Asset delivery	7,958,514.22	–

Name of subsidiary	Ratio of the remaining equity at the date of ceased control	Book value of the remaining equity at the date of ceased control	Fair value of the remaining equity at the date of ceased control	Gain/loss arising from remeasurement at fair value	Recognition and assumption for fair value of the remaining equity at the date of ceased control	Profit or loss arising from transformation of other comprehensive income which is related to equity investment
Livzon Gene Diagnostics Inc. (珠海市麗珠基因檢測 科技有限公司)	30%	7,041,485.78	15,000,000.00	7,958,514.22	Consideration of transaction	–

2. Others

On 3 June 2020, Zhuhai Livzon Diagnostic Reagents Inc. established Zhuhai Liheng Medical Diagnostic Products Co., Ltd. (珠海立恒醫療診斷產品有限公司) and is interested in 100% of its registered capital.

On 12 June 2020, Wenshan Livzon Sanqi Plantation Co., Ltd. (文山麗珠三七種植有限公司) completed deregistration at the Administration for Industry and Commerce.

NOTES TO (UNAUDITED) FINANCIAL STATEMENTS FOR THE FIRST HALF OF 2020

(Unless specified otherwise, all amounts are denominated in RMB)

VII. EQUITY IN OTHER ENTITIES

1. Equity in subsidiaries

(1) Group structure

Names of Subsidiaries	Type	Type of Legal Entity	Principal Place of Business	Place of Registration	Nature of Business	Registered Capital	Percentage of Shareholding%		Acquisition Method
							Direct	Indirect	
Ando Development Limited (安滔發展有限公司)	Subsidiary of a wholly-owned subsidiary	Limited company	Hong Kong	Hong Kong	Investment	HKD500,000		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		Set-up
Livzon International Limited	Subsidiary of a wholly-owned subsidiary	Limited company	Cayman	Cayman	Investment	USD50,000		100	Set-up
Livzon International Ventures	Subsidiary of a wholly-owned subsidiary	Limited company	Cayman	Cayman	Investment	USD50,000		100	Set-up
Livzon International Ventures I	Subsidiary of a wholly-owned subsidiary	Limited company	Cayman	Cayman	Investment	USD50,000		100	Set-up
Livzon International Ventures II	Subsidiary of a wholly-owned subsidiary	Limited company	Cayman	Cayman	Investment	USD50,000		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		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	75	25	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	74.46	25.54	Set-up
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	60.04	39.96	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	66.67	33.33	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	36	15	Set-up
Shanghai Livzon Biotechnology Co., Ltd. (上海麗珠生物科技股份有限公司)	Subsidiary of a holding subsidiary	Limited company	Shanghai	Shanghai	Provision of services	RMB10,000,000		75	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 a wholly-owned subsidiary	Limited company	Zhuhai	Zhuhai	Manufacture of medicine	RMB128,280,000		100	Set-up
Jiaozuo Livzon Hecheng Pharmaceutical Manufacturing Co., Ltd. (焦作麗珠合成製藥有限公司)	Subsidiary of a wholly-owned subsidiary	Limited company	Jiaozuo	Jiaozuo	Manufacture of medicine	RMB70,000,000		100	Set-up
Zhuhai Livzon Diagnostics Inc. (珠海麗珠試劑股份有限公司)	Holding subsidiary	Limited company	Zhuhai	Zhuhai	Manufacture of medicine	RMB92,876,800	39.425 (Note)		Set-up
Zhuhai Qiao Biotechnology Co., Ltd. (珠海啟奧生物技術有限公司)	Subsidiary of a holding subsidiary	Limited company	Zhuhai	Zhuhai	Technology development	RMB16,666,667		60	Set-up

NOTES TO (UNAUDITED) FINANCIAL STATEMENTS FOR THE FIRST HALF OF 2020

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VII. EQUITY IN OTHER ENTITIES (continued)

1. Equity in subsidiaries (continued)

(1) Group structure (continued)

Names of Subsidiaries	Type	Type of Legal Entity	Principal Place of Business	Place of Registration	Nature of Business	Registered Capital	Percentage of Shareholding%		Acquisition Method
							Direct	Indirect	
Companhia de Macau Carason Limitada (澳門嘉安信有限公司)	Subsidiary of a holding subsidiary	Limited company	Macau	Macau	Sales of goods	MOP100,000		100	Set-up
Zhuhai Liheng Medical Diagnostic Product Company Limited (珠海麗禾醫療診斷產品有限公司)	Subsidiary of a holding subsidiary	Limited company	Zhuhai	Zhuhai	Manufacture of medicine	RMB15,000,000		100	Set-up
Shanghai Lihang Biotechnology Co., Limited (上海麗航生物科技有限公司)	Subsidiary of a holding subsidiary	Limited company	Shanghai	Shanghai	Provision of services	RMB1,000,000		100	Set-up
Suzhou Lidi Biological Technology Co., Ltd. (蘇州麗迪生物科技有限公司)	Subsidiary of a holding subsidiary	Limited company	Suzhou	Suzhou	Technology development	RMB1,000,000		100	Set-up
Zhuhai Liheng Medical Diagnostic Products Co., Ltd. (珠海立恒醫療診斷產品有限公司)	Subsidiary of a holding subsidiary	Limited company	Zhuhai	Zhuhai	Manufacture of medicine	RMB15,000,000		100	Set-up
Livzon Pharmaceutical Biotechnology Co., Ltd. (麗珠醫藥生物科技有限公司)	Subsidiary of a wholly-owned subsidiary	Limited company	Hong Kong	Hong Kong	Provision of services	HKD10,000		100	Set-up
Zhuhai Livzon Advertising Co., Ltd. (珠海麗珠廣告有限公司)	Subsidiary of a wholly-owned subsidiary	Limited company	Zhuhai	Zhuhai	Provision of services	RMB1,000,000	10	90	Set-up
Livzon Group Livzon Baiaimeng 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	57	25	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	60.04	39.96	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		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	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	RMB5,500,000	60	40	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	90	10	Set-up
Livzon Biologics Limited	Subsidiary of a wholly-owned subsidiary	Limited company	Cayman	Cayman	Investment	USD50,000		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 a holding subsidiary	Limited company	Hong Kong	Hong Kong	Investment	HKD400+ RMB600,000,000		100	Set-up
Zhuhai Livzon Biotechnology Co., Ltd. (珠海市麗珠生物醫藥科技有限公司)	Subsidiary of a holding subsidiary	Limited company	Zhuhai	Zhuhai	Technology development	RMB250,000,000		100	Set-up
Zhuhai Kadi Medical Biotechnology Inc. (珠海市卡迪生物醫藥有限公司)	VIE	Limited company	Zhuhai	Zhuhai	Technology development	RMB1,000,000		100	VIE
Livzon MABPharm Inc. (珠海市麗珠單抗生物技術有限公司)	Subsidiary of a holding subsidiary	Limited company	Zhuhai	Zhuhai	Provision of services	RMB1,133,330,000		100	Set-up
Livzon MABPharm (US) Inc. (麗珠單抗生物技術(美國)有限公司)	Subsidiary of a holding subsidiary	Limited company	Boston	Boston	Technology development	USD1,100,000		100	Set-up

NOTES TO (UNAUDITED) FINANCIAL STATEMENTS FOR THE FIRST HALF OF 2020

(Unless specified otherwise, all amounts are denominated in RMB)

VII. EQUITY IN OTHER ENTITIES (continued)

1. Equity in subsidiaries (continued)

(1) Group structure (continued)

Names of Subsidiaries	Type	Type of Legal Entity	Principal Place of Business	Place of Registration	Nature of Business	Registered Capital	Percentage of Shareholding%		Acquisition Method
							Direct	Indirect	
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	57.41	42.59	Consolidation not under common control
Gongshan Livzon Pharmaceutical Technology Limited (貢山麗珠藥源科技有限公司)	Subsidiary of a wholly-owned subsidiary	Limited company	Gongshan	Gongshan	Crop farming	RMB1,000,000		100	Set-up
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		Consolidation not under common control
Livzon Group Ningxia Pharmaceutical Manufacturing Co., Ltd. (麗珠集團(寧夏)製藥有限公司)	Subsidiary of a holding subsidiary	Limited company	Pingluo County	Pingluo County	Manufacture of medicine	RMB200,000,000		100	Set-up
Livzon Group Fuzhou Fuxing Pharmaceutical Co., Ltd. (麗珠集團福州福興醫藥有限公司)	Subsidiary of a holding subsidiary	Limited company	Fuzhou	Fuzhou	Manufacture of medicine	USD41,700,000		100	Consolidation not under common control
Fuzhou City Fuxing Pharmaceutical Manufacturing Co., Ltd. (福州市福興製藥有限公司)	Subsidiary of a holding subsidiary	Limited company	Fuzhou	Fuzhou	Manufacture of medicine	RMB18,466,700		100	Set-up
Gutian Fuxing Pharmaceutical Co., Ltd. (古田福興醫藥有限公司)	Subsidiary of a holding subsidiary	Limited company	Gutian County	Gutian County	Manufacture of medicine	RMB26,700,000		100	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	65.10	34.90	Consolidation not under common control
Datong Livzon Qiyuan Medicine Co., Ltd. (大同麗珠芪源藥材有限公司)	Subsidiary of a wholly-owned subsidiary	Limited company	Hunyuan County	Hunyuan County	Crop farming	RMB4,000,000		92.50	Set-up
Longxi Livzon Shenyuan Medicine Co., Ltd. (隴西麗珠參源藥材有限公司)	Subsidiary of a wholly-owned subsidiary	Limited company	Longxi County	Longxi County	Crop farming	RMB4,000,000		100	Set-up

Note: Pursuant to Article 25 of the Articles of Association of Zhuhai Livzon Diagnostics Inc. (珠海麗珠試劑股份有限公司) ("Livzon Diagnostics"), the board of directors of Livzon Diagnostics consists of five Directors. The Company will appoint 3 directors of its board of directors, representing 3/5 of all 5 seats on the board of directors. In addition, pursuant to Article 29 of the Articles of Association of Livzon Diagnostics, "resolutions made by the Board must be passed by more than half of all Directors. As for the voting on a Board resolution, each Director shall have one vote". Therefore, pursuant to the Articles of Association of Livzon Diagnostics, the Company is able to control the production and operation of Livzon Diagnostics through its majority control of the board of directors of Livzon Diagnostics. As such, the Company includes Livzon Diagnostics in the scope of consolidation.

NOTES TO (UNAUDITED) FINANCIAL STATEMENTS FOR THE FIRST HALF OF 2020

(Unless specified otherwise, all amounts are denominated in RMB)

VII. EQUITY IN OTHER ENTITIES (continued)

1. Equity in subsidiaries (continued)

(2) Important non-wholly owned subsidiaries

Name of subsidiaries	Percentage of minority interest (%)	Gain or loss for the Period attributable to minority interest	Dividends distributed to the minority interest for the Period	Balance of minority interest at the End of the Period
Shanghai Livzon Pharmaceutical Manufacturing Co., Ltd. (上海麗珠製藥有限公司) (consolidated)	49.00	90,838,135.10	0.00	390,100,516.53
Zhuhai Livzon Diagnostics Inc. (珠海麗珠試劑股份有限公司) (consolidated)	60.575	239,266,886.44	0.00	361,803,196.61
Livzon MABPharm Inc. (珠海市麗珠單抗生物技術有限公司) (consolidated)	44.87	-29,696,913.01	0.00	482,473,006.87
Livzon Group Xinbeijiang Pharmaceutical Manufacturing Inc. (麗珠集團新北江製藥股份有限公司) (consolidated)	12.86	24,596,811.92	0.00	152,400,551.39

(3) Major financial information on important non-wholly owned subsidiaries

Name of subsidiaries	Balance at the End of the Period					
	Current assets	Non-current assets	Total assets	Current liabilities	Non-current assets	Total liabilities
Shanghai Livzon Pharmaceutical Manufacturing Co., Ltd. (上海麗珠製藥有限公司) (consolidated)	993,135,145.06	102,490,323.37	1,095,625,468.43	293,866,889.52	3,472,724.41	297,339,613.93
Zhuhai Livzon Diagnostics Inc. (珠海麗珠試劑股份有限公司) (consolidated)	954,190,469.28	256,324,963.68	1,210,515,432.96	602,597,183.59	13,575,100.00	616,172,283.59
Livzon MABPharm Inc. (珠海市麗珠單抗生物技術有限公司) (consolidated)	293,751,707.69	449,579,794.69	743,331,502.38	42,654,636.99	2,034,000.09	44,688,637.08
Livzon Group Xinbeijiang Pharmaceutical Manufacturing Inc. (麗珠集團新北江製藥股份有限公司) (consolidated)	1,503,938,571.87	1,498,613,306.25	3,002,551,878.12	1,580,275,315.03	41,373,216.53	1,621,648,531.56

