

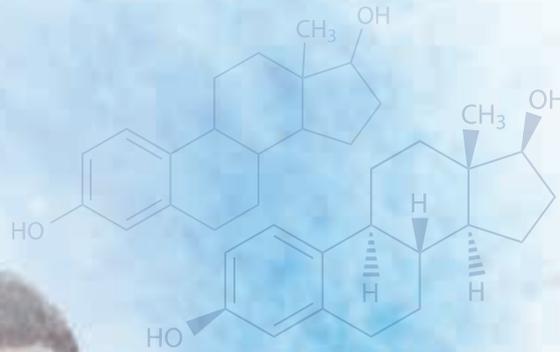


丽珠医药
LIVZON

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)



INTERIM REPORT 2019



* For identification purpose only

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2 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 that there are no false representations, misleading statements and material omissions contained in this interim report (the “Report”), and severally and jointly accept responsibility for the truthfulness, accuracy and completeness of its contents.

The Report has been considered and approved in the 30th meeting of the 9th session of the Board of the Company. All the Directors attended the 30th meeting of the 9th session of the Board.

The Group has prepared the financial report in accordance with China Accounting Standards for Business Enterprises. The 2019 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 legal representative 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 Report contained in the Report.

The Company analysed possible risk factors and corresponding strategies in respect of the future development of the Company in “Chapter IV–Discussion and Analysis of Operations (Management Discussion and Analysis)” of the Report. Investors are advised to review it.

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

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



DEFINITIONS

In the Report, unless the context requires otherwise, 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 Shenzhen Stock Exchange respectively
“Group”	the Company and its subsidiaries
“Board”	the board of directors of the Company
“Director(s)”	director(s) 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 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 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
“Reporting Period” or “Period”	the six months from 1 January to 30 June 2019
“Same Period Last Year” or “Previous Period”	the six months from 1 January to 30 June 2018
“Beginning of the Reporting Period” or “Beginning of the Period” or “End of Last Year”	31 December 2018

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4 I. IMPORTANT NOTICE AND DEFINITIONS

DEFINITIONS *(continued)*

“End of the Reporting Period” or “End of the Period”	30 June 2019
“CSRC”	the China Securities Regulatory Commission
“Shenzhen Stock Exchange”	the 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, and 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 (《中華人民共和國公司法》)
“Securities Law”	the Securities Law of the People’s Republic of China (《中華人民共和國證券法》)
“Shenzhen Listing Rules”	the Stock Listing Rules of the Shenzhen Stock Exchange (《深圳證券交易所股票上市規則》)
“Hong Kong Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“Corporate Governance Code”	the Code of Corporate Governance as set out in Appendix 14 of the Hong Kong Listing Rules
“Model Code”	the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Hong Kong Listing Rules
“SFO”	the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong)
“Articles of Association”	the Articles of Association of Livzon Pharmaceutical Group Inc.* (《麗珠醫藥集團股份有限公司章程》)
“B-TO-H Share Conversion”	conversion of the domestically listed foreign shares (B Shares) of the Company into H Shares by way of introduction for listing and trading on the Main Board of the Hong Kong Stock Exchange
“Restricted A Shares Incentive Scheme”	the Restricted A Shares Incentive Scheme (Revised Draft) considered and approved by the Company at the 2015 first extraordinary general meeting

* For identification purpose only



DEFINITIONS *(continued)*

“Restricted Shares”	A Shares granted to the incentive participants under the Restricted A Shares Incentive Scheme of the Company
“Joincare”	Joincare Pharmaceutical Industry Group Co., Ltd.* (健康元藥業集團股份有限公司)(stock code in the Shanghai Stock Exchange: 600380), a joint stock company incorporated in the PRC and listed on the Shanghai Stock Exchange in 2001 and one of the Company’s controlling shareholders
“Joincare Group”	Joincare and its subsidiaries (excluding the Group)
“Baiyeyuan”	Shenzhen Baiyeyuan Investment Co., Ltd.* (深圳市百業源投資有限公司)
“Topsino”	TOPSINO INDUSTRIES LIMITED
“Begol”	Guangzhou Begol Trading Holdings Limited* (廣州市保科力貿易公司)
“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)
“Pharmaceutical Factory”	Livzon Group Livzon Pharmaceutical Factory* (麗珠集團麗珠製藥廠)
“Livzon Reagents”	Zhuhai Livzon Diagnostic Reagents 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)
“Livzon Gene”	Zhuhai Livzon Gene Detection Technology Co., Ltd.* (珠海市麗珠基因檢測科技有限公司)

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6 I. IMPORTANT NOTICE AND DEFINITIONS

DEFINITIONS *(continued)*

“Lizhu HK”	Lizhu (Hong Kong) Co., Limited* (麗珠(香港)有限公司)
“Livzon Biologics”	Livzon Biologics Limited
“Livzon International”	Livzon International Limited
“Joincare BVI”	Joincare Pharmaceutical Group Industry Co., Ltd
“Biologics Limited”	Livzon Biologics Hong Kong Limited* (麗珠生物科技香港有限公司)
“Biotechnology Company”	Zhuhai Livzon Biotechnology Co., Ltd* (珠海市麗珠生物醫藥科技有限公司)
“China” or “PRC”	the People’s Republic of China
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“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”	United States dollars, the lawful currency of the United States of America
“Cninfo”	www.cninfo.com.cn (巨潮資訊網)
“Company’s website”	the website of the Company (www.livzon.com.cn)

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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	the 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, China	
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, China	
Postal code of office address in the PRC	519090	
Principal place of business in Hong Kong	Unit 1301, 13/F, China Evergrande Centre, 38 Gloucester Road, Wan Chai, Hong Kong	
Company's website	www.livzon.com.cn	
E-mail	LIVZON_GROUP@livzon.com.cn	

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

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

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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, China	
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 2018 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. Please refer to the 2018 Annual Report for details.



III. OTHER INFORMATION *(continued)*

3. OTHER RELEVANT INFORMATION

Whether other relevant information changed during the Reporting Period

Applicable Not applicable

Accounting Firm Appointed by the Company

Name of accounting firm	Ruihua Certified Public Accountants (LLP)
Office address of accounting firm	9/F, West Tower of China Overseas Property Plaza, Building 7, NO.8, Yongdingmen Xibinhe Road, Dongcheng District, Beijing, China

Authorised Representatives and Institutions Appointed by the Company Pursuant to the Hong Kong Listing Rules

Authorised representatives appointed pursuant to the Hong Kong Listing Rules	Tao Desheng (陶德勝) ^{Note} , Yang Liang (楊亮)
Company secretary, secretary to the Board	Yang Liang (楊亮)
Alternate to authorised representatives	Yuan Ailing (袁藹鈴)
Name of H Share Registrar	Tricor Investor Services Limited
Address of H Share Registrar	Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong

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

IV. CHANGES OF SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND ACCOUNTING METHOD AND CORRECTION OF ACCOUNTING ERRORS

Applicable Not applicable

1. Changes in accounting policies

Change in accounting policies due to adoption of new Accounting Standards for Business Enterprises

On 7 December 2018, the Ministry of Finance of the PRC issued "Accounting Standard for Business Enterprises No. 21 – Leases" (Revised in 2018) (Cai Kuai [2018] No. 35) (the "New Lease Standard"). As required by it, enterprises listed in both domestic and overseas stock markets or enterprises listed overseas and applying IFRS or the Accounting Standards for Business Enterprises to prepare financial statements shall apply the above-mentioned Standard from 1 January 2019.

On 27 March 2019, with the approval of the twenty-fifth meeting of the Ninth Session of the Board of the Company, the Company has adopted the above-mentioned New Lease Standard since 1 January 2019 (the "Date of Initial Adoption") as required by the Ministry of Finance of the PRC, and changed the accounting policies according to the requirements under the New Lease Standard.

Under the New Lease Standard, for contracts already existed before the Date of Initial Adoption, the Company elected not to reassess whether the contracts are or contain a lease on the Date of Initial Adoption. For uncompleted lease contracts with the Company as the lessee on 1 January 2019, they are included in the cost of related assets or in profit or loss of the current period on a straight-line basis over the lease term as simplified approach is adopted when the leases are qualified for short-term leases and low value asset leases.

Changes in accounting policies due to adoption of the accounting standards above have no effect on the financial statements for the Reporting Period.

2. Changes in accounting estimates

Applicable Not applicable

3. Correction to accounting errors

Applicable Not applicable



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

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

Yes No

Unit: RMB

Items	The Period	The Previous Period	Change
Operating income	4,939,065,593.94	4,564,703,491.43	8.20%
Net profit attributable to Shareholders of the Company	738,947,763.69	633,354,295.53	16.67%
Net profit attributable to the Shareholders of the Company after deducting the extraordinary gain or loss	658,598,640.08	571,125,181.84	15.32%
Net cash flow from operating activities	958,363,504.62	-18,168,548.18	5374.85%
Total profit	987,950,152.13	817,806,405.51	20.80%
Basic earnings per share (RMB/Share)	1.03	0.88	17.05%
Diluted earnings per share (RMB/Share)	1.03	0.88	17.05%
Basic earnings per share after extraordinary profit and loss (RMB/Share)	0.92	0.80	15.00%
Weighted average return on net assets (%)	6.79%	5.79%	Increased by 1.00 percentage point
Return on equity attributable to shareholders of the listed company (%)	7.02%	6.10%	Increased by 0.92 percentage point
Ratio of equity attributable to shareholders of the listed company to total assets (%)	62.41%	67.10%	Decreased by 4.69 percentage point

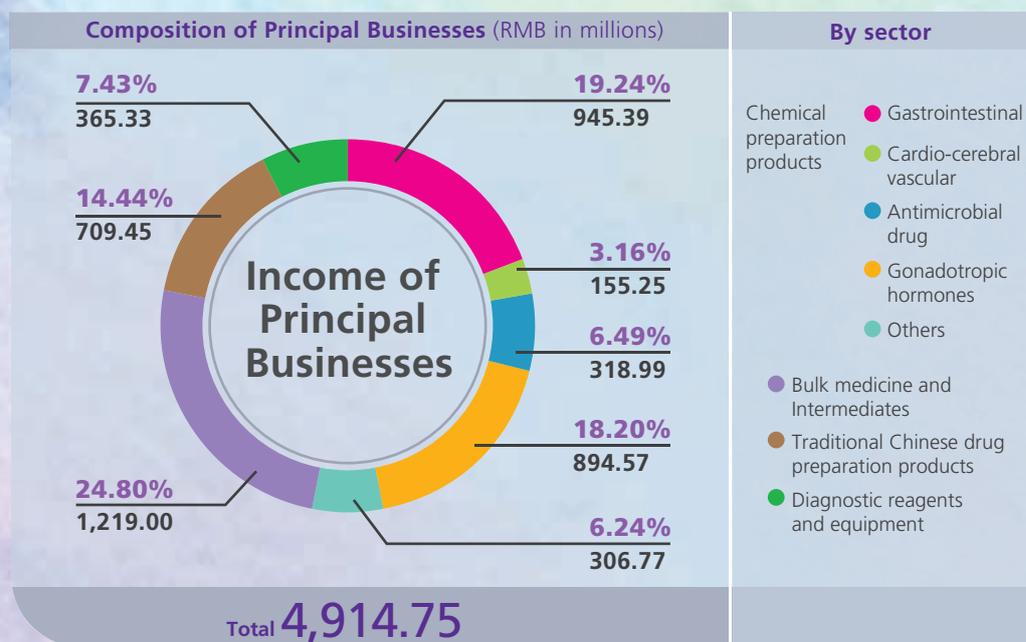
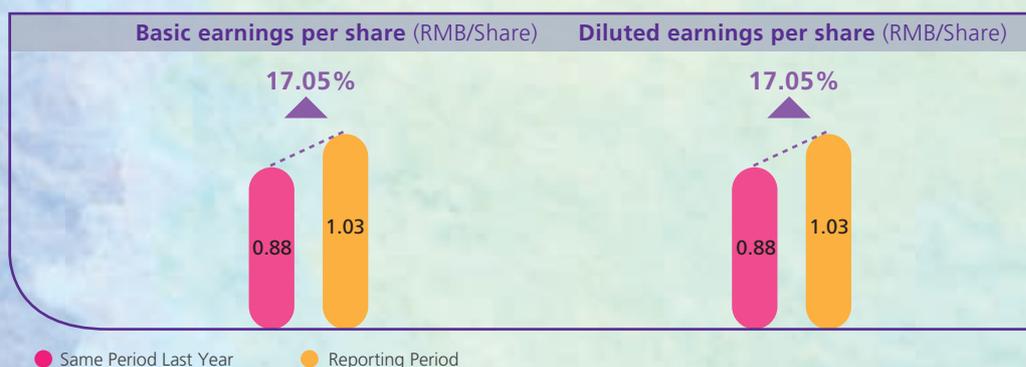
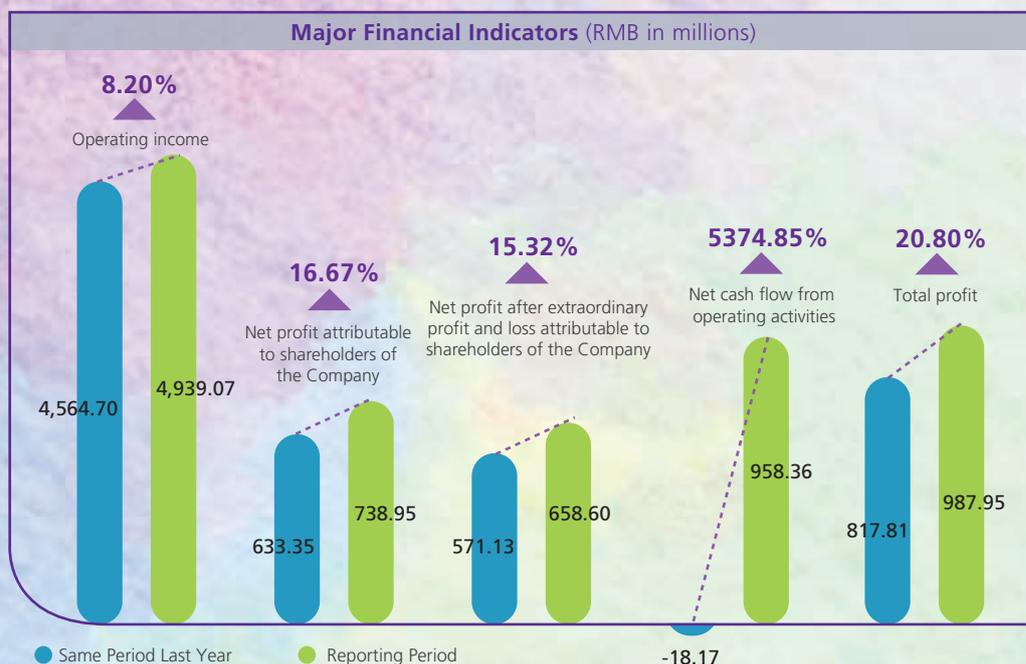
Items	End of the Period	Beginning of the Period	Change
Total assets	16,877,654,334.70	17,437,346,860.38	-3.21%
Total liabilities	5,303,418,541.34	5,687,469,951.37	-6.75%
Net assets attributable to the Shareholders of the Company	10,533,459,091.01	10,651,977,470.64	-1.11%
Share capital	719,048,212.00	719,050,240.00	-0.0003%
Shareholders' equity per share attributable to the Shareholders of the Company	14.65	14.81	-1.08%

The total share capital of the Company as at the trading day immediately preceding disclosure

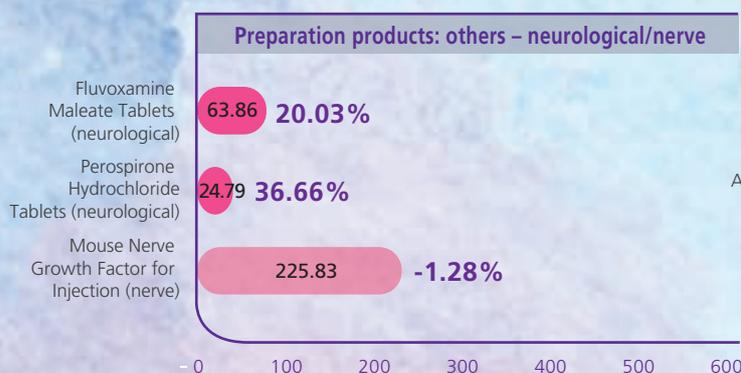
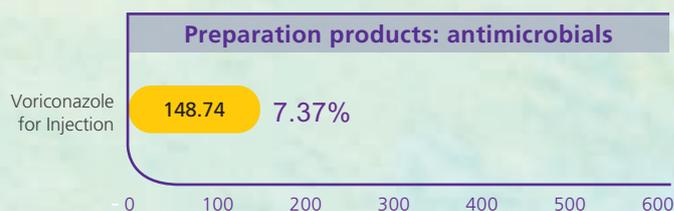
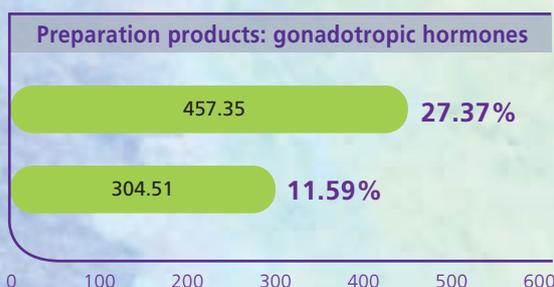
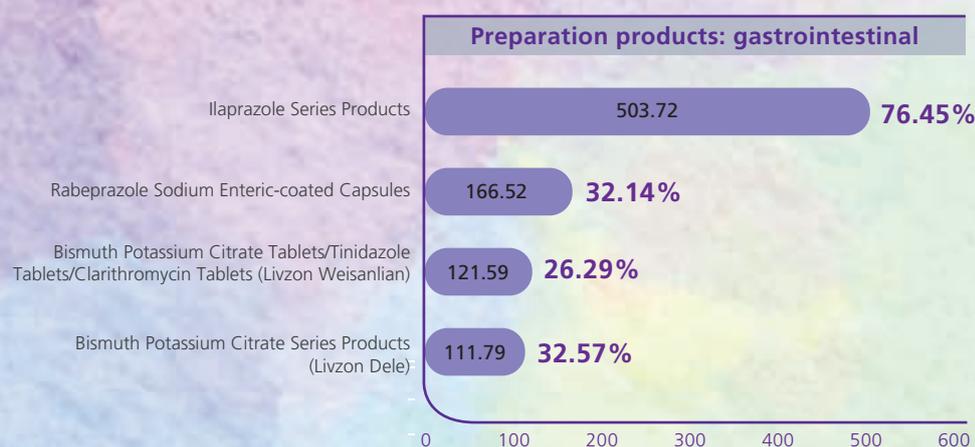
Total share capital of the Company as at the trading day immediately preceding disclosure (shares) 934,762,675

Fully diluted earnings per share based on the most updated share capital (RMB/Share) 0.79

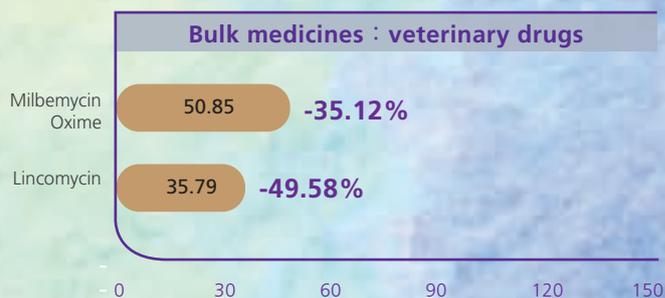
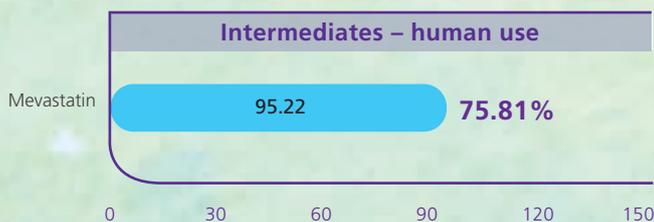
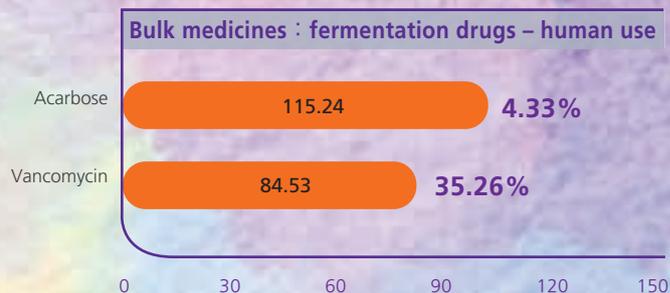
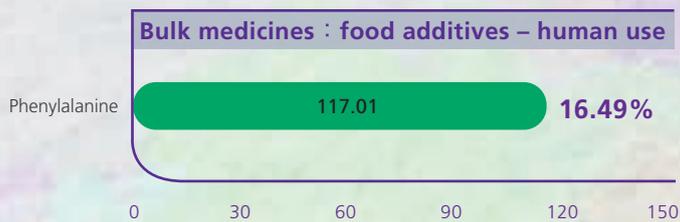
Financial Highlights



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



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





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

Difference in net profit and net assets in the Financial Report disclosed in accordance with the International Accounting Standards and China Accounting Standards

Applicable Not applicable

Difference in net profit and net assets in the Financial Reports disclosed according to Foreign Accounting Standards and China Accounting Standards

Applicable Not applicable

Reasons for differences in accounting data under domestic and foreign accounting standards

Applicable Not applicable

VII. ITEMS AND AMOUNTS OF EXTRAORDINARY GAINS OR LOSSES

Applicable Not applicable

Items	<i>Unit: RMB</i> Amounts
Gains and losses from disposal of non-current assets (including those already written off in the provision for impairment of assets as provided)	89,688.12
Government grants included in the profit or loss for the Period (save as those government grants closely associated to the operations of the Company, being entitled at a certain standard amount or certain level in accordance with the uniform national standards)	106,573,274.46
Investment income derived from the holding of financial assets held for trading, gains or losses arising from changes in fair value of financial liabilities held for trading and disposal of financial assets held for trading, financial liabilities held for trading and available-for-sale financial assets (excluding the effective hedging activities of the normal operations of the Company)	-3,276,696.75
Other non-operating income and expenses apart from the above	-1,142,932.91
Less: Effect on income tax	15,136,842.49
Effect on non-controlling interests (after tax)	6,757,366.82
Total	80,349,123.61

For items of extraordinary gains or losses defined in “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 “Notice on Explanation of Information Disclosure of Companies Publicly Issuing Securities No.1 – Extraordinary Gains or Losses” 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.

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, bulk medicines and intermediates as well as diagnostic reagents and equipment. Major products included traditional Chinese and Western drug preparation products such as Shenqi Fuzheng Injection (參芪扶正注射液), Ilaprazole (Ilaprazole Enteric Coated Tablet) (壹麗安(艾普拉唑腸溶片)), a series of Bismuth Potassium Citrate Granules (麗珠得樂(枸橼酸鉍鉀)) products, Leuprorelin Microspheres for Injection (貝依(注射用亮丙瑞林微球)), 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)), Anti-viral Granules (抗病毒顆粒), Voriconazole for Injection (麗福康(注射用伏立康唑)) and Mouse Nerve Growth Factor for Injection (麗康樂(注射用鼠神經生長因子)); bulk medicines and intermediates such as Mevastatin (美伐他汀), Acarbose (阿卡波糖), Colistin Sulfate (硫酸粘菌素), Phenylalanine (苯丙氨酸) and Ceftriaxone Sodium (頭孢曲松鈉); and diagnostic reagents such as ELISA HIV Testing Reagent (HIV 抗體診斷試劑), MYCOII Testing Reagent (肺炎支原體抗體診斷試劑) and TPPA Testing Reagent (梅毒螺旋體抗體診斷試劑).

II. MATERIAL CHANGES IN MAJOR ASSETS

1. Material Changes in Major Assets

Major assets	Details of material changes
Equity assets	Decreased by 3.13%, there was no material change in the Reporting Period.
Fixed assets	Decreased by 0.02%, there was no material change in the Reporting Period.
Intangible assets	Decreased by 3.05%, there was no material change in the Reporting Period.
Construction in progress	Increased by 11.32%, there was no material change in the Reporting Period.
Other receivables	Increased by 35.43%, which was mainly due to an increase in the amount of receivable export tax rebate.
Account receivables	Increased by 27.28%, there was no material change in the Reporting Period.
Long-term receivables	Decreased by 47.50%, which was mainly due to the long-term receivables due within one year transferred to non-current assets due within one year as the aging changed.
Development expenses	Increased by 37.60%, which was mainly due to an increase in research and development expenses as projects, such as Recombinant Humanized Anti-IL-6R Monoclonal Antibody for Injection (重組人源化抗IL-6R單克隆抗體注射液) and Recombinant Human Chorionic Gonadotropin for Injection (注射用重組人絨促性素), entered the clinical phase.
Other equity instruments	Decreased by 6.29%, there was no material change in the Reporting Period.

2. Major foreign assets

Applicable Not applicable



III. ANALYSIS OF CORE COMPETITIVE STRENGTHS

The Group remained committed to its goal of becoming a highend specialty pharmaceutical enterprise with an annual management policy of “reform, responsibility, innovation and development” and achieved steady business growth by improving management efficiency and governance standards, boosting research and development and enhancing marketing management. During the Reporting Period, there were no material changes in the Group’s core competitive strengths, 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, bulk medicines and intermediates and diagnostic reagents and equipment. The Group has established an advantageous market position in a number of specialized pharmaceutical segments such as anti-tumor medicine, assisted reproduction, gastrointestinal drugs and neurology drugs. Currently, the Company is endeavouring to promote the research and development of cell therapy in a timely manner, and continuously improve the cultivation of its precise pharmaceutical business while further focusing on the research and development of monoclonal antibodies.

(2) Comprehensive marketing system and professional marketing team

The Group refined its management on marketing works by improving its marketing system, optimizing its incentive assessment mechanism and continuously strengthening academic marketing and outlet promotion and has established a professional marketing teams specialised in, among others, drug preparation products (including prescription medicines and non-prescription medicines), diagnostic reagents and bulk medicines by optimizing resource allocation to set up a 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) Proven quality management system

The Group has established a comprehensive quality management system covering the production quality, scientific research and sales of its products. During the 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, and further strengthened the 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, drug preparation products for traditional Chinese medicine, biopharmaceutical drugs and diagnostic reagents, and has established specialised technology platforms for R&D of Sustained Release Microspheres and R&D of Biomedicines with core leading R&D talents. By proactively introducing experts and innovative talents from domestic and abroad, exerting greater efforts in research and development and developing overseas strategic alliances, the Group has established a clear products R&D pipeline with a focus on specialized medicine products such as antitumor, assisted reproduction, gastrointestinal, psychotropic and neurological drugs, which further enhanced our R&D competitiveness.

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

I. BUSINESS SCOPE

For the 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

During the first half of 2019, under a more stringent policy environment in the pharmaceutical industry and a complicated and volatile market environment, the Group adhered to the guiding principles of “reform, responsibility, innovation and development” and advocated the three major strategies of “personnel strategy, product strategy and market strategy”. That means, we aimed to create an outstanding team with excellence, efficiency and conquering capabilities through internal training, global recruitment of high-calibre talents and a scientific and effective appraisal system. We strived to establish competitive edges of our products in various aspects, including research and development, quality, safety standards and costs, to determine the market positioning of our products, deepen the penetration of marketing promotions, tackle the non-regulated markets by studying the European and US regulated markets in detail and achieve our target of market sales stage by stage.

During the Reporting Period, the Group recorded an operating income of RMB4,939.07 million, representing an increase of 8.20% as compared with RMB4,564.70 million in the Same Period Last Year; a net profit of RMB834.53 million, representing an increase of 23.50% as compared with RMB675.71 million in the Same Period Last Year; and a net profit attributable to Shareholders of the Company of RMB738.95 million, representing an increase of 16.67% as compared with RMB633.35 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 2019 was RMB658.60 million, representing an increase of 15.32% as compared with RMB571.13 million in the Same Period Last Year.

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

(1) Chemical and traditional Chinese drug preparation products: Refining marketing evaluation and strengthening R&D management

During the Reporting Period, the Group’s business in drug preparation products recorded sales revenue of RMB3,330.42 million, representing 67.43% of the operating income recorded by the Group during the Reporting Period, including RMB2,620.97 million from chemical drug preparation products, representing an increase of 22.19% as compared with the Same Period Last Year, and RMB709.45 million from traditional Chinese drug preparation products, representing a decrease of 17.68% as compared with the Same Period Last Year. The percentage of revenue from chemical drug preparation products continued increasing.

In respect of marketing, during the first half of 2019, consistent with the Group’s three major strategies of “personnel, products and markets”, our marketing team for prescription drugs made active deployment under the guidance of “Three Marketing” principles, and mainly achieved the following tasks: (i) strengthening the pool of reserve and recruited talents in medical and pharmaceutical fields, improving the organizational structure of the clinical and medical project teams to support evidential marketing; (ii) conducting potential analysis and significant follow-ups towards the terminal services enhancing the development and promotions of key products in blank markets, reinforcing the refined evaluation of sales staff for end users, and continuously increasing the market coverage of key products; (iii) deepening evidential marketing, proceeding with four phases of clinical studies for key products on continuing basis, facilitating the formation of consensus opinions and clinical guidelines for some key products to enter the relevant areas; (iv) paying active attention to the relevant policies of large-scale purchases and its implementation and the adjustments to the national medical insurance drug lists; (v) in respect of retail sales, our retail team was well-established in all aspects, various marketing activities were organized and implemented to expand the product coverage in chain pharmacies and other end customers, and more rapid growth in retail sales was recorded.



II. SUMMARY *(continued)*

(1) Chemical and traditional Chinese drug preparation products: Refining marketing evaluation and strengthening R&D management *(continued)*

In research and development, we implemented the flat and matrix management models in project management and realized a mechanism for project management based on R&D results, and accelerated the progress of priority key drug candidates. During the Reporting Period, approval of supplementary application was obtained for the project on Voriconazole for Injection (注射用伏立康唑) (0.1g), and Ryanodex for Injection (注射用丹曲林钠) was filed and accepted for priority assessment, approval for clinical trial was obtained for the Leuprorelin Acetate Microspheres for Injection (注射用醋酸亮丙瑞林微球) (3-month sustained release), whereas the Shenqi Fuzheng Injection (参芪扶正注射液) is applying for conclusion of phase I clinical trial to FDA. Among consistency assessment projects, Tinidazole Tablets (替硝唑片) had passed the review by National Medical Products Administration (NMPA), Clarithromycin Tablets (克拉霉素片) and Amlodipine Besylate Capsules (苯磺酸氨氯地平胶囊) had completed BE studies and filed for registration, their applications were being processed. On our R&D basis, the Company gradually planned to develop into the area of polypeptide diabetes drugs and commenced R&D on the relevant projects.

In production and quality aspects, all production units organized production as planned, the technical process was improved to ensure quality and quantity. As at 30 June 2019, the quality management head office conducted a total of 8 interactive inspections on 4 drug preparation enterprises, 1 tracking inspection, 2 project inspections and a total of 11 audits. The quality system standards of all production enterprises were enhanced steadily, with continuous improvements in systematic management and control on environmental protection and safety risks, no material incident relating to quality or safety had occurred.

Regarding overseas sales of drug preparations, during the first half of 2019, market access and sales in countries and regions, including Pakistan, the Commonwealth of Independent States, Philippines and Central America, were promoted with focus on gonadotropic hormones, digestive tract, psychotropic and anti-infective drugs. During the Reporting Period, Kanamycin for Injection (卡那霉素注射液) passed international certification (WHO project), the sales team is performing marketing promotions in South Africa and other regions.