Name of subsidiaries	Balance at the Beginning of the Year					
	Current assets	Non-current assets	Total assets	Current liabilities	Non-current assets	Total liabilities
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

NOTES TO (UNAUDITED) FINANCIAL STATEMENTS FOR THE FIRST HALF OF 2020

(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 (continued)

Name of subsidiaries	Amount for the Period				Amount for the Previous Period			
	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)	615,316,594.48	183,888,594.01	183,888,594.01	136,309,647.58	589,735,185.00	167,598,896.48	167,598,896.48	150,967,808.80
Zhuhai Livzon Diagnostics Inc. (珠海麗珠試劑股份有限公司) (consolidated)	890,775,488.59	395,834,769.49	395,945,279.30	473,740,560.66	365,754,857.50	52,916,184.41	52,926,658.33	28,352,799.06
Livzon MABPharm Inc. (珠海市麗珠單抗生物技術有限公司) (consolidated)	259,914.35	-75,507,025.19	-75,467,900.78	-121,109,485.63	295,805.31	-87,397,873.89	-87,392,866.10	-107,797,007.69
Livzon Group Xinbeijiang Pharmaceutical Manufacturing Inc. (麗珠集團新北江製藥股份有限公司) (consolidated)	887,603,266.00	191,266,033.64	191,266,033.64	38,899,654.55	856,943,096.95	151,873,629.62	151,873,629.62	283,369,134.82

(4) Transactions that Result in Change of Owners' Equity in Subsidiaries without Losing Control

Nil.

NOTES TO (UNAUDITED) FINANCIAL STATEMENTS FOR THE FIRST HALF OF 2020

(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 Period/ Amount for the Period	Balance at the End of the Previous Year/Amount for the Previous Period
Associates:		
Total carrying amount of investment	150,064,997.19	181,718,000.07
Total amount calculated by percentage of shareholding		
net profit	-4,702,830.92	-6,388,109.51
other comprehensive income	0.00	0.00
total comprehensive income	-4,702,830.92	-6,388,109.51

(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.

(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.

NOTES TO (UNAUDITED) FINANCIAL STATEMENTS FOR THE FIRST HALF OF 2020

(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)

Financial assets and liabilities in foreign currencies held by the Company expressed in Renminbi are stated below:

① 30 June 2020

Unit: RMB' 000

Item	HKD item	USD item	Euro item	JPY item	CHF item	MOP item
Financial assets in foreign currency:						
Cash	8,701.95	736,524.15	815.58	0.00	0.00	2,130.39
Financial assets held for trading	4,585.47	0.00	0.00	0.00	0.00	0.00
Accounts receivables	0.00	368,249.09	2,168.26	392.25	0.00	2,205.96
Dividend receivables	258.23	0.00	0.00	0.00	0.00	0.00
Other receivables	1,229.99	0.00	0.00	0.00	0.00	515.51
Other current assets	0.00	95,893.52	0.00	0.00	0.00	0.00
Other equity instrument investments	355,239.07	0.00	0.00	0.00	0.00	0.00
Subtotal:	370,014.71	1,200,666.76	2,983.84	392.25	0.00	4,851.86
Financial liabilities in foreign currency:						
Accounts payables	0.00	3,630.52	45.10	8,138.84	44.04	713.49
Dividend payables	18,692.66	0.00	0.00	0.00	0.00	0.00
Other payables	328.53	12,586.67	0.00	0.00	0.00	0.00
Subtotal:	19,021.19	16,217.19	45.10	8,138.84	44.04	713.49

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(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 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

As at 30 June 2020, in respect of Company's financial assets and liabilities denominated in foreign currencies such as Hong Kong dollar, U.S. dollar, Euro, Japanese Yen and Macau dollar, should the value of RMB appreciate or depreciate by 5% against foreign currencies such as 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 RMB76.73648 million (31 December 2019: approximately RMB70.33033 million).

NOTES TO (UNAUDITED) FINANCIAL STATEMENTS FOR THE FIRST HALF OF 2020

(Unless specified otherwise, all amounts are denominated in RMB)

VIII. RISKS MANAGEMENT OF FINANCIAL INSTRUMENTS *(continued)*

1. Management objectives and policies of risks *(continued)*

(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.

(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 7.94% (31 December 2019: 9.42%); among the other receivables of the Company, the other receivables of the top five customers accounted for 67.92% (31 December 2019: 50.58%).

(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.

NOTES TO (UNAUDITED) FINANCIAL STATEMENTS FOR THE FIRST HALF OF 2020

(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 30 June 2020

Item	Within 1 year	1-2 years	2-5 years	Over 5 years	Total
Financial assets:					
Cash	7,281,679,591.58	0.00	0.00	0.00	7,281,679,591.58
Financial assets held for trading	13,909,082.63	0.00	0.00	0.00	13,909,082.63
Bills receivables	1,025,868,016.01	0.00	0.00	0.00	1,025,868,016.01
Accounts receivables	1,675,090,515.91	0.00	0.00	0.00	1,675,090,515.91
Other receivables	170,060,026.19	0.00	0.00	0.00	170,060,026.19
Non-current assets due within one year	17,714,375.71	0.00	0.00	0.00	17,714,375.71
Other current assets	95,893,516.39	0.00	0.00	0.00	95,893,516.39
Subtotal:	10,280,215,124.42	0.00	0.00	0.00	10,280,215,124.42
Financial liabilities:					
Short-term borrowings	270,884,146.53	0.00	0.00	0.00	270,884,146.53
Financial liabilities held for trading	1,282,966.22	0.00	0.00	0.00	1,282,966.22
Bills payables	685,537,355.25	0.00	0.00	0.00	685,537,355.25
Accounts payables	661,176,998.87	0.00	0.00	0.00	661,176,998.87
Other payables	2,061,989,552.87	0.00	0.00	0.00	2,061,989,552.87
Subtotal:	3,680,871,019.74	0.00	0.00	0.00	3,680,871,019.74

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(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)

② 31 December 2019

Item	Within 1 year	1-2 years	2-5 years	Over 5 years	Total
Financial assets:					
Cash	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. 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 instruments 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 30 June 2020, the Company's capital-to-debt ratio is 27.34% (31 December 2019: 31.71%).

NOTES TO (UNAUDITED) FINANCIAL STATEMENTS FOR THE FIRST HALF OF 2020

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VIII. RISKS MANAGEMENT OF FINANCIAL INSTRUMENTS *(continued)*

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 30 June 2020, the Company's carrying amounts of bank acceptance bills undue and endorsed to suppliers for settling account payables is RMB150,135,344.97 (31 December 2019: RMB241,040,490.61); the Company has no commercial acceptance bills undue and endorsed to suppliers for settling account payables (31 December 2019: RMB0.00). On 30 June 2020, the due dates fall into 1 to 12 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.

During January to June 2020, 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 Period.

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.

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IX. FAIR VALUE (continued)

(1) Items and amounts measured at fair value

As at 30 June 2020, 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	904,683.57	0.00	0.00	904,683.57
2. Equity instrument investments	12,924,652.40	0.00	0.00	12,924,652.40
3. Derivative financial assets	0.00	79,746.66	0.00	79,746.66
(II) Other equity instrument investments	0.00	265,612,627.75	308,847,053.17	574,459,680.92
Total assets measured at fair value on a recurring basis	13,829,335.97	265,692,374.41	308,847,053.17	588,368,763.55
(III) Financial liabilities held for trading				
1. Derivative financial liabilities	0.00	1,282,966.22	0.00	1,282,966.22
Total liabilities measured at fair value on a recurring basis	0.00	1,282,966.22	0.00	1,282,966.22
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

During January to June 2020, 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.

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(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 Period	Valuation techniques
Derivative financial assets	79,746.66	The fair value is measured at the forward exchange rate quoted by the respective matured contract
Other equity instrument investments – GLOBAL HEALTH SCIENCE	239,612,729.46	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	25,999,898.29	The fair value is determined by the equity amount stated in the entitlement advice provided by the counterparty
Derivative financial liabilities	1,282,966.22	The fair value is measured at the forward exchange rate 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 Period	Valuation techniques
Other equity instrument investments – China Resources Bank of Zhuhai Co., Ltd.	112,172,260.00	Market method
Other equity instrument investments – Others	196,674,793.17	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	194,753.76	23.53	23.53

Notes to the parent company of the Company:

As of 30 June 2020, the Company's parent company and its subsidiaries held a total of 418,878,625 shares in the Company, representing 44.52% 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

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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 Ni Ke Medical Device 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
AbCyte 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
Livzon Gene Diagnostics Inc. (珠海市麗珠基因檢測科技有限公司)	Associate

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X. RELATED PARTIES AND RELATED TRANSACTIONS (continued)

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
Joincare Haibin Pharmaceutical Co., Ltd. (健康元海濱藥業有限公司)	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
Zhuhai Medpha Biotechnology Co., Ltd. (珠海麥得發生物科技股份有限公司)	An enterprise controlled by senior management of the Company
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 senior management 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 management officers	Key management officers

NOTES TO (UNAUDITED) FINANCIAL STATEMENTS FOR THE FIRST HALF OF 2020

(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	Amount for the Period	Amount for the Previous Period
Guangdong Blue Treasure Pharmaceutical Co., Ltd. (廣東藍寶製藥有限公司)	Raw materials	The market price	2,497,840.69	1,699,459.25
Shenzhen Haibin Pharmaceutical Co., Ltd. (深圳市海濱製藥有限公司)	Raw materials	The market price	22,390,191.83	10,554,889.88
Joincare Pharmaceutical Industry Group Co., Ltd. (健康元藥業集團股份有限公司)	Finished goods	The market price	194,477.87	99,875.12
Shenzhen Taitai Pharmaceutical Co., Ltd. (深圳太太藥業有限公司)	Finished goods	The market price	0.00	6,246.37
Shenzhen Taitai Biotechnology Co., Ltd. (深圳太太生物科技有限公司)	Finished goods	The market price	0.00	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	21,238.94	467,470.79
Zhuhai Medpha Biotechnology Co., Ltd. (珠海麥得發生物科技股份有限公司)	Raw materials	The market price	18,053.10	0.00
LUNGLIFE AI, INC.	Raw materials	The market price	0.00	40,287.49
Jiaozuo Joincare Pharmaceutical Industry Co., Ltd. (焦作健康元生物製品有限公司)	Raw materials	The market price	144,497,430.25	169,969,774.95
Purchase of goods in aggregate			169,619,232.68	182,838,003.85
Jiaozuo Joincare Pharmaceutical Industry Co., Ltd. (焦作健康元生物製品有限公司)	Water and power	The market price	10,395,069.87	6,749,092.73
Shanghai Fangyu Health Pharmaceutical Technology Co., Ltd. (上海方予健康醫藥技術有限公司)	R&D	Based on negotiation	6,515,000.00	0.00
Receipt of services in aggregate			16,910,069.87	6,749,092.73

NOTES TO (UNAUDITED) FINANCIAL STATEMENTS FOR THE FIRST HALF OF 2020

(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	Amount for the Period	Amount for the Previous Period
Guangdong Blue Treasure Pharmaceutical Co., Ltd. (廣東藍寶製藥有限公司)	Finished goods	The market price	7,887,327.43	11,263,421.24
Jiaozuo Joicare Pharmaceutical Industry Co., Ltd. (焦作健康元生物製品有限公司)	Raw materials	The market price	510,902.35	8,398,152.61
Shenzhen Haibin Pharmaceutical Co., Ltd. (深圳市海濱製藥有限公司)	Finished goods	The market price	5,596.46	229,944.98
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	0.00	63,959.54
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	116,516.81	0.00
Joicare Haibin Pharmaceutical Co., Ltd. (健康元海濱藥業有限公司)	Finished goods	The market price	625,233.98	0.00
Sales of goods in aggregate			9,145,577.03	19,955,478.37
Guangdong Blue Treasure Pharmaceutical Co. Ltd. (廣東藍寶製藥有限公司)	Water and power	The market price	3,429,216.77	2,979,572.34
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	0.00
Zhuhai Sanmed Biotech Inc. (珠海聖美生物診斷技術有限公司)	Water and power	The market price	987,045.99	298,566.11
Provision of services in aggregate			4,416,262.76	3,278,138.45
Shenzhen Haibin Pharmaceutical Co., Ltd. (深圳市海濱製藥有限公司)	Processing fee and check	Based on negotiation	2,188,915.13	5,500.00
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	0.00	733.51
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	0.00	141,165.95
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	140,576.76	0.00
Shenzhen Taitai Pharmaceutical Co., Ltd. (深圳太太藥業有限公司)	Processing fee and check	Based on negotiation	13,188.68	278,865.05
Provision of services in aggregate			2,342,680.57	426,264.51