(2) Bulk medicines and intermediates: Optimization of product composition, planning for global market

During the Reporting Period, the Group's bulk medicines and intermediates business generated sales revenue of approximately RMB1,219.00 million, representing 24.68% of the operating income recorded by the Group during the Reporting Period, and an increase of 1.64% as compared with the Same Period Last Year; and gross profit margin increased by 7.18% as compared with the Same Period Last Year, with further enhancement of profitability.

During the first half of 2019, the relevant bulk medicines production enterprise entered into sales contracts or yearly strategic cooperation agreements with key domestic and international customers for various products including Acarbose (阿卡波糖), Phenylalanine (苯丙氨酸) and Daptomycin (达托霉素), laying a solid foundation for subsequent sales. Meanwhile, different marketing strategies and task focus points were determined for high-end antibiotics, general antibiotics, intermediates, high-end pet drugs and new products, respectively.

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

II. SUMMARY *(continued)*

(2) Bulk medicines and intermediates: Optimization of product composition, planning for global market *(continued)*

During the Reporting Period, the research and development relating to bulk medicines achieved relatively rapid development, while the Fermentation R&D Center and the Synthetic R&D Center were operated in an orderly manner. The Fermentation R&D Center focused on the strain modification of existing varieties and the introduction of new products. During the Reporting Period, the technical indicators of two varieties were significantly improved through strain modification. The research and development of new product varieties such as vancin-type products (萬星類產品) and peptide-type products (多肽類產品) progressed smoothly, while the quality research of corresponding varieties and preparation of impurity standards were also in progress. The R&D of synthetic bulk medicines progressed smoothly, with promotion of the R&D of two varieties, introduction of a key variety as well as completion of process optimization and process stereotypes of certain projects as planned. In addition, the Company has started the R&D of pet drug preparations by extending the industrial chain with our own bulk medicines.

In terms of production and quality, in the first half of 2019, standards of production management improved steadily and all raw material production enterprises carried out comprehensive safety and environmental protection self-examination with relatively stable overall risk control effect and no occurrence of major EHS accidents. Meanwhile, cost analysis of all aspects of production was strengthened to enhance the technical indicators of existing key products and constantly optimize process for reducing costs and increasing efficiency through continuous technological breakthrough. While the production line met the requirements of domestic GMP standards, we actively promoted international certification. During the Reporting Period, Xinbeijiang Pharmaceutical passed the FDA certification with zero defects; Fuzhou Fuxing passed the EU-GMP inspection with products involved including Vancomycin Hydrochloride Precipitation Powder (鹽酸萬古黴素沉澱粉) and Teicolaline (替考拉林). As of 30 June 2019, 18 varieties of bulk medicines have passed international certification for on-site inspection, 19 varieties have obtained certificates for international certification during the validity period (including: 8 varieties which have passed FDA on-site inspection and 7 varieties which have obtained CEP certificates), and a total of 42 varieties in production have carried out resubmission for more than 200 projects in 93 countries (regions).

(3) Biopharmaceutical drugs: Focus on R&D projects to accelerate clinical progress

During the Reporting Period, the Group actively optimized and adjusted the executives and executive management team of Livzon MAB, comprehensively managed and evaluated projects that have been established, opened additional clinical centers, strengthened process management of projects, and focused on clinical research work of core projects. In particular: Recombinant Humanized Anti-IL-6R Monoclonal Antibody for Injection (重組人源化抗IL-6R單克隆抗體注射液) was undergoing phase I clinical trial, Recombinant Anti-HER2 Domain II Humanized Monoclonal Antibody for Injection (重組抗HER2結構域II人源化單克隆抗體注射液) was preparing for phase Ib clinical trial, 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) was preparing for phase Ib clinical trial, and Recombinant Humanized Anti-OX40 Monoclonal Antibody for Injection (重組全人源化抗OX40單克隆抗體注射液) obtained clinical approval.



II. SUMMARY *(continued)*

(3) Biopharmaceutical drugs: Focus on R&D projects to accelerate clinical progress *(continued)*

On the other hand, application for production of Recombinant Human Chorionic Gonadotropin for Injection (注射用重組人絨促性素) were made at the end of 2018 and has entered the CDE review process. The Group has established three working groups for drug administration, clinical and production, and has comprehensively carried out production site verification preparations. The overseas sales of Recombinant Human Chorionic Gonadotropin (重組人絨促性素) has also commenced, and preliminary business negotiations have been carried out in France, Indonesia, Pakistan, Egypt, South Africa, South Korea, Turkey, Russia and other regions.

Regarding pre-clinical project reserve, Livzon MAB has strengthened the layout of targeted biopharmaceutical drugs and cell therapy. Currently, innovation projects, such as New Long-acting Targeting Cytokine Drugs for Tumor Therapy (腫瘤治療用新型長效靶向細胞因子藥物), Humanized Bispecific Autologous CAR-T Cell Injection (人源化雙特异性自體 CAR-T 細胞注射液) and New Therapeutic T-cell Vaccines Injection for Treatment of Tumors (新型治療性 T 細胞疫苗注射液治療腫瘤) etc. have been successfully established, which enhanced the Company's short-, medium-and long-term research and development layout with focus on innovative drugs. In order to concentrate superior resources to focus on the R&D of the Company's key projects, Livzon MAB is actively carrying out simultaneous external cooperation for development and technology transfer for other projects under research.

(4) Diagnostic reagents and equipment: R&D gradually yielded results during period of strategic transformation

During the Reporting Period, Livzon Reagents strengthened target management, streamlined and integrated its teams and enhanced team capabilities, with focus on promoting less new products such as respiratory rapid inspection (呼吸道快檢). During the first half of 2019, the Group's diagnostic reagents and equipment realized sales revenue of RMB365.33 million, representing 7.40% of the operating income recorded by the Group during the Reporting Period, and an increase of 8.21% as compared with the Same Period Last Year. For self-produced products, Livzon Reagents carried out intensive promotion of the Rapid Detection and Analysis System for Colloidal Gold (膠體金快速檢測分析系統) and the Connecting Card for Lung Branches and Lung Lichens (肺支肺衣連接卡) to enable continuous growth of Gold Labals for Respiratory Tract (呼吸道金標). Meanwhile, growth of Infectious Disease Gold Labeling (傳染病金標) products accelerated under the promotion of the base management team. Livzon Reagents actively enhanced product layout and expanded market, with continuous growth in area of drug concentration monitoring and sales from commodity inspection systems. For agency products, continuous growth was recorded in the first half of 2019.

In terms of innovation, Livzon Reagents continued to deploy new products, with increasing R&D investment. The X-ray irradiator (X光輻照儀) will soon obtain certification and launch to the market, while the Single-person Chemiluminescence PCT Project (單人份化學發光 PCT 項目) has obtained registration certificate. The BCI, HIV, HCV, HBV products in the Molecular Nucleic Acid Platform (分子核酸平台), the Fully Automated Multi-immunity Analyzer (全自動多重免疫分析儀) and the first batch of 15 products using anti-nuclear and antibodies have all completed the clinical stage and entered the registration stage.

During the first half of 2019, the production management work of Livzon Reagents advanced steadily, the compliance system was constantly improved, and EHS work continued to proceed. Through the optimized management and enhanced efficiency, cost of self-produced products decreased under the premise of quality assurance.

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

II. SUMMARY *(continued)*

(4) Diagnostic reagents and equipment: R&D gradually yielded results during period of strategic transformation *(continued)*

In terms of international registration and certification, as of 30 June 2019, 14 varieties received 15 medical device certificates in the European Union, and 6 of them passed the TUV international certification for on-site inspection.

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

(5) Functions and strategies: Implement Personnel strategy and strengthen investment extension

“Personnel Strategy” is one of the three core strategies. Main work conducted in the first half of 2019 includes the following aspects: First is to sort out the organizational structure and institutional settings of the Group at all levels by adhering to the principle of lean organization structure and penetration into lower tier markets to optimize efficiency. Second is to introduce global high-end talents, and accordingly the Group has talents in the fields of R&D, medicine, investment, etc. Third is to optimize the performance appraisal management system by sorting out and optimizing the evaluation plan of scientific research units and production units, and accordingly we have established scientific cadre assessment methods, quantified assessment indicators and detailed assessment nodes; Fourth is the coordination and division of functions, as a result of which the Group has optimized and integrated its business divisions such as the traditional Chinese medicine division, the public affairs head office and the human resources and administration head office.

In terms of strategic development and investment, during the Reporting Period, in order to accelerate the international industrial layout of the Company and further enhance the industrial structure, the Group established investment companies in China and overseas respectively with a view to promoting the Company’s external development in the industry through equity investment. During the first half of 2019, Livzon Reagents, a subsidiary of the Group, established a joint venture to develop a new generation of rapid molecular detection medical diagnostic products (快速分子檢測醫療診斷產品), while the subsidiary Kadi increased capital contribution in Yizun Biopharmaceutics to accelerate strategic layout in area of cell therapy business.



III. ANALYSIS OF PRINCIPAL BUSINESSES

1. Summary

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

Yes No

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

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

Applicable Not applicable

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

3. Segment information

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

4. Income and costs

(1) Composition of principal businesses

Unit: RMB

		Income of principal businesses	Costs of principal businesses	Gross profit margin	Year-on-year change in income of principal businesses	Year-on-year change in costs of principal businesses	Year-on-year change in gross profit margin
By sector							
Chemical preparation products	Gastrointestinal	945,389,757.68	101,039,991.66	89.31%	51.37%	92.55%	-2.29%
	Cardio-cerebral vascular	155,253,213.18	35,784,182.93	76.95%	22.14%	36.45%	-2.42%
	Antimicrobial drug	318,989,415.99	67,060,673.53	78.98%	8.64%	15.81%	-1.30%
	Gonadotropic hormones	894,569,395.35	315,151,495.84	64.77%	18.62%	20.26%	-0.48%
	Others	306,770,940.03	39,957,932.68	86.97%	-11.23%	-21.18%	1.64%
Bulk medicine and Intermediates		1,218,996,494.87	846,246,039.78	30.58%	1.64%	-7.89%	7.18%
Traditional Chinese drug preparation products		709,446,688.37	176,400,921.43	75.14%	-17.68%	-11.01%	-1.86%
Diagnostic reagents and equipment		365,329,401.93	139,333,621.52	61.86%	8.21%	4.38%	1.40%
Others		-	-	-	-	-	-
Total		4,914,745,307.40	1,720,974,859.37	64.98%	8.17%	1.24%	2.39%
By region							
Domestic		4,248,447,776.90	1,283,589,909.44	69.79%	6.61%	0.16%	1.95%
Overseas		666,297,530.50	437,384,949.93	34.36%	19.29%	4.58%	9.24%

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

III. ANALYSIS OF PRINCIPAL BUSINESSES *(continued)*

4. Income and costs *(continued)*

(1) Composition of principal businesses *(continued)*

During the Reporting Period, the Group's principal businesses generated an operating income of RMB4,914.75 million, representing an increase of RMB371.00 million or 8.17% as compared with RMB4,543.74 million in the Same Period Last Year. In particular, income from chemical drug preparation products increased by 22.19% year-on-year and income from bulk medicines and intermediates increased by 1.64% year-on-year.

The income and movement of key preparation products are as follows: the income from sales of key gonadotropic hormones products Leuprorelin Acetate Microspheres for Injection (注射用醋酸亮丙瑞林微球) and Urofollitropin for Injection (注射用尿促卵泡素) amounted to RMB457.35 million and RMB304.51 million, up by 27.37% and 11.59% year-on-year respectively; the income from sales of key gastrointestinal product Ilaprazole series (艾普拉唑系列) amounted to RMB503.72 million, representing a year-on-year increase of 76.45%, of which the income from sales of Ilaprazole Enteric Coated Tablet (艾普拉唑腸溶片) amounted to RMB456.24 million, representing a year-on-year increase of 62.52%; the income from sales of Rabeprazole (雷貝拉唑) amounted to RMB166.52 million, representing a year-on-year increase of 32.14%; the income from sales of the Bismuth Potassium Citrate series (得樂系列) amounted to RMB111.79 million, representing a year-on-year increase of 32.57%; the income from sales of Livzon Weisanlian (麗珠維三聯) amounted to RMB121.59 million, representing a year-on-year increase of 26.29%; the income from sales of anti-microbials drugs Voriconazole for Injection (注射用伏立康唑) amounted to RMB148.74 million, representing a year-on-year increase of 7.37%; the income from sales of the neurological drugs Fluvoxamine (氟伏沙明) and Perospirone (呱羅匹隆) amounted to RMB63.86 million and RMB24.79 million respectively, representing a year-on-year increase of 20.03% and 36.66% respectively; the income from sales of nerve product Mouse Nerve Growth Factor for Injection (注射用鼠神經生長因子) amounted to RMB225.83 million, representing a year-on-year decrease of 1.28%. The income from sales of traditional Chinese drug preparation Shenqi Fuzheng Injection (參芪扶正注射液) amounted to RMB455.19 million, representing a year-on-year decrease of 16.58%. The income from sales of Anti-viral Granules (抗病毒顆粒) amounted to RMB169.59 million, representing a year-on-year decrease of 19.34%.

The income and movement of key bulk medicines and intermediates are as follows: the income from sales of Phenylalanine (苯丙氨酸) amounted to RMB117.01 million, representing a year-on-year increase of 16.49%; the income from sales of Acarbose (阿卡波糖) amounted to RMB115.24 million, representing a year-on-year increase of 4.33%; the income from sales of Mevastatin (美伐他汀) amounted to RMB95.22 million, representing a year-on-year increase of 75.81%; the income from sales of Vancomycin Hydrochloride (鹽酸萬古黴素) amounted to RMB84.53 million, representing a year-on-year increase of 35.26%; the income from sales of Milbemycin Oxime (米爾貝肱) amounted to RMB50.85 million, representing a year-on-year decrease of 35.12%; the income from sales of Lincomycin (林可霉素) amounted to RMB35.79 million, representing a year-on-year decrease of 49.58%.

The sales growth of the above-mentioned products was primarily due to continuous progress in marketing reform, fully propelled product channel penetration, and acceleration of the construction of sales specialty, and was driven by the steady growth of the key products with high margin in sector of bulk medicines through the integration of resources, adjustment of the product structure, and enhancement of international certification and other measures. Furthermore, due to the industry policies such as cost control on medical insurance reimbursement and lower bid price, the growth of certain products had slowed down or declined.

During the Reporting Period, the Group's operating costs for principal businesses amounted to RMB1,720.97 million in total, representing an increase of RMB21.16 million or 1.24% as compared with RMB1,699.81 million in the Same Period Last Year, which was mainly due to the increase in operating costs for principal businesses resulted from the growth of sales income.



III. ANALYSIS OF PRINCIPAL BUSINESSES *(continued)*

4. Income and costs *(continued)*

(2) Operating Income from Principal Businesses by Regions

Unit: RMB

Regions	Amount incurred in the Period		Amount incurred in the Previous Period	
	Income from Principal Businesses	Cost for Principal Businesses	Income from Principal Businesses	Cost for Principal Businesses
Domestic	4,248,447,776.90	1,283,589,909.44	3,985,197,646.14	1,281,587,931.21
Overseas	666,297,530.50	437,384,949.93	558,542,821.69	418,225,483.48
Total	4,914,745,307.40	1,720,974,859.37	4,543,740,467.83	1,699,813,414.69

(3) Major customers and suppliers

During the Reporting Period, sales to the five largest customers accounted for 8.55% (Same Period Last Year: 9.13%) of the income of principal businesses of the Group, while purchase from the five largest suppliers accounted for approximately 39.52% (Same Period Last Year: 34.91%) of the Group's total purchase of raw materials. The five largest customers have been the customers of the Group for 11.2 years in average, and the five largest suppliers have been the suppliers of the Group for 11.5 years in average.

Major Suppliers of the Company during the Reporting Period

Total purchase from the five largest suppliers (RMB)	391,456,519.32
Purchase from the five largest suppliers as a percentage of the total purchase in the Period (%)	39.52%

Five Largest Suppliers of the Company during the Reporting Period

✓ Applicable Not applicable

No.	Name of supplier	Purchase (RMB)	As a percentage of the total purchase in the Period
1	First	169,969,774.95	17.16%
2	Second	74,628,925.10	7.59%
3	Third	60,261,105.52	6.13%
4	Fourth	45,283,104.58	4.60%
5	Fifth	41,313,609.17	4.20%
Total		391,456,519.32	39.52%

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

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

III. ANALYSIS OF PRINCIPAL BUSINESSES *(continued)*

4. Income and costs *(continued)*

(3) Major customers and suppliers *(continued)*

Other information about major suppliers

Applicable Not applicable

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

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

5. Expenses

During the Reporting Period, the Group’s expenses, including selling expenses, administrative expenses, R&D expenses and financial expenses, amounted to RMB2,227.88 million in total, representing an increase of RMB166.93 million or 8.10% year-on-year. Details are as follows:

Unit: RMB

	The Period	The Previous Period	Year-on-year change	Reasons for material changes
Selling expenses	1,796,846,255.61	1,679,680,086.00	6.98%	No material changes
Administrative expenses	255,211,847.01	251,140,575.65	1.62%	No material changes
R&D expenses	288,459,672.08	243,963,723.02	18.24%	No material changes
Financial expenses	-112,639,576.24	-113,838,344.05	1.05%	No material changes

During the Reporting Period, the total income tax expenses were RMB153.42 million, representing an increase of RMB11.32 million or 7.97% year-on-year, which was mainly due to increase in the provision of income tax expenses as a result of an increase in profit for the Period.



III. ANALYSIS OF PRINCIPAL BUSINESSES *(continued)*

6. Investment in research and development

Applicable Not applicable

During the Reporting Period, the Group's total expenditure related to research and development amounted to approximately RMB344.22 million (Same Period Last Year: RMB327.47 million), representing a year-on-year increase of 5.12%. The amount accounted for approximately 3.27% of the net assets attributable to Shareholders of the Company and approximately 6.97% (Same Period Last Year: 7.17%) of the Group's total operating income in the Reporting Period.

As at the End of the Reporting Period, the overall progress of the Group's research and development efforts by field is as follows:

(1) Chemical and traditional Chinese drug preparation products

Chemical drug preparation projects: 2 projects were submitted for production approval, 1 project was under final BE study. Among these, Ryanodex for Injection (注射用丹曲林钠) was included in priority review; Blonanserin Tablets (布南色林片) completed BE study.

Consistency evaluation projects: Tinidazole Tablets (替硝唑片) were verified by the State Drug Administration; Clarithromycin Tablets (克拉霉素片) and Amlodipine Besylate Capsules (苯磺酸氨氯地平胶囊) completed BE study, were submitted for registration filing and accepted. 6 projects started BE study.

Microspheres platform: Triptorelin Acetate Microspheres (醋酸曲普瑞林微球) (1-month sustained release) project completed phase I clinical pre-trial study, and related work on phase I formal clinical trial and discussion on phase III protocol are ongoing. Leuprorelin Acetate Microspheres for Injection (注射用醋酸亮丙瑞林微球) (3-month sustained release) project obtained clinical approval in March 2019 and is under the discussion of its clinical protocol.

Traditional Chinese drug preparation projects: Shenqi Fuzheng Injection (参芪扶正注射液) was applying for conclusion of phase I final clinical trial to FDA.

(2) Bulk medicines and intermediates

Fermentation R&D center: 2 varieties completed strain modification, 2 telavancin products and 2 polypeptide products were in the early stage of R&D.

Synthesis R&D center: 1 variety completed process verification, analytical method verification and small batch production; 2 varieties completed preparation work for process pre-verification and analytical method verification; 2 varieties completed process improvement program.

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

III. ANALYSIS OF PRINCIPAL BUSINESSES *(continued)*

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

(3) Biologics

The application for production of the Recombinant Human Chorionic Gonadotropin for Injection (注射用重組人絨促性素) has been submitted to CDE for evaluation; Recombinant Humanized Anti-IL-6R Monoclonal Antibody for Injection (重組人源化抗IL-6R單克隆抗體注射液) is undergoing phase I clinical trial; Recombinant Anti-HER2 Domain II Humanized Monoclonal Antibody for Injection (重組抗HER2結構域II人源化單克隆抗體注射液) is preparing for phase Ib clinical trial; 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 preparing for phase Ib clinical trial; Recombinant Humanised Anti-tumor Necrosis Factor α Monoclonal Antibody for Injection (注射用重組人源化抗人腫瘤壞死因子 α 單克隆抗體) completed phase II clinical trial; Recombinant Human/Mouse Chimeric Anti-CD20 Biosimilar Monoclonal Antibody (重組人鼠嵌合抗CD20單克隆抗體) is undergoing phase I clinical trial; Recombinant Anti-RANKL Monoclonal Antibody (重組全人抗RANKL單克隆抗體) is under the phase I clinical research stage; Recombinant Humanized Anti-OX40 Monoclonal Antibody for Injection (重組全人源化抗OX40單克隆抗體注射液) has obtained approval for clinical trial.

New Long-acting Targeting Cytokine Drugs for Tumor Therapy (腫瘤治療用新型長效靶向細胞因子藥物), humanized bispecific autologous CAR-T cell injection (人源化雙特異性自體CAR-T細胞注射液), and New Therapeutic T-cell Vaccines Injection (新型治療性T細胞疫苗注射液) for tumor therapy are under the preclinical research stage.

(4) Diagnostic reagents and equipment

Molecular nucleic acid platform (分子核酸平台): BCI, HIV, HCV, HBV products have completed the clinical trials and were in the process of registration; single-person luminescence platform (單人份發光平台): full-automatic 60-speed single-person luminescence reagents has entered the clinical stage, the first batch of PCT reagents which were applied in the single-person luminescence platform have obtained the registration certificate, tuberculosis reagent (結核) has completed the clinical trials, IL-6 and AMH products have also entered the clinical stage; multi-immune platform: automatic multi-immunity analyzer (全自動多重免疫分析儀) and the first batch of 15 anti-nuclear antibodies have completed the clinical stage and entered the registration stage; 17 autoimmune anti-nuclear antibodies, myositis and vasculitis products are in the clinical stage; other varieties such as X-ray irradiator are waiting for the registration certificate.



IV. ANALYSIS OF NON-PRINCIPAL BUSINESSES

✓ Applicable □ Not applicable

Unit: RMB

	Amount	As a percentage of total profits	Reason for occurrence	Sustainability
Investment income	-3,842,092.53	-0.39%	Mainly due to changes in profit or loss of the invested associated enterprises.	Yes
Gains or losses arising from changes in fair value	-5,456,003.34	-0.55%	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	-14,109,578.25	-1.43%	Mainly due to provision for inventory depreciation.	No
Credit impairment loss	-10,436,940.03	-1.06%	Mainly due to provision of bad debts for receivables.	No
Non-operating income	71,038,475.86	7.19%	Mainly due to the receipt of government grants not related to ordinary business activities.	Yes
Non-operating expenses	4,003,453.13	-0.41%	Mainly due to donation expenses and loss on obsolete and retirement of non-current assets.	No
Other income	37,922,405.15	3.84%	Mainly due to the receipt of government grants related to ordinary business activities.	Yes

V. ANALYSIS OF FINANCIAL CONDITIONS

1. Material changes in assets composition

Unit: RMB

	At the End of the Reporting Period		At the End of the Previous Period		Increase/ decrease in proportion	Reason for material changes
	Amount	As a percentage of total assets	Amount	As a percentage of total assets		
Cash at bank and on hand	7,767,982,705.34	46.03%	6,404,038,913.24	41.41%	4.62%	No material changes
Accounts receivable	1,758,612,952.69	10.42%	1,775,253,489.38	11.48%	-1.06%	No material changes
Inventories	1,036,661,443.83	6.14%	1,154,373,372.75	7.46%	-1.32%	No material changes
Investment properties	-	-	-	-	-	-
Long-term equity investments	181,718,000.07	1.08%	112,490,912.71	0.73%	0.35%	No material changes
Fixed assets	3,216,999,943.29	19.06%	3,231,463,269.69	20.90%	-1.84%	No material changes
Construction in progress	205,414,501.40	1.22%	130,838,444.98	0.85%	0.37%	No material changes
Short-term loans	-	-	272,087,290.50	1.76%	-1.76%	Mainly due to settlement of credit loans of a controlling subsidiary for the Previous Period.
Long-term loans	-	-	700,000.00	0.0045%	-0.0045%	Mainly due to disposal and transfer of outstanding long-term loans for which no repayment is required into non-operating income.

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

V. ANALYSIS OF FINANCIAL CONDITIONS *(continued)*

2. Assets and liabilities measured at fair value

Applicable Not applicable

Unit: RMB

Item	At the Beginning of the Period	Change in fair value for the Period	Accumulated change in fair value in equity	Impairment provision for the Period	Amount purchased during the Period	Amount sold during the Period	At the End of the Period
Financial assets							
1. Financial assets at fair value through profit and loss (excluding derivative financial assets)	15,409,698.08	21,199.62	-	-	-	-	15,430,897.70
2. Derivative financial assets	525,040.12	-395,570.12	-	-	-	-	129,470.00
3. Other equity instrument investments	407,707,119.32	-	-4,080,987.42	-	81,876,387.64	103,432,480.34	382,070,039.20
Sub-total for financial assets	423,641,857.52	-374,370.50	-4,080,987.42	-	81,876,387.64	103,432,480.34	397,630,406.90
Investment properties	-	-	-	-	-	-	-
Productive biological assets	-	-	-	-	-	-	-
Others	-	-	-	-	-	-	-
Total	423,641,857.52	-374,370.50	-4,080,987.42	-	81,876,387.64	103,432,480.34	397,630,406.90
Financial liabilities	85,294.16	5,081,632.84	-	-	-	-	5,166,927.00

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

YES NO

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

Applicable Not applicable

On 23 April 2018, the thirteenth meeting of the Ninth Session of the Board of the Company considered and approved the "Resolution on Launching the Bill Pool Business" and agreed that the Company and its subsidiaries shall share the cap amount for the bill pool business of no more than RMB1.4 billion which can be utilized on a revolving basis. As of the End of the Reporting Period, the Company had applied to the bank for a remaining sum of pledge of RMB276.5855 million for its bills receivable.

The remaining amount of the actual deposit paid by the subsidiaries to the bank for the application of businesses such as forward foreign exchange contracts and letter of credit was RMB3.8331 million.



V. ANALYSIS OF FINANCIAL CONDITIONS *(continued)*

4. Material changes in consolidated balance sheet items

Item	30 June 2019	31 December 2018	Year-on-year change
			<i>Unit: RMB</i>
Other receivables	67,015,560.25	49,482,179.59	35.43%
Long-term receivables	10,656,942.50	20,299,509.76	-47.50%
R&D expenditures	111,661,581.08	81,146,586.57	37.60%
Short-term loans	-	1,500,000,000.00	-100.00%
Financial liabilities held for trading	5,166,927.00	85,294.16	5,957.77%
Contract liabilities	77,294,467.41	115,973,464.09	-33.35%
Taxes payable	153,488,094.77	245,057,455.45	-37.37%
Other payables	3,119,957,280.03	1,967,100,817.25	58.61%
Long-term loans	-	700,000.00	-100.00%
Treasury shares	-	25,208.04	-100.00%

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

- (1) A year-on-year increase of 35.43% in other receivables was mainly due to increase in export tax refunds receivable.
- (2) A year-on-year decrease of 47.50% 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 aging changed.
- (3) A year-on-year increase of 37.60% in R&D expenditures was mainly due to increase in R&D expenses as a result of the projects, such as 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) and Recombinant Human Chorionic Gonadotropin for Injection (注射用重組人絨促性素), entering the stage of clinical trials.
- (4) A year-on-year decrease of 100.00% in short-term loans was mainly due to repayment of credit loans during the Period.
- (5) A year-on-year increase of 5,957.77% in financial liabilities held for trading was mainly due to changes in fair value of forward foreign exchange contracts as a result of changes in foreign exchange rates.
- (6) A year-on-year decrease of 33.35% in contract liabilities was mainly due to transfer of certain receipts of contract payment in advance to revenue upon satisfaction of conditions for revenue recognition during the Period.
- (7) A year-on-year decrease of 37.37% in taxes and surcharges payable was mainly due to final settlement of corporate income tax for the previous year during the Period.
- (8) A year-on-year increase of 58.61% in other payables was mainly due to dividends payable but not paid as at the balance sheet date pursuant to the 2018 profit distribution plan approved at the Company's general meeting.
- (9) A year-on-year decrease of 100.00% in long-term loans was mainly due to disposal and transfer of outstanding long-term loans for which no repayment is required into non-operating income.
- (10) A year-on-year decrease of 100.00% in treasury shares was mainly due to corresponding decrease in treasury shares as a result of the repurchase and cancellation of the Restricted Shares which were unqualified for unlocking conditions.

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

V. ANALYSIS OF FINANCIAL CONDITIONS *(continued)*

4. Material changes in consolidated balance sheet items *(continued)*

Asset-liability ratio

The asset-liability ratios of the Group as at 30 June 2019 and 31 December 2018 were calculated by dividing total liabilities by total assets of the Group as at the respective dates. The asset-liability ratio of the Group decreased from 32.62% as at 31 December 2018 to 31.42% as at 30 June 2019.

5. Material changes in consolidated income statement items

Item	The Period	Unit: RMB	
		The Previous Period	Year-on-year change
Investment income	-3,842,092.53	854,288.83	-549.74%
Gains from changes in fair value	-5,456,003.34	-16,905,949.52	67.73%
Credit impairment loss	-10,436,940.03	24,003,370.10	-143.48%
Asset impairment loss	-14,109,578.25	-27,823,804.41	49.29%
Gains on disposal of assets	937,832.83	-121,892.09	869.40%
Non-operating expenses	4,003,453.13	9,461,134.24	-57.69%
Profit or loss from non-controlling interests	95,578,071.07	42,351,245.80	125.68%
Other comprehensive net income after taxation	-1,260,651.40	1,669,749.34	-175.50%

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

- (1) A year-on-year decrease of 549.74% in investment income was mainly due to changes in profit or loss of the invested associated enterprises.
- (2) A year-on-year increase of 67.73% in gains from changes in fair value was mainly due to changes in fair value of forward foreign exchange contracts as a result of fluctuations in foreign exchange rates.
- (3) A year-on-year decrease of 143.48% in credit impairment loss was mainly due to reversal of provision for credit impairment of receivables based on expected credit loss rate during the Same Period Last Year.
- (4) A year-on-year increase of 49.29% in asset impairment loss was mainly due to provision for impairment of fixed assets for the Same Period Last Year.
- (5) A year-on-year increase of 869.40% in gains on disposal of assets was mainly due to gains on disposal of fixed assets during the Period.
- (6) A year-on-year decrease of 57.69% in non-operating expenses was mainly due to retirement of obsolete production equipment as a result of replacement and upgrade of production equipment during the Same Period Last Year.
- (7) A year-on-year increase of 125.68% in profit or loss from non-controlling interests was mainly due to increase in profit of non-wholly owned subsidiaries resulting in corresponding increase in profit or loss of the non-controlling interests.
- (8) A year-on-year decrease of 175.50% in other comprehensive net income after taxation was mainly due to changes in fair value of other equity instruments.



V. ANALYSIS OF FINANCIAL CONDITIONS *(continued)*

6. Material changes in consolidated cash flow items

Item	The Period	The Previous Period	Unit: RMB
			Year-on-year change
Net cash flow from operating activities	958,363,504.62	-18,168,548.18	5,374.85%
Sub-total of cash inflow from investing activities	148,729,974.41	34,621,993.70	329.58%
Sub-total of cash outflow from investing activities	278,167,172.72	491,062,836.90	-43.35%
Net cash flow from investing activities	-129,437,198.31	-456,440,843.20	71.64%
Sub-total of cash inflow from financing activities	29,811.30	302,653,082.12	-99.99%
Sub-total of cash outflow from financing activities	1,632,988,401.46	859,872,997.83	89.91%
Net cash flow from financing activities	-1,632,958,590.16	-557,219,915.71	-193.05%
Effect of changes in foreign exchange rates on cash and cash equivalents	4,470,674.54	16,483,346.22	-72.88%

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

- (1) A year-on-year increase of 5,374.85% in net cash flow from operating activities was mainly due to remittance of corporate income tax of RMB789.835 million for disposal of equity interest in Zhuhai Weixing Industrial Co., Ltd. (珠海維星實業有限公司) in 2017 during the previous year.
- (2) A year-on-year increase of 329.58% in sub-total of cash inflow from investing activities was mainly due to redemption of SEEKERS FUND during the Period.
- (3) A year-on-year decrease of 43.35% in sub-total of cash outflow from investing activities was mainly due to decrease in external investment during the Period as compared with last year.
- (4) A year-on-year increase of 71.64% in net cash flow from investing activities was mainly due to decrease in external investment during the Period as compared with last year.
- (5) A year-on-year decrease of 99.99% in sub-total of cash inflow from financing activities was mainly due to credit loans of a controlling subsidiary during the Previous Period.
- (6) A year-on-year increase of 89.91% in sub-total of cash outflow from financing activities was mainly due to repayment of credit loans during the Period.
- (7) A year-on-year decrease of 193.05% in net cash flow from financing activities was mainly due to repayment of credit loans during the Period.
- (8) A year-on-year decrease of 72.88% in effect of changes in foreign exchange rates on cash and cash equivalents was mainly due to decrease in foreign exchange gains from foreign currency funds as a result of changes in foreign exchange rates.

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

V. ANALYSIS OF FINANCIAL CONDITIONS *(continued)*

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

Applicable Not applicable

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

8. Liquidity and financial resources

As at 30 June 2019, the Group's cash at bank and on hand amounted to RMB7,767.98 million (31 December 2018: RMB8,587.93 million), which arose primarily from cash from operations and receipt of considerations for transfer of equity interest in a subsidiary in 2017 and was used primarily for daily operation and investment activities of the Company. The Group has a comprehensive and prudent financial management system in place in order to guarantee the fund safety of the Company, provide support for production operation and business development and reasonably increase the return of the Group's funds.

During the Reporting Period, the credit facilities that may be applied for as approved by the Board and the general meeting of the Company amounted to RMB11,395.00 million and the actual amount that was applied to banks for use amounted to RMB605.52 million.

Unit: RMB

Item	End of the Period (30 June 2019)			Beginning of the Period (31 December 2018)		
	Amount in foreign currency	Translation rate	Amount in RMB	Amount in foreign currency	Translation rate	Amount in RMB
Cash on hand:	-	-	146,506.97	-	-	134,536.84
- RMB	-	-	129,344.84	-	-	117,334.89
- USD	700.00	6.8747	4,812.29	700.00	6.8632	4,804.24
- Euro	1,579.87	7.8170	12,349.84	1,579.87	7.8473	12,397.71
Bank deposits:	-	-	7,762,147,488.29	-	-	8,562,040,609.92
- RMB	-	-	6,832,120,862.20	-	-	7,819,701,378.53
- HKD	823,092,956.79	0.87966	724,041,950.37	678,362,414.67	0.8762	594,381,147.73
- USD	29,550,328.73	6.8747	203,149,644.92	20,803,732.35	6.8632	142,780,175.87
- Japanese Yen	1.00	0.0638	0.06	1.00	0.061887	0.06
- Euro	101,971.50	7.8170	797,111.22	26,433.60	7.8473	207,432.39
- MO	2,382,695.57	0.8553	2,037,919.52	5,831,837.78	0.8523	4,970,475.34
Others:	-	-	5,688,710.08	-	-	25,752,125.65
RMB	-	-	3,670,986.31	-	-	13,968,683.03
HKD	1,336,004.01	0.87966	1,175,229.29	1,081,246.23	0.8762	947,387.95
USD	122,550.00	6.8747	842,494.49	1,578,863.31	6.8632	10,836,054.67
Total	-	-	7,767,982,705.34	-	-	8,587,927,272.41

As at 30 June 2019, the balance of the Group's borrowings amounted to RMB0.40 million (31 December 2018: RMB1,501.10 million), accounting for 0.0024% of total assets (31 December 2018: 8.61%), of which the balance of short-term borrowings due within one year amounted to RMB0.40 million (31 December 2018: RMB1,500.40 million), accounting for 0.0024% of the total assets (31 December 2018: 8.60%) and the balance of long-term borrowings due after one year amounted to RMB0.00 million (31 December 2018: RMB0.70 million), accounting for 0.00% of the total assets (31 December 2018: 0.004%). During the Reporting Period, the Group's disposal of long-run outstanding long-term borrowings for which no repayment is required amounted to RMB0.70 million. There was no distinct seasonal demand for each of the above bank borrowings.



V. ANALYSIS OF FINANCIAL CONDITIONS *(continued)*

9. Capital structure

The Group's capital comprises Shareholders' equity and liabilities. As at 30 June 2019, Shareholders' equity amounted to RMB11,574.23 million, total liabilities amounted to RMB5,303.42 million and total assets amounted to RMB16,877.65 million. In particular, the Group's current liabilities amounted to RMB4,979.57 million (31 December 2018: RMB5,369.58 million), a decrease of 7.26% from the End of Last Year; total non-current liabilities amounted to RMB323.85 million (31 December 2018: RMB317.89 million), an increase of 1.87% from the End of Last year. During the Reporting Period, the Group's repayments of debt amounted to RMB1,500.00 million (31 December 2018: RMB300.00 million).

Equity attributable to Shareholders of the Company amounted to RMB10,533.46 million (31 December 2018: RMB10,651.98 million), a decrease of 1.11% from the End of Last Year. Minority interests amounted to RMB1,040.77million (31 December 2018: RMB1,097.90 million), an decrease of 5.20% from the End of Last Year.

10. Capital commitments

Item	Balance at the End of the Period	<i>Unit: RMB</i> Balance at the Beginning of the Period
Contracted but not recognised in the financial statements		
– Commitments for purchase and construction of long-term assets	39,275,617.84	52,554,161.77
Total	39,275,617.84	52,554,161.77

11. Interest rate

As at 30 June 2019, the aggregate interest-bearing bank borrowings and other borrowings amounted to RMB0.00 million (31 December 2018: RMB1,500.00 million).

12. Ageing analysis of outstanding liabilities

	<i>(RMB in millions)</i>	
	30 June 2019	31 December 2018
Within one year	833.27	2,218.99
1-2 years	–	–
2-5 years	–	–
Over 5 years	–	0.70
Total	833.27	2,219.69

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

V. ANALYSIS OF FINANCIAL CONDITIONS *(continued)*

13. Gearing ratio

The gearing ratio as at 30 June 2019 and 31 December 2018 was calculated by dividing total debt by shareholders' equity of the Group as at the respective dates. The gearing ratio of the Group decreased from 18.89% as at 31 December 2018 to 7.20% as at 30 June 2019.

14. Interest expenses and capitalisation

	During the Reporting Period	<i>Unit: RMB</i> During the Same Period Last Year
Interest expenses <i>(Note)</i>	5,219,055.56	2,390,751.95
Capitalised interest	–	–
Total interest expenses	5,219,055.56	2,390,751.95

Note: Interest expenses mainly comprised of interests arising from the credit loans of the Company which have been settled in the Period.

15. Foreign exchange risks

Details of foreign exchange risks of the Group are set out in "Note 9 Risks related to financial instruments" to the financial statements prepared in accordance with the China Accounting Standards for Business Enterprises as set out in the Report. RMB is the major denominated currency of the Company, in case there are sales, purchases and investment/financing businesses which are not settled in RMB, corresponding foreign exchange risk exposure is incurred. The Company takes "prevention and control of risk; lock on the profit" as its management goal, and establishes "Management System for Foreign Exchange Risk", requires a certain hedging ratio, and uses foreign exchange financial derivatives to monitor and control the foreign exchange risk, so as to minimize the impact arising from fluctuations of exchange rates on the business of the Company.

16. Contingent liabilities

As at 30 June 2019, the Group had no significant contingent liabilities.

17. Pledge of assets

As at 30 June 2019, the assets of the Company subject to pledge were as follows:

	30 June 2019 <i>(RMB)</i>	Reasons for being subject to restriction
Assets pledged:		
Bills receivable	276,585,493.11	Pledged bills for the bill pool business
Other monetary fund	3,833,108.70	Guarantee deposit
Total	280,418,601.81	



V. ANALYSIS OF FINANCIAL CONDITIONS *(continued)*

17. Pledge of assets *(continued)*

Pledge and guarantee of bills

On 23 April 2018, the thirteenth meeting of the Ninth Session of the Board of the Company considered and approved the “Resolution on Launching the Bill Pool Business” and agreed that the Company and its subsidiaries shall share the cap amount for the bill pool business of no more than RMB1.4 billion which can be utilized on a revolving basis. As of 30 June 2019, the pledge and guarantee of bills was as follows:

Unit: RMB0'000

Guarantor	Pledgee	Amount of bills receivable pledged	Name of guaranteed party	Description of guarantee	Amount of guarantee	Period of guarantee	
The Company	Industrial and Commercial Bank of China, Zhuhai Branch (工商銀行珠海分行)	5,506.77	Livzon Group Limin Pharmaceutical Manufacturing Factory (麗珠集團利民製藥廠)	Opening bank acceptance bills, joint liability guarantee	734.35	Till 27 November 2019	
			Livzon Group Livzon Pharmaceutical Factory (麗珠集團麗珠製藥廠)	Opening bank acceptance bills, joint liability guarantee	4,133.17	Till 9 January 2020	
			Sub-total of balance of actual guarantee provided for subsidiaries at the End of the Reporting Period		4,867.52		
	China Merchants Bank, Zhuhai Branch (招商銀行珠海分行)	21,892.05	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	1,643.70	Till 20 March 2020	
			Livzon Group Livzon Pharmaceutical Factory (麗珠集團麗珠製藥廠)	Opening bank acceptance bills, joint liability guarantee	2,511.04	Till 20 December 2019	
			Jiaozuo Livzon Hecheng Pharmaceutical Manufacturing Co., Ltd. (焦作麗珠合成製藥有限公司)	Opening bank acceptance bills, joint liability guarantee	6,698.78	Till 25 December 2019	
			Livzon Group Fuzhou Fuxing Pharmaceutical Co., Ltd. (麗珠集團福州福興製藥有限公司)	Opening bank acceptance bills, joint liability guarantee	3,257.32	Till 20 December 2019	
			Sichuan Guangda Pharmaceutical Manufacturing Co., Ltd. (四川光大製藥有限公司)	Opening bank acceptance bills, joint liability guarantee	1,090.21	Till 14 December 2019	
			Livzon Group (Ningxia) Pharmaceutical Co., Ltd. (麗珠集團(寧夏)製藥有限公司)	Opening bank acceptance bills, joint liability guarantee	6,237.74	Till 13 December 2019	
			Sub-total of balance of actual guarantee provided for subsidiaries at the End of the Reporting Period		21,438.79		
	CZ Bank Shenzhen Branch (浙商銀行深圳分行)	259.73	Livzon Group Livzon Pharmaceutical Factory (麗珠集團麗珠製藥廠)	Opening bank acceptance bills, joint liability guarantee	145.29	Till 30 July 2019	
			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	45.42	Till 13 August 2019	
			Sub-total of balance of actual guarantee provided for subsidiaries at the End of the Reporting Period		190.71		
	Total balance of actual guarantee provided for subsidiaries at the End of the Reporting Period					26,497.02	

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

V. ANALYSIS OF FINANCIAL CONDITIONS *(continued)*

18. Employees, remuneration, pension scheme and training

As at 30 June 2019, the Group had 8,243 (31 December 2018: 7,671) employees. The remuneration of the employees was determined by the Group mainly according to the PRC laws and regulations, 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 for the employees by the Group amounted to RMB535.64 million (31 December 2018: RMB876.88 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 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 each subsidiary, trainings on new business model were organised for management members, further study for on-job postgraduate (doctorate) degree was organised, professional continuing education and postgraduate programmes were organised in cooperation with relevant universities, staff-level intelligent office software application were organized, induction trainings for new employees; provided management members at various levels with online courses for improvement of management skills, with diverse contents for improving learning efficiency and effectiveness. Meanwhile, the Company comprehensively upgraded the trainings for new employees. Through the classification of target trainees, training courses were enriched, internal and external high-quality lecturers and experts in various fields were invited for cultivating new employees on the Group' strengths on quality control, production control, safety and environmental protection, financial system, human resource system, administrative system and information system, enabling new employees to have a comprehensive understanding of the corporate culture of the Group, learn professional technical knowledge and develop teamwork spirit.



V. ANALYSIS OF FINANCIAL CONDITIONS *(continued)*

19. Investments

Overall relocation and expansion project of Sichuan Guangda

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

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

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

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

V. ANALYSIS OF FINANCIAL CONDITIONS *(continued)*

19. Investments *(continued)*

Establishment of the JV Company by Livzon Reagents

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

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

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

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

Establishment of wholly-owned subsidiaries

During the Reporting Period, after review and approval by the operation management of the Company, the Company established (i) Zhuhai Lizhu Pharmaceutical Equity Investment Management Co., Ltd (珠海市麗珠醫藥股權投資管理有限公司) (a wholly-owned subsidiary) in Zhuhai, to which the Company made a capital contribution of RMB9 million with a shareholding of 90% and Pharmaceutical Factory, a wholly-owned subsidiary of the Company, made a capital contribution of RMB1 million with a shareholding of 10%; and (ii) Livzon International Ventures, Livzon International Ventures I and Livzon International Ventures II (three wholly-owned subsidiaries) in the Cayman Islands, to which Lizhu HK, a wholly-owned subsidiary of the Company, all made a capital contribution with a shareholding of 100%.

The establishment of abovementioned wholly-owned subsidiaries aims to further expand the Company's external investment business and enhance the efficiency and professionalism of the Company's external equity investment. The abovementioned wholly-owned subsidiaries principally facilitate the Company's expansion in the industry through equity investment, accelerate the Company's international industrial planning and introduce new technologies, new products and new cooperative partners with the aim of enriching the Company's current R&D lines and creating synergistic integration effect between businesses.



V. ANALYSIS OF FINANCIAL CONDITIONS *(continued)*

19. Investments *(continued)*

Subscription for additional registered capital of Yizun Biopharmaceutics by Kadi

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

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

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 2018 annual report of the Company.

VI. INVESTMENT

1. Overall particulars of external investments

Applicable Not applicable

Amount of investment for the Reporting Period (RMB)	Amount of investment for the Same Period Last Year (RMB)	Change
52,311,205.00	40,230,703.50	30.03%

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

VI. INVESTMENT (continued)

2. Material equity investment 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	Investment period	Type of products	Status as of the balance sheet date	Expected return	Investment profit or loss in the Period	Litigation involved	Date of disclosure (if any)	Index of disclosure (if any)
Zhuhai Qiao Biotechnology Co., Ltd.* (珠海凱奧生物技術有限公司)	Developing the new generation of rapid molecular diagnostics equipment and reagents products	Newly established	10,000,000.00	30.60%	Self-funding	Liu Yun, Chen Qiuyue	Long-term	Diagnostic reagents and equipment	Not yet invested	-	-	No	See notes 1 for details	See notes 1 for details
Yizun Biopharmaceuticals (Shanghai) Co., Ltd.* (羿尊生物科技(上海)有限公司)	Developing the Vac-T and NK-T cell therapy project	Capital contribution	30,000,000.00	10.00%	Self-funding	Liu Lingfeng and others ^(附註)	Long-term	Biological products	Contributed RMB30,000,000.00	-	-	No	See notes 1 for details	See notes 1 for details
Total	-	-	40,000,000.00	-	-	-	-	-	-	-	-	-	-	-

Note:

- Date of disclosure and references: the details of the equity investments above were set out in the announcements of the Company including "Announcement of Livzon Pharmaceutical Group Inc. in relation to establishment of a joint venture company through external investment" (No. 2019-028) dated 7 May 2019, "Announcement of Livzon Pharmaceutical Group Inc. in relation to update announcement on establishment of a joint venture company through external investment" (No. 2019-043) dated 29 June 2019 and "Announcement of Livzon Pharmaceutical Group Inc. in relation to foreign investment" (No. 2019-033) dated 5 June 2019.
- The partners include Liu Lingfeng, Ningbo Meishan Bao Shui Port Area Yihe Asset Management Partnership (Limited Partnership)* (寧波梅山保稅港區羿合資產管理合夥企業(有限合夥)), Ningbo Meishan Bao Shui Port Area Jingyi Investment Partnership (Limited Partnership)* (寧波梅山保稅港區璟一投資合夥企業(有限合夥)) and Yizun Biotechnology (Shanghai) Co., Ltd.* (羿尊生物科技(上海)有限公司).

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

Applicable Not applicable

4. Investment in securities

Applicable Not applicable

Unit: RMB

Type 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 Reporting 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	7,272,460.00	-1,281,975.40	-	-	-	-1,055,908.42	5,990,484.60	Financial assets at fair value through profit or loss for the Period	Self-funding
Fund	206001	Penghua Fund	150,000.00	Measured at fair value	869,284.66	14,400.92	-	-	-	14,400.92	883,685.58		Self-funding
Share	000963	Huadong Medicine	39,851.86	Measured at fair value	7,267,953.42	1,288,774.10	-	-	-	1,379,417.51	8,556,727.52		Self-funding
Other securities investment held at the End of the Period			-	-	-	-	-	-	-	-	-	-	-
Total			4,433,499.50	-	15,409,698.08	21,199.62	-	-	-	337,910.01	15,430,897.70	-	-
Disclosure date of the Board's announcement on review of securities investments			Not applicable										
Disclosure date of the general meeting announcement on review of securities investments (if any)			Not applicable										

VI. INVESTMENT *(continued)*

5. Information on derivatives investment

✓ Applicable □ Not applicable

Unit: RMBO'000

Name of the operator of derivatives investment	Connected relationship	Connected transaction or not	Type of derivatives investment	Initial amount of derivatives 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	Company at the End of the Reporting Period	Percentage of investment amount at the End of the Period to the net assets of the	Actual gains or losses during the Reporting Period
													Investment Company at the End of the Reporting Period	Reporting Period
Financial institution	Non-related party	No	Forward foreign exchange contract (sell)	442.72	2018-3-20	2019-3-22	480.42	-	468.61	-	-	-	-	-19.00
Financial institution	Non-related party	No	Forward foreign exchange contract (sell)	348.59	2018-7-26	2019-1-10	353.59	-	351.16	-	-	-	-	-2.16
Financial institution	Non-related party	No	Forward foreign exchange contract (sell)	2,561.52	2018-8-2	2019-3-11	2,583.72	-	2,551.47	-	-	-	-	16.57
Financial institution	Non-related party	No	Forward foreign exchange contract (sell)	2,316.99	2018-9-10	2019-3-11	2,323.88	-	2,283.48	-	-	-	-	42.94
Financial institution	Non-related party	No	Forward foreign exchange contract (sell)	3,554.41	2018-10-9	2019-4-17	3,524.76	-	3,453.42	-	-	-	-	103.56
Financial institution	Non-related party	No	Forward foreign exchange contract (sell)	7,308.67	2018-11-2	2019-5-21	7,241.27	-	7,117.82	-	-	-	-	192.97
Financial institution	Non-related party	No	Forward foreign exchange contract (sell)	5,781.04	2018-12-3	2019-6-25	5,749.82	-	5,684.50	-	-	-	-	71.08
Financial institution	Non-related party	No	Forward foreign exchange contract (sell)	9,710.14	2019-1-2	2019-7-5	-	9,710.14	8,355.97	-	1,373.69	0.13%	-	-10.52
Financial institution	Non-related party	No	Forward foreign exchange contract (sell)	7,178.86	2019-2-1	2019-8-26	-	7,178.86	5,406.65	-	1,891.46	0.18%	-	-81.17
Financial institution	Non-related party	No	Forward foreign exchange contract (sell)	7,821.01	2019-3-5	2019-9-6	-	7,821.01	1,649.12	-	6,358.67	0.60%	-	-41.72
Financial institution	Non-related party	No	Forward foreign exchange contract (sell)	10,975.99	2019-4-1	2019-9-25	-	10,975.99	-	-	8,460.48	0.80%	-	-54.02
Financial institution	Non-related party	No	Forward foreign exchange contract (sell)	17,681.72	2019-5-6	2019-12-25	-	17,681.72	-	-	17,388.43	1.65%	-	-0.60
Financial institution	Non-related party	No	Forward foreign exchange contract (sell)	8,406.92	2019-6-4	2019-12-25	-	8,406.92	-	-	8,393.52	0.80%	-	-
Total				84,088.58	-	-	22,257.46	61,774.64	37,322.20	-	43,866.25	4.16%	-	217.93

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

VI. INVESTMENT *(continued)*

5. Information on derivatives investment *(continued)*

Unit: RMB0'000

Source of funds for derivatives investments	Self-financing
Litigation involved (if applicable)	Not applicable
Disclosure date of the announcement in relation to the approval of derivatives investment by the Board (if any)	18 June 2019
Disclosure date of the announcement in relation to the approval of derivatives investment by the shareholders' meeting (if any)	Not applicable
Risk analysis of derivative positions 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.)	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 to hedge exchange rate risk associated with assets denominated in U.S. dollar and lock the future exchange settlement price of such assets. It is designed to be used as a hedging instrument. Such foreign exchange derivatives shall not be used for speculative trading. The principle of prudence and conservation shall be observed so as to effectively prevent market risk. 2. Operational risk: operational risk is arising from imperfect internal process, improper operation, system failure and other factors. Control measures: the Company has formulated the corresponding management methods, clearly defined the responsibilities of all parties, improved the review and approval process and established supervisory mechanism, so as to effectively reduce operational risk. 3. Legal risk: the Company's foreign exchange forward business is subject to applicable laws and regulations, and shall clearly stipulate the relationship of rights and obligations with financial institutions. Control measures: in addition to strengthening the knowledge of laws and regulations and market rules, the Company's responsible department also stipulates that the Company's legal department shall strictly review various 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.
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-5.4772 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 Previous Period	No
Special opinion of independent Directors on derivative investment and risk control of the Company	Due to the growing import and export business of the Company, a large amount of foreign exchange transactions are required. To avoid and prevent foreign exchange risk, we are of the view that the forward foreign exchange derivatives trading business carried out by the Company and its subsidiaries were in line with the actual development needs of the Company. When the Board reviewed the above proposal, the relevant procedures were in compliance with the laws, regulations, regulatory documents and the relevant provisions in the Articles of Association of the Company. In summary, we concurred with the Company to conduct such business with its own funds within the limit approved by the Board.

VII. DISPOSAL OF MATERIAL ASSETS AND EQUITY

1. Disposal of material assets

Applicable Not applicable

2. Disposal of material equity

Applicable Not applicable



VIII. ANALYSIS OF MAJOR CONTROLLED AND INVESTED COMPANIES

✓ Applicable □ Not applicable

Unit: RMB

Company name	Type of company	Industry	Major products or services	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	Pharmaceutical	Principally engaged in production and sale of self-made chemical drugs, biochemical drugs, microbiological preparations, antibiotics, etc.	450,000,000.00	2,629,153,468.68	1,564,343,992.16	1,352,815,622.73	305,946,440.51	263,831,138.39
Sichuan Guangda Pharmaceutical Manufacturing Co., Ltd. (四川光大製藥有限公司)	Subsidiary	Pharmaceutical	Principally 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	1,139,468,093.13	922,715,352.32	178,943,265.50	41,909,145.63	33,265,105.80
Livzon Group Limin Pharmaceutical Manufacturing Factory (麗珠集團利民製藥廠)	Subsidiary	Pharmaceutical	Principally engaged in production and operation of Chinese drug preparations and pharmaceutical raw materials, etc., major products include Shenqi Fuzheng Injection, Xueshuantong, etc.	61,561,014.73	1,114,878,701.92	623,219,850.17	262,413,017.64	80,300,153.90	68,548,052.16
Shanghai Livzon Pharmaceutical Manufacturing Co., Ltd. (上海麗珠製藥有限公司)	Subsidiary	Pharmaceutical	Principally engaged in production of biochemical and polypeptide bulk medicines, major products include biochemical bulk medicines such as Menotropins and Human Chorionic Gonadotropin.	87,328,900.00	727,195,651.39	438,716,353.72	589,735,185.00	191,342,929.68	167,598,896.48
Zhuhai FTZ Livzon Hecheng Pharmaceutical Manufacturing Co., Ltd. (珠海保税區麗珠合成製藥有限公司)	Subsidiary	Pharmaceutical	Principally engaged in production and operation of chemical bulk medicines, major products include Cefuroxime Sodium, Cefodizime Sodium, Ceftriaxone Sodium, etc.	128,280,000.00	822,068,528.25	256,732,059.96	479,503,166.87	80,413,920.63	66,331,628.93
Livzon Group Xinbeijiang Pharmaceutical Manufacturing Inc. (麗珠集團新北江製藥股份有限公司)	Subsidiary	Pharmaceutical	Principally engaged in sale of bulk medicines, intermediate products and export of related technologies, major products include Pravastatin, Mevastatin, Salinomycin, etc.	239,887,700.00	2,947,129,774.46	983,113,634.30	856,943,096.95	199,730,585.47	151,873,629.62
Livzon Group Fuzhou Fuxing Pharmaceutical Co., Ltd. (麗珠集團福州福興製藥有限公司)	Subsidiary	Pharmaceutical	Principally engaged in production of antibacterials bulk medicines, intermediate and drug preparation products and chemical raw materials for pharmaceutical production, major products include Colistin, Vancomycin, Phenylalanine, etc.	USD41,700,000	1,036,638,765.02	617,440,459.72	298,707,953.05	106,521,022.53	88,187,155.15
Zhuhai Livzon Diagnostic Reagents Inc. (珠海麗珠試劑股份有限公司)	Subsidiary	Pharmaceutical	Principally engaged in production and sale of diagnostic reagents, major products include Chlamydia Trachomatis Antigen Diagnostic Kit and ELISA HIV Testing Reagents Kit.	88,232,932.00	678,964,452.66	162,103,810.28	365,754,857.50	59,680,196.10	52,916,184.41
Livzon MABPharm Inc. (珠海市麗珠單抗生物技術有限公司)	Subsidiary	Pharmaceutical	Principally engaged in technological R&D for biopharmaceutical products and antibody drugs.	1,133,330,000.00	682,972,710.34	617,342,207.08	295,805.31	-87,541,817.21	-87,397,873.89

Note: Livzon MAB is the key biopharmaceutical R&D enterprise of the Group which currently has no products for sale in the market. The loss is mainly due to investment in R&D.

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

IX. SUBSIDIARIES ACQUIRED AND DISPOSED OF DURING THE REPORTING PERIOD

Applicable Not applicable

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

X. FORECASTED OPERATING RESULTS FOR JANUARY TO SEPTEMBER 2019

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

XI. STRUCTURAL BODY CONTROLLED BY THE COMPANY

Applicable Not applicable

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

Since the end of the accounting period, save as disclosed herein, there has been no significant event that has impacts on the Group.

XIII. 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.



XIV. PROSPECTS FOR FUTURE DEVELOPMENT

In the second half of 2019, the Group will continue to implement its “three major strategies” through introduction, internal cultivation and fine assessment of talents, promotion of product R&D and strategic layout and enhancement of market compliance and intensive cultivation. We will further improve our efficiency management and control and standardized governance level, pay close attention to and actively respond to industry policy changes, focusing on the following aspects:

(1) Chemical and traditional Chinese drug preparation products

In the second half of 2019, key aspects of marketing are as follows: (i) strengthening coverage assessment with a focus on hospital coverage and key single product coverage and promoting the development of medical institutions; (ii) piloting and promoting a specialized sales team centered on gastrointestinal and psychotropic fields with intensive cultivation; (iii) reorganizing the Company’s varieties under sales and formulating sales fee rate standards for reasonable compliance; (iv) further tracking and pushing forward medical insurance catalogues, medication guidelines and expert consensus; (v) building up large pharmaceutical chain and offline promotion channel and laying out multiple marketing methods for retail medicine; (vi) accelerating the construction of pharmaceutical and medical talents and strengthening compliance management of marketing personnel; and (vii) in terms of the overseas sales, further strengthening the overseas accreditations for drug preparations and expanding the offerings for sale while deeply promoting the existing varieties in the overseas market.

In respect of product R&D, we will continue to strengthen target management and assessment mechanism, advancing the progress of projects under research in a phased and planned manner. At the same time, we will integrate the resources of the Group to improve R&D pipelines by fully leveraging our own advantages in bulk medicines. Product portfolio will be optimized through external introduction, cooperative development, etc.

The focus of production is to seize outstanding advantages of products in terms of safety, environmental protection, quality and cost through technology advancement and lean management, consolidating the competitiveness of products.

(2) Bulk Medicines and Intermediates

In the second half of 2019, bulk medicines business will continue to adhere to its guiding concept of “focusing on safety and environmental protection, ensuring quality and reducing cost”, continuously strengthen the management of bulk medicines business, rationally coordinate the deployment of resources, and further enhance the overall profitability and industrial competitiveness of bulk medicines. We will organize and implement EHS compliance self-examination and rectification to prevent risks, eliminate hidden dangers and curb accidents. Meanwhile, we will take initiative in planning and construction of new bulk medicines plants and promote the integration of production capacity in bulk medicines.

In respect of sales, we will strengthen the construction of sales system and domestic and overseas marketing teams, further segment the market, explore and cultivate core high-margin products.

In respect of product R&D, we shall both ensure orderly development of new products and attach importance to technology advancement of existing products’ process. In the second half of 2019, the Company will continue to increase its R&D and innovation efforts by promoting R&D of four new fermentation varieties such as polypeptide and other projects, as well as improving the existing products such as Doramectin (多拉菌素) and Acarbose (阿卡波糖) to increase fermentation units, reduce cost and enhance efficiency.

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

XIV. PROSPECTS FOR FUTURE DEVELOPMENT *(continued)*

(3) Biopharmaceutical drug

In the second half of 2019, the Company will strengthen the self-examination of production process of Recombinant Human Chorionic Gonadotropin for Injection (注射用重組人絨促性素), to be ready for clinical site inspection and production site inspection, and plan market layout in advance to prepare for the marketing of such product.

The Company will continue to strengthen the layout of research and development for targeted biologics and cell therapy, focus on promoting clinical trials of Recombinant Humanized Anti-IL-6R Monoclonal Antibody for Injection (重組人源化抗IL-6R單克隆抗體注射液), Recombinant Anti-HER2 Domain II Humanized Monoclonal Antibody for Injection (重組抗HER2結構域II人源化單克隆抗體注射液), 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 other key products, and speed up the development of three global innovation projects at pre-clinical stage. Meanwhile, we will establish a standard process for strategically deploying global intellectual property rights and take initiative in patent distribution of global innovation projects.

(4) Diagnostic reagents and equipment

In the second half of 2019, in respect of marketing, the Company will concentrate on joint detection and marketing of gold labels for respiratory tract (呼吸道金標) and installation and layout of Gold Strips Reader (金標判讀儀), and focus on market promotion and market warming of Single-person Chemiluminescence PCT Project (單人份化學發光PCT項目), X-ray irradiator (X光輻照儀), AIDS Nucleic Acid Quantitative Detection Reagent (愛滋病核酸定量檢測試劑), Blood Nucleic Acid Detection Reagent (血液核酸檢測試劑) and other new products before launching, for the purpose of ensuring new products form sales for the Company as soon as possible.

In respect of research and development and production, the most important task in the second half of 2019 is to ensure subsequent registration, clinics, on-site verification and system assessment of new products that have completed research and development can be carried out successfully to achieve production and marketing of new products, and to continuously accelerate the product development of molecular platform and immune platform. Meanwhile, we will reduce cost, increase quality and efficiency through improvement of special technology and quality control system level in respect of such products.