NOTES TO (UNAUDITED) FINANCIAL STATEMENTS FOR THE FIRST HALF OF 2020

(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 Period	Lease income recognized for the Previous Period
Pharmaceutical (China) Co., Ltd. (健康藥業(中國)有限公司)	Plant & buildings	45,847.68	45,639.30
Zhuhai Sanmed Biotech Inc. (珠海聖美生物診斷技術有限公司)	Plant & buildings	1,597,855.26	1,596,359.64

② The Company as a lessee

Name of lessor	Type of leased assets	Lease expenses recognized for the Period	Lease expenses recognized for the Previous Period
Joincare Pharmaceutical Industry Group Co., Ltd. (健康元藥業集團股份有限公司)	Plant & buildings	389,790.82	389,640.70
Jiaozuo Joincare Pharmaceutical Industry Co., Ltd. (焦作健康元生物製品有限公司)	Plant & buildings, equipment	1,337,974.38	285,614.54

(3) Related party asset transfers and debt restructuring

Related party	Description of related party transaction	Amount for the Period	Amount for the Previous Period
Jiaozuo Joincare Pharmaceutical Industry Co., Ltd. (焦作健康元生物製品有限公司)	Sales of equipment	0.00	393,176.83
L&L Biopharma, Co. Ltd. (上海健信生物醫藥科技有限公司)	Acquisition of technical know-how	0.00	1,886,792.45
Xinxiang Haibin Pharmaceutical Co., Ltd. (新鄉海濱藥業有限公司)	Sales of equipment	0.00	532,021.02
Zhuhai Sanmed Biotech Inc. (珠海聖美生物診斷技術有限公司)	Disposal of 10% equity interest in Livzon Gene Diagnostics Inc. (珠海市麗珠基因檢測科技有限公司)	5,000,000.00	0.00

NOTES TO (UNAUDITED) FINANCIAL STATEMENTS FOR THE FIRST HALF OF 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

- ① The details on the guarantees provided to the subsidiaries by the Company were set out as follows

A. Bank loans guaranteed

Unit: RMB0'000

Name of guaranteed party	Actual date of event (Signing date of agreement)	Balance at the End of the Period	Actual guaranteed amount	Guaranteed amount	Description and type of guarantee	Period of guarantee
Zhuhai Livzon Diagnostics Inc. (珠海麗珠診斷股份有限公司)	2020.4.9	602.56	602.56	4,000.00	Opening letter of guarantee, short-term borrowings, joint liability guarantee	2019.10.16-2022.7.17 (Bank of China)
Zhuhai Livzon Diagnostics Inc. (珠海麗珠診斷股份有限公司)	2020.4.9	728.76	728.76	10,000.00	Opening bank acceptance bills, joint liability guarantee	2017.8.22-2025.6.1 (Standard Chartered Bank)
Zhuhai Livzon Diagnostics Inc. (珠海麗珠診斷股份有限公司)	2020.4.9	767.14	767.14	20,000.00	Opening bank acceptance bills, joint liability guarantee	2020.4.16-2020.6.30 (Bank of Communications)
Livzon MABPharm Inc. (珠海市麗珠單抗生物技術有限公司)	2020.4.9	443.68	443.68	5,000.00	Opening bank acceptance bills, joint liability guarantee	2020.3.20-2023.2.28 (Bank of Communications)
Livzon Group Livzon Pharmaceutical Factory (麗珠集團麗珠製藥廠)	2020.4.9	405.48	405.48	17,000.00	Opening letter of credit, joint liability guarantee	2020.3.31-2023.2.21 (Bank of Communications)
Livzon Group Livzon Pharmaceutical Factory (麗珠集團麗珠製藥廠)	2020.4.9	8,033.42	8,033.42	18,000.00	Opening bank acceptance bills, joint liability guarantee	2020.6.11-2021.5.26 (Industrial and Commercial Bank of China)
Zhuhai FTZ Livzon Hecheng Pharmaceutical Manufacturing Co., Ltd. (珠海保稅區麗珠合成製藥有限公司)	2020.4.9	4,900.00	4,900.00	5,000.00	Short-term borrowings, joint liability guarantee	2020.4.20-2021.4.19 (Postal Savings Bank of China)
Zhuhai FTZ Livzon Hecheng Pharmaceutical Manufacturing Co., Ltd. (珠海保稅區麗珠合成製藥有限公司)	2020.4.9	175.00	175.00	20,000.00	Opening letter of guarantee, joint liability guarantee	2020.3.30-2023.2.21 (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)	2020.4.9	10,746.84	10,746.84	12,000.00	Opening bank acceptance bills, joint liability guarantee	2017.8.22-2025.6.1 (Standard Chartered Bank)
Livzon Group Xinbeijiang Pharmaceutical Manufacturing Inc. (麗珠集團新北江製藥股份有限公司)	2020.4.9	1,456.57	1,456.57	8,100.00	Opening bank acceptance bills, joint liability guarantee	2017.8.22-2025.6.1 (Standard Chartered Bank)
Livzon Group Xinbeijiang Pharmaceutical Manufacturing Inc. (麗珠集團新北江製藥股份有限公司)	2020.4.9	983.25	983.25	4,000.00	Opening bank acceptance bills, joint liability guarantee	2020.5.20-2023.2.21 (Bank of Communications)

NOTES TO (UNAUDITED) FINANCIAL STATEMENTS FOR THE FIRST HALF OF 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)

① The details on the guarantees provided to the subsidiaries by the Company were set out as follows (continued)

A. Bank loans guaranteed (continued)

Name of guaranteed party	Actual date of event (Signing date of agreement)	Balance at the End of the Period	Actual guaranteed amount	Guaranteed amount	Description and type of guarantee	Period of guarantee
Livzon Group Xinbeijiang Pharmaceutical Manufacturing Inc. (麗珠集團新北江製藥股份有限公司)	2020.4.9	536.82	536.82	11,000.00	Opening letter of guarantee, bank acceptance bills, joint liability guarantee	2019.7.2-2020.12.31 (Industrial and Commercial Bank of China)
Livzon Group (Ningxia) Pharmaceutical Manufacturing Co., Ltd. (麗珠集團(寧夏)製藥有限公司)	2020.4.9	2,412.84	2,412.84	12,000.00	Opening bank acceptance bills, joint liability guarantee	2020.4.13-2023.2.21 (Bank of Communications)
Livzon Group (Ningxia) Pharmaceutical Manufacturing Co., Ltd. (麗珠集團(寧夏)製藥有限公司)	2020.4.9	10,390.45	10,390.45	14,000.00	Opening bank acceptance bills, joint liability guarantee	2017.8.22-2025.6.1 (Standard Chartered Bank)
Sichuan Guangda Pharmaceutical Manufacturing Co., Ltd. (四川光大製藥有限公司)	2020.4.9	1,900.00	1,900.00	10,000.00	Short-term borrowings, joint liability guarantee	2020.4.24-2021.4.24 (Bank of China)
Sichuan Guangda Pharmaceutical Manufacturing Co., Ltd. (四川光大製藥有限公司)	2020.4.9	1,450.86	1,450.86	5,000.00	Opening bank acceptance bills, joint liability guarantee	2017.8.22-2025.6.1 (Standard Chartered Bank)
Livzon Group Fuzhou Fuxing Pharmaceutical Co., Ltd. (麗珠集團福州福興醫藥有限公司)	2020.4.9	3,938.08	3,938.08	10,000.00	Opening bank acceptance bills, joint liability guarantee	2017.8.22-2025.6.1 (Standard Chartered Bank)
Jiaozuo Livzon Hecheng Pharmaceutical Manufacturing Co., Ltd. (焦作麗珠合成製藥有限公司)	2020.4.9	5,150.77	5,150.77	8,000.00	Opening bank acceptance bills, joint liability guarantee	2017.8.22-2025.6.1 (Standard Chartered Bank)
Zhuhai Livzon Pharmaceutical Trading Co., Ltd. (珠海市麗珠醫藥貿易有限公司)	2020.4.9	6,927.86	6,927.86	10,000.00	Opening bank acceptance bills, joint liability guarantee	2019.7.10-2020.7.10 (Minsheng Bank)
Livzon Group Limin Pharmaceutical Manufacturing Factory (麗珠集團利民製藥廠)	2020.4.9	186.00	186.00	4,000.00	Opening bank acceptance bills, joint liability guarantee	2017.8.22-2025.6.1 (Standard Chartered Bank)
Total actual amount guaranteed for subsidiaries during the Reporting Period			89,842.19			
Total balance of actual amount guaranteed for subsidiaries at the end of the Reporting Period			62,136.40			

NOTES TO (UNAUDITED) FINANCIAL STATEMENTS FOR THE FIRST HALF OF 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)

- ① The details on the guarantees provided to the subsidiaries by the Company were set out as follows (continued)

B. Pledge and guarantee of bills

On 23 April 2018, the thirteenth meeting of the ninth session of the Board of the Company reviewed and approved the "Resolution on Conducting Bills Pooling Business" and agreed that an amount of up to RMB1.4 billion for conducting bills pooling business is to be shared by the Company and its subsidiaries, such amount may be utilized on rolling basis. As at 30 June 2020, the bill pledges guaranteed are as follows:

Unit: RMB0'000

Guarantor	Pledgee	Pledged amount of bills receivable	Name of guaranteed party	Description of guarantee	Guaranteed amount	Period of guarantee
	Industrial and Commercial Bank of China (工商銀行)	50.00	–	–	–	–
The Company			Gutian Fuxing Pharmaceutical Co., Ltd. (古田福興醫藥有限公司)	Opening bank acceptance bills, joint liability guarantee	498.18	Till 2020.12.10
			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	3,514.93	Till 2020.12.22
			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	641.34	Till 2020.11.18
			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	1,824.62	Till 2020.12.16
	China Merchants Bank (招商銀行)	14,542.81	Livzon Group Livzon Pharmaceutical Factory (麗珠集團麗珠製藥廠)	Opening bank acceptance bills, joint liability guarantee	5,070.91	Till 2021.01.17
			Livzon Group Limin Pharmaceutical Manufacturing Factory (麗珠集團利民製藥廠)	Opening bank acceptance bills, joint liability guarantee	702.83	Till 2020.12.11
			Sichuan Guangda Pharmaceutical Manufacturing Co., Ltd. (四川光大製藥有限公司)	Opening bank acceptance bills, joint liability guarantee	1,284.16	Till 2020.12.17
			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	176.47	Till 2020.12.19
Total balance of actual guaranteed amount for subsidiaries at the End of the Reporting Period					13,713.44	

NOTES TO (UNAUDITED) FINANCIAL STATEMENTS FOR THE FIRST HALF OF 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)

- ② Subsidiaries' guarantees to subsidiaries
Nil.

- ③ Guarantee provided to the Company by related parties

Joincare Pharmaceutical Industry Group Co., Ltd. (健康元藥業集團股份有限公司), 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 Liying Investment Management Partnership (Limited Partnership) (珠海麗英投資管理合夥企業(有限合夥)), 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 a joint liability guarantee for 9.025% of the obligation of the Company under the guarantee granted to 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 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 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.