(5) Functions and strategies

In the second half of 2019, the Company will continue to adhere to its "personnel strategy, product strategy and market strategy", and improve results and quality-oriented performance appraisal system with a focus on our share option incentive targets to enhance execution and management efficiency. All departments will work closely together and fully support each other to provide strong guarantees for sales, production and research and development. From the perspective of the Group's medium and long-term strategic development, the Group will strive to develop a stronger future by continuously strengthening the utilization of capital market platforms and innovation policy opportunities, actively capitalizing on the resource advantages of internal and external commercial cooperation, and paying close attention to new business and technology opportunities arising in domestic and international pharmaceutical industry.



XV. REPURCHASE, SALE OR REDEMPTION OF SECURITIES

In view that 1 original incentive participant under the reserved grant of the Restricted A Shares Incentive Scheme received a grade of D in the individual appraisal for the year 2017, pursuant to the provisions of “13. How to Deal with the Changes Occurred to the Company/Incentive Participants” under the Restricted A Shares Incentive Scheme, the Company will repurchase and cancel the 2,028 Restricted Shares granted but still locked-up as held by the above-mentioned 1 incentive participant at a repurchase price of RMB12.43 per share. The aggregate purchase price payable for the repurchase was RMB25,208.04. The Company has repurchased such 2,028 Restricted Shares (“Repurchased A Shares”) under the reserved grant at RMB12.43 per share on the Shenzhen Stock Exchange on 19 June 2019 (“Repurchase”). The actual aggregate purchase price paid for the Repurchase was RMB25,208.04. Pursuant to the Repurchase, the Repurchased A Shares have been cancelled on 21 June 2019.

Save as disclosed above, throughout the period from 1 January 2019 to 30 June 2019, neither the Company nor any of its subsidiaries repurchased, sold or redeemed any of the listed securities of the Company.

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

XVI. THE RESTRICTED A SHARES INCENTIVE SCHEME

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

During the Reporting Period, details of implementation of the Restricted A Shares Incentive Scheme are as follows:

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

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

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

XVII. 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 totaling 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 proposed profit distribution plan of the Company for 2016, the number of Restricted Shares under the Issuance increased from 29,098,203 A Shares to 37,827,664 A Shares), and there were 19 Shareholders applied for unlocking Restricted Shares.

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 capital injections to Livzon MAB 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 "Adjustments"). The Adjustments were made by the Company on the basis of the actual progress of the projects invested with proceeds. Adjustments were made only to the plans for use of proceeds in each of the subsequent years of the projects 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 and adjustments to the investment projects using 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.



XVII. 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 from the Issuance in investment projects, including the plan for the use of proceeds in the “Project for indepth development and industrialisation upgrade of the 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 in the “Relocation and expansion project of Livzon Group Xinbeijiang Pharmaceutical Manufacturing Inc. (first phase) (麗珠集團新北江製藥股份有限公司搬遷擴建項目(一期))”. The Adjustments were made by the Company on the basis of the actual progress of the projects invested with proceeds. Adjustments were made only to the plans for use of proceeds in each of the subsequent years of the projects, 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 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))” invested with the proceeds and postponed for over one year was reassessed and it was determined to continue the project after making adjustments to its construction period.

Transfer of assets relating to part of projects invested with the proceeds and change of sub-project under project invested with the proceeds

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

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

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

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

XVII. NON-PUBLIC ISSUANCE OF A SHARES *(continued)*

Transfer of assets relating to part of projects invested with the proceeds and change of sub-project under project invested with the proceeds *(continued)*

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

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

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

XVIII. 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. The exercise price of the shares options under the First Grant is RMB47.01/A Shares and there are 1,116 incentive participants under the First Grant.

Pursuant to Chapter 17 of the Hong Kong Listing Rules, the 2018 Share Options Incentive Scheme constitutes a share options scheme. On 26 July 2018, the Company is 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 will make joint efforts for the Company’s long-term development.



XVIII. SHARE OPTIONS INCENTIVE SCHEMES *(continued)*

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

Incentive participants, maximum entitlement, validity period of the scheme

The incentive participants of the 2018 Share Options Incentive Scheme shall 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% of the total issued share capital (i.e. 7,190,502.40 shares) 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 12-month period from the registration date of the relevant grant. The following table sets forth the exercise period under the First Grant and the exercise schedule for each tranche:

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

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

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%

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

XVIII. SHARE OPTIONS INCENTIVE SCHEMES *(continued)*

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

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/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/total trading volume of the A Shares for the last 20 trading days), being RMB45.54 per A Share.

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 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 the share options under the Reserved Grant;
- (2) the average price of the A Shares of the Company for the last 20, 60 or 120 trading days preceding the date of announcement of the board resolution on the grant of the share options under the Reserved Grant.

Fair Value and Accounting Policies of the share options

- (1) Fair value

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

Parameters	Explanation for parameters
Price of subject share	RMB36.67 per share (the price on the date of grant)
Exercise price	RMB47.01 per share option
Validity period of share options	The three validity periods of share options are 1 year, 2 years and 3 years, respectively
Risk-free interest rate	Risk-free interest rates of the three exercise periods of share options are 1.50%, 2.10% and 2.75% (listed based on one-year, two-year, three-year deposit rate, respectively)
Volatility of subject 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 from subject 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)



XVIII. 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)*

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

Note 2: Risk-free interest rates are listed based on 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%).

	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 of the period (RMB0'000)	237.67	429.90	1,709.10
Total cost (RMB0'000)		2,376.67	

According to the calculation aforesaid, on 11 September 2018, the date of grant, the Group granted 17,475,500 share options to the incentive participants, the total fair value was RMB23.7667 million, and the fair value, being the cost incurred under the 2018 Share Options Incentive Scheme, will be recognised in phrases during the implementation process of the 2018 Share Options Incentive Scheme.

(2) Accounting Policies

According 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 subsequent information such as the latest available number of incentive participants who are entitled to exercise and the completion status of performance targets. Services received during the period will be accounted in relevant costs or fees and capital reserve based on the fair value of the share options on the date of grant.

Revision of the scheme

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

On 5 September 2018, the 2018 Share Options Incentive Scheme (Revised) was considered and approved at the 2018 Third Extraordinary General Meeting, the 2018 Third Class Meeting of A Shareholders and the 2018 Third Class Meeting of H Shareholders.

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

XVIII. SHARE OPTIONS INCENTIVE SCHEMES *(continued)*

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

First Grant

On 11 September 2018, the Company convened the Nineteenth Meeting of the Ninth Session of the Board to consider and approve:

(i) adjustment of the number of incentive participants from 1,116 to 1,050 and adjustment of the number of share options under the First Grant of the 2018 Share Options Incentive Scheme (Revised) from 17,550,000 to 17,475,500. Incentive participants under the First Grant included the Directors and Presidents of the Company and their close associates, and the allocation details are set forth in the following table; (ii) 11 September 2018 as the date of the First Grant, on which 17,475,500 share options (incentive participants are not required to pay any consideration to the Company when accepting share options) shall be granted to 1,050 incentive participants 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.

Incentive Participants	Position	Number of share options granted on 11 September 2018 (0'000 share options)	Number of share options held as at 1 January 2019 (0'000 share options)	Number of share options held as at 30 June 2019 (0'000 share options)
Mr. Tang Yanggang	Executive Director, President	15.60	15.60	15.60
Mr. Tao Desheng	Vice Chairman and Non-executive Director	19.50	19.50	19.50
Mr. Xu Guoxiang	Vice Chairman and Executive Director, Vice President	19.50	19.50	19.50
Mr. Fu Daotian	Executive Director, Vice President	15.60	15.60	15.60
Mr. Yang Daihong	Vice President	15.60	15.60	15.60
Ms. Si Yanxia	Vice President	15.60	15.60	15.60
Mr. Zhou Peng	Vice President	10.40	10.40	10.40
Mr. Yang Liang	Secretary to the Board and Company Secretary	9.10	9.10	9.10
Ms. Hou Xuemei*	Mid-level management	7.80	7.80	7.80
Mid-level management and relevant core personnel of the Company (1,042 people)		1,626.65	1,626.65	1,626.65

Note: The date of First Grant of the aforesaid share options is 11 September 2018, and the exercise price is RMB47.01. For details of the validity period and exercise period of the aforesaid share options, please refer to "Incentive participants, maximum entitlement, validity period of the scheme" and "Vesting period, exercise period and exercise date" set out above. On 10 September 2018 (one day before the date of grant), the closing price of the A Shares of the Company was RMB36.66.

* Ms. Hou Xuemei is the spouse of Mr. Tao Desheng, a director of the Company, and pursuant to the Hong Kong Listing Rules, she is a close associate of Mr. Tao Desheng.

As of 30 June 2019, all share options granted for the First Grant have not been exercised, cancelled or lapsed.



XVIII. SHARE OPTIONS INCENTIVE SCHEMES *(continued)*

2. The Subsidiary Share Option Scheme

Purpose of the scheme and the vetting

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

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

Total number of shares issuable and the incentive participants

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

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

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

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

XVIII. SHARE OPTIONS INCENTIVE SCHEMES *(continued)*

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

Basis for determination of exercise price and the consideration for acceptance of share options

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

Validity period of the Subsidiary Share Option Scheme

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

Duration of the Subsidiary Share Options and the vesting period

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

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

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

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

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



XIX. LIST OF RESEARCH, COMMUNICATIONS, INTERVIEWS AND OTHER ACTIVITIES HOSTED BY THE COMPANY DURING THE REPORTING PERIOD

✓ Applicable Not applicable

Date	Form	Type of guests	Index for basic information of studies
7 January 2019	Field research	Institution	Please refer to the List of Investor Relationship Events on 7 January 2019 which the Company posted on the Cninfo website on 9 January 2019 for details of the research
9 January 2019	Field research	Institution	Please refer to the List of Investor Relationship Events on 9 January 2019 which the Company posted on the Cninfo website on 9 January 2019 for details of the research
15 January 2019	Field research	Institution	Please refer to the List of Investor Relationship Events on 15 January 2019 which the Company posted on the Cninfo website on 17 January 2019 for details of the research
21 January 2019	Field research	Institution	Please refer to the List of Investor Relationship Events on 21 January 2019 which the Company posted on the Cninfo website on 21 January 2019 for details of the research
30 April 2019	Field research	Institution	Please refer to the List of Investor Relationship Events on 30 April 2019 which the Company posted on the Cninfo website on 30 April 2019 for details of the research
30 April 2019	Field research	Institution	Please refer to the List of Investor Relationship Events 30 April 2019 which the Company posted on the Cninfo website on 30 April 2019 for details of the research
13 May 2019	Field research	Institution	Please refer to the List of Investor Relationship Events on 13 May 2019 which the Company posted on the Cninfo website on 13 May 2019 for details of the research
30 May 2019	Field research	Institution	Please refer to the List of Investor Relationship Events (1) on 30 May 2019 which the Company posted on the Cninfo website on 31 May 2019 for details of the research
30 May 2019	Field research	Institution	Please refer to the List of Investor Relationship Events (2) on 30 May 2019 which the Company posted on the Cninfo website on 31 May 2019 for details of the research
30 May 2019	Field research	Institution	Please refer to the List of Investor Relationship Events (3) on 30 May 2019 which the Company posted on the Cninfo website on 3 June 2019 for details of the research
4 June 2019	Field research	Institution	Please refer to the List of Investor Relationship Events on 4 June 2019 which the Company posted on the Cninfo website on 4 June 2019 for details of the research

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

XX. RISKS AND RESPONSE MEASURES

1. Risks associated with industry policy changes

As the pharmaceutical industry is highly affected by the changing policies and China is deepening the reform of healthcare system with relevant policies and regulations being further formulated and improved, for example, factors such as the implementation and adjustment of the Medical Insurance Catalogue and the promotion of quantized purchase have certain impacts on the pharmaceutical industry. The introduction of various policies may affect the research and development, production and adjustment and sales of the Group to a certain degree.

Response measures: the Company will actively respond to industry changes, pay close attention to and study industry-related policies, follow the changes in the environment, optimize and adjust the Company's deployment timely, as well as promote the ability of innovative research and development and the compliance of the production and operation, and enhance our core competitiveness.

2. Risks associated with research and development of new drug

Generally speaking, from research and development to being put onto the market, a drug has to undergo steps including preclinical studies, clinical registry application, clinical trials approval, clinical trials, production registration filing, on-site assessment, production approval, etc., which involve many processes and lengthy period of time, therefore the approvals are uncertain and there is a risk in the research and development. Moreover, it is uncertain whether expected sales scale could be achieved in the market after the product is successfully developed.

Response measures: the Company will further optimize the innovative R&D system, introduce and cultivate high-end talents, actively carry out cooperation and introduction of innovative drugs overseas, strengthen market research and evaluation of varieties, strengthen the procedure norms and risk control and management for establishing a project, and focus on breakthroughs in research and development of key products.

3. Risk associated with lower price of the product

After the drug product is approved for the launch, apart from market competition, it has to go through medical insurance approval and tendering to gain market access, and is especially subject to the effect of industry policies such as quantized purchase, thus, the drug products may be exposed to the risk of a price drop.

Response measures: the Company will pay close attention to the development of the tenders to swiftly response and adjust the tender plan. The Company will continue to innovate and develop innovative drugs and high-end generic drugs with urgent clinical need and high added value, further develop the variety under production with market potential and technical barrier, actively promote the post-marketing reevaluation of key drugs and the consistency evaluation of related drugs and optimize the product portfolio, so as to ensure the substantiality of the Company.



XX. RISKS AND RESPONSE MEASURES *(continued)*

4. Risk associated with supply and price fluctuation of raw materials

Raw materials such as Chinese medicine, bulk medicines, supplemental materials, and packaging materials have been affected by various factors such as macroeconomics, monetary policy, environmental management, natural disasters, etc., which may lead to restrained resource supply or significant fluctuation in the prices, and affect the profitability of the Company to a certain extent.

Response measures: firstly, self-built GAP production base has been established for Chinese herbal medicines raw materials for certain key products of the Company; secondly, the Company will strengthen monitoring and analysis of the market, rationally arrange inventory and procurement cycle to reduce risks; in addition, the Company will carry out lean production and implement effective cost control measures with quality assurance.

5. Environmental protection risk

Certain amount of waste water, waste gas and waste residue are produced in the production of bulk medicines. With the improvement of environmental protection supervision by national and local environmental protection departments, the awareness of social environmental protection has increased, the environmental protection requirements for bulk medicines manufacturers are getting higher and higher, and environmental protection costs are increasing. Some pharmaceutical companies are even facing the problem of production suspension and production restriction.

Response measures: the Company will strictly comply with national environmental protection policies and regulations, further increase environmental protection investment and strictly upgrade and transform environmental protection equipment. At the same time, we will carry out safety training and education timely, establish strict internal control standards, strengthen monitoring of key pollutant discharge subsidiaries, reduce environmental protection risks, and meet emission standards.

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

1. General Meetings during the Reporting Period

Meeting	Type of meeting	Participation Percentage of Investors	Date of meeting	Date of disclosure	Index of disclosure
2019 First Extraordinary General Meeting	Extraordinary General Meeting	51.5611%			Announcement on Resolutions of the 2019 First Extraordinary General Meeting, the 2019 First Class Meeting of A Shareholders and the 2019 First Class Meeting of H Shareholders (Announcement No.: 2019-003), published on the website of Cninfo (www.cninfo.com.cn)
2019 First Class Meeting of A Shareholders	Class Meeting	43.6482%	7 January 2019	8 January 2019	
2019 First Class Meeting of H Shareholders	Class Meeting	66.7727%			
2019 Second Extraordinary General Meeting	Extraordinary General Meeting	49.8820%	14 February 2019	15 February 2019	Announcement on Resolutions of the 2019 Second Extraordinary General Meeting (Announcement No.: 2019-008), published on the website of Cninfo (www.cninfo.com.cn)
2018 Annual General Meeting	Annual General Meeting	50.6840%			Announcement on Resolutions of 2018 Annual General Meeting, the 2019 Second Class Meeting of A Shareholders and the 2019 Second Class Meeting of H Shareholders (Announcement No.: 2019-032), published on the website of Cninfo (www.cninfo.com.cn)
2019 Second Class Meeting of A Shareholders	Class Meeting	42.1810%			
2019 Second Class Meeting of H Shareholders	Class Meeting	66.8483%	30 May 2019	31 May 2019	

2. Holders of preference shares with resumed voting rights requesting to hold extraordinary general meeting

Applicable Not applicable

II. CORPORATE GOVERNANCE

1. Summary

During the Reporting Period, in strict accordance with the Company Law, the Securities Law, the Guidelines for Corporate Governance of Listed Companies, the Shenzhen Listing Rules, the Guidelines for Standardised Operation of Companies Listed on the 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, the Company constantly enhances the corporate governance structure and strengthens the internal control systems of the Company to achieve higher corporate governance standards.

The Board believed that the actual conditions of corporate governance of the Company are compliant with the rules and requirements of normative documents including the Guidelines for Corporate Governance of Listed Companies without deviation. During the Reporting Period, the decision-making and supervisory organs of the Company including the shareholders' general meetings, the Board, the Supervisory Committee, etc., all carried out management, decision-making and supervision strictly pursuant to the requirements of normative operation rules and internal control. The special committees of the Board all performed their corresponding duties.

2. Compliance with the Corporate Governance Code

The Company confirmed that during the period from 1 January 2019 to 30 June 2019, the Company strictly complied with the principles and the code provisions (the "Code Provisions") in the Corporate Governance Code as set out in Appendix 14 of the Hong Kong Listing Rules, except for the following deviation:

According to E.1.2 of the Code Provisions, the chairman of the Board shall attend annual general meetings. Mr. Zhu Baoguo, the chairman of the Board, did not attend the 2018 Annual General Meeting of the Company due to urgent business trip.

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 during the period from 1 January 2019 to 30 June 2019. All Directors and Supervisors have confirmed that they have complied with the standards as set out in the above codes during the period from 1 January 2019 to 30 June 2019. The Company has also made specific enquiry to all of the employees in respect of compliance to the standards set out in the above-mentioned code by the employees, and note that there has been no incident of non-compliance with the standards as set out in the above-mentioned code.

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.

Audit Committee

The Audit Committee under the ninth session of the Board comprises three independent non-executive Directors of the Company. The chairman of the committee is Mr. Xu Yanjun and other committee members are Mr. Xie Yun and Mr. Zheng Zihua. Mr. Xu Yanjun possesses appropriate accounting and financial management expertise as required under Rule 3.10 of the Hong Kong Listing Rules. The key responsibilities of the Audit Committee are to review the Company's financial reports; review the Company's financial control system, risk management system and internal control system; study the Company's relationships with external auditors and consider the annual audit plans submitted by external auditors; and examine reports submitted in confidence by the Company's employees in relation to concern of possible improprieties in financial reporting, internal control or other aspects, and give relevant suggestions.

The Audit Committee has reviewed the Group's unaudited results and interim financial statements for the six months period ended 30 June 2019, and agreed to put forth 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 Zihua (independent non-executive Director) and other committee members are Mr. Tao Desheng (non-executive Director) and Mr. Xu Yanjun (independent non-executive Director). The member composition is in compliance with the requirements under Rule 3.25 of the Hong Kong Listing Rules. The key responsibilities of the Remuneration and Assessment Committee are to assess and review and advice the Board on the remuneration packages for the Chairman of the Board, executive Directors and senior management of the Company, and to make recommendations to the Board on the policy and structure for all Directors' and senior management's remuneration and on the establishment of a formal and transparent procedure for developing remuneration policy, so as to ensure that any Director or any of their associates shall not be involved in fixing their remuneration and related matters.

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 Zihua (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.



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

III. LITIGATION

MATERIAL LITIGATION AND ARBITRATION

Applicable Not applicable

OTHER LITIGATION

Applicable Not applicable

IV. QUESTIONING FROM MEDIA

Applicable Not applicable

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

VII. EXECUTION OF SHARE INCENTIVE PLAN OF THE COMPANY AND ITS EFFECT

Applicable Not applicable

For details of the Restricted A Shares Incentive Scheme, please refer to "The Restricted A Shares Incentive Scheme" in Section IV of the Report.

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

Applicable Not applicable

During the Reporting Period, in comparison with financial statements for the last year, the scope of consolidated financial statements of the Company increased by six wholly-owned or controlled subsidiaries, details of which are as follows:

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

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

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

On 29 April 2019, Zhuhai Livzon Biotechnology Co., Ltd.* (珠海市麗珠生物醫藥科技有限公司), a controlled subsidiary of the Company, entered into a Shareholder Voting Right Entrustment Agreement with Zhuhai Kadi Medical Biotechnology Inc.* (珠海市卡迪生物醫藥有限公司) and all its shareholders in order to gain control over Zhuhai Kadi Medical Biotechnology Inc.* (珠海市卡迪生物醫藥有限公司), with holding its 100% voting rights.

IX. APPOINTMENT AND DISMISSAL OF CERTIFIED PUBLIC ACCOUNTANTS

At the 2018 Annual General Meeting of the Company, a proposal was considered and approved to re-appoint of Ruihua Certified Public Accountants (LLP) as the auditors of the Company for the year 2019.

Whether the interim financial report has been audited

Yes No

The interim financial report of the Company has not been audited.

X. PUNISHMENT AND RECTIFICATION

Applicable Not applicable

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

XI. 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.



XII. INTEGRITY OF THE COMPANY AND ITS CONTROLLING SHAREHOLDERS, ULTIMATE BENEFICIAL OWNERS

Applicable Not applicable

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

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

1. Connected Transactions in the Ordinary Course of Business

Applicable Not applicable

Connected party	Relationship with connected party	Type of connected transaction	Description of connected transaction	Pricing principle of connected transaction	Amount of connected transaction (RMB'000)	Proportion to transaction amount of the same category	Settlement method of connected transaction	Date of disclosure	Index of disclosure
Shenzhen Haibin Pharmaceutical Co., Ltd. (深圳市海濱製藥有限公司)	Subsidiary of the controlling shareholder	Procurement of goods	Procurement of raw materials	Determined by negotiation based on market price	1,055.49	1.07%	Settled through banks	26 October 2016 and 24 December 2016	Announcement relating to a three-year continuing connected transactions framework agreement for 2017-2019 entered into between the Company and Jiozuo Jincare" (Announcement No.: 2016-91) and "Announcement on resolutions of the 2016 Third Extraordinary General Meeting" (Announcement No.: 2016-118)"
Jiozuo Jincare 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	16,996.98	17.28%	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	169.95	0.17%	Settled through banks	28 March 2019 and 18 June 2019	"Announcement of Livzon Pharmaceutical Group Inc. on Execution of Connected Transactions in the Ordinary Course of Business for 2018 and Expected Connected Transactions in the Ordinary Course of Business for 2019" (Announcement No.: 2019-016)" and "Announcement of Livzon Pharmaceutical Group Inc. on Adjustment to Expected Connected Transactions in the Ordinary Course of Business for 2019" (Announcement No.: 2019-037)
Jiozuo Jincare 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	9.99	0.01%	Settled through banks		
Shenzhen Taitai Pharmaceutical Co., Ltd. (深圳太太藥業有限公司)	Subsidiary of the controlling shareholder	Procurement of goods	Procurement of raw materials	Determined by negotiation based on market price	0.62	0.001%	Settled through banks		
Zuhai 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	46.75	0.05%	Settled through banks		
LUNGLIFE AI, INC. (formerly known as CYNVENIO BIOSYSTEMS, INC.)	A company in which a Director is holding position	Procurement of goods	Procurement of raw materials	Determined by negotiation based on market price	4.03	0.004%	Settled through banks		
Jiozuo Jincare 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	674.91	5.67%	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	1,126.34	0.23%	Settled through banks		
Jiozuo Jincare 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	839.82	0.17%	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	22.99	0.005%	Settled through banks		
Zuhai Sanmed Biotech Inc. (珠海聖美生物診斷技術有限公司)	Associate	Sale of goods	Sale of finished products and raw materials	Determined by negotiation based on market price	6.40	0.001%	Settled through banks		

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

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

Connected party	Relationship with connected party	Type of connected transaction	Description of connected transaction	Pricing principle of connected transaction	Amount of connected transaction (RMB' 000)	Proportion to transaction amount of the same category	Settlement method of connected transaction	Date of disclosure	Index of disclosure
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	297.96	53.61%	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	Determined by negotiation based on market price	0.55	0.20%	Settled through banks		
Zuhai 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	29.86	5.37%	Settled through banks		
Zuhai Sanmed Biotech Inc. (珠海聖美生物診斷技術有限公司)	Associate	Provision of services	Other services	Determined by negotiation based on market price	0.07	0.02%	Settled through banks		
Shenzhen Taitai Pharmaceutical Co., Ltd. (深圳太太藥業有限公司)	Subsidiary of the controlling shareholder	Provision of services	Processing fee	Determined by negotiation based on market price	27.89	10.37%	Settled through banks		
Jiaozuo Jincare Pharmaceutical Industry Co., Ltd. (焦作健康元生物製品有限公司)	Subsidiary of the controlling shareholder	Provision of services	Processing fee	Determined by negotiation based on market price	14.12	5.25%	Settled through banks		
Health Pharmaceutical (China) Co., Ltd. (健康藥業(中國)有限公司)	Subsidiary of the controlling shareholder	Leasing of assets as a lessor	Leasing of office premise as a lessor	Determined by negotiation based on market price	4.56	1.53%	Settled through banks		
Zuhai Sanmed Biotech Inc. (珠海聖美生物診斷技術有限公司)	Associate	Leasing of assets as a lessor	Leasing of office premise as a lessor	Determined by negotiation based on market price	159.64	53.40%	Settled through banks		
Jincare Pharmaceutical Industry Group Co., Ltd. (健康元藥業集團股份有限公司)	Controlling shareholder	Leasing of assets as a lessee	Leasing of office premise as a lessee	Determined by negotiation based on market price	38.96	16.67%	Settled through banks		
Jiaozuo Jincare Pharmaceutical Industry Co., Ltd. (焦作健康元生物製品有限公司)	Subsidiary of the controlling shareholder	Leasing of assets as a lessee	Leasing of office premise and equipment as a lessee	Determined by negotiation based on market price	28.56	12.22%	Settled through banks		
Total					21,556.44				

Substantial amount of returned products (if any) Not applicable

During the Reporting Period, the total amount of the connected transactions actually conducted in the ordinary course of business was RMB215,564.44 million. Among which, the connected transactions actually conducted in the ordinary course of business between the Company and the controlling shareholder (Jincare) and its subsidiaries amounted to approximately RMB197,154.44 million, representing 38.44% of the projected amount (RMB512,907.6 million) approved by shareholders' general meetings of the Company and the Board; the connected transactions actually conducted in the ordinary course of business between the Company and Blue Treasure Pharma (藍寶製藥) amounted to approximately RMB15,942.5 million, representing 31.25% of the projected amount (RMB51,019.7 million) approved by the Board; the connected transactions conducted in the ordinary course of business between the Company and LUNGLIFE AI, INC. (formerly known as Cynvenio Biosystems, Inc.) amounted to RMB0.0403 million, representing 33.58% of the projected amount (RMB0.1200 million) approved by the operating management of the Company; and the connected transactions conducted in the ordinary course of business between the Company and Zuhai Sanmed Biotech Inc. (珠海聖美生物診斷技術有限公司) amounted to RMB2,427.2 million, representing 24.45% of the projected amount (RMB9,926.6 million) approved by the Board. The above connected transactions have not exceeded the projected amount approved.

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) Not applicable

XIII. SUBSTANTIAL CONNECTED TRANSACTION 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 assets (RMB' 000)	Market fair value (RMB' 000) (if any)	Consideration of transfer (RMB' 000)	Settlement method of connected transaction	Profit or loss of the transaction (RMB' 000)	Date of disclosure	Index of disclosure
Xinxiang Haibin Pharmaceutical Co., Ltd. (新鄉海濱藥業有限公司)	Subsidiary of the controlling shareholder	Asset transfer	Transfer of equipment	Determined by negotiation based on market price	-	53.20	53.20	Settled through banks	53.20	N/A	N/A
Jiaozuo Joincare Pharmaceutical Industry Co., Ltd. (焦作健康元生物製品有限公司)	Subsidiary of the controlling shareholder	Asset transfer	Transfer of equipment	Determined by negotiation based on market price	-	39.32	39.32	Settled through banks	39.32	N/A	N/A
L&L Biopharma, Co. Ltd. (上海健信生物醫藥科技有限公司)	Associate	Asset transfer	Procurement of technical know-how	Determined by negotiation based on market price	188.68	188.68	188.68	Settled through banks	-	N/A	N/A
Reason for the significant difference between transfer consideration and carrying value or evaluation value (if any) Not applicable											
Effect on the operating results and financial position of the Company				There is no significant effect on the operating results and financial position of the Company							

3. Connected Transactions on Joint External Investment

Applicable Not applicable

4. Credits and Debts with Connected Persons

Applicable Not applicable

Non-operating credits and debts with connected persons

Yes No

Credits due from connected persons

Connected party	Relationships with connected person	Reason for occurrence	Non-operating use of fund	Balance at the Beginning of the Period (RMB' 000)	Amount increased for the Period (RMB' 000)	Amount recovered for 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	53.09	1,620.48	823.25	-	-	850.32
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 raw materials and fixed assets	No	-	1,035.62	1,030.79	-	-	4.83
Shenzhen Taitai Pharmaceutical Co., Ltd. (深圳太太藥業有限公司)	Subsidiary of the controlling shareholder	Sale of finished products	No	25.07	31.52	-	-	-	56.59

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

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

Credits due from connected persons *(continued)*

Connected party	Relationships with connected person	Reason for occurrence	Non-operating use of fund	Balance at the Beginning of the Period <i>(RMB0'000)</i>	Amount increased for the Period <i>(RMB0'000)</i>	Amount recovered for the Period <i>(RMB0'000)</i>	Interest rate	Interest for the Period <i>(RMB0'000)</i>	Balance at the End of the Period <i>(RMB0'000)</i>
Joincare Pharmaceutical Industry Group Co., Ltd. (健康元藥業集團股份有限公司)	Controlling shareholder	Prepayments for procurement of finished products	No	2.62	15.66	11.37	-	-	6.91
LUNGLIFE AI, INC. (formerly known as CYNVENIO BIOSYSTEMS, INC.)	A company in which a Director is holding position	Prepayments for transferring technical know-how	No	105.38	4.03	4.03	-	-	105.38
Zhuhai Sanmed Biotech Inc. (珠海聖美生物診斷技術有限公司)	Associate	Sale of finished products, prepayments for equipment	No	157.46	238.40	234.05	-	-	161.81
AbCyte Therapeutics Inc.	Associate	Prepayments for transferring technical know-how	No	1,358.58	-	-	-	-	1,358.58
L&L Biopharma, Co. Ltd. (上海健信生物醫藥科技有限公司)	Associate	Prepayments for transferring technical know-how	No	188.68	188.68	-	-	-	377.36
Xinxiang Haibin Pharmaceutical Co., Ltd. (新鄉海濱藥業有限公司)	Subsidiary of the controlling shareholder	Sale of fixed assets	No	-	61.71	-	-	-	61.71
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	No	-	26.99	26.61	-	-	0.38
Zhuhai Zhong Hui Yuan Investment Partnership (Limited Partnership) (珠海中匯源投資合夥企業(有限合夥))	Partnership controlled by a Director	Consideration for equity transfer	No	3,116.86	-	1,036.77	-	-	2,080.09
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.								

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

4. Credits and Debts with Connected Persons (continued)

Debts due to connected persons

Connected parties	Relationships with connected parties	Reason for occurrence	Balance at the Beginning of the Period (RMB0'000)	Amount increased for the Period (RMB0'000)	Amount recovered for 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	59.71	195.41	206.27	-	-	48.85
Shenzhen Haibin Pharmaceutical Co., Ltd. (深圳市海濱製藥有限公司)	Subsidiary of the controlling shareholder	Procurement of raw materials	970.20	74.40	1,044.60	-	-	-
Jiaozuo Jincare Pharmaceutical Industry Co., Ltd. (焦作健康元生物製品有限公司)	Subsidiary of the controlling shareholder	Procurement of raw materials	25,046.13	19,519.51	14,377.65	-	-	30,187.99
Jincare Pharmaceutical Industry Group Co., Ltd. (健康元藥業集團股份有限公司)	Controlling shareholder	Procurement of goods, hiring of assets	1.30	42.55	43.85	-	-	-
Jiaozuo Jincare Pharmaceutical Industry Co., Ltd. (焦作健康元生物製品有限公司)	Subsidiary of the controlling shareholder	Water, electricity and power	578.71	778.46	206.15	-	-	1,151.02
Zhuhai Sanmed Biotech Inc. (珠海聖美生物診斷技術有限公司)	Associate	Procurement of equipment	611.39	3.96	525.47	-	-	89.88
Zhuhai Zhenghe Co., Ltd. (珠海正禾企業有限公司)	A company controlled by a director of the subsidiary of the Company	Dividends payable	9,000.43	5,545.66	2,450.00	-	-	12,096.09
Topsino Industries Limited (天誠實業有限公司)	Subsidiary of the controlling shareholder	Dividends payable	-	15,092.05	-	-	-	15,092.05
Jincare Pharmaceutical Industry Group Co., Ltd. (健康元藥業集團股份有限公司)	Controlling shareholder	Dividends payable	-	20,434.78	-	-	-	20,434.78
Shenzhen Haibin Pharmaceutical Co., Ltd. (深圳市海濱製藥有限公司)	Subsidiary of the controlling shareholder	Dividends payable	-	1,553.62	-	-	-	1,553.62
Effect of debts due 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.							

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

5. Other Major Connected Transactions

Applicable Not Applicable

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

XIV. CONNECTED TRANSACTIONS DEFINED PURSUANT TO HONG KONG LISTING RULES

1. One-Off Connected Transactions

Provision of Guarantees for Livzon MAB

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

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

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

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

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

As of the disclosure date of the Report, the Company has not signed any relevant agreement on the Livzon MAB Guarantees.



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

2. Continuing Connected Transactions

During the Reporting Period, there actually occurred connected transactions between the Group and the controlling shareholder Joicare and its subsidiaries which constitute “Continuing Connected Transactions” as defined in Chapter 14A of the Hong Kong Listing Rules. Please refer to “Connected Transactions in the Ordinary Course of Business” in Section V of the Report (except for those with Guangdong Blue Treasure Pharmaceutical Co. Ltd. (廣東藍寶制藥有限公司) and LUNGLIFE AI, INC. (formerly known as CYNVENIO BIOSYSTEMS, INC.)).

Entering into the 2019 Second Sales Framework Agreement and the 2019 Second Labour Services Framework Agreement

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

(1) Entering into the 2019 Second Sales Framework Agreement

On 17 June 2019, the Company and Joicare entered into the 2019 Second Sales Framework Agreement of additional products sales from the Group to Joicare Group during the period from 17 June 2019 to 31 December 2019 with a maximum amount of RMB9.4515 million (the “Additional Sales Cap”).

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

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

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

2. Continuing Connected Transactions *(continued)*

Entering into the 2019 Second Sales Framework Agreement and the 2019 Second Labour Services Framework Agreement *(continued)*

(2) Entering into the 2019 Second Labour Services Framework Agreement

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

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

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

XV. MATERIAL CONTRACTS AND THEIR ENFORCEMENT

1. Custody, Hiring and Leasing Matters

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 Facilities Guarantees

Unit: RMBO'000

External guarantees of the Company and its subsidiaries (excluding guarantees to its subsidiaries)

Name of guaranteed party	Disclosure date of the announcements relating to guaranteed amount	Guaranteed amount	Actual date of event (Signing date of the Agreement)	Actual guarantee amount	Type of guarantee	Period of guarantee	Performance Completed or not	Related party guarantee or not
-	-	-	-	-	-	-	-	-
Total of external guaranteed amount approved during the Reporting Period (A1)				-	Total of actual external guaranteed amount occurred during the Reporting Period (A2)			-
Total of external guaranteed amount approved at the End of the Reporting Period (A3)				-	Total of actual external guaranteed amount occurred at the End of the Reporting Period (A4)			-

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

2. Major Guarantees *(continued)*

(1) Guarantees *(continued)*

Credit Facilities Guarantees *(continued)*

Guarantees between the Company and its subsidiaries

Name of guaranteed party	Disclosure date of the announcements relating to guaranteed amount	Guaranteed amount	Actual date of event (Signing date of the Agreement)	Actual guarantee amount	Type of guarantee	Period of guarantee	Performance completed or not	Related party guarantee or not
Livzon Group Livzon Pharmaceutical Factory (麗珠集團麗珠製藥廠)	2019.3.28	17,000.00	2016.11.30	5,793.55	Joint obligation guarantee	2016.11.30- 2019.11.30	No	No
Livzon Group Livzon Pharmaceutical Factory (麗珠集團麗珠製藥廠)	2019.3.28	20,000.00	2018.05.07	13,353.19	Joint obligation guarantee	2018.4.8-2020.4.8	No	No
Livzon Group Livzon Pharmaceutical Factory (麗珠集團麗珠製藥廠)	2019.3.28	15,000.00	2018.03.23	781.66	Joint obligation guarantee	2018.3.23-2019.3.23	No	No
Zhuhai Livzon Diagnostic Reagents Inc. (珠海麗珠試劑股份有限公司)	2019.3.28	10,000.00	2017.10.09	4,135.24	Joint obligation guarantee	2017.08.22- 2022.08.21	No	No
Livzon MABPharm Inc (珠海市麗珠單抗生物技術有限公司)	2019.4.12	5,000.00	2016.06.22	1,574.65	Joint obligation guarantee	2016.6.22-2019.6.22	No	No
Zhuhai FTZ Livzon Hecheng Pharmaceutical Manufacturing Co., Ltd. (珠海保稅區麗珠合成製藥有限公司)	2019.3.28	20,000.00	2016.12.26	179.20	Joint obligation guarantee	2016.12.26- 2019.12.26	No	No
Zhuhai FTZ Livzon Hecheng Pharmaceutical Manufacturing Co., Ltd. (珠海保稅區麗珠合成製藥有限公司)	2019.3.28	12,000.00	2017.10.09	7,888.80	Joint obligation guarantee	2017.08.22- 2022.08.21	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)	2019.3.28	30,000.00	2018.04.24	6,300.90	Joint obligation guarantee	2018.4.24-2019.4.23	No	No
Zhuhai Livzon Pharmaceutical Trading Co., Ltd. (珠海市麗珠醫藥貿易有限公司)	2019.3.28	5,000.00	2019.06.04	2,194.95	Joint obligation guarantee	2018.12.27- 2019.12.27	No	No
Livzon Group Fuzhou Fuxing Pharmaceutical Co., Ltd. (麗珠集團福州福興醫藥有限公司)	2019.3.28	10,000.00	2018.08.07	4,929.58	Joint obligation guarantee	2018.7.20-2023.7.19	No	No
Sichuan Guangda Pharmaceutical Manufacturing Co., Ltd. 四川光大製藥有限公司	2019.3.28	5,000.00	2018.08.07	2,114.88	Joint obligation guarantee	2018.7.20-2023.7.19	No	No
Livzon Group Limin Pharmaceutical Manufacturing Factory(麗珠集團利民製藥廠)	2019.3.28	1,500.00	2018.11.01	294.74	Joint obligation guarantee	2017.06.29- 2020.06.26	No	No
Livzon Group (Ningxia) Pharmaceutical Manufacturing Co., Ltd. (麗珠集團(寧夏)製藥有限公司)	2019.3.28	14,000.00	2018.08.07	5,102.21	Joint obligation guarantee	2018.7.20-2023.7.19	No	No
Jiaozuo Livzon Hecheng Pharmaceutical Manufacturing Co., Ltd. (焦作麗珠合成製藥有限公司)	2019.3.28	5,000.00	2018.08.07	3,738.81	Joint obligation guarantee	2018.7.20-2023.7.19	No	No
Livzon Group Xinbeijiang Pharmaceutical Manufacturing Inc. (麗珠集團新北江製藥股份有限公司)	2019.3.28	8,100.00	2018.08.07	1,559.31	Joint obligation guarantee	2018.7.20-2023.7.19	No	No
Total of guaranteed amount to its subsidiaries approved during the Reporting Period (B1)		805,200.00	Total of actual guaranteed amount to its subsidiaries occurred during the Reporting Period (B2)					61,132.61
Total of guaranteed amount to its subsidiaries approved at the End of the Reporting Period (B3)		805,200.00	Total of actual guaranteed amount to its subsidiaries occurred at the End of the Reporting Period (B4)					59,941.67

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

2. Major Guarantees *(continued)*

(1) Guarantees *(continued)*

Credit Facilities Guarantees *(continued)*

Subsidiaries' guarantees to subsidiaries							
Name of guaranteed party	Disclosure date of the announcements relating to guaranteed amount	Guaranteed amount	Actual date of event (Signing Agreement)	Actual guarantee amount	Type of guarantee	Period of guarantee	Performance Completed or not Related party guarantee or not
-	-	-	-	-	-	-	-
Total of guaranteed amount to its subsidiaries approved during the Reporting Period (C1)				-	Total of actual guaranteed amount to its subsidiaries occurred during the Reporting Period (C2)		-
Total of guaranteed amount to its subsidiaries approved at the End of the Reporting Period (C3)				-	Total of actual guaranteed amount to its subsidiaries occurred at the End of the Reporting Period (C4)		-
Total guaranteed amount of the Company (total of the above three items)							
Total of guaranteed amount approved during the Reporting Period (A1+B1+C1)		805,200.00			Total of actual guaranteed amount occurred during the Reporting Period (A2+B2+C2)		61,132.61
Total of guaranteed amount approved at the End of the Reporting Period (A3+B3+C3)		805,200.00			Total of actual guaranteed amount occurred at the End of the Reporting Period (A4+B4+C4)		59,941.67
Total of actual guaranteed amount (A4+B4+C4) in proportion to the net assets of the Company							5.69%
Including:							
Guaranteed amount provided to Shareholders, the ultimate beneficial owner and their related parties (D)							-
Debt guaranteed amount to guaranteed party with asset-liability ratio exceeding 70% directly or indirectly (E)							-
The amount exceeding 50% of net assets in total guaranteed amount (F)							-
Total of guaranteed amount of the above three items (D+E+F)							-
Statement on the contingent joint liability in connection with unexpired guarantees (if any)							Not applicable
Statement on illegal external guarantees (if any)							Not applicable

XV. MATERIAL CONTRACTS AND THEIR ENFORCEMENT (continued)

2. Major Guarantees (continued)

(1) Guarantees (continued)

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 Notes Pool Business” and agreed that an amount not exceeding RMB1.4 billion for conducting notes pool business is to be shared by the Company and its subsidiaries. The amount of funds may be re-utilized. As of 30 June 2019, the bill pledges guaranteed are as follows:

Unit: RMB0'000

Guarantor	Pledgee	Bill pledge amount receivable	Name of guaranteed party	Description of guarantee	Guaranteed amount	Period of guarantee
The Company	Industrial and Commercial Bank of China, Zhuhai Branch (工商銀行珠海分行)	5,506.77	Livzon Group Limin Pharmaceutical Manufacturing Factory (麗珠集團利民製藥廠)	Opening bank acceptance bills, joint liability guarantee	734.35	Till 27 November 2019
			Livzon Group Livzon Pharmaceutical Factory (麗珠集團麗珠製藥廠)	Opening bank acceptance bills, joint liability guarantee	4,133.17	Till 9 January 2020
			Sub-total balance of actual amount guaranteed for subsidiaries at the end of the Reporting Period	4,867.52		
	China Merchants Bank Zhuhai Branch (招商銀行珠海分行)	21,892.05	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	1,643.70	Till 20 March 2020
			Livzon Group Livzon Pharmaceutical Factory (麗珠集團麗珠製藥廠)	Opening bank acceptance bills, joint liability guarantee	2,511.04	Till 20 December 2019
			Jiaozuo Livzon Hecheng Pharmaceutical Manufacturing Co., Ltd. (焦作麗珠合成製藥有限公司)	Opening bank acceptance bills, joint liability guarantee	6,698.78	Till 25 December 2019
			Livzon Group Fuzhou Fuxing Pharmaceutical Co., Ltd. (麗珠集團福州福興製藥有限公司)	Opening bank acceptance bills, joint liability guarantee	3,257.32	Till 20 December 2019
			Sichuan Guangda Pharmaceutical Manufacturing Co., Ltd. (四川光大製藥有限公司)	Opening bank acceptance bills, joint liability guarantee	1,090.21	Till 14 December 2019
			Livzon Group (Ningxia) Pharmaceutical Manufacturing Co., Ltd. (麗珠集團(寧夏)製藥有限公司)	Opening bank acceptance bills, joint liability guarantee	6,237.74	Till 13 December 2019
			Sub-total balance of actual amount guaranteed for subsidiaries at the End of the Reporting Period	21,438.79		
CZBank Shenzhen Branch (浙商銀行深圳分行)	259.73	Livzon Group Livzon Pharmaceutical Factory (麗珠集團麗珠製藥廠)	Opening bank acceptance bills, joint liability guarantee	145.29	Till 30 July 2019	
		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	45.42	Till 13 August 2019	
		Sub-total balance of actual amount guaranteed for subsidiaries at the End of the Reporting Period	190.71			
Total balance of actual amount guaranteed for subsidiaries at the End of the Reporting Period					26,497.02	

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

2. Major Guarantees *(continued)*

(1) Guarantees *(continued)*

Guarantee provided to the Company by related parties

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

Zhuhai Zhenghe Co., Ltd. (珠海正禾企業有限公司), the other shareholder of Livzon Reagents, has provided a “Letter of Undertaking for Counter Guarantee”, pursuant to which it has undertaken to provide a joint liability guarantee for 49% of the obligation of the Company under the guarantee granted to Livzon Reagents 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. Other Material Contracts

Applicable Not Applicable

Name of the contracted company	Name of the contracted counter party	Contract subject	Date of contract	Pricing principle	Consideration of Transaction (RMB'000)	Connected Transaction or not	Connected relationship	Execution as of the End of the Reporting Period	Date of disclosure	Index of disclosure
Livzon Group Xinbeijiang Pharmaceutical Manufacturing Inc. (麗珠集團新北江製藥股份有限公司)	Hangzhou Zhongmei Huadong Pharmaceutical Co., Ltd. (杭州中美華東製藥有限公司)	Acarbose bulk medicines (阿卡波糖原料藥)	31 May 2017	Determined by negotiation based on market price	48,060.00	No	Nil	As of the End of the Reporting Period, an aggregate of RMB480.600 million transaction amount (tax inclusive) has been recorded, representing 100% of the contracted amount	2 June 2017	"Announcement of Livzon Pharmaceutical Group Inc. in Relation to the Entering into Material Contracts for Daily Operation by Its Subsidiaries" (No.2017-046)
Livzon Group Xinbeijiang Pharmaceutical Manufacturing Inc. (麗珠集團新北江製藥股份有限公司)	Hangzhou Zhongmei Huadong Pharmaceutical Co., Ltd. (杭州中美華東製藥有限公司)	Acarbose bulk medicines (阿卡波糖原料藥)	13 February 2019	Determined by negotiation based on market price	53,970.00	No	Nil	As of the End of the Reporting Period, an aggregate of RMB59.1778 million transaction amount (tax inclusive) has been recorded, representing 10.96% of the contracted amount	Not applicable	Not applicable

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

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

4. Other Material Transactions

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

XVI. PLEDGE OF SHARES BY CONTROLLING SHAREHOLDERS

Applicable Not applicable

XVII. SIGNIFICANT EVENTS OF SUBSIDIARIES OF THE COMPANY

Applicable Not Applicable

Establishment of the JV Company by Livzon Reagents

For details on the establishment of the JV Company by Livzon Reagents, please refer to “V. Analysis of Financial Conditions – 19. Investments” in Section IV of the Report.

Subscription for additional registered capital of Yizun Biopharmaceutics by Kadi

For details of subscription for additional registered capital of Yizun Biopharmaceutics by Kadi, please refer to “V. Analysis of Financial Conditions – 19. Investments” in Section IV of the Report.

XVIII. DIVIDENDS AND BONUS SHARES

On 30 May 2019, the Company convened the 2018 Annual General Meeting, the 2019 Second Class Meeting of A Shareholders and the 2019 Second Class Meeting of H Shareholders to consider and approve the follow matters.

The distribution of cash dividend of RMB12.00 (tax inclusive) for every 10 shares (“Cash Dividends”) to all Shareholders and the issuance of 3 bonus shares for every 10 shares (“Bonus Shares”) to all Shareholders by way of conversion of capital reserve, based on the total share capital of the Company of 719,050,240 Shares as at 31 December 2018. If the total share capital of the Company changes during the period from the promulgation to implementation of the 2018 Annual Profit Distribution Plan, the aggregate distribution will be adjusted based on the total share capital at the registration date of shareholding as determined by implementation of the 2018 Annual Profit Distribution Plan, with the distribution ratio unchanged. The total share capital at the registration date of shareholding as determined by the implementation of the 2018 Annual Profit Distribution Plan is 719,048,212 Shares, therefore the total Cash Dividend is RMB862,857,854.4 and the total Bonus Shares are 215,714,463 Shares (including 141,899,644 A Shares and 73,814,819 H Shares). The Cash Dividends and Bonus Shares for the Company’s A Shares were distributed on 3 July 2019, and the Cash Dividends and Bonus Shares for the Company’s H Shares were distributed on 26 July 2019.

The Company proposes not to distribute interim dividend for the six-month period ended 30 June 2019 without bonus shares. During the six months ended 30 June 2018, the Company did not distribute dividends.



XIX. COMMITMENTS PERFORMED DURING THE REPORTING PERIOD AND NOT YET PERFORMED AS OF THE END OF THE REPORTING PERIOD BY ULTIMATE BENEFICIAL OWNERS, SHAREHOLDERS, RELATED PARTIES, PURCHASERS OF THE COMPANY AND THE COMPANY

Applicable Not applicable

XX. EXPLANATION ON “NON-STANDARD AUDITORS’ REPORT” GIVEN BY THE BOARD OF DIRECTORS AND THE SUPERVISORY COMMITTEE

Applicable Not applicable

XXI. EXPLANATION OF THE BOARD OF DIRECTORS ON THE “NON-STANDARD AUDITORS’ REPORT” FOR THE PREVIOUS YEAR

Applicable Not applicable

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

Applicable Not applicable

XXIII. SOCIAL RESPONSIBILITY

1. Performance of Social Responsibility of Targeted Poverty Alleviation Plan

(1) Targeted poverty alleviation plan

① Industry-based poverty alleviation

Basic strategy:

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

General objective:

To achieve full-scale and stable poverty elimination through the industry for 150 people in three counties, namely Hunyuan, Tianzhen in Shanxi province and Zizhou in Shaanxi province from 2018 to 2020.

XXIII. SOCIAL RESPONSIBILITY *(continued)*

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

(1) Targeted poverty alleviation plan *(continued)*

① Industry-based poverty alleviation *(continued)*

Major Tasks in 2019:

- (i) Complete the training on standardized Huangqi(黃芪) plantation and processing technology for 50 people and enhance the occupational skills of poor farmers;
- (ii) Adopt 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, establish demonstration base of standard production, incorporate poor households into the scope of base construction and improve 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.

(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 45 workers for the self-built base and jointly-constructed base, including around 15 impoverished people (including workers at the base and processing staff at the workshop).

② Health-based poverty alleviation

During the Reporting Period, the Company has donated drugs valued at RMB2 million to Chaotian District, Guangyuan and Songpan County, Aba Tibetan and Qiang Autonomous Prefecture in Sichuan province, helping more than 2,000 local people, including 483 registered poor people. The Company will donate drugs valued at RMB2 million to Guangling County and Hunyuan County, Datong, Shanxi in the future.

XXIII. SOCIAL RESPONSIBILITY (continued)

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

(3) Effectiveness of targeted poverty alleviation

Indicators	Unit	Quantity and Progress
I. Overall situation	—	—
Including: 1. Funds	RMB0'000	8.68
2. Value of resources donated	RMB0'000	200.00
3. Number of registered poor people lifted out of poverty	Person	15
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	8.68
1.4 Number of registered poor people lifted out of poverty	Person	15
2. Health-based poverty alleviation	—	—
Including: 2.1 Amount invested in medical and healthcare resources for poverty-stricken regions	RMB0'000	200.00

(4) Targeted poverty alleviation plans Subsequent to 2019

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 2019 is as follows:

- (i) Datong Livzon will provide employment posts for approximately 40 poor people for the self-built base and jointly-constructed base, including approximately 20 poor people (including workers at the base and processing staff at the workshop).
- (ii) Datong Livzon will conduct poverty alleviation for around 10 poor households who work for Huangqi plantation and provide assistance in pest control.
- (iii) Datong Livzon will work with local vocational schools to provide 50 poor farmers with standardized planting and processing technology trainings of Huangqi species to improve their vocational skills.
- (iv) Datong Livzon will sign purchasing order with poor households and their products will be given preference subject to the fulfilment of enterprises' requirement under standardized production.

XXIII. SOCIAL RESPONSIBILITY *(continued)*

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

(4) Targeted poverty alleviation plans Subsequent to 2019 *(continued)*

② Health-based poverty alleviation

In 2019, the Company plans to donate drugs for chronic diseases for middle-aged and elder poor people in five county-level regions on the basis of RMB1 million for each county. Currently, the Company has entered into Drug Donating Agreements with Chaotian District, Guangyuan and Songpan County, Aba Tibetan and Qiang Autonomous Prefecture in Sichuan province and Hunyuan County and Guangling County in Shanxi, among which, drugs for Chaotian District, Guangyuan and Songpan County, Aba Tibetan and Qiang Autonomous Prefecture in Sichuan province are ready for access. The drugs donated will be distributed by local people's hospitals or health centers after assessing patients' status based on the list of patients with chronic diseases from poor households across the region or county as confirmed by local healthcare bureaus.

2. Major Environmental Events

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

Yes No Not applicable

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

Name of company and subsidiary	Name of major pollutants and specific pollutants	Mode of discharge	Number of discharge outlets	Distribution of discharge outlets	Discharge concentration (mg/L)	Implemented	Approved total		Excessive discharge
						standards for discharge of (mg/L)	Total amount of discharge (t)	amount of discharge (t/a)	
Livzon Group Fuzhou Fuxing Pharmaceutical Co., Ltd.	Chemical oxygen demand	Intermittent	1	The northwest side of the factory	50	100	25.21	124.5	Nil
	Ammonia nitrogen				0.51	15	0.26	18.7	Nil

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

XXIII. SOCIAL RESPONSIBILITY *(continued)*

2. Major Environmental Events *(continued)*

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

Construction and operation of pollution prevention & treatment facilities:

The company strictly complies with the “Three Simultaneous” system of environmental protection by collecting and treating “Three Wastes” according to requirements, and employs an advanced sewage treatment process known as “Regulating pool + Hydrolysis acidification tank + SBR + Air float”. After the sewage has gone through the above treatment process, all indicators are stable and satisfy the discharge standard. After reaching the discharge standard, 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.

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 upon completion of construction was passed on 25 November 2017. The “Environmental Impact Report on the Expansion Project for Production of 20 Tonnes of Paromomycin, 2 Tonnes of Telavancin, 1.8 Tonnes of Pentostatin, 3 Tonnes of Daptomycin, 3 Tonnes of Teicoplanin, 0.3 Million and 1 Billion of Kanamycin Monosulfate and 2 Tonnes of Milbemycin Oxime per Year (《年產巴龍黴素20噸、特拉萬星2噸、噴司他汀1.8噸、達托黴素3噸、替考拉寧3噸、單硫酸卡那黴素30萬十億、米爾貝肱2噸擴建項目環境影響報告書》)” of the company was approved on 24 July 2018, and the project is currently under construction. The “Environmental Impact Report on the Project for Annual Production of 1,000 Tonnes of Colistin Premix (《年產黏桿菌素預混劑1,000噸項目環境影響報告表》)” of the company was approved on 27 November 2018. 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 the new pollutant emission license from the State on 27 December 2017, the company operates the discharge of pollutants strictly in compliance with the license 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” and obtained approval in May 2017 with the file reference number 350181-2017-013-M.

When environmental emergency incidents happen, immediate, quick, effective and disciplined implementation of emergency rescues will control and prevent the spread of contamination, protect the surrounding environment effectively and ensure the personal life and property safety of all of the employees, the company and the society. In accordance with the contents and requirements of the plan, the company provides trainings and drills for the employer to get them well-prepared for environmental emergency incidents, so that rescue work could be carried out in a timely manner and incidents could be controlled effectively in a short period of time in case of any environmental emergency incidents.

XXIII. SOCIAL RESPONSIBILITY *(continued)*

2. Major Environmental Events *(continued)*

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

Environmental Self-monitoring Program:

According to the relevant requirements of "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 has completed establishment of the self-monitoring program based on its own situation in a timely manner, and the program was made available to the public after being examined by and filing with the Fuqing Environment Protection Bureau and Fuzhou Environment Protection Bureau. The analysis methodology of the monitoring program is in accordance with the environment technical regulations standard and methodology by the State; the calibration and qualification of monitoring analysers is in strict compliance with the relevant requirement of the State; the automated monitoring equipment is installed in accordance with the requirement of environment assessment technical code, connected to the department of environmental protection, and has passed inspection by environmental protection authorities. The automated monitoring equipment functions properly, and the monitoring information is accurate, valid and authentic. Information publicity website: <http://wryfb.fjmc.org.cn>

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

Name of company or subsidiary	Name of major pollutants and specific pollutants	Mode of discharge	Number of discharge outlet(s)	Distribution of discharge outlet(s)	Discharge concentration (mg/L)	Implemented standard for	Approved total		Excessive discharge
						pollutant discharge (mg/L)	Total amount of discharge (t)	amount of discharge (t/a)	
Livzon Group Xinbeijiang Pharmaceutical Manufacturing Inc.	Chemical oxygen demand	Intermittent	1	Sewage treatment workshop	107.39	240	56.699	162.46	Nil
	ammonia nitrogen				13.76	70	7.263	24.5	Nil

Note: The discharge concentration represents the concentration of discharge into Qingyuan Henghe sewage plant, while the implemented standard for discharge represents the standard stipulated in the pollutant discharge licence 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:

Through strict enforcement of the "Three Simultaneous" system, the "Three Wastes" were collected and treated effectively. The sewage treatment facilities involved an investment of over RMB30 million with designed processing capacity of 3,000 t/d and adopted the treatment process of "Pre-treatment + Aerobic pool + Hydrolysis acidification tank + SBR + Catalytic oxidation + Air float" The waste water after treatment was discharged through the municipal pipeline network into Qingyuan Henghe sewage treatment plant.

XXIII. SOCIAL RESPONSIBILITY *(continued)*

2. Major Environmental Events *(continued)*

(ii) Livzon Group Xinbeijiang Pharmaceutical Manufacturing Inc. (麗珠集團新北江製藥股份有限公司) *(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 were functioning properly. On 29 December 2017, approval was granted for the application of a new pollutant discharge licence from State authority and the procedure for replacing the pollutant discharge licence 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 Effective Disposal”, and has obtained filing approval and formally been 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 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 completed establishment of the self-monitoring program based on its own situation in a timely manner, and made the program available to the public after examining by and filing with the Qingyuan Environment Protection Bureau. The analysis methodology of the monitoring program is in compliance with the national environmental monitoring technical standards and methodology. The examination and calibration of the monitoring analysis equipment are in strict compliance with relevant national requirements. Automated monitoring equipment was installed according to the requirements of environmental detection technical standards, while online monitoring equipment has passed the acceptance inspection of environmental protection authorities and connection between online information and national development platform and Qingyuan municipal platform was completed. The automated monitoring equipment was functioning properly, and the monitoring information was accurate, valid and authentic. Information publicity website: <https://app.gdep.gov.cn/epinfo/>.

XXIII. SOCIAL RESPONSIBILITY (continued)

2. Major Environmental Events (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	Implemented standard for pollutant	Approved total		Excessive discharge
					(mg/L)	discharge (mg/L)	Total amount of discharge (t)	amount of discharge (t/a)	
Zhuhai FTZ Livzon Hecheng Pharmaceutical Manufacturing Co., Ltd.	Chemical oxygen demand	Indirect	1	Wastewater treatment station	63.05	192	6.746	49.10	Nil
	ammonia-Ammonia nitrogen (NH ₃ -N)				15.03	40	1.601	4.91	Nil

Name of major pollutants and specific pollutants	Mode of discharge	Number of discharge outlet(s)	Distribution of discharge outlet(s)	Discharge concentration	Implemented standard for pollutant	Approved total		Excessive discharge
				(mg/m ³)	discharge (mg/m ³)	Total amount of discharge (t)	amount of discharge (t/a)	
Sulphur dioxide	Organized continuous emission	3	Boiler room	11	50	0.182	4.5	Nil
Nitrogen oxide	Organized continuous emission	3	Boiler room	101.56	200	2.127	18.05	Nil
Particulate matter	Organized continuous emission	3	Boiler room	20	30	0.401	/	Nil
Hydrogen chloride	Organized continuous emission	7	Workshop	2.44	100	0.455	/	Nil
Non-methane hydrocarbons	Organized continuous emission	7	Workshop	9.95	120	3.460	/	Nil
Non-methane hydrocarbons	Organized continuous emission	1	RTO	1.85	120	0.093	/	Nil
Nitrogen oxide	Organized continuous emission	1	RTO	18.75	200	0.940	18.05	Nil
Sulphur dioxide	Organized continuous emission	1	RTO	12	50	0.599	4.5	Nil

Note: The discharge concentration represents the concentration of discharge into south district sewage plant, while the implemented standard for discharge represents the standard stipulated in the pollutant discharge licence of the company, i.e. COD ≤ 192mg/L, ammonia nitrogen ≤ 40mg/L.

Construction and Operation of Pollution Preventive Facilities:

Through strict enforcement of the “Three Simultaneous” system, the “Three Wastes” were treated in a centralized and effective manner, and the maintenance and management of pollution preventive facilities were enhanced to ensure that emission of pollutants was stable and in compliance with the required standard. The treatment process of “pre-treatment of drainage from the production process + hydrolytic acidification + upflow anaerobic sludge blanket (UASB) + advanced oxidation + CASS process + ozonation” was adopted. Treated sewage was discharged through the municipal sewage pipeline network into Zhuhai Leaguer Environmental Protection Co., Ltd. (珠海力合環保有限公司) (water purification plant in the South District). In 2018, new investment in environmental protection projects amounted to RMB4.48 million, of which RMB3.20 million was invested in exhaust gas RTO incineration treatment and RMB1.20 million in workshop 303 for membrane recovery of acetone. Cover and sealing were added to the anaerobic tower, CASS tower and other facilities at the environmental protection centre. In 2019, new investment of RMB0.45 million in additional air floatation device was made for water outflow from CASS to remove particulates and colour, further reducing emission of pollutants. The hazardous wastes of the company were properly disposed of in compliance with regulations by qualified companies engaged according to environmental assessment and acceptance inspection opinion.