NOTES TO (UNAUDITED) FINANCIAL STATEMENTS FOR THE FIRST HALF OF 2020

(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

January to June 2020

Unit: 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
Non-executive Directors:									
Zhu Baoguo (朱保國)	162.50	0.00	0.00	0.00	0.00	0.00	0.00	0.00	162.50
Tao Desheng (陶德勝)	150.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	150.00
Qiu Qingfeng (邱慶豐)	3.60	0.00	0.00	0.00	0.00	0.00	0.00	0.00	3.60
Yu Xiong (俞雄)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Executive Directors:									
Tang Yanggang (唐陽剛)	3.60	55.38	0.97	0.66	6.90	0.00	0.00	0.00	67.52
Xu Guoxiang (徐國祥)	150.00	46.15	1.26	0.66	0.00	0.00	0.00	8.68	206.76
Independent Non-executive Directors:									
Xu Yanjun (徐焱軍)	4.80	0.00	0.00	0.00	0.00	0.00	0.00	0.00	4.80
Bai Hua (白華)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Zheng Zhihua (鄭志華)	4.80	0.00	0.00	0.00	0.00	0.00	0.00	0.00	4.80
Xie Yun (謝耘)	4.80	0.00	0.00	0.00	0.00	0.00	0.00	0.00	4.80
Tian Qiusheng (田秋生)	4.80	0.00	0.00	0.00	0.00	0.00	0.00	0.00	4.80
Wong Kam Wa (黃錦華)	4.80	0.00	0.00	0.00	0.00	0.00	0.00	0.00	4.80
Supervisors:									
Wang Maolin (汪卯林)	2.10	25.38	1.27	0.66	0.00	0.00	0.00	0.00	29.42
Tang Yin (湯胤)	1.80	0.00	0.00	0.00	0.00	0.00	0.00	0.00	1.80
Huang Huamin (黃華敏)	1.80	0.00	0.00	0.00	0.00	0.00	0.00	0.00	1.80
Other senior management:									
Yang Daihong (楊代宏)	0.00	41.54	1.29	0.66	0.00	0.00	0.00	0.00	43.49
Xu Peng (徐朋)	0.00	0.00	0.00	0.00	51.00	0.00	0.00	0.00	51.00
Si Yanxia (司燕霞)	0.00	44.68	1.29	0.66	0.00	0.00	0.00	0.00	46.63
Zhou Peng (周鵬)	0.00	36.92	1.28	0.66	0.00	0.00	0.00	0.00	38.87
Huang Yuxuan (黃喻璇)	0.00	40.62	0.83	1.51	0.25	0.00	0.00	0.14	43.35
Yang Liang (楊亮)	0.00	27.92	1.27	0.66	0.00	0.00	0.00	0.00	29.86
Dai Weiguo (戴衛國)	0.00	43.88	0.20	0.00	0.02	0.00	0.00	0.00	44.10
Total	499.40	362.49	9.66	6.16	58.17	0.00	0.00	8.82	944.70

Mr. Yu Xiong was appointed in June 2020, Mr. Bai Hua was appointed in June 2020 and Mr. Xu Peng was appointed in April 2020. Mr. Dai Weiguo has resigned in May 2020 and Mr. Xu Yanjun has retired in June 2020.

NOTES TO (UNAUDITED) FINANCIAL STATEMENTS FOR THE FIRST HALF OF 2020

(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)

January to June 2019

Unit: RMB0'000

	Fees of Director/ Supervisor	Salaries and allowances	Social insurance	Housing provident fund	Bonus	Signing bonus	Compensation for loss of office	Others	Total
Non-executive Directors:									
Zhu Baoguo (朱保國)	162.50	0.00	0.00	0.00	0.00	0.00	0.00	0.00	162.50
Tao Desheng (陶德勝)	150.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	150.00
Fu Daotian (傅道田)	3.60	45.00	1.15	0.00	20.00	0.00	0.00	43.00	112.75
Qiu Qingfeng (邱慶豐)	3.60	0.00	0.00	0.00	0.00	0.00	0.00	0.00	3.60
Executive Directors:									
Tang Yanggang (唐陽剛)	3.00	46.15	1.43	0.61	133.44	0.00	0.00	1.50	186.13
Xu Guoxiang (徐國祥)	76.80	46.15	2.23	0.61	50.00	0.00	0.00	9.05	184.85
Independent Non-executive Directors:									
Xu Yanjun (徐焱軍)	4.80	0.00	0.00	0.00	0.00	0.00	0.00	0.00	4.80
Guo Guoqing (郭國慶)	4.80	0.00	0.00	0.00	0.00	0.00	0.00	0.00	4.80
Wang Xiaojun (王小軍)	4.80	0.00	0.00	0.00	0.00	0.00	0.00	0.00	4.80
Zheng Zhihua (鄭志華)	4.80	0.00	0.00	0.00	0.00	0.00	0.00	0.00	4.80
Xie Yun (謝耘)	4.80	0.00	0.00	0.00	0.00	0.00	0.00	0.00	4.80
Supervisors:									
Wang Maolin (汪卯林)	2.10	25.38	2.26	0.61	30.00	0.00	0.00	0.00	60.35
Tang Yin (湯胤)	1.80	0.00	0.00	0.00	0.00	0.00	0.00	0.00	1.80
Huang Huamin (黃華敏)	1.80	0.00	0.00	0.00	0.00	0.00	0.00	0.00	1.80
Other senior management:									
Yang Daihong (楊代宏)	0.00	41.54	2.29	0.61	40.00	0.00	0.00	0.00	84.44
Dai Weiguo (戴衛國)	0.00	38.21	0.70	0.00	0.00	0.00	0.00	0.00	38.90
Si Yanxia (司燕霞)	0.00	40.62	2.28	0.61	30.00	0.00	0.00	0.00	73.51
Zhou Peng (周鵬)	0.00	33.92	2.28	0.61	237.38	0.00	0.00	0.00	274.19
Huang Yuxuan (黃瑜璇)	0.00	27.90	1.38	1.38	56.71	0.00	0.00	0.12	87.49
Yang Liang (楊亮)	0.00	27.92	2.26	0.61	20.00	0.00	0.00	0.00	50.79
Total	429.20	372.80	18.27	5.63	617.53	0.00	0.00	53.67	1,497.10

NOTES TO (UNAUDITED) FINANCIAL STATEMENTS FOR THE FIRST HALF OF 2020

(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 four and four of the five highest paid individuals were directors of the Company for January to June 2019 and January to June 2020, respectively. The rest were senior management of the Company (one and one for January to June 2019 and January to June 2020, 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	January to June 2020	January to June 2019
Number of individuals within the band of \$0-\$1,000,000	2	—
Number of individuals within the band of \$1,000,001-\$1,500,000	1	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	—
Number of individuals within the band of \$2,500,001-\$3,000,000	—	1
Number of individuals within the band of \$3,000,001-\$3,500,000	—	—
Number of individuals within the band of \$3,500,001-\$4,000,000	—	—
Number of individuals within the band of \$4,000,001-\$4,500,000	—	—

③ Emoluments band of senior management

Item	January to June 2020	January to June 2019
Number of individuals within the band of \$0-\$1,000,000	9	5
Number of individuals within the band of \$1,000,001-\$1,500,000	—	1
Number of individuals within the band of \$1,500,001-\$2,000,000	—	2
Number of individuals within the band of \$2,000,001-\$2,500,000	1	—
Number of individuals within the band of \$2,500,001-\$3,000,000	—	1
Number of individuals within the band of \$3,000,001-\$3,500,000	—	—
Number of individuals within the band of \$3,500,001-\$4,000,000	—	—
Number of individuals within the band of \$4,000,001-\$4,500,000	—	—

(6) Other related transactions

Nil.

NOTES TO (UNAUDITED) FINANCIAL STATEMENTS FOR THE FIRST HALF OF 2020

(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 Period		Balance at the Beginning of the Year	
		Book balance	Provision for bad debts	Book balance	Provision for bad debts
Bills receivables	Xinxiang Haibin Pharmaceutical Co., Ltd. (新鄉海濱藥業有限公司)	0.00	0.00	600,000.00	0.00
Bills receivables	Joincare Pharmaceutical Industry Group Co., Ltd. (健康元藥業集團股份有限公司)	40,000.00	0.00	0.00	0.00
Bills receivables	Joincare Haibin Pharmaceutical Co., Ltd. (健康元海濱藥業有限公司)	700,000.00	0.00	0.00	0.00
Sub-total of bills receivables		740,000.00	0.00	600,000.00	0.00
Accounts receivables	Guangdong Blue Treasure Pharmaceutical Co. Ltd. (廣東藍寶製藥有限公司)	2,546,480.00	25,464.80	14,005,640.00	141,456.96
Accounts receivables	Joincare Pharmaceutical Industry Group Co., Ltd. (健康元藥業集團股份有限公司)	0.00	0.00	146,240.48	1,447.78
Accounts receivables	Shenzhen Haibin Pharmaceutical Co., Ltd. (深圳市海濱製藥有限公司)	0.00	0.00	337,130.00	16,777.70
Accounts receivables	Shenzhen Taitai Pharmaceutical Co., Ltd. (深圳太太藥業有限公司)	0.00	0.00	415,862.33	58,098.72
Accounts receivables	Zhuhai Sanmed Biotech Inc. (珠海聖美生物診斷技術有限公司)	0.00	0.00	75,644.81	764.01
Sub-total of accounts receivables		2,546,480.00	25,464.80	14,980,517.62	218,545.17
Prepayments	Joincare Pharmaceutical Industry Group Co., Ltd. (健康元藥業集團股份有限公司)	0.00	0.00	126,840.00	0.00
Prepayments	Jiaozuo Joincare Pharmaceutical Industry Co., Ltd. (焦作健康元生物製品有限公司)	558,159.29	0.00	0.00	0.00
Prepayments	Zhuhai Sanmed Biotech Inc. (珠海聖美生物診斷技術有限公司)	211,200.00	0.00	0.00	0.00
Sub-total of prepayments		769,359.29	0.00	126,840.00	0.00
Other receivables	Guangdong Blue Treasure Pharmaceutical Co. Ltd. (廣東藍寶製藥有限公司)	1,724,289.12	23,795.19	984,818.54	13,590.50
Other receivables	Zhuhai Sanmed Biotech Inc. (珠海聖美生物診斷技術有限公司)	104,051.69	1,050.92	25,076.38	253.27
Other receivables	Shenzhen Haibin Pharmaceutical Co., Ltd. (深圳市海濱製藥有限公司)	2,473,474.10	24,982.09	124,161.94	4,134.59
Sub-total of other receivables		4,301,814.91	49,828.20	1,134,056.86	17,978.36

NOTES TO (UNAUDITED) FINANCIAL STATEMENTS FOR THE FIRST HALF OF 2020

(Unless specified otherwise, all amounts are denominated in RMB)

X. RELATED PARTIES AND RELATED TRANSACTIONS (continued)

6. Amounts due from/to related parties (continued)

(1) Amounts due from related parties (continued)

Item	Related parties	Balance at the End of the Period		Balance at the Beginning of the Year	
		Book balance	Provision for bad debts	Book balance	Provision for bad debts
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))	10,703,483.71	0.00	10,486,396.62	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	7,010,892.00	0.00
Sub-total of non-current assets due within one year		17,714,375.71	0.00	17,497,288.62	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))	0.00	0.00	10,828,143.63	0.00
Sub-total of long-term receivables		0.00	0.00	10,828,143.63	0.00
Other non-current assets	AbCyte Therapeutics Inc.	14,287,940.00	0.00	14,287,940.00	0.00
Other non-current assets	Zhuhai Sanmed Biotech Inc. (珠海聖美生物診斷技術有限公司)	1,353,430.06	0.00	1,564,630.06	0.00
Sub-total of other non-current assets		15,641,370.06	0.00	15,852,570.06	0.00

NOTES TO (UNAUDITED) FINANCIAL STATEMENTS FOR THE FIRST HALF OF 2020

(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 Period	Balance at the Beginning of the Year
Bills payables	Jiaozuo Joincare Pharmaceutical Industry Co., Ltd. (焦作健康元生物製品有限公司)	52,816,334.39	99,379,985.40
Bills payables	Shenzhen Haibin Pharmaceutical Co., Ltd. (深圳市海濱製藥有限公司)	31,934,136.80	19,067,180.00
Bills payables	Guangdong Blue Treasure Pharmaceutical Co. Ltd. (廣東藍寶製藥有限公司)	1,899,800.00	0.00
Sub-total of bills payables		86,650,271.19	118,447,165.40
Payables	Guangdong Blue Treasure Pharmaceutical Co. Ltd. (廣東藍寶製藥有限公司)	912,672.56	108,560.00
Payables	Shenzhen Haibin Pharmaceutical Co., Ltd. (深圳市海濱製藥有限公司)	0.00	7,214,020.00
Payables	Joincare Pharmaceutical Industry Group Co., Ltd. (健康元藥業集團股份有限公司)	0.00	0.00
Payables	Jiaozuo Joincare Pharmaceutical Industry Co., Ltd. (焦作健康元生物製品有限公司)	91,075,385.89	103,335,544.53
Payables	Zhuhai Sanmed Biotech Inc. (珠海聖美生物診斷 技術有限公司)	45,238.97	920,007.97
Sub-total of payables		92,033,297.42	111,578,132.50
Dividends payable	Zhuhai Zhenghe Co., Ltd. (珠海正禾企業有限公司)	0.00	81,760,934.22
Dividends payable	Topsino Industries Limited (天誠實業有限公司)	18,692,664.40	0.00
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	1,466,606.04
Sub-total of dividends payable		20,159,270.44	83,227,540.26
Other payables	Jiaozuo Joincare Pharmaceutical Industry Co., Ltd. (焦作健康元生物製品有限公司)	7,485,716.61	7,106,655.80

NOTES TO (UNAUDITED) FINANCIAL STATEMENTS FOR THE FIRST HALF OF 2020

(Unless specified otherwise, all amounts are denominated in RMB)

XI. SHARE-BASED PAYMENT

1. General information about share-based payment

Total equity instruments granted during the Current Period by the Company (Share)	–
Total equity instruments exercised during the Current Period by the Company (Share)	6,010,786
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

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%

NOTES TO (UNAUDITED) FINANCIAL STATEMENTS FOR THE FIRST HALF OF 2020

(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)

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.