XXIII. SOCIAL RESPONSIBILITY *(continued)*

2. Major Environmental Events *(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 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 pollutant discharge licence from the State authority on 8 December 2017, the company strictly followed the licensing requirements for emissions of pollutants and strictly complied with various administrative requirements. The project of integrated controls on VOCs completed filing on 26 October 2018 and passed the acceptance inspection for clean production on 21 December 2018. Change of pollutant discharge licence was completed in May 2019, with an additional outlet for emissions from RTO equipment, which has 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 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”, and has obtained approval for filing and formally been announced with file 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.

XXIII. SOCIAL RESPONSIBILITY (continued)

2. Major Environmental Events (continued)

(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)	Implemented standard for pollutant discharge (mg/L)	Total amount of discharge (t)	Approved total amount of discharge (t/a)	Excessive discharge
Gutian Fuxing Pharmaceutical Co., Ltd.	Chemical oxygen demand	Continuous	1	Southeastern part of the factory zone	47.89	120	6.573	108	Nil
	Ammonia nitrogen				12.46	35	1.66	31.5	Nil

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

Construction and Operation of Pollution Preventive Facilities:

At the same time when the enterprise started production, the "Three Wastes" were collected and treated effectively in accordance with the requirements of the "Three Simultaneous" system of environmental protection., This involves a designed sewage treatment capacity of 1,200 t/d, initial investment of more than RMB3.00 million, adoption of the advanced "A/O + SBR + Fenton decolorizing + air flotation" sewage treatment process, 6,000 m³ of effective reservoir capacity of the treatment system and more than 20 sets of treatment equipment with 100 KW installed capacity. So far, a further investment of nearly RMB1.00 million has been made successively to improve the water treatment process, thus ensuring that all wastewater treatment indicators are stable and satisfy the discharge standard. Treated sewage that reaches the grade-II discharge standard is directly discharged into Minjiang River. The hazardous wastes of the company are entrusted to qualified companies for compliant disposal according to environmental impact assessment and acceptance inspection opinions.

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

The approval reply on the environmental impact assessment of the company was granted on 30 June 1999; the completion acceptance inspection carried out by the Environmental Protection Bureau of Fujian Province was passed on 5 June 2000. 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 licence 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.

XXIII. SOCIAL RESPONSIBILITY (continued)

2. Major Environmental Events (continued)

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

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". The contingency plan was approved in May 2017 with the file reference number 352200-2017-005-L.

When environmental emergency incidents happen, immediate, quick, effective and disciplined implementation of emergency rescues will control and prevent the spread of contamination, protect the surrounding environment effectively and ensure the personal life and property safety of all of the employees, the company and the society. In accordance with the contents and requirements of the plan, the company provides trainings and drills for the employer to get them well-prepared for environmental emergency incidents, so that rescue work could be carried out in a timely manner and incidents could be controlled effectively in a short period of time in case of any environmental emergency incidents.

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 completed establishment of the self-monitoring program based on its own situation in a timely manner, and made the program available to the public after examining by and filing with the Ningde Environment Protection Bureau and Gutian County Environmental Protection Bureau. The analysis methodology of the monitoring program is in compliance with the national environmental monitoring technical standards and methodology. The examination and calibration of the monitoring analysis equipment are in strict compliance with relevant national requirements. Automated monitoring equipment was installed according to the requirements of environmental detection 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)	Implemented standard for	Approved total		Excessive discharge
						pollutant discharge (mg/L)	Total amount of discharge (t)	amount of discharge (t/a)	
Livzon Group Limin Pharmaceutical Manufacturing Factory	Chemical oxygen demand	Intermittent	1	Wastewater treatment station	21	110	2.36	21.52	Nil
	Ammonia nitrogen				0.562	15	0.063	0.24	Nil

Note: The wastewater of Livzon Group Limin Pharmaceutical Manufacturing Factory was discharged into Shaoguan Second Sewage Treatment Plant and the discharge standard implemented represented the standard stipulated in the pollutant discharge license of the company, i.e. COD \leq 110mg/L, ammonia nitrogen \leq 15mg/L, while the data detected by third party inspection firm was adopted as the discharge concentration.

XXIII. SOCIAL RESPONSIBILITY *(continued)***2. Major Environmental Events** *(continued)***(v) Livzon Group Limin Pharmaceutical Manufacturing Factory (麗珠集團利民製藥廠)** *(continued)*

Construction and Operation of Pollution Preventive Facilities:

The “Three Simultaneous” system was strictly implemented 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 the second sewage treatment plant. More than RMB200,000 was invested in exhaust gas treatment for the treatment of boiler flue gas. For control of noise pollution, more than RMB100,000 was invested to construct noise segregation wall to reduce noise pollution.

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

The Environmental Impact Report on the Technological Reform Project for Bagged Shenqi Fuzheng Injection of Livzon Group Limin Pharmaceutical Manufacturing Factory (《麗珠集團利民製藥廠袋裝參芪扶正注射液技術改造項目環境影響報告書》) was approved on 28 July 2017, 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. The pollutant discharge licence was renewed and issued on 22 October 2018.

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 November 2017 with file reference number LM-SHE-ZX-01. 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.

XXIII. SOCIAL RESPONSIBILITY (continued)

2. Major Environmental Events (continued)

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

Environmental Self-monitoring Program:

Shaoguan Zhongyu Kecheng Inspection Technology Co., Ltd. (韶關市中譽科誠檢測技術有限公司) with national qualification on environmental protection inspection was engaged to conduct monitoring strictly in compliance with the relevant national laws and regulations and standards. By considering its own specific conditions, the company appointed the inspection party to carry 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.

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

Name of company or subsidiary	Name of major pollutants and specific pollutants	Mode of discharge	Number of discharge outlet(s)	Distribution of discharge outlet(s)	Discharge concentration	Implemented standard for pollutant discharge	Total amount of discharge (t)	Approved total amount of discharge (t/a)	Excessive discharge
					(mg/L)	(mg/L)			
Livzon Group (Ningxia) Pharmaceutical Manufacturing Co., Ltd.	Chemical oxygen demand	Continuous	1	Sewage treatment workshop on north side of factory zone	113.74	200	61.44	247.71	Nil
	Ammonia nitrogen				0.4	25	0.22	61.93	Nil
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	Implemented standard for pollutant discharge	Total amount of discharge (t)	Approved total amount of discharge (t/a)	Excessive discharge
					(mg/m ³)	(mg/m ³)			
Livzon Group (Ningxia) Pharmaceutical Manufacturing Co., Ltd.	Sulphur dioxide	Continuous	1	Boiler workshop on north side of factory zone	68.04	200	37.4	156.816	Nil
	Nitrogen oxide	Continuous			108.84	200	58.3	156.816	Nil
	Particulate matter	Continuous		13.41	30	7.11	23.522	Nil	
	Volatile organic compounds (VOCs)	Continuous	5	Fermentation	30.1	120	19.41	78.81	Nil

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

XXIII. SOCIAL RESPONSIBILITY *(continued)***2. Major Environmental Events** *(continued)***(vi) Livzon Group (Ningxia) Pharmaceutical Manufacturing Co., Ltd. (麗珠集團(寧夏)製藥有限公司)**
(continued)

Construction and Operation of Pollution Preventive Facilities:

Through strict enforcement of the “Three Simultaneous” system, the “Three Wastes” were collected and treated effectively. The designed total processing capacity of sewage treatment was 7,500m³/d (including one plant with capacity of 5,000m³/d and one plant with capacity of 2,500m³/d), and the actual total treatment amount was 3,500m³/d. After the wastewater had reached the standard stipulated on the pollutant discharge licence, it would be discharged through the sewage pipeline network in the industrial park to the Ningxia Xin’an sewage treatment plant. The current treatment process for boiler flue gas adopted the technical processes of “Furnance 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 May 2019, four new facilities for exhaust gas treatment were constructed and commenced operation (including two sewage workshops and two 203 refinery workshops), approximately 1,000 metres of pipelines for emergency drainage were newly constructed, and one boiler flue gas treatment facility was upgraded and reconstructed and has been operating normally.

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. 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.

XXIII. SOCIAL RESPONSIBILITY *(continued)*

2. Major Environmental Events *(continued)*

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

Environmental Emergency Contingency Plan:

Due to corporate merger, the Environmental Emergency Contingency Plan of Livzon Group Ningxia Fuxing Pharmaceutical Manufacturing Co., Ltd. (《麗珠集團寧夏福興製藥有限公司突發環境事件應急預案》) and the Environmental Emergency Contingency Plan of Livzon Group Ningxia Xinbeijiang Pharmaceutical Manufacturing Co., Ltd. (《麗珠集團寧夏新北江製藥有限公司突發環境事件應急預案》) were revised and re-compiled, 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 established a self-monitoring program in 2019, which was reviewed by and filed with the Ecological Environment Bureau of Shizuishan City. Monthly and quarterly monitoring was carried out strictly in accordance with the requirements of the program, and 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.

(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)	Implemented standard for	Total amount of discharge (t)	Approved total amount of discharge (t/a)	Excessive discharge
						pollutant discharge (mg/L)			
Jiaozuo Livzon Hecheng Pharmaceutical Manufacturing Co., Ltd.	Chemical oxygen demand	Continuous	1	Master outlet in sewage treatment workshop	108.14	220	6.11	60.8	Nil
	Ammonia-nitrogen				8.45	35			

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.

XXIII. SOCIAL RESPONSIBILITY *(continued)***2. Major Environmental Events** *(continued)***(vii) Jiaozuo Livzon Hecheng Pharmaceutical Manufacturing Co., Ltd.** (焦作麗珠合成製藥有限公司)
(continued)

Construction and Operation of Pollution Preventive Facilities:

Through strict enforcement of the “Three Simultaneous” system, the “Three Wastes” were collected and treated effectively. The designed sewage treatment capacity was 3,000t/d, the treatment process of “hydrolytic acidification tank + anaerobic UASB + aerobic pool + materialized treatment” was adopted, the wastewater after treatment would be discharged through the municipal pipeline network into the sewage treatment plant of Xiuwu Branch of Kangda Water Co., Ltd. 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. 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 handling 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 licence was approved on 20 December 2017, after completing the collection of pollutant discharge licence, various environmental protection policies were strictly enforced.

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”. 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.



XXIII. SOCIAL RESPONSIBILITY *(continued)*

2. Major Environmental Events *(continued)*

(vii) Jiaozuo Livzon Hecheng Pharmaceutical Manufacturing Co., Ltd. (焦作麗珠合成製藥有限公司) *(continued)*

Environmental Self-monitoring Program:

According to the relevant requirements of the “Measures for Self-Monitoring and Information Disclosure by 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 it was made available to the public after examining by and filing with the Jiaozuo Environment Protection Bureau. The analysis methodology of the monitoring program had complied with the national environmental monitoring technical standards and methodology. The examination and calibration of the monitoring analysis equipment were in strict compliance with the relevant national requirements. Automated monitoring equipment was installed according to the requirements of environmental detection technical standards, online monitoring equipment had passed the acceptance inspection conducted by the competent environmental authorities, and completed connecting the online data to the municipal platform of Jiaozuo, the self-monitoring information was accurate, valid and authentic.

XXIV. OTHER SIGNIFICANT EVENTS

During the Reporting Period, save as disclosed in this Report, no significant investment, material acquisition or disposal involving any subsidiary or associated company, nor other significant event required to be disclosed, had occurred in the Company.

I. CHANGES IN SHARES

1. Changes in Shares

As at 30 June 2019, the share capital structure of the Company was as follows:

Unit: Share(s)

	Before the current change		Increase/Decrease (+,-) due to the current change		After the current change	
	Number	Percentage	Others	Sub-total	Number	Percentage
I. Shares subject to selling restrictions	14,780,758	2.05%	+72,561	+72,561	14,853,319	2.07%
1. Shares held by State Government						
2. Shares held by State-owned entities	13,312,561	1.85%	-	-	13,312,561	1.85%
3. Shares held by other domestic holders	1,468,197	0.20%	+72,561	+72,561	1,540,758	0.21%
Including: Shares held by domestic entities						
Shares held by domestic natural persons	1,468,197	0.20%	+72,561	+72,561	1,540,758	0.21%
4. Shares held by foreign holders						
Including: Shares held by foreign entities						
Shares held by foreign natural persons						
II. Shares not subject to selling restrictions	704,269,482	97.95%	-74,589	-74,589	704,194,893	97.93%
1. Ordinary shares denominated in RMB	458,220,084	63.73%	-74,589	-74,589	458,145,495	63.72%
2. Domestically listed foreign shares						
3. Overseas listed foreign shares	246,049,398	34.22%	-	-	246,049,398	34.22%
4. Others						
III. Total number of shares	719,050,240	100.00%	-2,028	-2,028	719,048,212	100.00%

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

Reasons for changes in equity

Applicable Not applicable

In June 2019, the Company repurchased and cancelled 2,028 restricted shares held by one incentive participant who was not eligible for unlock conditions, 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.



I. CHANGES IN SHARES *(continued)*

1. Changes in Shares *(continued)*

Approval of changes in equity

Applicable Not applicable

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

Transfer of changes in equity

Applicable Not applicable

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

Applicable Not applicable

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

Applicable Not applicable

Explanation on changes in the total number of shares and shareholding structure of the Company and on changes in the asset and liability structure of the Company

Applicable Not applicable

Please see the relevant information on “Changes in Shares” in Section VI of the Report for details.

I. CHANGES IN SHARES (continued)**2. Changes in Shares with Selling Restrictions**

✓ Applicable □ Not applicable

Unit: Share (s)

Name of shareholder	Number of shares with selling restrictions at the Beginning of the Period	Number of shares released from selling restrictions during the Period	Increase in the number of shares with selling restrictions during the Period	Number of shares with selling restrictions at the End of the Period	Reasons for selling restrictions	Date of release from selling restrictions
Guangzhou Begol Trading Holdings Limited (廣州市保科力貿易公司)	13,312,561	-	-	13,312,561	Shares pledged, shares locked up and shares subject to selling restriction before initial offering	Not confirmed
Tao Desheng (陶德勝)	349,817	-	-	349,817	Locked shares held by the senior management	N/A
Tang Yanggang (唐陽剛)	1,732	-	-	1,732	Locked shares held by the senior management	N/A
Yang Daihong (楊代宏)	223,765	-	-	223,765	Locked shares held by senior management	N/A
Xu Guoxiang (徐國祥)	349,817	-	-	349,817	Locked shares held by the senior management	N/A
Lu Wenqi (陸文岐)	223,764	-	74,589	298,353	Locked shares held by the senior management	See note 2
Si Yanxia (司燕霞)	139,894	-	-	139,894	Locked shares held by the senior management	N/A
Zhou Peng (周鵬)	80,518	-	-	80,518	Locked shares held by the senior management	N/A
Huang Yuxuan (黃瑜璇)	30,293	-	-	30,293	Locked shares held by senior management	N/A
Yang Liang (楊亮)	66,569	-	-	66,569	Locked shares held by the senior management	N/A
Incentive participants (non-senior management)	2,028	2,028	0	0	Restricted Shares under the share incentive scheme	N/A
Total	14,780,758	2,028	74,589	14,853,319	-	-

Note: 1. Locked shares held by the senior management are to be released by a certain percentage in each year pursuant to the requirements of the Securities Law of the PRC and other relevant laws and regulations. The numbers of shares with selling restrictions in this table are listed according to 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.

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

II. NUMBER OF SHAREHOLDERS AND SHAREHOLDINGS

1. Number of Shareholders

As at the End of the Reporting Period, the Company had a total of 43,456 Shareholders including a total of 20 holders (*Note 1*) of H Shares and a total of 43,436 holders of A Shares.

Unit: Share(s)

Total number of ordinary Shareholders as at the End of the Period	43,456 holders	Total number of holders of preferred shares who resumed voting right (if any) as at the End of the Period	0
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2. Shareholders holding more than 5% shares or Shareholdings of the Top 10 Shareholders

Name of Shareholder (full name)	Nature of Shareholder	Class of shares	Shareholding percentage	Number of shares held at the End of the Period (Shares)	Change during the Reporting Period (Shares)	Number of shares with selling restrictions (Shares)	Number of shares without selling restrictions (Shares)	Pledge or lock-up	
								Share status	Number
HKSCC Nominees Limited (<i>Note 2</i>)	Foreign entity	H Share	34.21%	245,956,552	-16,300	-	245,956,552	-	-
Joincare Pharmaceutical Industry Group Co., Ltd. (健康元藥業集團股份有限公司)	Domestic non-State owned entity	A Share	23.68%	170,289,838	-	-	170,289,838	-	-
Perseverance Asset Management L.L.P. (Limited Partnership) – Gaoyi Linshan No.1 Foresight Fund (上海高毅資產管理合夥企業(有限合夥)–高毅鄰山1號遠望基金)	Others	A Share	2.36%	17,000,000	+15,500,000	-	17,000,000	-	-
Guangzhou Begol Trading Holdings Limited (廣州市保科力貿易公司)	State-owned entity	A Share	1.85%	13,312,561	-	13,312,561	-	Pledged and locked up	13,312,561
Shenzhen Haibin Pharmaceutical Co., Ltd. (深圳市海濱製藥有限公司)	Domestic non-State owned entity	A Share	1.80%	12,946,796	-	-	12,946,796	-	-
Hong Kong Securities Clearing Company Limited (香港中央結算有限公司)	Foreign entity	A Share	1.68%	12,096,410	+7,909,900	-	12,096,410	-	-
Central Huijin Investment Company Limited (中央匯金資產管理有限責任公司)	State-owned entity	A Share	1.29%	9,274,416	-	-	9,274,416	-	-
China Huarong Asset Management Co., Ltd. (中國華融資產管理股份有限公司)	State-owned entity	A Share	0.77%	5,556,200	-339,300	-	5,556,200	-	-
Bosera Asset Management Co., Ltd. – National Social Security Fund Portfolio 419 (博時基金管理公司–社保基金四一九組合)	Others	A Share	0.63%	4,500,655	+1,500,807	-	4,500,655	-	-
Norges Bank – self-owned funds (挪威中央銀行–自有資金)	Foreign entity	A Share	0.56%	4,057,397	+4,057,397	-	4,057,397	-	-
Description of strategic investors or general legal persons who became Top 10 Shareholders through placement of new shares (if any)	Not applicable								

II. NUMBER OF SHAREHOLDERS AND SHAREHOLDINGS (continued)

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

Description of connection or acting-in-concert relationship of the above Shareholders

(1) On 2 January 2004, Joicare 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, and the number of shares was increased to 13,312,561 Shares after the Company's implementation of 2017 Equity Distribution) were directly transferred, entrusted and pledged to Joicare;

(2) Haibin Pharma was a subsidiary directly and indirectly owned by Joicare as to 100% equity interest;

(3) the Company was not aware whether the other Shareholders mentioned above are related parties or persons acting-in-concert as defined in the Administrative Measures the Takeover of Listed Companies (《上市公司收購管理辦法》).

Notes:

- The shareholdings of the above top 10 Shareholders as at the End of the Reporting Period were based on the register of Shareholders as at 30 June 2019, provided by Shenzhen Branch of China Securities Depository and Clearing Corporation Limited and Tricor Investors Services Limited 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 125,665,133 H Shares held by Topsino, which was a wholly-owned subsidiary of Joicare, the controlling Shareholder of the Company.

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

Name of Shareholder	Number of shares held not subject to selling restrictions at the End of the Reporting Period (Shares)	Type of shares	
		Category of shares	Number (Shares)
HKSCC Nominees Limited	245,956,552	Overseas listed foreign shares	245,956,552
Joicare Pharmaceutical Industry Group Co., Ltd. (健康元藥業集團股份有限公司)	170,289,838	Ordinary shares denominated in RMB	170,289,838
Perseverance Asset Management L.L.P (Limited Partnership) – Gaoyi Linshan No.1 Foresight Fund (上海高毅資產管理合夥企業(有限合夥) – 高毅鄰山1號遠望基金)	17,000,000	Ordinary shares denominated in RMB	17,000,000
Shenzhen Haibin Pharmaceutical Co., Ltd. (深圳市海濱制藥有限公司)	12,946,796	Ordinary shares denominated in RMB	12,946,796
Hong Kong Securities Clearing Company Limited (香港中央結算有限公司)	12,096,410	Ordinary shares denominated in RMB	12,096,410
Central Huijin Investment Company Limited (中央匯金資產管理有限責任公司)	9,274,416	Ordinary shares denominated in RMB	9,274,416
China Huarong Asset Management Co., Ltd. (中國華融資產管理股份有限公司)	5,556,200	Ordinary shares denominated in RMB	5,556,200
Bosera Asset Management Co., Ltd. – National Social Security Fund Portfolio 419 (博時基金管理有限公司 – 社保基金四一九組合)	4,500,655	Ordinary shares denominated in RMB	4,500,655
Norges Bank – self-owned funds (挪威中央銀行 – 自有資金)	4,057,397	Ordinary shares denominated in RMB	4,057,397
China Foreign Economy and Trade Trust Co., Ltd. – Fotic Springs Selected I (中國對外經濟貿易信託有限公司 – 淡水泉精選1期)	3,624,503	Ordinary shares denominated in RMB	3,624,503



II. NUMBER OF SHAREHOLDERS AND SHAREHOLDINGS *(continued)*

3. Shareholdings of Top 10 Shareholders Not Subject to Selling Restrictions *(continued)*

Description of connection or acting-in-concert relationship among the top 10 Shareholders not subject to selling restrictions themselves and between the top 10 Shareholders not subject to selling restrictions and the top 10 Shareholders	(1) On 2 January 2004, Joicare 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, being shares held by 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, and the number of shares was increased to 13,312,561 Shares after the Company's implementation of 2017 Equity Distribution), were directly transferred, entrusted and pledged to Joicare; (2) Haibin Pharma was a subsidiary directly and indirectly owned by Joicare 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》).
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Description of the top 10 ordinary Shareholders involved in the margin financing and securities lending business (if any) Not Applicable

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

YES No

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

III. CHANGES IN CONTROLLING SHAREHOLDERS OR ULTIMATE BENEFICIAL OWNER

Changes in controlling shareholders during the Reporting Period

Applicable Not applicable

No change occurred in the controlling shareholders of the Company during the Reporting Period.

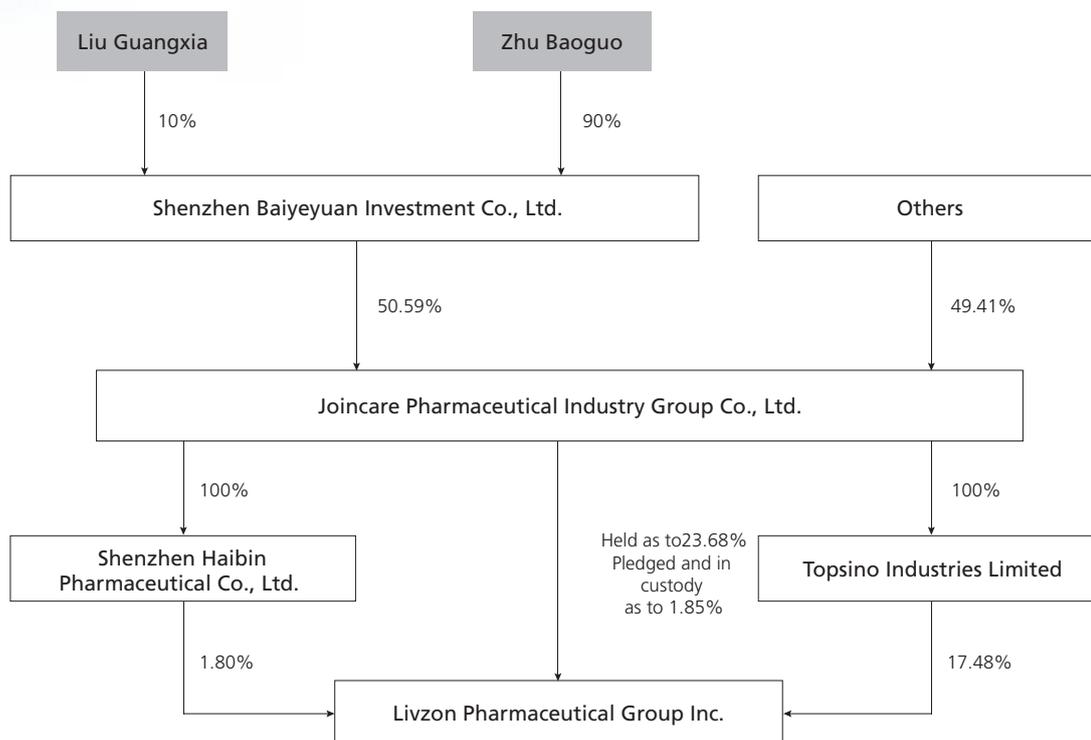
Changes in de facto controllers during the Reporting Period

Applicable Not applicable

No change occurred in the de facto controllers of the Company during the Reporting Period.

III. CHANGES IN CONTROLLING SHAREHOLDERS OR ULTIMATE BENEFICIAL OWNER *(continued)*

Chart on ownership and controlling relationship between the Company and its de facto controllers as of the disclosure date of the Report



Notes:

1. Zhu Baoguo (朱保國) is the spouse of Liu Guangxia (劉廣霞).
2. On 1 July 2019, 59,863,537 shares in Joincare held by Mr. Zhu Baoguo in the form of targeted asset management plans were fully transferred to Baiyeyuan. Upon the completion of the transfer, shares in Joincare held by Baiyeyuan changed from 920,595,245 shares to 980,458,782 shares. As such, the shareholding in Joincare held by Baiyeyuan increased from 47.50% to 50.59%.



IV. AS AT 30 JUNE 2019, THE FOLLOWING MAJOR SHAREHOLDERS AND OTHER PERSONS, OTHER THAN THE DIRECTORS, SUPERVISORS OR CHIEF EXECUTIVES (AS DEFINED IN THE SFO), HAD INTERESTS AND SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY WHICH WERE REQUIRED TO BE RECORDED IN THE REGISTER REQUIRED TO BE KEPT BY THE COMPANY UNDER SECTION 336 OF THE SFO:

Name of Shareholder	Capacity	Number of Shares interested/subject to the short position	Position	As a percentage of the specific class of issued shares of the Company	As a percentage of the total issued shares of the Company
Major Shareholders					
Baiyeyuan	Interest of controlled corporations	196,549,195 A Shares ⁽¹⁾	Long position	41.55%	27.33%
	Interest of controlled corporations	125,665,133 H Shares ⁽²⁾	Long position	51.07%	17.48%
Ms. Liu Guangxia	Interest of Spouse	196,549,195 A Shares ⁽³⁾	Long position	41.55%	27.33%
		125,665,133 H Shares ⁽³⁾	Long position	51.07%	17.48%
Joincare	Beneficial owner	170,289,838 A Shares	Long position		
	Interest of controlled corporations	12,946,796 A Shares ⁽⁴⁾	Long position		
	Holder of security interest in shares	13,312,561 A Shares ⁽⁵⁾	Long position		
		196,549,195 A Shares		41.55%	27.33%
	Interest of controlled corporations	125,665,133 H Shares ⁽²⁾	Long position	51.07%	17.48%
Topsino	Beneficial owner	125,665,133 H Shares	Long position	51.07%	17.48%
Other persons					
UBS Group AG	Holder of security interest in shares	2,622,510 H Shares ⁽⁶⁾	Long position		
	Interest of controlled corporations	11,924,093 H Shares ⁽⁶⁾	Long position		
		14,546,603 H Shares ⁽⁶⁾		5.91%	2.02%

Notes:

- (1) Among these shares, 183,602,399 shares and 12,946,796 shares are held directly by Joincare and its wholly-owned subsidiary, Haibin Pharma.
- (2) These shares are held directly by Topsino, a wholly-owned subsidiary of Joincare.
- (3) As Ms. Liu Guangxia is the spouse of Mr. Zhu Baoguo, she is deemed to be interested in the shares in which Mr. Zhu Baoguo is deemed to be interested.
- (4) These shares are held directly by Haibin Pharma, a wholly-owned subsidiary of Joincare.
- (5) These shares were directly transferred, entrusted and pledged by Begol in favor of Joincare in accordance with the Share Transfer, Custody and Pledge Agreement entered into among three parties, namely Begol, Joincare and Zhuhai Lishi Investment Co., Ltd. (珠海市麗士投資有限公司), on 2 January 2004 and the Share Transfer and Custody Agreement and the Share Pledge Agreement signed between Begol and Joincare.
- (6) These shares include 2,622,510 shares, being security interest, and 11,924,093 shares, being interest of controlled corporations. The interest of controlled corporations is held by UBS AG, UBS Asset Management (Americas) Inc., UBS Asset Management (Hong Kong) Ltd, UBS Asset Management (Singapore) Ltd, UBS Asset Management Trust Company, UBS Asset Management (UK) Limited and UBS Fund Management (Luxembourg) S.A., which are wholly-owned subsidiaries of UBS Group AG, as to 426,668 shares, 5,920 shares, 2,272,968 shares, 108,996 shares, 5,772 shares, 17,290 shares and 9,086,479 shares, respectively.

Applicable Not applicable

The Company had no preferred shares during the Reporting Period.



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

Applicable Not applicable

There were no changes in shareholdings of Directors, Supervisors and senior management of the Company during the Reporting Period. Please refer to 2018 Annual Report for details.

1. As at 30 June 2019, the interests or short positions of the Directors, Supervisors and chief executives of the Company in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of SFO) as recorded in the register required to be kept under Section 352 of the SFO, or as otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code, were as follows:

Interest in shares/underlying shares of the Company

Name of Director	Capacity	Number of shares/underlying shares Interested (Long 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
Mr. Zhu Baoguo (朱保國)	Interest of controlled corporations	196,549,195 A Shares ⁽¹⁾⁽²⁾	41.55%	27.33%
		125,665,133 H Shares ⁽¹⁾⁽³⁾	51.07%	17.48%
Mr. Tao Desheng (陶德勝)	Beneficial owner Interest of Spouse	661,423 A Shares ⁽⁴⁾⁽¹⁷⁾		
		159,728 A Shares ⁽⁵⁾⁽⁶⁾⁽¹⁷⁾		
		821,151 A Shares	0.17%	0.11%
Mr. Xu Guoxiang (徐國祥)	Beneficial owner	661,423 A Shares ⁽⁷⁾⁽¹⁷⁾	0.14%	0.09%
Mr. Fu Daotian (傅道田)	Beneficial owner	156,000 A Shares ⁽⁸⁾⁽¹⁷⁾	0.03%	0.02%
Mr. Tang Yanggang (唐陽剛)	Beneficial owner	158,310 A Shares ⁽⁹⁾⁽¹⁷⁾	0.03%	0.02%

Interest in shares of associated corporations of the Company

Name of Director	Name of associated corporation	Capacity	Equity interest/ number of shares (Long position)	As a percentage of the equity interest of associated corporation
Mr. Zhu Baoguo (朱保國)	Baiyeyuan Joincare	Beneficial owner	72,000,000 (RMB)	90.00%
		Beneficial owner	59,863,537 shares ⁽¹⁰⁾	
	Interest of controlled corporations	920,595,245 shares ⁽¹⁰⁾		
		980,458,782 shares	50.59%	
	Livzon Biologics ⁽¹¹⁾	Interest of controlled corporations	49,000,000 shares ⁽¹⁾⁽¹²⁾	39.33% ⁽¹⁵⁾
	Biologics Limited ⁽¹¹⁾	Interest of controlled corporations	1,960 shares ⁽¹⁾⁽¹³⁾	39.33% ⁽¹⁵⁾
	Biotechnology Company ⁽¹¹⁾	Interest of controlled corporations	122,500,000 (RMB) ⁽¹⁾⁽¹⁴⁾	39.33% ⁽¹⁵⁾
	Livzon MAB ⁽¹¹⁾	Interest of controlled corporations	555,331,700 (RMB) ⁽¹⁾⁽¹⁴⁾	39.33% ⁽¹⁵⁾
Mr. Tang Yanggang (唐陽剛)	Xinbeijiang Pharmaceutical ⁽¹⁶⁾	Interest of controlled corporations	20,238,780 shares ⁽¹⁶⁾	8.44%
Mr. Qiu Qingfeng (邱慶豐)	Joincare	Beneficial owner	117,409 shares	0.01%

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

1. As at 30 June 2019, the interests or short positions of the Directors, Supervisors and chief executives of the Company in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of SFO) as recorded in the register required to be kept under Section 352 of the SFO, or as otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code, were as follows: *(continued)*

Notes:

- (1) Joincare is 47.50% 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, 183,602,399 shares (in which 13,312,561 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 signed between Begol and Joincare) and 12,946,796 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 195,000 share options, which are able to subscribe for 195,000 A Shares of the Company pursuant to the 2018 Share Options Incentive Scheme of the Company.
- (5) These shares include 78,000 share options, which are able to subscribe for 78,000 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 195,000 share options, which are able to subscribe for 195,000 A Shares of the Company pursuant to the 2018 Share Options Incentive Scheme of the Company.
- (8) These shares are all share options, which are able to subscribe for 156,000 A Shares of the Company pursuant to the 2018 Share Options Incentive Scheme of the Company.
- (9) These shares include 156,000 share options, which are able to subscribe for 156,000 A Shares of the Company pursuant to the 2018 Share Options Incentive Scheme of the Company.
- (10) Mr. Zhu Baoguo held 59,863,537 shares in Joincare in the form of targeted asset management plans and Baiyeyuan held 920,595,245 shares in Joincare. On 1 July 2019, 59,863,537 shares in Joincare held by Mr. Zhu Baoguo in the form of targeted asset management plans were fully transferred to Baiyeyuan. Upon completion of the transfer, shares in Joincare held by Baiyeyuan changed from 920,595,245 shares to 980,458,782 shares. As such, the shareholding in Joincare held by Baiyeyuan increased from 47.50% to 50.59%.
- (11) 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.
- (12) These shares are held by Joincare BVI.
- (13) These shares are held by Livzon Biologics.
- (14) These equity interests are held by Biologics Limited.