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.

As of 30 June 2020, the actual number of share options exercised for the Period was 6,010,786.

② On 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.

NOTES TO (UNAUDITED) FINANCIAL STATEMENTS FOR THE FIRST HALF OF 2020

(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)

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.

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.

NOTES TO (UNAUDITED) FINANCIAL STATEMENTS FOR THE FIRST HALF OF 2020

(Unless specified otherwise, all amounts are denominated in RMB)

XI. SHARE-BASED PAYMENT (continued)

1. General information about share-based payment (continued)

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. (珠海麗珠試劑股份有限公司) 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 Period is RMB4.0371 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) (珠海豪汛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 Period is RMB2.0709 million.

2. Equity settled share-based payments

Determination on fair value of equity instruments as the date of grant	Black-Scholes Model, market price
Basis for determining quantity of exercisable equity instruments	—
Reasons for significant discrepancies between estimate for the Period and Previous Period	Nil
Accumulated amount of equity settled share-based payments included in capital reserve	113,324,407.94
Total expense recognised for equity settled share-based payments for the Period	12,639,707.64

3. Cash settled share-based payments

Nil.

NOTES TO (UNAUDITED) FINANCIAL STATEMENTS FOR THE FIRST HALF OF 2020

(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 Period	Balance at the Beginning of the Year
Commitments in relation to acquisition of long-term assets	379,338,751.79	165,369,398.32

(2) Operating lease commitments

As at the balance sheet date, the Company signed the non-cancellable operating leases as follows:

Minimum lease payments under non-cancellable operating leases payable	Balance at the End of the Period
Within one year from the balance sheet date	10,251,692.49
In the second year from the balance sheet date	5,881,177.30
In the third year from the balance sheet date	3,531,546.21
Subsequent years	2,108,074.31
Total	21,772,490.31

(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 2019 and the other commitments.

2. Contingencies

As at the balance sheet date, there were no significant contingencies required to be disclosed by the Company.

NOTES TO (UNAUDITED) FINANCIAL STATEMENTS FOR THE FIRST HALF OF 2020

(Unless specified otherwise, all amounts are denominated in RMB)

XIII. POST BALANCE SHEET DATE EVENTS

As at the date of the Report, a total of 7,520,998 share options had been exercised and the total share capital of the Company increased to 942,283,673 shares.

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.

XIV. OTHER SIGNIFICANT MATTERS

1. Adjustment to the use of proceeds from Fund-Raising in Investment Projects

On 25 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 (《關於變更部分募集資金投資項目及調整投資計劃並將部分募集資金永久補充流動資金的議案》) had been considered and approved on the 37th meeting of the ninth session of the Board of the Company as follows:

(1) Alteration to the sub-projects under 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 adjustment to investment plan and utilization of part of proceeds for permanent replenishment of working capital

The planned investment amount of the Project for Indepth Development and Industrialization Upgrade of Innovative Ilaprazole Series is RMB450.0000 million. The investment principally includes the in-depth development and industrialisation upgrade of Ilaprazole Tablet (艾普拉唑片), Ilaprazole Sodium for Injection (注射用艾普拉唑鈉), Ilaprazole Optical Isomer Preparation (艾普拉唑光學異構體製劑) and Ilaprazole Compound Preparation (艾普拉唑復方製劑). As at 31 December 2019, the Proceeds used for investment in this project were RMB87.3482 million. The adjustment is as follows:

- ① Continuing investing the Proceeds of RMB105.6790 million in “Ilaprazole Tablet” and “Ilaprazole Sodium for Injection”. After the adjustment, part of the remaining Proceeds of the two projects of RMB102.6000 million will be used in the new sub-project “Construction of the chemical drug lyophilized powder injection workshop (化藥凍乾粉針車間建設)”.
- ② Termination of the sub-projects “Ilaprazole Optical Isomer Preparation” and “Ilaprazole Compound Preparation”. In order to enhance the utilisation efficiency of the Proceeds, the remaining Proceeds of RMB154.3728 million will be used for the permanent replenishment of working capital.

NOTES TO (UNAUDITED) FINANCIAL STATEMENTS FOR THE FIRST HALF OF 2020

(Unless specified otherwise, all amounts are denominated in RMB)

XIV. OTHER SIGNIFICANT MATTERS (continued)

1. Adjustment to the use of proceeds from Fund-Raising in Investment Projects (continued)

(1) Alteration to the sub-projects under 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 adjustment to investment plan and utilization of part of proceeds for permanent replenishment of working capital (continued)

After completion of the above alteration and adjustment, the investment amount of Proceeds to be used in the "Project for Indepth Development and Industrialization Upgrade of Innovative Ilaprazole Series" will be RMB208.2790 million. The specific implementation progress and the investment plan are set out in the following table:

Unit: RMB0'000

Project name	Construction project	2020	2021	2022	2023	2024
Ilaprazole Tablet	R&D equipment	400.00	400.00	200.00	200.00	200.00
	Industrialisation development and technology transformation	200.00	200.00	100.00	100.00	100.00
	Post-marketing clinical trial	700.00	400.00	400.00	500.00	500.00
Ilaprazole Sodium for Injection	R&D equipment	200.00	200.00	200.00	200.00	200.00
	Industrialisation development and technology transformation	200.00	100.00	100.00	100.00	167.90
	Post-marketing clinical trial	900.00	700.00	900.00	900.00	900.00
Construction of the chemical drug lyophilized powder injection workshop		7,592.40	2,667.60	—	—	—
Total		10,192.40	4,667.60	1,900.00	2,000.00	2,067.90

(2) Alteration to the sub-projects 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)" and adjustment to the investment plan

The planned investment amount of the Construction Project for Research & Development Platform for Prolonged-action Microsphere Technologies is RMB411.4133 million. The principal investment and construction of the project include pre-clinical research, clinical trials, purchase of devices and equipment and construction of microsphere workshops. As at 31 December 2019, the Proceeds used for investment in this project was RMB204.3130 million. The adjustment is as follows:

- ① The project "Aripiprazole Sustained-release Microspheres for Injection (14 days) (注射用阿立哌唑緩釋微球(14天))" will be renamed as "Aripiprazole Sustained-release Microspheres for Injection (注射用阿立哌唑緩釋微球)" with an investment amount of RMB27.30 million remained unchanged.
- ② The project "Goserelin Acetate Sustained-release Microspheres for Injection (1 month) (注射用醋酸戈舍瑞林緩釋微球(1個月))" will be altered to "Goserelin Acetate Sustained-release Implant (醋酸戈舍瑞林緩釋植入劑)" with an investment amount of RMB30.00 million remained unchanged.
- ③ Termination of the sub-projects "Octreotide Sustained-release Microspheres for Injection (3 months) (注射用奧曲肽緩釋微球(3個月))", "NGF Sustained-release Microspheres for Injection (14 days) (注射用NGF緩釋微球(14天))" and "Gonadorelin Sustained-release Microspheres for Injection (1 month) (注射用戈那瑞林緩釋微球(1個月))", the construction of all of which have not yet commenced. The originally planned Proceeds of RMB64.00 million to be invested in the three sub-projects will be used for the investment in the construction of the new sub-project "Construction of sustained-release implants workshop (緩釋植入劑車間建設)".

NOTES TO (UNAUDITED) FINANCIAL STATEMENTS FOR THE FIRST HALF OF 2020

(Unless specified otherwise, all amounts are denominated in RMB)

XIV. OTHER SIGNIFICANT MATTERS (continued)

1. Adjustment to the use of proceeds from Fund-Raising in Investment Projects (continued)

(2) Alteration to the sub-projects 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)" and adjustment to the investment plan (continued)

The alteration and adjustment of sub-projects under the Construction Project for Research & Development Platform for Prolonged-action Microsphere Technologies will not affect the overall implementation of the project, the total investment of the Proceeds to be used will remain RMB411.4133 million. The comparison table before and after the alteration of the projects invested with the Proceeds is as follows:

Unit: RMB0'000

Project	Preclinical research fees	Devices and equipment	Clinical trial	Construction of microsphere workshop	Construction of implant workshop	Funding and reserve fees	Total
Before alteration	12,491.42	2,018.00	6,200.00	19,431.91	—	1,000.00	41,141.33
After alteration	6,991.42	2,018.00	5,300.00	19,431.91	6,400.00	1,000.00	41,141.33

2. Government grants

(1) Government grants included in deferred income shall be subsequently measured using the total-value method

Items of the grants	Type	Balance at the Beginning of the Year	Increase for the Period	Amount transferred to profit and loss for the Period	Other changes	Balance at the End of the Period	Items transferred to profit and loss for the Period	Related to assets/income
R&D and industrialization of innovative Ilaprazole series	Fiscal appropriation	25,898,166.33	0.00	2,455,000.02	0.00	23,443,166.31	Other income	Related to assets
R&D and industrialization of innovative Ilaprazole series	Fiscal appropriation	748,129.50	0.00	374,064.90	0.00	374,064.60	Other income	Related to income
Strategic emerging industries in 2014 (sustained release microspheres)	Fiscal appropriation	16,700,000.00	0.00	0.00	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	97,500.00	0.00	15,000.00	0.00	82,500.00	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
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	1,828,750.00	0.00	115,500.00	0.00	1,713,250.00	Other income	Related to assets
Construction of drug conformity evaluation research center platform	Fiscal appropriation	1,360,000.06	0.00	79,999.98	0.00	1,280,000.08	Other income	Related to assets
R&D and industrialization of mouse nerve growth factor for injection	Fiscal appropriation	61,166,125.36	0.00	5,280,044.58	0.00	55,886,080.78	Other income	Related to assets
Demonstration project on the application of solar photovoltaic architecture	Fiscal appropriation	4,659,499.59	0.00	551,000.04	0.00	4,108,499.55	Other income	Related to assets

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(Unless specified otherwise, all amounts are denominated in RMB)

XIV. OTHER SIGNIFICANT MATTERS (continued)

2. Government grants (continued)

(1) Government grants included in deferred income shall be subsequently measured using the total-value method (continued)

Items of the grants	Type	Balance at the Beginning of the Year	Increase for the Period	Amount transferred to profit and loss for the Period	Other changes	Balance at the End of the Period	Items transferred to profit and loss for the Period	Related to assets/income
Subsidy for the tender of technological transformation project for PVC soft bag supported by provincial finance departments	Fiscal appropriation	3,520,216.08	0.00	204,182.88	0.00	3,316,033.20	Other income	Related to assets
Technological transformation project of Shengqi Fuzheng Injection with flexible bag	Fiscal appropriation	23,323,529.42	0.00	1,911,764.70	0.00	21,411,764.72	Other income	Related to assets
Provision for technological transformation funds and subsequent grants	Fiscal appropriation	7,718,682.44	0.00	564,781.68	0.00	7,153,900.76	Other income	Related to assets
Provision for technological transformation funds and subsequent grants	Fiscal appropriation	8,747,831.02	1,829,800.00	1,197,896.39	0.00	9,379,734.63	Other income	Related to assets
Energy efficiency improvement for distribution transformers under energy-saving and emission reduction projects	Fiscal appropriation	432,000.00	0.00	-20,000.00	0.00	452,000.00	Other income	Related to assets
R&D and industrialization team of chemical drug liquid preparation	Fiscal appropriation	1,500,000.00	1,000,000.00	1,500,000.00	0.00	1,000,000.00	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
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	2,068,871.53	0.00	320,099.38	0.00	1,748,772.15	Other income	Related to assets
Innovation capacity building of technology center (antibody laboratory)	Fiscal appropriation	328,686.12	0.00	43,458.18	0.00	285,227.94	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	678,571.48	0.00	53,571.42	0.00	625,000.06	Other income	Related to assets
R&D and industrialization of Statins	Fiscal appropriation	90,000.24	0.00	14,999.94	0.00	75,000.30	Other income	Related to assets
Scientific technology award and subsidy for technological innovative project	Fiscal appropriation	250,417.40	0.00	55,462.80	0.00	194,954.60	Other income	Related to assets
Scientific technology award and subsidy for technological innovative project	Fiscal appropriation	4,927,272.76	0.00	927,272.76	0.00	4,000,000.00	Other income	Related to income
Commissioner workstation	Fiscal appropriation	205,000.00	0.00	30,000.00	0.00	175,000.00	Other income	Related to assets
Industrial revitalisation supporting funds	Fiscal appropriation	4,761,500.01	0.00	579,000.00	0.00	4,182,500.01	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	708,333.63	0.00	99,999.89	0.00	608,333.74	Other income	Related to assets
New industrialization development grant	Fiscal appropriation	1,654,166.46	0.00	175,000.09	0.00	1,479,166.37	Other income	Related to assets
Policy fund for leading industrial enterprises loan interests	Fiscal appropriation	766,666.61	0.00	100,000.02	0.00	666,666.59	Other income	Related to assets

NOTES TO (UNAUDITED) FINANCIAL STATEMENTS FOR THE FIRST HALF OF 2020

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XIV. OTHER SIGNIFICANT MATTERS (continued)

2. Government grants (continued)

(1) Government grants included in deferred income shall be subsequently measured using the total-value method (continued)

Items of the grants	Type	Balance at the Beginning of the Year	Increase for the Period	Amount transferred to profit and loss for the Period	Other changes	Balance at the End of the Period	Items transferred to profit and loss for the Period	Related to assets/income
Supporting funds for five advantageous industrial clusters and one high-tech industry	Fiscal appropriation	500,000.12	0.00	49,999.98	0.00	450,000.14	Other income	Related to assets
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	9,250,000.00	0.00	0.00	0.00	9,250,000.00	Other income	Related to assets
R&D of innovative traditional Chinese medicine Qihuo Sugar (芪蓉糖) capsule for kidney for cure for diabetes and kidney disease	Fiscal appropriation	1,000,000.00	0.00	0.00	1,000,000.00	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	3,000,000.00	0.00	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	2,000,000.00	0.00	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	855,000.00	0.00	45,000.00	0.00	810,000.00	Other income	Related to assets
Cleaner Production Audit Project	Fiscal appropriation	100,000.00	0.00	4,999.98	0.00	95,000.02	Other income	Related to assets
Green factory	Fiscal appropriation	300,000.00	0.00	15,000.00	0.00	285,000.00	Other income	Related to assets
HCG project construction	Fiscal appropriation	432,607.50	1,053,800.00	66,555.00	0.00	1,419,852.50	Other income	Related to assets
Sewage treatment system upgrade project	Fiscal appropriation	80,300.00	0.00	4,015.02	0.00	76,284.98	Other income	Related to assets
R&D and industrialization of Recombinant Human Chorionic Gonadotropin for Injection	Fiscal appropriation	1,437,500.00	0.00	75,000.00	0.00	1,362,500.00	Other income	Related to assets
Subsidies for online monitoring equipment and installations of coal-fired boilers	Fiscal appropriation	127,500.00	0.00	11,250.00	0.00	116,250.00	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	600,000.00	250,000.00	0.00	150,000.00	700,000.00	Other income	Related to income
Special emergency fund for scientific and technological research on prevention and control of COVID-19	Fiscal appropriation	0.00	500,000.00	0.00	0.00	500,000.00	Other income	Related to income
Provincial industrial innovation (provincial enterprise technology center) project in 2019	Fiscal appropriation	1,880,000.00	0.00	0.00	0.00	1,880,000.00	Other income	Related to income
Total		246,683,181.60	4,633,600.00	16,899,919.63	1,150,000.00	233,266,861.97		

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(Unless specified otherwise, all amounts are denominated in RMB)

XIV. OTHER SIGNIFICANT MATTERS (continued)

2. Government grants (continued)

(2) Government grants as included in the current profit or loss using the total-value method

Grants projects	Type	Amounts included in the profits and losses for the Previous Period	Amounts included in the profits and losses for the Period	Presentation item in profits and losses	Related to assets/ Related to income
Export credit insurance subsidy (出口信保補貼)	Fiscal appropriation	117,262.00	2,120,056.54	Other income	Related to income
R&D subsidy (研究開發費補助)	Fiscal appropriation	190,700.00	1,371,600.00	Other income	Related to income
Shenqi Fuzheng Injection (參芪扶正注射液)	Fiscal appropriation	1,029,987.68	0.00	Other income	Related to assets
Shenqi Fuzheng Injection (參芪扶正注射液)	Fiscal appropriation	960,523.19	0.00	Other income	Related to income
Strategic Emerging Industries (Sustained Release Microspheres) (戰略性新興產業(緩釋微球))	Fiscal appropriation	2,000,000.00	0.00	Other income	Related to assets
Zhuhai Strategic Emerging Industries Special Project (珠海市戰略性新興產業專項)	Fiscal appropriation	3,270,000.00	0.00	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)	Fiscal appropriation	212,527.55	0.00	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)	Fiscal appropriation	0.00	592,670.00	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)	Fiscal appropriation	0.00	15,000.00	Other income	Related to assets
R&D and industrialization of innovative Ilaprazole series (艾普拉唑系列創新藥物研發及產業化)	Fiscal appropriation	2,455,000.02	2,455,000.02	Other income	Related to assets
R&D and industrialization of innovative Ilaprazole series (艾普拉唑系列創新藥物研發及產業化)	Fiscal appropriation	374,064.90	374,064.90	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)	Fiscal appropriation	79,999.98	79,999.98	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)	Fiscal appropriation	115,500.00	115,500.00	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)	Fiscal appropriation	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)	Fiscal appropriation	0.00	75,000.00	Other income	Related to assets
Construction of HCG Project (HCG項目建設)	Fiscal appropriation	0.00	66,555.00	Other income	Related to assets
Fiscal Subsidy and Operating Subsidy (財政補貼及經營運營補貼)	Fiscal appropriation	74,466,308.17	70,300,735.00	Other income	Related to 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)	Fiscal appropriation	4,539,023.43	5,280,044.58	Other income	Related to assets

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XIV. OTHER SIGNIFICANT MATTERS (continued)

2. Government grants (continued)

(2) Government grants as included in the current profit or loss using the total-value method (continued)

Grants projects	Type	Amounts included in the profits and losses for the Previous Period	Amounts included in the profits and losses for the Period	Presentation item in profits and losses	Related to assets/ Related to income
Capital projects of innovation and entrepreneurship team funding program (創新創業團隊資助計劃資金項目)	Fiscal appropriation	1,400,000.00	600,000.00	Other income	Related to income
Provincial Science and Technology Innovation Strategy Special Fund (省科技創新戰略專項資金)	Fiscal appropriation	0.00	1,500,000.00	Other income	Related to assets
GAP project of astragalus (黃芪GAP項目)	Fiscal appropriation	57,600.00	0.00	Other income	Related to income
Promoting Imports of Foreign Trade Development Special Fund (外貿經濟發展專項資金)	Fiscal appropriation	480,758.06	86,080.00	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)	Fiscal appropriation	53,571.42	53,571.42	Other income	Related to assets
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)	Fiscal appropriation	97,182.90	204,182.88	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)	Fiscal appropriation	606,999.96	1,911,764.70	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)	Fiscal appropriation	1,411,764.72	0.00	Other income	Related to assets
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)	Fiscal appropriation	190,731.00	0.00	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)	Fiscal appropriation	551,000.04	551,000.04	Other income	Related to assets
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)	Fiscal appropriation	60,000.00	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)	Fiscal appropriation	2,479,863.99	335,100.00	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)	Fiscal appropriation	1,272,059.68	1,659,558.81	Other income	Related to assets

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(Unless specified otherwise, all amounts are denominated in RMB)

XIV. OTHER SIGNIFICANT MATTERS (continued)

2. Government grants (continued)

(2) Government grants as included in the current profit or loss using the total-value method (continued)

Grants projects	Type	Amounts included in the profits and losses for the Previous Period	Amounts included in the profits and losses for the Period	Presentation item in profits and losses	Related to assets/ Related to income
R&D and commercialisation of Statins (降血脂他汀類藥物的研發與產業化)	Fiscal appropriation	14,999.94	14,999.94	Other income	Related to assets
Technology transformation of recycling system of Acarbose project (阿卡波糖糖回收系統技術改造項目)	Fiscal appropriation	23,119.26	103,119.26	Other income	Related to assets
Commissioner workstation (特派員工作站)	Fiscal appropriation	30,000.00	30,000.00	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)	Fiscal appropriation	560,000.00	0.00	Other income	Related to income
Energy-saving and emission reduction projects (節能減排項目)	Fiscal appropriation	0.00	-15,984.98	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)	Fiscal appropriation	827,272.72	1,327,272.76	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)	Fiscal appropriation	148,462.80	55,462.80	Other income	Related to assets
Set-up and research fund for postdoctoral Station (博士後建站和科研補貼)	Fiscal appropriation	2,135,142.15	0.00	Other income	Related to income
Set-up and research fund for postdoctoral Station (博士後建站和科研補貼)	Fiscal appropriation	100,000.00	0.00	Other income	Related to assets
Patent (Intellectual Property) Support Fund (專利(知識產權)資助資金)	Fiscal appropriation	157,700.00	128,500.00	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)	Fiscal appropriation	100,000.02	100,000.02	Other income	Related to assets
Government grant for industrial transformation (工業轉型政府扶持資金)	Fiscal appropriation	99,999.89	99,999.89	Other income	Related to assets
New industrialization development funds (新型工業化發展資金)	Fiscal appropriation	175,000.09	175,000.09	Other income	Related to assets
Industrial revitalisation supporting funds (產業振興扶持資金)	Fiscal appropriation	579,000.00	579,000.00	Other income	Related to assets
Industrial supporting funds (產業扶持資金)	Fiscal appropriation	649,800.00	0.00	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)	Fiscal appropriation	49,999.98	49,999.98	Other income	Related to assets

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XIV. OTHER SIGNIFICANT MATTERS (continued)

2. Government grants (continued)

(2) Government grants as included in the current profit or loss using the total-value method (continued)

Grants projects	Type	Amounts included in the profits and losses for the Previous Period	Amounts included in the profits and losses for the Period	Presentation item in profits and losses	Related to assets/ Related to income
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)	Fiscal appropriation	511,704.95	2,068,112.68	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))	Fiscal appropriation	557,766.09	320,099.38	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))	Fiscal appropriation	43,458.33	43,458.18	Other income	Related to income
Special funds for industry and informatization (工業和信息化專項資金)	Fiscal appropriation	0.00	40,000.00	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)	Fiscal appropriation	204,739.00	0.00	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)	Fiscal appropriation	700,000.00	0.00	Other income	Related to income
Incentive funds for expansion of export scale (擴大出口規模獎勵基金)	Fiscal appropriation	457,800.00	389,300.00	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)	Fiscal appropriation	22,500.00	11,250.00	Other income	Related to assets
Special funds for key leading enterprises in the 13th Five-Year Plan (2019) (十三五重點領軍企業專項資金(2019年))	Fiscal appropriation	0.00	4,784,100.00	Other income	Related to income
Green factory (綠色工廠)	Fiscal appropriation	0.00	19,999.98	Other income	Related to assets
Special capital replenishment for industrial enterprise restructuring (工業企業結構調整專項資補資)	Fiscal appropriation	0.00	1,940,000.00	Other income	Related to income
National Key R&D Program "Network Collaborative Manufacturing and Smart Factory" Special Project (國家重點研發計劃"網絡協同製造和智能工廠"專項)	Fiscal appropriation	0.00	515,000.00	Other income	Related to income
Network reconstruction and system optimization of actinomycete drug synthesis biological system (放線菌藥物合成生物體系的網絡重構與系統優化)	Fiscal appropriation	0.00	470,000.00	Other income	Related to income
Others	Fiscal appropriation	20,086.88	0.00	Non-operating income	Related to income
Total		106,640,980.79	103,041,173.85		

NOTES TO (UNAUDITED) FINANCIAL STATEMENTS FOR THE FIRST HALF OF 2020

(Unless specified otherwise, all amounts are denominated in RMB)

XIV. OTHER SIGNIFICANT MATTERS (continued)

2. Government grants (continued)

(3) Government grants refunded during the Period

Project	Amount	Reason
R&D of innovative traditional Chinese medicine Qihuo Sugar capsule for kidney for cure for diabetes and kidney disease	1,000,000.00	Termination of the project
Total	1,000,000.00	

3. 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	Amount for the Period
Short-term leases	2,109,125.33
Leases of low value assets	5,139,896.60
Total	7,249,021.93

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.