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

1. As at 30 June 2019, the interests or short positions of the Directors, Supervisors and chief executives of the Company in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of SFO) as recorded in the register required to be kept under Section 352 of the SFO, or as otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code, were as follows: *(continued)*

Notes: *(continued)*

- (15) In August 2018, Livzon Biologics newly issued 24,574,830 ordinary shares and 12,500,000 series A preferred shares. After the issuance, the total number of ordinary shares of Livzon Biologics changed from 100,000,000 shares to 124,574,830 shares, and the total share capital changed from 100,000,000 shares to 137,074,830 shares. Hence, Joicare BVI holds 49,000,000 ordinary shares of Livzon Biologics, which is 39.33% of the total ordinary shares and 35.75% of the total share capital of Livzon Biologics.
- (16) 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.
- (17) For details of the aforesaid 2018 Share Options Incentive Scheme, please refer to the relevant information of the "Share Options Incentive Scheme" in Section IV of the Report.

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

Name	Position	Type	Date	Reason
Tang Yanggang (唐陽剛)	Executive Director	Appointed	14 February 2019	Appointed as Executive Director of the Company with approval at the 2019 Second Extraordinary General Meeting of the Company.
Xu Guoxiang (徐國祥)	Vice Chairman	Appointed	11 April 2019	Appointed as Vice Chairman of the Company with approval of the Board of the Company with effect from 11 April 2019.
Dai Weiguo (戴衛國)	Vice President	Appointed	11 April 2019	Appointed as Vice President of the Company with the approval of the Board of the Company with effect from 11 April 2019.

III. CHANGES OF BIOGRAPHICAL DETAILS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

As of the date of the Report, changes in biographical details of Directors, Supervisors or senior management during their tenure which are required to be disclosed in accordance with Rules 13.51(2) and 13.51B of Hong Kong Listing Rules are set out as follows:

- (1) As the Chairman of the Company, Mr. Zhu Baoguo is entitled to an annual director fee which was adjusted to RMB3.25 million (before tax) since 1 January 2019. The adjustment to the director fee of the Chairman of the Company was approved by the 2019 Second Extraordinary General Meeting of the Company held on 14 February 2019. Such fee is determined with reference to his duties and responsibilities within the Company, the Company's remuneration policy and the market salary range for such position.
- (2) As the Vice Chairman of the Company, Mr. Tao Desheng is entitled to an annual director fee which was adjusted to RMB3 million (before tax) since 1 January 2019. The adjustment to the director fee of the Vice Chairman of the Company was approved by the 2019 Second Extraordinary General Meeting of the Company held on 14 February 2019. Such fee is determined with reference to his duties and responsibilities within the Company, the Company's remuneration policy and the market salary range for such position.
- (3) Mr. Xu Guoxiang was appointed as the Vice Chairman of the Company on 11 April 2019. Mr. Xu Guoxiang is entitled to an annual director fee which was adjusted to RMB3 million (before tax) plus discretionary bonus and annual salary of RMB1 million (before tax).
- (4) Mr. Fu Daotian ceased to be the general manager of Livzon MABPharm (US) Inc. (麗珠單抗生物技術(美國)有限公司) on 1 January 2019 and ceased to be the general manager of Livzon MAB on 26 March 2019.
- (5) Mr. Wang Xiaojun ceased to be a partner of Junhe Law Offices on 30 June 2019; served as a partner of JNJ Partners LLP since July 2019; and served as an independent non-executive director of Poly Property Development Co., Ltd. (保利物業發展股份有限公司) since May 2019.
- (6) Since 5 March 2019, the name of the Company's legal supervision headquarter was changed to the legal and compliance headquarter, as a result, Mr. Wang Maolin's position was changed to the manager of legal and compliance headquarter.
- (7) Mr. Huang Huamin served as deputy general manager of Guangzhou Golden Eagle Asset Management Co., Ltd. (廣州金鷹資產管理有限公司) and chief financial officer of Golden Eagle Fund Management Co., Ltd. (金鷹基金管理有限公司) from August 2017 to March 2019; and served as assistant to the chairman of the board of China Agriculture Industrial Development Group Co., Ltd. (中農華鑫實業發展集團有限公司) since March 2019 to present.
- (8) Since 16 August 2019, Mr. Zheng Zhihua has been appointed as member of the Audit Committee, member of the Nomination Committee and chairman of the Remuneration and Assessment Committee of the Company.
- (9) Since 16 August 2019, Mr. Tang Yanggang has been appointed as member of the Strategy Committee of the Company and the authorized representative of the Company under the Rule 3.05 of the Hong Kong Listing Rules.



IV. LISTS OF MEMBERS OF THE BOARD AND THE SUPERVISORY COMMITTEE

As at the date of the Report, the Board of the Company comprises ten Directors including three executive Directors, three non-executive Directors and four independent non-executive Directors.

Executive Directors

Mr. Tang Yanggang (*President*) (appointed as an Executive Director of the Company on 14 February 2019)

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

Mr. Fu Daotian (*Vice President*)

Non-executive Directors

Mr. Zhu Baoguo (*Chairman*)

Mr. Tao Desheng (*Vice Chairman*)

Mr. Qiu Qingfeng

Independent Non-executive Directors

Mr. Xu Yanjun

Mr. Wang Xiaojun

Mr. Zheng Zhihua

Mr. Xie Yun

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

Mr. Wang Maolin (*Chief Supervisor*)

Mr. Huang Huamin

Mr. Tang Yin

Applicable Not applicable

The Company has not issued any corporate bonds to the public and for listing on the stock exchange.



I. Auditors' Report

Whether the interim report has been audited

Yes No

The Company's interim financial report is unaudited.

II. Financial Statements

Prepared by: Livzon Pharmaceutical Group Inc.

Unit: RMB

Item	Notes	30 June 2019	31 December 2018
Current assets:			
Monetary fund	VI.1	7,767,982,705.34	8,587,927,272.41
Held-for-trading financial assets	VI.2	15,560,367.70	15,934,738.20
Derivative financial assets			
Bills receivables	VI.3	934,010,378.50	1,029,370,542.77
Accounts receivables	VI.4	1,758,612,952.69	1,381,706,955.95
Prepayments	VI.5	186,074,558.37	169,765,301.71
Other receivables	VI.6	67,015,560.25	49,482,179.59
In which: Interest receivables		282,020.55	
Dividends payable			
Inventories	VI.7	1,036,661,443.83	1,117,007,240.91
Contract assets			
Held-for-sale assets			
Non-current assets due within one year	VI.8	10,143,994.37	10,869,100.00
Other current assets	VI.9	114,323,802.32	109,664,922.90
Total current assets		11,890,385,763.37	12,471,728,254.44
Non-current assets:			
Debt investments			
Other debt investments			
Long-term receivables	VI.10	10,656,942.50	20,299,509.76
Long-term equity investments	VI.11	181,718,000.07	188,106,109.58
Other equity instrument investments	VI.12	382,070,039.20	407,707,119.32
Other non-current financial assets			
Investment properties			
Fixed assets	VI.13	3,216,999,943.29	3,217,576,074.00
Construction in progress	VI.14	205,414,501.40	184,518,928.04
Productive biological assets			
Oil and gas assets			
Intangible assets	VI.15	236,736,564.20	244,193,325.80
Development costs	VI.16	111,661,581.08	81,146,586.57
Goodwill	VI.17	103,040,497.85	103,040,497.85
Long-term deferred expenses	VI.18	117,696,568.72	113,346,522.83
Deferred tax assets	VI.19	139,251,768.30	141,596,264.49
Other non-current assets	VI.20	282,022,164.72	264,087,667.70
Total non-current assets		4,987,268,571.33	4,965,618,605.94
Total assets		16,877,654,334.70	17,437,346,860.38

Prepared by: Livzon Pharmaceutical Group Inc.

Unit: RMB

Item	Notes	30 June 2019	31 December 2018
Current liabilities:			
Short-term loans	VI.21		1,500,000,000.00
Financial liabilities held for trading	VI.22	5,166,927.00	85,294.16
Derivatives financial liabilities			
Bills payables	VI.23	832,870,849.63	718,590,036.85
Accounts payables	VI.24	649,132,945.39	636,324,506.52
Receipts in advance			
Contract liabilities	VI.25	77,294,467.41	115,973,464.09
Employee benefits payables	VI.26	141,256,684.21	186,046,426.55
Taxes payables	VI.27	153,488,094.77	245,057,455.45
Other payables	VI.28	3,119,957,280.03	1,967,100,817.25
In which: Interest receivables			
Dividends payable		986,589,278.21	97,536,288.17
Held-for-sale liabilities			
Non-current liabilities due within one year	VI.29	400,000.00	400,000.00
Other current liabilities			
Total current liabilities		4,979,567,248.44	5,369,578,000.87
Non-current liabilities:			
Long-term loans	VI.30		700,000.00
Notes payables			
Of which: Preferred shares			
Perpetual bonds			
Long-term payables			
Long-term employee benefits payables			
Provisions			
Deferred gain	VI.31	255,723,296.60	262,712,220.34
Deferred tax liabilities		68,127,996.30	54,479,730.16
Other non-current liabilities			
Total non-current liabilities		323,851,292.90	317,891,950.50
Total liabilities		5,303,418,541.34	5,687,469,951.37
Shareholders' equity:			
Share capital	VI.32	719,048,212.00	719,050,240.00
Other equity instruments			
Of which: Preferred shares			
Perpetual bonds			
Capital reserve	VI.33	1,367,338,793.53	1,362,250,389.67
Less: Treasury shares	VI.34		25,208.04
Other consolidated earnings	VI.35	-31,181,288.97	-29,164,814.15
Special reserve			
Surplus reserve	VI.36	587,255,162.90	587,255,162.90
General risks provision			
Undistributed profits	VI.37	7,890,998,211.55	8,012,611,700.26
Total equity attributable to shareholders of the parent company		10,533,459,091.01	10,651,977,470.64
Minority interests		1,040,776,702.35	1,097,899,438.37
Total shareholders' equity		11,574,235,793.36	11,749,876,909.01
Total liabilities and shareholders' equity		16,877,654,334.70	17,437,346,860.38

Chairman of the Board and
Legal Representative:
Zhu Baoguo

Executive Director and
President:
Tang Yanggang

Chief Financial Officer:
Si Yanxia

Head of Accounting
Department:
Zhuang Jianying

Prepared by: Livzon Pharmaceutical Group Inc.

Unit: RMB

Item	Notes	For the Period	For the Previous Period
I. Total operating income		4,939,065,593.94	4,564,703,491.43
Including: Operating income	VI.38	4,939,065,593.94	4,564,703,491.43
II. Total operating costs		4,023,166,088.37	3,833,267,588.26
Including: Operating costs	VI.38	1,734,581,556.01	1,708,438,807.43
Business taxes and surcharges	VI.39	60,706,333.90	63,882,740.21
Selling expenses	VI.40	1,796,846,255.61	1,679,680,086.00
Administrative expenses	VI.41	255,211,847.01	251,140,575.65
R&D expenses	VI.42	288,459,672.08	243,963,723.02
Finance expenses	VI.43	-112,639,576.24	-113,838,344.05
Including: Interest expenses		5,219,055.56	2,390,751.95
Interest income		119,416,636.64	97,677,697.20
Add: Other income	VI.44	37,922,405.15	39,436,755.62
Investment income			
("-" represents losses)	VI.45	-3,842,092.53	854,288.83
Including: Income from investment in associates and joint ventures		-6,388,109.51	1,238,167.27
Derecognition of income from financial assets at amortised cost ("-" represents losses)			
Gain net exposure to hedging ("-" represents losses)			
Gains from changes in fair value ("-" represents losses)	VI.46	-5,456,003.34	-16,905,949.52
Credit impairment loss ("-" represents losses)	VI.47	-10,436,940.03	24,003,370.10
Asset impairments loss ("-" represents losses)	VI.48	-14,109,578.25	-27,823,804.41
Gains on disposal of assets ("-" represents losses)	VI.49	937,832.83	-121,892.09
III. Operating profit ("-" represents losses)		920,915,129.40	750,878,671.70
Add: Non-operating income	VI.50	71,038,475.86	76,388,868.05
Less: Non-operating expenses	VI.51	4,003,453.13	9,461,134.24
IV. Total profit ("-" represents total losses)		987,950,152.13	817,806,405.51
Less: Income tax expenses	VI.52	153,424,317.37	142,100,864.18
V. Net profit ("-" represents net losses)		834,525,834.76	675,705,541.33
(I) By continuity of operations			
1. Net profit from continuing operations ("-" represents net losses)		834,525,834.76	675,705,541.33
2. Net profit from discontinued operations ("-" represents net losses)			
(II) By ownership			
1. Profit or loss from minority interests ("-" represents net losses)		95,578,071.07	42,351,245.80
2. Net profit attributable to the shareholders of the parent company ("-" represents net losses)		738,947,763.69	633,354,295.53



Prepared by: Livzon Pharmaceutical Group Inc.

Unit: RMB

Item	Notes	For the Period	For the Previous Period
VI. Other comprehensive net income after taxation	VI.53	-1,260,651.40	1,669,749.34
Other comprehensive net income after taxation attributable to the shareholders of the parent company		-2,016,474.82	1,619,614.98
(I) Other comprehensive income subsequently not to be reclassified into profit or loss		-8,122,383.64	-5,157,895.92
1. Changes in re-measurement of defined benefit plans			
2. Other comprehensive income not to be reclassified into profit or loss under the equity method			
3. Change in fair value of other equity instrument investments		-8,122,383.64	-5,157,895.92
4. Changes in fair value of enterprise's own credit risk			
5. Others			
(II) Other comprehensive income items to be re-classified as profit or loss		6,105,908.82	6,777,510.90
1. Other comprehensive income to be reclassified into profit or loss under the equity method			
2. Change 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		6,105,908.82	6,777,510.90
7. Others			
Other comprehensive net income after taxation attributable to minority interests		755,823.42	50,134.36
VII. Total comprehensive income		833,265,183.36	677,375,290.67
Total comprehensive income attributable to the shareholders of the parent company		736,931,288.87	634,973,910.51
Total comprehensive income attributable to minority interests		96,333,894.49	42,401,380.16
VIII. Earnings per share:			
(I) Basic earnings per share (RMB)	XVIII.2	1.03	0.88
(II) Diluted earnings per share (RMB)	XVIII.2	1.03	0.88

*Chairman of the Board and
Legal Representative:
Zhu Baoguo*

*Executive Director and
President:
Tang Yanggang*

*Chief Financial Officer:
Si Yanxia*

*Head of Accounting
Department:
Zhuang Jianying*

Prepared by: Livzon Pharmaceutical Group Inc.

Unit: RMB

Item	Notes	For the Period	For the Previous Period
I. Cash flow from operating activities:			
Cash received from sales of goods and services rendered		4,935,141,475.18	4,837,169,373.73
Refund of taxes and levies		32,484,169.17	29,121,891.72
Cash received relating to other operating activities	VI.54	287,340,358.36	279,525,632.59
Sub-total of cash inflow from operating activities		5,254,966,002.71	5,145,816,898.04
Cash paid for goods and services received		1,100,036,842.40	1,266,628,230.31
Cash paid to and on behalf of employees		541,229,699.92	472,526,501.03
Payments for various taxes and levies		662,761,036.51	1,421,435,124.51
Cash paid relating to other operating activities	VI.54	1,992,574,919.26	2,003,395,590.37
Sub-total of cash outflow from operating activities		4,296,602,498.09	5,163,985,446.22
Net cash flow from operating activities		958,363,504.62	-18,168,548.18
II. Cash flow from investing activities:			
Cash received on disposals of investment		113,557,831.39	33,100,525.00
Cash received on investment income		5,160,277.02	705,353.61
Net cash received from disposals of fixed assets, intangible assets and other long-term assets		11,866.00	16,115.09
Net cash received on disposals of subsidiaries and other operating units			
Cash received relating to other investing activities	VI.54	30,000,000.00	800,000.00
Sub-total of cash inflow from investing activities		148,729,974.41	34,621,993.70
Cash payments for acquisition of fixed assets, intangible assets and other long-term assets		192,781,185.88	253,067,636.05
Cash payments for investments		82,696,726.80	237,750,200.85
Net cash paid for acquisition of subsidiaries and other operating units			
Cash paid relating to other investing activities	VI.54	2,689,260.04	245,000.00
Sub-total of cash outflow from investing activities		278,167,172.72	491,062,836.90
Net cash flow from investing activities		-129,437,198.31	-456,440,843.20
III. Cash inflow from financing activities:			
Cash received from investment			
Including: Cash received from minority shareholders' equity investment in subsidiaries			300,000,000.00
Cash received from borrowings			
Cash received from issuance of bonds			
Cash received relating to other financing activities	VI.54	29,811.30	2,653,082.12
Sub-total of cash inflow from financing activities		29,811.30	302,653,082.12
Cash paid on repayments of debts		1,500,000,000.00	27,912,709.50
Cash paid for dividends, profit appropriation or interest expenses		132,719,055.56	828,084,355.95
Including: Dividends and profits paid to minority shareholders by subsidiaries		127,500,000.00	98,000,000.00
Cash paid relating to other financing activities	VI.54	269,345.90	3,875,932.38
Sub-total of cash outflow from financing activities		1,632,988,401.46	859,872,997.83
Net cash flow from financing activities		-1,632,958,590.16	-557,219,915.71
IV. Effect of changes in foreign exchange rates on cash and cash equivalents		4,470,674.54	16,483,346.22
V. Net increase in cash and cash equivalents		-799,561,609.31	-1,015,345,960.87
Add: Cash and cash equivalents at the beginning of the Period		8,563,711,205.95	7,400,973,935.19
VI. Cash and cash equivalents at the end of the Period		7,764,149,596.64	6,385,627,974.32

Chairman of the Board and
Legal Representative:
Zhu Baoguo

Executive Director and
President:
Tang Yanggang

Chief Financial Officer:
Si Yanxia

Head of Accounting
Department:
Zhuang Jianying

Prepared by: Livzon Pharmaceutical Group Inc.

Unit: RMB

Item	For the Period										Total shareholders' equity			
	Equity attributable to shareholders of the parent company													
	Share capital	Preference shares	Perpetual bonds	Others	Capital reserves	Treasury shares	Less: Treasury shares	Other comprehensive income	Special reserves	Surplus reserves		General risk reserves	Undistributed profits	Minority interests
I. Balance as at the end of last year	719,050,240.00				1,362,250,389.67	25,208.04	-29,164,814.15	-29,164,814.15	587,255,162.90	587,255,162.90	8,012,611,700.26	8,012,611,700.26	1,097,899,438.37	11,749,876,909.01
Add: Adjustments for changes in accounting policies														
Correction of accounting errors in prior periods														
Business combinations 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	-29,164,814.15	587,255,162.90	587,255,162.90	8,012,611,700.26	8,012,611,700.26	1,097,899,438.37	11,749,876,909.01
III. Increases/decreases during the Period ("+" for increases)	-2,028.00				5,089,403.86	-25,208.04	-2,016,474.82	-2,016,474.82			-121,613,488.71	-121,613,488.71	-57,122,736.02	-175,641,115.65
(I) Total comprehensive income	-2,028.00				-23,180.04	-25,208.04	-2,016,474.82	-2,016,474.82			738,947,763.69	738,947,763.69	96,333,894.49	833,265,183.36
(II) Capital contributed or reduced by shareholders														
1. Ordinary shares contributed by shareholders														
2. Capital contributed by the holders of other equity instruments														
3. Share-based equity-settled payments														
4. Others	-2,028.00				-23,180.04	-25,208.04	-2,016,474.82	-2,016,474.82						
(III) Profit distribution					-23,180.04	-25,208.04	-2,016,474.82	-2,016,474.82						
1. Transfer to surplus reserves														
2. Provision to general Risk reserves														
3. Distribution to shareholders														
4. Others														
(IV) Transfer of shareholders' equity					-23,180.04	-25,208.04	-2,016,474.82	-2,016,474.82						
1. Transfer of capital reserve to capital (or share capital)														
2. Transfer of surplus reserves to capital (or share capital)														
3. Surplus reserves offsetting losses														
4. Changes in defined benefit plans transferred to retained earnings														
5. Other comprehensive income transferred to retained earnings														
6. Others														
(V) Special reserves														
1. Extraction during the Period														
2. Amount used during the Period														
(VI) Others					5,111,583.90		-31,181,288.97	-31,181,288.97	587,255,162.90	587,255,162.90	7,890,998,211.55	7,890,998,211.55	1,040,776,702.35	11,574,235,793.36
IV. Balance as at the end of the Year	719,048,212.00				1,367,338,793.53		-31,181,288.97	-31,181,288.97	587,255,162.90	587,255,162.90	7,890,998,211.55	7,890,998,211.55	1,040,776,702.35	11,574,235,793.36

Prepared by: Livzon Pharmaceutical Group Inc.

Unit: RMB

Item	Equity attributable to shareholders of the parent company										Total			
	Share capital	Preference shares	Perpetual bonds	Other equity instruments	Others	Capital reserves	Treasury shares	Less: Treasury shares	Other comprehensive income	Special reserves		Surplus reserves	General reserves	Undistributed profits
I. Balance as at the end of last year	533,231,369.00					1,715,270,973.93	66,786,741.96	-44,546,365.43	-8,352,564.09	587,255,162.90	8,028,315,370.19	8,352,564.09	460,883,784.97	11,233,623,553.60
Add: Adjustments for changes in accounting policies														
Correction of accounting errors in prior periods														
Business combinations under common control														
Others														
II. Balance as at the beginning of the Year	533,231,369.00					1,715,270,973.93	66,786,741.96	-52,898,929.52	-8,352,564.09	587,255,162.90	8,036,667,934.28	8,352,564.09	460,883,784.97	11,233,623,553.60
III. Increases/decreases during the Period ("+" for increases)	165,818,871.00					-149,791,966.54	-59,503,507.76	1,619,614.98	1,619,614.98		-472,876,844.47		30,191,926.35	-365,534,890.92
(I) Total comprehensive income	-115,799.00					-1,611,873.24	-59,503,507.76	1,619,614.98			633,354,295.53		66,190,546.19	123,966,381.71
(II) Capital contributed or reduced by shareholders														
1. Ordinary shares contributed by shareholders														
2. Capital contributed by the holders of other equity instruments														
3. Share-based equity-settled payments														
4. Others	-115,799.00					-1,611,873.24	-59,503,507.76	1,619,614.98						
(III) Profit distribution														
1. Transfer to surplus reserves														
2. Provision to general Risk reserves														
3. Distribution to shareholders														
4. Others														
(IV) Transfer of shareholders' equity														
1. Transfer of capital reserve to capital (or share capital)	165,934,670.00					-165,934,670.00								
2. Transfer of surplus reserves to capital (or share capital)	165,934,670.00					-165,934,670.00								
3. Surplus reserves offsetting losses														
4. Changes in defined benefit plans transferred to retained earnings														
5. Other comprehensive income transferred to retained earnings														
6. Others														
(V) Special reserves														
1. Extraction during the Period														
2. Amount used during the Period														
(VI) Others														
IV. Balance as at the end of the Year	719,050,240.00					1,565,479,007.39	7,283,234.20	-51,279,314.54	-8,352,564.09	587,255,162.90	7,563,791,089.81	-1,106,231,140.00	491,075,711.32	10,868,088,662.68

Chairman of the Board and Legal Representative: Zhu Baoguo

Executive Director and President: Tang Yanggang

Chief Financial Officer: Si Yanxia

Head of Accounting Department: Zhuang Jianying



Prepared by: Livzon Pharmaceutical Group Inc.

Unit: RMB

Item	Notes	30 June 2019	31 December 2018
Current assets:			
Monetary fund		6,689,116,474.22	7,505,401,614.22
Held-for-trading financial assets		8,556,727.52	7,267,953.42
Derivative financial assets			
Bills receivables	XVII.1	609,698,695.90	606,560,125.42
Accounts receivables	XVII.2	851,766,416.66	601,743,929.08
Prepayments		29,561,219.02	26,503,604.37
Other receivables	XVII.3	1,763,498,135.83	1,779,658,972.33
In which: Interest receivables		282,020.55	
Dividends payable		631,299,031.92	599,078,865.48
Inventories		402,633,903.50	483,740,282.91
Contract assets			
Held-for-sale assets			
Non-current assets due within one year		10,143,994.37	10,869,100.00
Other current assets		1,777,978.19	3,720.38
Total current assets		10,366,753,545.21	11,021,749,302.13
Non-current assets:			
Debt investments			
Other debt investments			
Long-term receivables		10,656,942.50	20,299,509.76
Long-term equity investments	XVII.4	1,906,059,509.51	1,906,138,109.75
Other equity instrument investments		81,503,108.84	80,503,108.84
Other non-current financial assets			
Investment properties			
Fixed assets		76,132,142.48	77,680,302.35
Construction in progress		4,651,106.82	1,729,987.35
Productive biological assets			
Oil and gas assets			
Intangible assets		24,199,794.98	25,547,418.64
Development costs		4,878,300.57	4,740,370.24
Goodwill			
Long-term deferred expenses		1,545,020.65	1,643,638.99
Deferred tax assets		30,263,431.40	30,325,432.85
Other non-current assets		101,941,729.07	90,929,898.90
Total non-current assets		2,241,831,086.82	2,239,537,777.67
Total assets		12,608,584,632.03	13,261,287,079.80

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Prepared by: Livzon Pharmaceutical Group Inc.

Unit: RMB

Item	Notes	30 June 2019	31 December 2018
Current liabilities:			
Short-term loans			1,500,000,000.00
Financial liabilities held for trading			
Derivatives financial liabilities			
Bills payables		6,799,981.86	22,892,011.81
Accounts payables		469,667,055.22	370,669,222.77
Receipts in advance			
Contract liabilities		10,060,462.32	40,208,856.21
Employee benefits payables		13,490,979.17	33,347,783.68
Taxes payables		37,677,618.85	52,232,361.86
Other payables		5,319,364,599.36	3,851,428,656.70
In which: Interest receivables			
Dividends payable		863,116,533.99	20,174.46
Held-for-sale liabilities			
Non-current liabilities due within one year			
Other current liabilities			
Total current liabilities		5,857,060,696.78	5,870,778,893.03
Non-current liabilities:			
Long-term loans			
Notes payables			
Of which: Preferred shares			
Perpetual bonds			
Long-term payables			
Long-term employee benefits payables			
Provisions			
Deferred gain		70,002,157.94	77,673,338.51
Deferred tax liabilities		8,804,408.37	7,868,473.39
Other non-current liabilities			
Total non-current liabilities		78,806,566.31	85,541,811.90
Total liabilities		5,935,867,263.09	5,956,320,704.93
Shareholders' equity:			
Share capital		719,048,212.00	719,050,240.00
Other equity instruments			
Of which: Preferred shares			
Perpetual bonds			
Capital reserve		1,731,986,387.59	1,726,897,983.73
Less: Treasury shares			25,208.04
Other consolidated earnings			
Special reserve			
Surplus reserve		382,292,109.32	382,292,109.32
General risks provision			
Undistributed profits		3,839,390,660.03	4,476,751,249.86
Total shareholders' equity		6,672,717,368.94	7,304,966,374.87
Total liabilities and shareholders' equity		12,608,584,632.03	13,261,287,079.80

Chairman of the Board and
Legal Representative:
Zhu Baoguo

Executive Director and
President:
Tang Yanggang

Chief Financial Officer:
Si Yanxia

Head of Accounting
Department:
Zhuang Jianying



Prepared by: Livzon Pharmaceutical Group Inc.

Unit: RMB

For the Previous
Period

Item	Notes	For the Period	For the Previous Period
I. Total operating income	XVII.5	2,716,692,559.43	2,425,716,387.86
Less: Operating costs	XVII.5	1,645,034,856.38	1,454,491,104.66
Business taxes and surcharges		16,779,492.26	12,764,990.81
Selling expenses		936,968,077.46	912,794,916.88
Administrative expenses		71,366,649.03	89,511,948.43
R&D expenses		97,489,268.71	71,781,608.81
Finance expenses		-104,762,878.62	-103,993,650.52
Including: Interest expenses		21,111,078.58	16,277,746.11
Interest income		126,350,288.77	120,830,659.34
Add: Other income		8,062,640.54	8,446,682.20
Investment income ("-" represents losses)	XVII.6	122,937,209.61	768,736,643.80
Including: Income from investment in associates and joint ventures		-6,873,600.24	-308,816.56
Derecognition of income from financial assets at amortised cost ("-" represents losses)			
Gain net exposure to hedging ("-" represents losses)			
Gains from changes in fair value ("-" represents losses)		1,288,774.10	3,386,767.41
Credit impairment loss ("-" represents losses)		-3,678,202.41	16,386,055.77
Asset impairments loss ("-" represents losses)		-1,818,996.23	-3,027,178.06
Gains on disposal of assets ("-" represents losses)		4,683.51	-17,700.66
II. Operating profit ("-" represents losses)		180,613,203.33	782,276,739.25
Add: Non-operating income		58,283,595.05	53,357,099.07
Less: Non-operating expenses		1,057,914.63	1,257,421.69
III. Total profit ("-" represents total losses)		237,838,883.75	834,376,416.63
Less: Income tax expenses		12,341,619.18	13,135,958.36
IV. Net profit ("-" represents net losses)		225,497,264.57	821,240,458.27
(I) Net profit from continuing operations ("-" represents net losses)		225,497,264.57	821,240,458.27
(II) Net profit from discontinued operations ("-" represents net losses)			
V. Other comprehensive net income after taxation			
(I) Other comprehensive income subsequently not to be reclassified into profit or loss			
1. Changes in re-measurement of defined benefit plans			
2. Other comprehensive income not to be reclassified into profit or loss under the equity method			
3. Change in fair value of other equity instrument investments			
4. Changes in fair value of enterprise's own credit risk			
5. Others			
(II) Other comprehensive income items to be re-classified as profit or loss			
1. Other comprehensive income to be reclassified into profit or loss under the equity method			
2. Change 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			
7. Others			
VI. Total comprehensive income		225,497,264.57	821,240,458.27

Chairman of the Board and
Legal Representative:
Zhu Baoguo

Executive Director and
President:
Tang Yanggang

Chief Financial Officer:
Si Yanxia

Head of Accounting
Department:
Zhuang Jianying

Prepared by: Livzon Pharmaceutical Group Inc.