4. Medium to Long-term Business Partner Share Ownership Scheme

On 11 February 2020, the 2020 first extraordinary general meeting of the Company resolved and approved the Resolution on the Medium to Long-term Business Partner Share Ownership Scheme (Draft) and its Summary, and established the Medium to Long-term Business Partner Share Ownership Scheme (the "Ownership Scheme").

The 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 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 extracting the special fund according to the special fund extraction principles, and the amount of special fund extracted shall be charged to management expenses for the current year. The extraction of special fund shall be determined according to the following principles:

NOTES TO (UNAUDITED) FINANCIAL STATEMENTS FOR THE FIRST HALF OF 2020

(Unless specified otherwise, all amounts are denominated in RMB)

XIV. OTHER SIGNIFICANT MATTERS (continued)

4. Medium to Long-term Business Partner Share Ownership Scheme (Continued)

- (1) The special fund shall be extracted on the basis of the net profit attributable to the Shareholders of the Company after deducting the extraordinary gains or losses in 2018 (RMB947.2163 million). 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 set aside ratios are set out in details 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 indicator of “compound growth rate of net profit” is calculated on the basis of the audited net profit attributable to shareholders of the Company after deducting extraordinary gains and losses and excluding the effect of setting aside the special fund for the Ownership Scheme.

- (2) If the extracted amount of special fund exceeds 8% of the audited net profit attributable to shareholders of the Company after deducting extraordinary gains and losses for the current year, then the amount of special fund to be extracted shall be based on 8% of the audited net profit attributable to shareholders of the Company after deducting extraordinary gains and losses.
- (3) If the amount of special fund extracted will result in a less than 5% growth rate in the audited net profit attributable to shareholders of the Company after deducting extraordinary gains and losses for the current year when compared with the audited net profit attributable to shareholders of the Company after deducting extraordinary gains and losses for the previous year, then no amount of special fund shall be extracted for the current year.

The special fund will serve as the source of funds for subsequent respective phases under the Ownership Scheme. Departments such as the personnel and administration head office and the secretariat of the Board shall be responsible for pre-allocating the aforesaid special fund among the participants with reference to their annual performance assessment result and the extent of their contribution, and the proposal on the Ownership Scheme shall be submitted to the Board and the general meeting for consideration and implementation.

The sources of shares in the Ownership Scheme: 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 under the Ownership Scheme shall not exceed 10% of the total share capital of the Company, and the aggregate number of shares corresponding to the shares 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 voluntarily and shares obtained through equity incentives.

NOTES TO (UNAUDITED) FINANCIAL STATEMENTS FOR THE FIRST HALF OF 2020

(Unless specified otherwise, all amounts are denominated in RMB)

XIV. OTHER SIGNIFICANT MATTERS *(continued)*

4. Medium to Long-term Business Partner Share Ownership Scheme *(Continued)*

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, one phase for each year will be implemented after determining whether the special fund for the previous year should be extracted or not. The duration of each respective phase 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. The lock-up period of the underlying shares obtained by the Ownership Scheme is:

- (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 are 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 registration of shares obtained by way of non-public issuance to the account in the name of the Ownership Scheme for the current phase.

Termination of the Ownership Scheme:

- (1) The respective phases of the Ownership Scheme shall automatically terminate upon expiration of their duration;
- (2) upon expiration of the lock-up period of the respective phases of the Ownership Scheme and if the assets of the current phase of the Ownership Scheme are all monetary funds, the current phase of the Ownership Scheme may be terminated in advance;
- (3) if the shares are not fully sold prior to expiration of the duration of the current phase of the Ownership Scheme, the duration of the Ownership Scheme may be extended after approval by holders with more than two-thirds of the valid voting rights at the holders' meeting and the approval by the Board which are held within three months prior to expiration of the duration of the current phase of the Ownership Scheme.

NOTES TO (UNAUDITED) FINANCIAL STATEMENTS FOR THE FIRST HALF OF 2020

(Unless specified otherwise, all amounts are denominated in RMB)

XV. NET CURRENT ASSETS AND TOTAL ASSETS LESS CURRENT LIABILITIES

1. Net current assets

Item	Balance at the End of the Period	Balance at the Beginning of the Year
Current assets	11,915,312,206.83	12,873,202,408.62
Less: Current liabilities	4,302,323,434.37	5,293,657,403.71
Net current assets	7,612,988,772.46	7,579,545,004.91

2. Total assets less current liabilities

Item	Balance at the End of the Period	Balance at the Beginning of the Year
Total assets	17,251,823,846.85	17,976,463,117.21
Less: Current liabilities	4,302,323,434.37	5,293,657,403.71
Total assets less current liabilities	12,949,500,412.48	12,682,805,713.50

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 Period			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	512,986,900.10	0.00	512,986,900.10	569,150,368.41	0.00	569,150,368.41
Total	512,986,900.10	0.00	512,986,900.10	569,150,368.41	0.00	569,150,368.41

NOTES TO (UNAUDITED) FINANCIAL STATEMENTS FOR THE FIRST HALF OF 2020

(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)

(1) Bills receivables that were pledged at the End of the Period

Item	Pledged amount at the End of the Period
Bank acceptance bills	145,928,111.45
Total	145,928,111.45

As of 30 June 2020, bills with carrying amount of RMB145,928,111.45 (31 December 2019: RMB208,410,681.31) were pledged for bank acceptance bills.

(2) Bills receivable endorsed or discounted at the End of the Period but not yet mature at the date of balance sheet

Item	Amount derecognized at the End of the Period	Amount not derecognized at the End of the Period
Bank acceptance bills endorsed but not yet mature	58,214,670.57	0.00
Bank acceptance bills discounted but not yet mature	0.00	0.00
Total	58,214,670.57	0.00

For the Period, the bank acceptance bills issued by the Company to banks amounted to RMB0.00 (the Previous Period: 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 derecognized the undue bank acceptance bills that had been discounted. The discounted fee amounted to RMB0.00 (the Previous Period: RMB0.00).

NOTES TO (UNAUDITED) FINANCIAL STATEMENTS FOR THE FIRST HALF OF 2020

(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 Period.

(4) Classification by the method of bad debt provision

Type	Balance at the End of the Period					Balance at the Beginning of the Year				
	Book balance		Provision for bad debts			Book balance		Provision for bad debts		
	Amount	Percentage (%)	Amount	Expected credit loss rate (%)	Carrying value	Amount	Percentage (%)	Amount	Expected credit 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	512,986,900.10	100.00	0.00	0.00	512,986,900.10	569,150,368.41	100.00	0.00	0.00	569,150,368.41
In which:										
Bank acceptance bills	512,986,900.10	100.00	0.00	0.00	512,986,900.10	569,150,368.41	100.00	0.00	0.00	569,150,368.41
Total	512,986,900.10	100.00	0.00	0.00	512,986,900.10	569,150,368.41	100.00	0.00	0.00	569,150,368.41

(5) There are no bills receivables actually written-off for the Period.

2. Accounts receivables

(1) Disclosure using the aging analysis method

Aging	Balance at the End of the Period	Balance at the Beginning of the Year
Within 1 year		
In which: Within 3 months (including 3 months)	625,516,850.63	596,856,891.36
4-6 months (including 6 months)	31,238,849.39	44,700,183.60
7-12 months (including 12 months)	14,504,233.61	16,135,445.33
Sub-total of within 1 year:	671,259,933.63	657,692,520.29
1-2 years (including 2 years)	7,582,408.28	5,523,228.05
2-3 years (including 3 years)	1,313,442.07	1,792,998.15
Over 3 years	5,376,380.54	4,338,888.23
Sub-total	685,532,164.52	669,347,634.72
Less: Provisions for bad debts	17,079,805.96	16,743,531.90
Total	668,452,358.56	652,604,102.82

NOTES TO (UNAUDITED) FINANCIAL STATEMENTS FOR THE FIRST HALF OF 2020

(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 Period					Balance at the Beginning of the Year				
	Book balance		Provisions for bad debts		Carrying value	Book balance		Provisions for bad debts		Carrying value
	Amount	Percentage (%)	Amount	Expected credit loss rate (%)		Amount	Percentage (%)	Amount	Expected credit loss rate (%)	
Provisions for bad debts on an individual basis	4,093,742.32	0.60	4,093,742.32	100.00	0.00	3,835,417.28	0.57	3,835,417.28	100.00	0.00
In which:										
Due from other customers	4,093,742.32	0.60	4,093,742.32	100.00	0.00	3,835,417.28	0.57	3,835,417.28	100.00	0.00
Provisions for bad debts on a portfolio basis	681,438,422.20	99.40	12,986,063.64	1.91	668,452,358.56	665,512,217.44	99.43	12,908,114.62	1.94	652,604,102.82
In which:										
Due from other customers	681,438,422.20	99.40	12,986,063.64	1.91	668,452,358.56	665,512,217.44	99.43	12,908,114.62	1.94	652,604,102.82
Total	685,532,164.52	100.00	17,079,805.96	2.49	668,452,358.56	669,347,634.72	100.00	16,743,531.90	2.50	652,604,102.82

Provisions for bad debts on an individual basis:

Name	Balance at the End of the Period			Reason for provision made
	Book balance	Provisions for bad debts	Expected credit loss rate (%)	
Loan	4,093,742.32	4,093,742.32	100.00	low possibility expected to be recoverable
Total	4,093,742.32	4,093,742.32	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 Period		
	Accounts receivables	Provisions for bad debts	Expected credit loss rate (%)
Within 3 months (including 3 months)	625,516,850.63	6,375,168.50	1.02
4-6 months (including 6 months)	31,238,849.39	1,461,942.46	4.68
7-12 months (including 12 months)	14,504,233.61	1,430,423.35	9.86
1-2 years (including 2 years)	7,582,408.28	1,521,481.66	20.07
2-3 years (including 3 years)	1,313,442.07	914,409.45	69.62
Over 3 years	1,282,638.22	1,282,638.22	100.00
Total	681,438,422.20	12,986,063.64	1.91

NOTES TO (UNAUDITED) FINANCIAL STATEMENTS FOR THE FIRST HALF OF 2020

(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 Period

	Amount of provision for bad debts
Balance at the Beginning of the Year	16,743,531.90
Provisions made for the Period	336,274.06
Recoveries or reversals during the Period	0.00
Write-off for the Period	0.00
Balance at the End of the Period	17,079,805.96

As at 30 June 2020 and 31 December 2019, the Company had no accounts receivables that are past due but not impaired.

(4) There are no receivables written-off for the Period.

(5) The top five balances of accounts receivable by debtors as at the End of the Period

The total of the top five balances of accounts receivable by debtors as at the End of the Period was RMB96,856,351.09 for the Period, representing 14.13% of the total balance of account receivables for the End of the Period, the aggregate balance of corresponding provisions for bad debts as at the End of the Period was RMB1,014,902.89.

(6) There are 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.

NOTES TO (UNAUDITED) FINANCIAL STATEMENTS FOR THE FIRST HALF OF 2020

(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 Period	Balance at the Beginning of the Year
Dividend receivables	1,345,420,344.25	573,412,484.96
Other receivables	1,113,112,846.96	1,046,628,737.15
Total	2,458,533,191.21	1,620,041,222.11

(1) Dividend receivables

Item	Balance at the End of the Period	Balance at the Beginning of the Year
Livzon Group Limin Pharmaceutical Manufacturing Factory (麗珠集團利民製藥廠)	1,251,306,950.29	391,650,975.80
Zhuhai Livzon Diagnostics Inc. (珠海麗珠試劑股份有限公司)	0.00	85,098,115.20
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	94,113,393.96
Guangdong Blue Treasure Pharmaceutical Co. Ltd. (廣東藍寶製藥有限公司)	0.00	2,550,000.00
Sub-total:	1,345,420,344.25	573,412,484.96
Less: Provision for bad debts	0.00	0.00
Total	1,345,420,344.25	573,412,484.96

(2) Other receivables

① Disclosure by nature of the amount

Item	Balance at the End of the Period	Balance at the Beginning of the Year
Reserve fund	6,110,541.15	9,250,491.90
Other receivables of each company within the scope of combination	1,007,265,808.50	1,034,412,033.49
Borrowing due from external entities	5,000,000.00	5,000,000.00
Amounts of exercised options	96,174,824.32	0.00
Others	5,064,651.74	4,179,488.58
Sub-total	1,119,615,825.71	1,052,842,013.97
Less: Provision for bad debts	6,502,978.75	6,213,276.82
Total	1,113,112,846.96	1,046,628,737.15

NOTES TO (UNAUDITED) FINANCIAL STATEMENTS FOR THE FIRST HALF OF 2020

(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 Period, provision for bad debts at step 1:

Type	Book balance	Expected credit losses rate over the next 12 months (%)	Provision for bad debts	Carrying value	Reason
Provision for bad debts on an individual basis	1,441,595,168.57	0.00	0.00	1,441,595,168.57	
Dividend receivable	1,345,420,344.25	0.00	0.00	1,345,420,344.25	Expected to be recoverable
Amounts of exercised options	96,174,824.32	0.00	0.00	96,174,824.32	Expected to be recoverable
Provision for bad debts on a portfolio basis	1,007,265,808.50	0.00	0.00	1,007,265,808.50	
Other receivables of each combined company	1,007,265,808.50	0.00	0.00	1,007,265,808.50	Expected to be recoverable
Total	2,448,860,977.07	0.00	0.00	2,448,860,977.07	

As at the End of the Period, provision for bad debts at step 2:

Type	Book balance	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	15,937,733.45	39.31	6,265,519.31	9,672,214.14	
Other receivables	15,937,733.45	39.31	6,265,519.31	9,672,214.14	–
Total	15,937,733.45	39.31	6,265,519.31	9,672,214.14	

As at the End of the Period, provision for bad debts at step 3:

Type	Book balance	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	

NOTES TO (UNAUDITED) FINANCIAL STATEMENTS FOR THE FIRST HALF OF 2020

(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 Period

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	5,975,817.38	237,459.44	6,213,276.82
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	289,701.93	9,019,529.73	9,309,231.66
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	9,019,529.73	9,019,529.73
Other changes	0.00	0.00	0.00	0.00
Balance at the End of the Period	0.00	6,265,519.31	237,459.44	6,502,978.75

- ④ Other receivables actually written off during the Period

Item	Amount written off
Other receivables actually written off	9,019,529.73

Of which, important other receivables were written off as follows:

Name of unit	Nature of receivables	Amount written off	Reason for write-off	Write-off procedures performed	Whether the amount was generated from connected transactions
Wenshan Livzon Sanqi Plantation Co., Ltd. (文山麗珠三七種植有限公司)	Current account	9,019,529.73	Cancellation of company	–	No
Total		9,019,529.73			

NOTES TO (UNAUDITED) FINANCIAL STATEMENTS FOR THE FIRST HALF OF 2020

(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)

- ⑤ Other receivables with five largest amount by creditors at the End of the Period

Name of unit	Nature of receivables	Balance at the End of the Period	Ageing	Proportion to total other receivables at the End of the Period (%)	Balance of provision for bad debts at the End of the Period
Livzon Group (Ningxia) Pharmaceutical Manufacturing Co., Ltd. (麗珠集團(寧夏)製藥有限公司)	Current account	784,986,203.14	Within 1 year	70.11	0.00
Ando Development Limited (安滔發展有限公司)	Current account	123,952,532.67	Over 1 year	11.07	0.00
China Securities Depository and Clearing Corporation Limited (Shenzhen Branch) (中國證券登記結算深圳分公司)	Amount of exercised options	96,174,824.32	Within 1 year	8.59	0.00
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)	Current account	71,442,641.67	Within 1 year	6.38	0.00
Livzon Group Vaccine Engineering Inc. (麗珠集團疫苗工程股份有限公司)	Current account	21,015,286.39	Over 1 year	1.88	0.00
Total	—	1,097,571,488.19	—	98.03	0.00

- ⑥ The Company has not derecognised other receivables due to the transfer of financial assets.
- ⑦ The Company has no assets or liabilities formed by its continuous involvement of transferring other receivables.

NOTES TO (UNAUDITED) FINANCIAL STATEMENTS FOR THE FIRST HALF OF 2020

(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 Period			Balance at the Beginning of the Year		
	Book balance	Provision for impairment	Carrying value	Book balance	Provision for impairment	Carrying value
Investments in subsidiaries	1,808,414,891.59	17,287,569.18	1,791,127,322.41	1,840,108,891.59	17,287,569.18	1,822,821,322.41
Investments in associates	45,285,875.92	1,200,000.00	44,085,875.92	79,536,261.59	1,200,000.00	78,336,261.59
Total	1,853,700,767.51	18,487,569.18	1,835,213,198.33	1,919,645,153.18	18,487,569.18	1,901,157,584.00

(1) Investments in subsidiaries

Investee	Balance at the Beginning of the Year	Increase during the Period	Decrease during the Period	Balance at the End of the Period	Provision for impairment for the Period	Balance of provision for impairment at the End of the Period
Zhuhai Livzon Baimeg 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)	2,357,200.00	0.00	0.00	2,357,200.00	0.00	0.00
Livzon Group Livzon Pharmaceutical Marketing Ltd. (麗珠集團麗珠醫藥營銷有限公司)	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. (珠海市麗珠醫藥貿易有限公司)	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	4,694,000.00	0.00	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	30,000,000.00	0.00	0.00	0.00
Gutian Fuxing Pharmaceutical Co., Ltd. (古田福興醫藥有限公司)	6,675,000.00	0.00	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)	300,000.00	3,000,000.00	0.00	3,300,000.00	0.00	0.00
Total	1,840,108,891.59	3,000,000.00	34,694,000.00	1,808,414,891.59	0.00	17,287,569.18

NOTES TO (UNAUDITED) FINANCIAL STATEMENTS FOR THE FIRST HALF OF 2020

(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 Period									Balance of provision for	
	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	Others	Balance at the End of the Period	impairment at the End of the Period
① Associates											
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)	12,119,446.16	0.00	0.00	2,202,186.88	0.00	0.00	0.00	0.00	0.00	14,321,633.04	0.00
Jiangsu Ni Ke Medical Device Co., Ltd. (江蘇尼科醫療器械有限公司)	33,238,786.35	0.00	31,731,160.45	-1,507,625.90	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Shenzhen City Youbao Technology Co., Ltd. (深圳市有寶科技有限公司)	1,040,361.07	0.00	0.00	30,228.73	0.00	0.00	0.00	0.00	0.00	1,070,589.80	0.00
DOSERNA INC	5,916,586.07	0.00	0.00	-72,042.58	0.00	0.00	0.00	0.00	0.00	5,844,543.49	0.00
Zhuhai Sanmed Biotech Inc. (珠海聖美生物診斷技術有限公司)	26,021,081.94	0.00	0.00	-9,972,377.44	0.00	0.00	0.00	0.00	0.00	16,048,704.50	0.00
Livzon Gene Diagnostics Inc. (珠海市麗珠基因檢測科技有限公司)	0.00	8,169,649.04	0.00	-1,369,243.95	0.00	0.00	0.00	0.00	0.00	6,800,405.09	0.00
Total	79,536,261.59	8,169,649.04	31,731,160.45	-10,688,874.26	0.00	0.00	0.00	0.00	0.00	45,285,875.92	1,200,000.00

5. Operating income and operating cost

(1) Operating income and operating cost

Item	For the Period		For the Previous Period	
	Income	Cost	Income	Cost
Principal activities	2,021,239,099.70	1,349,422,326.45	2,697,862,900.45	1,645,034,856.38
Other activities	3,133,816.69	0.00	18,829,658.98	0.00
Total	2,024,372,916.39	1,349,422,326.45	2,716,692,559.43	1,645,034,856.38

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.

NOTES TO (UNAUDITED) FINANCIAL STATEMENTS FOR THE FIRST HALF OF 2020

(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 Period		For the Previous Period	
	Income	Cost	Income	Cost
Chemical drug preparation products	1,722,556,120.67	1,178,798,108.13	2,098,670,825.54	1,283,943,177.56
Traditional Chinese drug preparation products	298,682,979.03	170,624,218.32	599,192,074.91	361,091,678.82
Total	2,021,239,099.70	1,349,422,326.45	2,697,862,900.45	1,645,034,856.38

② Presented by regions of operation

Item	For the Period		For the Previous Period	
	Income	Cost	Income	Cost
Domestic	2,021,239,099.70	1,349,422,326.45	2,697,862,900.45	1,645,034,856.38
Total	2,021,239,099.70	1,349,422,326.45	2,697,862,900.45	1,645,034,856.38

③ Presented by recognition time of income

Item	For the Period		For the Previous Period	
	Income	Cost	Income	Cost
Commodities (transferred at a point in time)	2,021,239,099.70	1,349,422,326.45	2,697,862,900.45	1,645,034,856.38
Total	2,021,239,099.70	1,349,422,326.45	2,697,862,900.45	1,645,034,856.38

6. Investment income

Item	For the Period	For the Previous Period
Long-term equity investments income under cost method	859,655,974.49	129,720,166.44
Long-term equity investments income under equity method	-10,688,874.26	-6,873,600.24
Investment income from disposal of long-term equity investments	95,659,608.05	0.00
Investment income from financial assets held for trading during its holding period	92,291.36	90,643.41
Total	944,718,999.64	122,937,209.61

NOTES TO (UNAUDITED) FINANCIAL STATEMENTS FOR THE FIRST HALF OF 2020

(Unless specified otherwise, all amounts are denominated in RMB)

XVII. SUPPORTING INFORMATION

1. Statement of non-recurring profit or loss

Items	For the Period	For the Previous Period
Profit or loss from disposal of non-current assets	108,228,700.30	89,688.12
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	103,041,173.85	106,573,274.46
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	2,792,143.10	-3,276,696.75

NOTES TO (UNAUDITED) FINANCIAL STATEMENTS FOR THE FIRST HALF OF 2020

(Unless specified otherwise, all amounts are denominated in RMB)

XVII. SUPPORTING INFORMATION (continued)

1. Statement of non-recurring profit or loss (continued)

Items	For the Period	For the Previous Period
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	-11,911,061.27	-1,142,932.91
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	202,150,955.98	102,243,332.92
Less: Effect on income tax of non-recurring profit or loss	27,494,283.12	15,136,842.49
Less: Net effect of non-recurring profit or loss attributable to the Company's minority shareholders (after tax)	4,472,284.37	6,757,366.82
Non-recurring profit or loss attributable to the Company's ordinary shareholders	170,184,388.49	80,349,123.61

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).

NOTES TO (UNAUDITED) FINANCIAL STATEMENTS FOR THE FIRST HALF OF 2020

(Unless specified otherwise, all amounts are denominated in RMB)

XVII. SUPPORTING INFORMATION (continued)

2. Rate of return on net assets and earnings per share

January to June 2020

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	8.74	1.07	1.07
Net profit attributable to the Company's ordinary shareholders after a deduction of non-recurring profit or loss	7.26	0.89	0.89

January to June 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	6.79	0.79	0.79
Net profit attributable to the Company's ordinary shareholders after a deduction of non-recurring profit or loss	6.05	0.71	0.71

SECTION XII LIST OF DOCUMENTS AVAILABLE FOR INSPECTION

- (I) Full text of the 2020 Interim Report of the Company signed by the legal representative.
- (II) The unaudited financial report for the six months ended 30 June 2020 of the Company prepared in accordance with the China Accounting Standards for Business Enterprises, 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).
- (III) The original copies of all documents and announcements of the Company which have been disclosed to the public on the website designated by CSRC during the Reporting Period.
- (IV) The English and Chinese versions of the 2020 Interim Report of the Company published on the website of the Hong Kong Exchanges and Clearing Limited.

Livzon Pharmaceutical Group Inc.
Zhu Baoguo
Chairman of the Board

25 August 2020



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