Unit: RMB
For the Previous
Period

Item	Notes	For the Period	For the Previous Period
I. Cash flow from operating activities:			
Cash received from sales of goods and services rendered		2,757,032,169.95	2,751,423,120.80
Refund of taxes and levies			
Cash received relating to other operating activities		194,251,820.32	167,926,130.87
Sub-total of cash inflow from operating activities		2,951,283,990.27	2,919,349,251.67
Cash paid for goods and services received		1,680,354,027.29	1,983,352,416.19
Cash paid to and on behalf of employees		147,577,235.34	113,759,535.73
Payments for various taxes and levies		182,850,242.06	785,500,501.37
Cash paid relating to other operating activities		976,882,395.94	1,007,238,719.63
Sub-total of cash outflow from operating activities		2,987,663,900.63	3,889,851,172.92
Net cash flow from operating activities		-36,379,910.36	-970,501,921.25
II. Cash flow from investing activities:			
Cash received on disposals of investment		11,000,000.00	33,100,525.00
Cash received on investment income		97,590,643.41	78,131,844.96
Net cash received from disposals of fixed assets, intangible assets and other long-term assets		5,480.00	
Net cash received on disposals of subsidiaries and other operating units			
Cash received relating to other investing activities			
Sub-total of cash inflow from investing activities		108,596,123.41	111,232,369.96
Cash payments for acquisition of fixed assets, intangible assets and other long-term assets		19,833,827.33	23,018,601.92
Cash payments for investments		7,795,000.00	11,332,200.00
Net cash paid for acquisition of subsidiaries and other operating units			
Cash paid relating to other investing activities			
Sub-total of cash outflow from investing activities		27,628,827.33	34,350,801.92
Net cash flow from investing activities		80,967,296.08	76,881,568.04
III. Cash inflow from financing activities:			
Cash received from investment			
Cash received from borrowings			
Cash received from issuance of bonds			
Cash received relating to other financing activities		651,798,713.43	958,539,902.95
Sub-total of cash inflow from financing activities		651,798,713.43	958,539,902.95
Cash paid on repayments of debts		1,500,000,000.00	
Cash paid for dividends, profit appropriation or interest expenses		5,219,055.56	727,693,604.00
Repayment of borrowings from subsidiaries			
Cash paid relating to other financing activities		7,349,101.31	525,059,310.47
Sub-total of cash outflow from financing activities		1,512,568,156.87	1,252,752,914.47
Net cash flow from financing activities		-860,769,443.44	-294,213,011.52
IV. Effect of changes in foreign exchange rates on cash and cash equivalents		-103,082.28	-49,929.50
V. Net increase in cash and cash equivalents		-816,285,140.00	-1,187,883,294.23
Add: Cash and cash equivalents at the beginning of the Period		7,505,401,614.22	6,494,605,142.51
VI. Cash and cash equivalents at the end of the Period		6,689,116,474.22	5,306,721,848.28

Chairman of the Board and
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Si Yanxia

Head of Accounting
Department:
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Prepared by: Livzon Pharmaceutical Group Inc.

Unit: RMB

Item	For the Period										Total shareholders' equity	
	Share capital	Preference shares	Perpetual bonds	Others	Capital reserves	Less: Treasury shares	Other comprehensive income	Special reserves	Surplus reserves	General risk reserves		Undistributed profits
I. Balance as at the end of last year	719,050,240.00				1,726,897,983.73	25,208.04			382,292,109.32		4,476,751,249.86	7,304,966,374.87
Add: Adjustments for changes in accounting policies												
Correction of accounting errors in prior periods												
Others												
II. Balance as at the beginning of the Year	719,050,240.00				1,726,897,983.73	25,208.04			382,292,109.32		4,476,751,249.86	7,304,966,374.87
III. Increases/decreases during the Period	-2,028.00				5,088,403.86	-25,208.04					-637,360,589.83	-632,249,005.93
(*) for decreases											225,497,264.57	225,497,264.57
(I) Total comprehensive income												
(II) Capital contributed or reduced by shareholders	-2,028.00				-23,180.04	-25,208.04						
1. Ordinary shares contributed by shareholders												
2. Capital contributed by the 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 reserves												
2. Provision to general Risk reserves												
3. Distribution to shareholders												
4. Others												
(IV) Transfer of shareholders' equity												
1. Transfer of capital reserve to capital (or share capital)												
2. Transfer of surplus reserves to capital (or share capital)												
3. Surplus reserves offsetting losses												
4. Changes in defined benefit plans transferred to retained earnings												
5. Other comprehensive income transferred to retained earnings												
6. Others												
(V) Special reserves												
1. Extraction during the Period												
2. Amount used during the Period												
(VI) Others												
1. Others					5,111,583.90							5,111,583.90
2. Amount used during the Period					1,731,986,387.59							6,672,717,368.94
IV. Balance as at the end of the Year	719,048,212.00				1,731,986,387.59	-25,208.04			382,292,109.32		3,839,390,660.03	6,672,717,368.94

Unit: RMB

Prepared by: Livzon Pharmaceutical Group Inc.

Item	For the Previous Period							Total shareholders' equity				
	Share capital	Preference shares	Perpetual bonds	Others	Capital reserves	Less: Treasury shares	Other comprehensive income		Special reserves	Surplus reserves	General risk reserves	Undistributed profits
I. Balance as at the end of last year	553,231,369.00				1,836,798,282.28	66,786,741.96	8,352,564.09		382,292,109.32		4,724,885,078.69	7,438,772,661.42
Add: Adjustments for changes in accounting policies												
Correction of accounting errors in prior periods												
Others							-8,352,564.09				8,352,564.09	
II. Balance as at the beginning of the Year	553,231,369.00				1,836,798,282.28	66,786,741.96	8,352,564.09		382,292,109.32		4,733,237,642.78	7,438,772,661.42
III. Increases/decreases during the Period	165,818,871.00				-142,543,278.26	-59,933,507.76					-284,990,681.73	-202,211,581.23
(*) for decreases												
(I) Total comprehensive income											821,240,458.27	821,240,458.27
(II) Capital contributed or reduced by shareholders	-115,799.00				-1,611,873.24	-59,933,507.76						57,775,835.52
1. Ordinary shares contributed by shareholders												
2. Capital contributed by the holders of other equity instruments												
3. Share-based equity-settled payments												
4. Others	-115,799.00				-1,611,873.24	-59,933,507.76						57,775,835.52
(III) Profit distribution												
1. Transfer to surplus reserves												
2. Provision to general risk reserves												
3. Distribution to shareholders												
4. Others												
(IV) Transfer of shareholders' equity	165,934,670.00				-165,934,670.00							
1. Transfer of capital reserve to capital (or share capital)	165,934,670.00				-165,934,670.00							
2. Transfer of surplus reserves to capital (or share capital)												
3. Surplus reserves offsetting losses												
4. Changes in defined benefit plans transferred to retained earnings												
5. Other comprehensive income transferred to retained earnings												
6. Others												
(V) Special reserves												
1. Extraction during the Period												
2. Amount used during the Period												
(VI) Others					25,003,264.98							25,003,264.98
IV. Balance as at the end of the Year	719,050,240.00				1,694,255,004.02	7,883,234.20			382,292,109.32		4,448,246,961.05	7,236,561,080.19

Chairman of the Board and
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President:
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Head of Accounting
Department:
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I. COMPANY PROFILE

1. History and development

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.

(Unless specified otherwise, all amount are denominated in RMB.)

I. COMPANY PROFILE *(continued)*

1. History and development *(continued)*

On 4 February 2005, Joincare Pharmaceutical Industry Group Co., Ltd. (健康元藥業集團股份有限公司) (hereinafter referred to as the "Joincare 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 Joincare 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 Joincare Group (健康元集團) was completed.

As at 31 December 2012, Joincare 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 Joincare Group (健康元集團).

In the 2008 First Extraordinary General Meeting, the Company considered and approved "the Resolution on Repurchase of Domestically Listed Foreign Shares (B Shares) of the Company". As at 2 December 2009 (the expiry date of implementing the repurchase), the Company accumulatively repurchased 10,313,630 B Shares. On 4 December 2009, the Company completed the cancellation of the repurchased shares with China Securities Depository and Clearing Corporation Limited (Shenzhen branch) (中國證券登記結算有限責任公司深圳分公司). The total share capital of the Company was reduced by 10,313,630 shares, and the registered capital of the Company was reduced from RMB306,035,482 to RMB295,721,852. The Company completed the changes of the industrial and commercial registration on 20 April 2010.

Pursuant to "Restricted Shares Incentive Scheme of Livzon Pharmaceutical Group Inc. (Revised Draft)" and its summary considered and approved by the 2015 First Extraordinary General Meeting of the Company and the resolution of the 8th Meeting of the 8th Session of the Board on 27 March 2015, 458 restricted shares incentive participants exercised the options and the actual number of options that vest were 8,660,400. Capital verification for this exercise was completed on 27 March 2015 and the approval registration was completed by China Securities Depository and Clearing Corporation Limited (Shenzhen branch). The registered capital following the exercise has changed to RMB 304,382,252. 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 RMB 1 each in the proportion of 3 shares for every 10 shares to all shareholders by way of conversion of capital reserve based on the total share capital of the Company of 304,382,252 shares. Upon the bonus issue, the registered capital of the Company has changed to RMB395,696,927. This capital increase was validated and confirmed by the Capital Verification Report (Ruihua Yan Zi [2015] No.40030017) issued by Ruihua Certified Public Accountants. The Company completed the changes of the industrial and commercial registration on 21 January 2016 with the unified social credit code 914404006174883094.

I. COMPANY PROFILE *(continued)*

1. History and development *(continued)*

Pursuant to “the Resolution on Repurchase and Cancellation of Restricted Shares Granted But Unlocked Held by Incentive Participants Without Satisfying Incentive Conditions” considered and approved by the 16th Meeting of the 8th Session of the Board on 27 October 2015, 93,080 shares were repurchased. After the repurchase, the Company’s share capital has changed to RMB395,603,847. This capital reduction was validated and confirmed by the Capital Verification Report (Ruihua Yan Zi [2015] No.40030020) issued by Ruihua Certified Public Accountants.

Pursuant to “the Resolution on Granting the Reserved Restricted Shares to Incentive Participants” considered and approved by the 18th Meeting of the 8th Session of the Board on 12 November 2015, 177 restricted shares incentive participants exercised the options and the actual number of options that vest were 1,285,700. Capital verification of this exercise was completed on 18 December 2015 and the approval registration was completed by China Securities Depository and Clearing Corporation Limited (Shenzhen branch). The Company’s share capital following the exercise has changed to RMB396,889,547. This capital increase was validated and confirmed by the Capital Verification Report (Ruihua Yan Zi [2015] No.40030023) issued by Ruihua Certified Public Accountants.

Pursuant to “the Resolution on Repurchase and Cancellation of Restricted Shares Granted But Unlocked Held by Incentive Participants Without Satisfying Incentive Conditions” considered and approved by the 23rd Meeting of the 8th Session of the Board on 28 March 2016 and the 26th Meeting of the 8th Session of the Board on 16 May 2016, 257,624 shares were repurchased. After the repurchase, the Company’s share capital has changed to RMB396,631,923. This capital reduction was validated and confirmed by the Capital Verification Report (Ruihua Yan Zi [2016] No. 40030011) issued by Ruihua Certified Public Accountants.

Pursuant to the resolutions of the 17th Meeting of the 8th Session of the Board on 2 November 2015, the 2015 Third Extraordinary General Meeting on 21 December 2015, 21st Meeting of the 8th Session of the Board on 8 March 2016, the 2016 Second Extraordinary General Meeting on 25 April 2016, as approved by China Securities Regulatory Commission (中國證券監督管理委員會) with “Approval in Relation to the Non-public Issuance of Shares by Livzon Pharmaceutical Group Inc.” (Zheng Jian Xu Ke [2016] No. 1524) on 1 August 2016, 29,098,203 Renminbi ordinary shares (A Shares) of the Company were issued through non-public issuance with a nominal value of RMB1.00 each. After the issuance, the Company’s share capital has changed to RMB425,730,126. This capital increase was validated and confirmed by the Capital Verification Report (Ruihua Yan Zi [2016] No.40030019) issued by Ruihua Certified Public Accountants.

Pursuant to “the Resolution on Repurchase and Cancellation of Restricted Shares Granted But Unlocked Held by Incentive Participants Without Satisfying Incentive Conditions” considered and approved by the 32nd Meeting of the 8th Session of the Board on 30 November 2016 and the 36th Meeting of the 8th Session of the Board on 28 March 2017, 167,354 shares were repurchased. After the repurchase, the Company’s share capital has changed to RMB425,562,592. This capital reduction was validated and confirmed by the Capital Verification Reports (Ruihua Yan Zi [2017] No.40030001 and [2017] 40030007) issued by Ruihua Certified Public Accountants.

(Unless specified otherwise, all amount are denominated in RMB.)

I. COMPANY PROFILE *(continued)*

1. History and development *(continued)*

Pursuant to the resolutions of the 2016 Annual General Meeting, the 2017 First Class Meeting of A Shareholders and the 2017 First Class Meeting of H Shareholders and the revised Articles of Association, it was agreed that the Company issued 127,668,777 bonus shares of RMB 1 each in the proportion of 3 shares for every 10 shares to all shareholders by way of conversion of capital reserve based on the total share capital of the Company of 425,562,592 shares. Upon completion of the bonus issue, the registered capital of the Company has changed to RMB553,231,369. This capital increase was validated and confirmed by the Capital Verification Report (Ruihua Yan Zi [2017] No.40030010) issued by Ruihua Certified Public Accountants.

Pursuant to “the Resolution on Repurchase and Cancellation of Part of Restricted Shares” and “the Resolution on Repurchase and Cancellation of Restricted Shares Granted But Unlocked Held by Incentive Participants Without Satisfying Incentive Conditions” considered and approved at the 6th Meeting of 9th Session of the Board on 15 December 2017 and the 12th Meeting of 9th Session of the Board on 29 March 2018, respectively, 115,799 shares were repurchased. After the repurchase, the share capital of the Company has changed to RMB553,115,570. The capital reduction was validated and confirmed by the Capital Verification Reports (Rui Hua Yan Zi [2018] No. 40030006 and [2018] No. 40030008) issued by Ruihua Certified Public Accountants.

Pursuant to the resolutions of the 2017 Annual General Meeting, the 2018 Second Class Meeting of A Shareholders and the 2018 Second Class Meeting of H Shareholders and the revised Articles of Association, it was agreed that the Company issued 165,934,670 bonus shares of RMB1 each in the proportion of 3 shares for every 10 shares to all shareholders by way of conversion of capital reserve based on the total share capital of the Company of 553,115,570 shares. Upon completion of the bonus issue, the registered capital of the Company has changed to RMB719,050,240. This capital increase was validated and confirmed by the Capital Verification Report (Ruihua Yan Zi [2018] No.40030013) issued by Ruihua Certified Public Accountants.

Pursuant to “the Resolution on Repurchase and Cancellation of Part of Restricted Shares” considered and approved by the 22nd Meeting of the 9th Session of the Board on 18 December 2018, 2,028 shares were repurchased. After the repurchase, the Company’s share capital has changed to RMB719,048,212. This capital decrease was validated and confirmed by the Capital Verification Report (Ruihua Yan Zi [2019]40020003) issued by Ruihua Certified Public Accountants.

I. COMPANY PROFILE *(continued)*

2. Industry of the Company

The Company is engaged in the pharmaceutical manufacturing industry.

3. Scope of business

The scope of business for the Company was the production and sales of self-manufactured bulk medicines 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, bulk medicines, 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 bulk medicines and their preparations, antibiotics bulk medicines and their preparations, biological products (except for preventive biological products), biochemical drugs (for items that are administrated with quota license or special regulations of the state, they shall be subject to the relevant rules; for other items that require administrative license, they shall only be operated after obtaining the license).

4. Change of principal activities

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

The financial statements of the Company have been published upon approval of the Board of the Company on 16 August 2019.

Please refer to this Note VIII "Interests in other entities" for names of subsidiaries included into the consolidation from January to June in 2019. Six more subsidiaries are included into the consolidation during the Period compared with the corresponding period of the previous year. Please refer to Note VII "Change to consolidation scope" for details.

II. BASIS OF PREPARATION FOR THE FINANCIAL STATEMENTS

The financial statements of the Company have been prepared on the going-concern basis and transactions and events actually occurred in accordance with the Accounting Standards for Business Enterprises – Basic Standards (issued as MOF Decree No. 33, revised as MOF Decree No. 76), and 42 specific accounting standards issued and amended on and after 15 February 2006, application guidance to the Accounting Standards for Business Enterprises, interpretations to the Accounting Standards for Business Enterprises and the other related provisions (collectively, the "Accounting Standards for Business Enterprises"), and the disclosure provisions of 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 China Securities Regulatory Commission.

In accordance with the applicable provisions under the Accounting Standards for Business Enterprises, 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.

(Unless specified otherwise, all amount are denominated in RMB.)

III. STATEMENT OF COMPLIANCE WITH THE ACCOUNTING STANDARDS FOR BUSINESS ENTERPRISES

The financial statements prepared by the Company comply with the Accounting Standards for Business Enterprises, which truly and completely reflect the information on the financial conditions of the Company as at 30 June 2019, and the operating results and cash flow of the Company for January to June in 2019. In addition, the financial statements of the Company, in all material aspects, comply with the disclosure requirements of 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 China Securities Regulatory Commission on financial statements and notes thereof.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

1. 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.

2. Business cycle

The business cycle of the Company consists of 12 months, which is the classification standard for the liquidity of assets and liabilities.

3. Functional currency

The Company and its domestic subsidiaries recognise 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.

4. Accounting treatments for business combinations

Business combination refers to a transaction or an event under which two or more separate enterprises combine into one reporting body. Business combinations are classified into business combinations involving enterprises under common control and business combinations involving enterprises not under common control.



IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(continued)

4. Accounting treatments for business combinations *(continued)*

(1) Business combinations involving enterprises under common control

In case of the business combinations involving enterprises under common control, the enterprises participating in the combination are under the ultimate common control of one party or several parties both before and after the combination and the control is not transitory. For the business combinations involving enterprises under common control, the party acquiring the control over the other enterprises participating in the combination on the combination date is the acquirer and the other enterprises participating in the combination are the acquirees. The combination date is the date on which the acquirer effectively obtains control of the acquiree.

Assets and liabilities obtained by the acquirer are measured at the carrying amounts as recorded by the acquiree on the combination date. The difference between the carrying amount of the net assets acquired and the carrying amount of consideration paid for the combination (or the total nominal value of shares issued) by the acquirer is adjusted in the capital reserve (share premium). If the balance of the capital reserve (share premium) is insufficient, any excess is adjusted to retained earnings.

Any costs incurred by the acquirer in the business combination shall be recognised in profit or loss for the current period when incurred.

(2) Business combinations involving enterprises not under common control

In case of the business combinations involving enterprises not under common control, the enterprises participating in the combination are not under the ultimate common control of one party or several parties both before and after the combination. For the business combinations involving enterprises not under common control, the party acquiring the control over the other enterprises participating in the combination on the acquisition date is the acquirer and the other enterprises participating in the combination are the acquirees. The acquisition date is the date on which the acquirer effectively obtains control of the acquiree.

For the business combinations involving enterprises not under common control, the combination cost includes 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, and such intermediary costs as audit, legal service and appraisal consultation costs and other administrative expenses arising from the business combination are recognised in profit or loss for the current period. The transaction costs of the equity securities or the debt securities issued by the acquirer as the consideration of combination are recognised in the initially recognised amount of the equity securities or debt securities. The contingent consideration involved is recognised in the combination cost at its fair value on the acquisition date. Where the contingent consideration involved is required to be adjusted due to any new or further evidence on the circumstances existing on the acquisition date within 12 months from the acquisition date, the combined goodwill will be adjusted accordingly. The combination cost incurred by the acquirer and the identifiable net assets obtained during the combination are measured at the fair value on the acquisition date. Where the combination cost exceeds the fair value of the acquiree's identifiable net assets on the acquisition date in the business combination, the difference is recognised as goodwill. Where the combination cost is less than the fair value of the acquiree's identifiable net assets in the business combination, the measurement to the fair value of various identifiable assets, liabilities and contingent liabilities acquired from the acquirees and the combination cost will be reviewed first and the difference is recognised in profit or loss for the current period in the event the combination cost by the acquirer is still less than the fair value of the acquiree's identifiable net assets in the business combination after review.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(continued)

4. Accounting treatments for business combinations (continued)

(2) Business combinations involving enterprises not under common control (continued)

Where the deductible temporary differences obtained by the acquirer from the acquirees are not recognised due to the failure to satisfy the recognition conditions of deferred income tax assets on the acquisition date, the relevant deferred income tax assets will be recognised and the goodwill will be decreased at the same time and, in case the goodwill is insufficient, the excess is recognised in the profit or loss for the current period if there arises any new or further indication within 12 months after the acquisition date that the relevant circumstances have already existed on the acquisition date and the economic benefits arising from the deductible temporary differences of the acquirees on the acquisition date may be realised; apart from the above circumstances, the deferred income tax assets related to business combination are recognised in the profit or loss for the current period.

For the business combination involving enterprises not under common control realised through several transactions, the Company shall determine whether such transactions are “a basket of transactions” in accordance with the determination standards on “a basket of transactions” specified in the Notice of the Ministry of Finance on Issuing Interpretation No. 5 of the Accounting Standards for Business Enterprises (Cai Kuai [2012] No. 19) and in Article 51 of Accounting Standards for Business Enterprises No. 33 – Consolidated Financial Statements (Note IV 5(2)). In case such transactions are “a basket of transactions”, the accounting treatment will be made with reference to the above paragraphs and Note IV 12 (Long-term equity investments); and in case such transactions are not “a basket of transactions”, separate financial statements and consolidated financial statements will be subject to different ways of accounting treatment.

In the separate financial statements, the initial cost of the investment is the sum of the carrying amount of the equity investment of the acquirees held before the acquisition date and the additional investment cost on the acquisition date; in respect of any other comprehensive income attributable to the equity interest in the acquiree prior to the acquisition date, other comprehensive income is accounted for on the same accounting treatment as direct disposal of relevant asset or liability by the acquiree at the time of disposal (i.e. to be transferred to investment income for the current period, except for the changes arising from re-measuring net assets or net liabilities of defined benefit plan using the equity method attributable to the acquiree).

In the consolidated financial statements, 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 investment 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, other comprehensive income is accounted for on the same accounting treatment as direct disposal of relevant asset or liability by the acquiree at the time of disposal (i.e. to be transferred to investment income in the period of the acquisition date, except for the changes arising from re-measuring net assets or net liabilities of defined benefit plan using the equity method attributable to the acquiree).



IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(continued)

5. Preparation of consolidated financial statements

(1) Principle of determining the scope of consolidated financial statements

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. The scope of consolidation comprises the Company and all of its subsidiaries. Subsidiaries are the entities controlled by the Company.

The Company will re-evaluate the definition once any relative element change due to facts or circumstances change.

(2) Method for preparation of the consolidated financial statements

The Company includes the subsidiary into the scope of consolidation from the date when it acquires the actual control over the net assets and production and operation decisions of the subsidiary; and excludes the subsidiary from the scope of consolidation from the date when it loses the actual control. For the subsidiary subject to disposal, the operating results and cash flows prior to the disposal date are included in the consolidated income statement and consolidated cash flow statement as appropriate; and in case of any subsidiary disposed of in the current period, the opening balance of the consolidated balance sheet is not restated. For the acquisition of subsidiaries through a business combination involving enterprises not under common control, the operating result and cash flow upon the acquisition date are also included in the consolidated income statement and consolidated cash flow statement and the opening balances and the comparative figures in consolidated financial statements are not restated. For the acquisition of subsidiaries through a business combination involving enterprises under common control, the operating result and cash flow from the beginning of the consolidation period are also included in the consolidated income statement and consolidated cash flow statement as appropriate. The comparative figures in consolidated financial statements are also restated.

When the accounting policies or accounting period adopted by a subsidiary are different from those of the Company, the Company makes necessary adjustments to the financial statements of the subsidiary based on the Company's own accounting policies and accounting period upon the consolidation of the financial statements. Where a subsidiary was acquired through a business combination involving enterprises not under common control, the financial statements of the subsidiary are adjusted based on the fair value of the identifiable assets of the acquired subsidiary on the acquisition date.

All intra-company significant balances, transactions and unrealised profits are eliminated in preparing the consolidated financial statements.

The shareholders' equity and the portion of the profit or loss for the period of the subsidiaries that are not attributable to the Company are presented under shareholders' equity and net profit in the consolidated financial statements as minority interests and net profit of minority interest respectively. 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.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(continued)

5. Preparation of consolidated financial statements (continued)

(2) Method for preparation of the consolidated financial statements (continued)

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 net assets of the original subsidiary 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 subsidiary's equity investment are accounted for on the same accounting treatment as direct disposal of relevant asset or liability by the acquiree at the time of disposal when control ceases (i.e. except for changes arising from re-measuring net assets or net liabilities of defined benefit plan by the original subsidiary, the rest are transferred to investment income for the current period). After that, the remaining equity is subject to subsequent measurement in accordance with such rules as the "Accounting Standards for Business Enterprises No. 2 – Long-term Equity Investment" and the "Accounting Standards for Business Enterprises No. 22 – Recognition and Measurement of Financial Instruments". Please see Note IV 12 (Long-term equity investment) and Note IV 8 (Financial Instruments) for details.

Where the Company disposes of the equity investment in the subsidiary through several transactions until the Company loses control, it shall be determined whether such transactions are a basket of transactions. Where the terms, conditions and economic effects of various transactions involved in the disposal of the equity investment in the subsidiary satisfy one or several of the following circumstances, such several transactions shall be normally 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. When the transactions are not regarded as a basket of transactions, the individual transactions shall be subject to the accounting treatment separately based on the applicable principles stipulated in "Partial disposal of the long-term equity investment in subsidiaries without losing control" (Note IV 12(2) ④) and "Loss of control over original subsidiaries due to the disposal of partial equity investment or other reasons" (detailed in the above paragraph) as the case may be. Where the transactions constitute a basket of transactions, such transactions are together subject to the accounting treatment as a transaction of disposal subsidiaries and losing control; provided that the difference between the consideration of each disposal and the Company's share in the net assets of the subsidiary corresponding to the investment disposal before the loss of the control is recognised as the other comprehensive income and carried forward to the profit or loss for the current period when the control is lost.



IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(continued)

6. 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.

7. Foreign currency transactions and translation of financial statements in foreign currency

(1) Translation of 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.

(2) Translation of monetary items and non-monetary items denominated in foreign currency

Monetary items denominated in foreign currencies are translated to functional currency at the spot exchange rate on the balance sheet date. The resulting exchange differences are recognised in profit or loss for the current period, except that those related to a specific-purpose borrowing denominated in foreign currency that qualify for capitalisation for the purpose of acquisition, construction or production of qualifying assets are treated based on the principle of capitalisation of borrowing costs; and exchange differences arising from other changes in the balance of available-for-sale monetary items denominated in foreign currency other than amortised cost are recognised in other comprehensive income.

Non-monetary items denominated in foreign currencies that are measured at historical cost are translated to functional currency 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 shall be treated as the change in fair value (including the change in exchange rate) and recognised in profit or loss for the current period or recognised as the other comprehensive income.

(Unless specified otherwise, all amount are denominated in RMB.)

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(continued)

7. Foreign currency transactions and translation of financial statements in foreign currency *(continued)*

(3) Translation of financial statements in foreign currency

Where the preparation of consolidated financial statements involves any overseas operation, the exchange differences arising from the change in exchange rate are recognised as the “differences resulting from the translation of financial statements in foreign currencies” under the other comprehensive income and, in case of disposal of the overseas operation, recognised in the profit or loss for the current period if the monetary item denominated in foreign currency substantially constitutes net investment in overseas operations.

The financial statements in foreign currency of the overseas operation are translated to the financial statements in RMB by the following methods: assets and liabilities in the balance sheet are translated at the spot exchange rates prevailing on the balance sheet date. Items under shareholders’ equity, excluding “retained earnings”, are translated at the spot exchange rates on the transaction dates. The income and expenses in the income statement are translated at the average spot exchange rates on the transaction dates. The retained earnings at the beginning of the year are the retained earnings at the end of the Period of the prior years upon translation; the retained earnings at the End of the Period are presented based on the translated items of profit appropriation; the differences between the aggregate of assets and liabilities and the shareholders’ equity items after translation are recognised as the other comprehensive income. 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 are presented under the shareholders’ equity in the balance sheet and related to the 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.

The cash flow in foreign currency and the cash flow of the overseas subsidiary are translated at the average spot exchange rate on the transaction date. The effect of exchange difference on cash is adjusted and presented as a separate component in the cash flow statement.

The opening balance and the actual amounts in the Previous Period are presented in the translated amounts of the financial statements of the Previous Period.

The exchange differences arising from translation of the financial statements in foreign currency in relation to overseas operation, which are attributable to owners’ equity of parent company as shown under shareholders’ equity in the balance sheet are reclassified into the profit or loss for the current period, when the Company loses control over its overseas operations upon disposing of the entire owners’ equity or part of equity investment, or due to other reasons in overseas operation.

The exchange differences arising from translation of the financial statements in foreign currency in relation to overseas operation, which are attributable to minority interests are not recognised in the profit or loss for the current period, when the percentage of interests in overseas operation declines due to disposal of part of equity investment or other reasons but the Company remains control over overseas operation. The exchange differences arising from translation of the financial statements in foreign currency in relation to overseas operation are reclassified into the profit or loss for the current period in proportion to the disposal of overseas operation upon disposing of part of the equity interests in overseas operation which are associates or joint ventures.



IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(continued)

8. Financial instruments

A financial asset or financial liability is recognised when the Company becomes one of the parties under a financial instrument contract.

(1) Classification, recognition and measurement of financial assets

The Company classifies financial assets as: 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,

Financial assets are measured at fair value on initial recognition. The relevant transaction cost of financial assets at fair value through profit or loss is directly recognised in profit or loss for the current period, and that of other types of financial assets is included in the initially recognised amount. Accounts receivable 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.

① Financial assets at amortised cost

The Company's business model for managing financial assets at amortised cost is to collect contract cash flow, and the contract cash flow characteristics of such financial assets are consistent with the basic lending arrangement, that is, the cash flow generated on a specific date is only the payment for principal and interest accrued on the outstanding principal. Such kind of financial assets are subsequently measured at amortised cost using the effective interest method by the Company. Profits or loss arising from amortisation or impairment are recognised in the profit or loss of the current period.

② Financial assets at fair value through other comprehensive income

The financial assets are managed by the Company within a business model with the objective of both holding to collect contractual cash flows and for sale and the contractual cash flow characteristics of the financial assets are consistent with the basic lending arrangements. The financial assets are measured at fair value through other comprehensive income by the Company, except for the impairment losses or gains, foreign exchange gains or losses and interest income calculated using the effective interest method which are included in profit or loss.

In addition, the Company has designated certain non-trading equity instrument investments as financial assets measured at fair value through other comprehensive income. The dividend income of the financial assets is included in the current profit and loss, and changes in fair value in other comprehensive income. The cumulative profit or loss previously included in other comprehensive income will be transferred to retained earnings instead of the profit or loss for the current period upon the de-recognition of the financial assets.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(continued)

8. Financial instruments (continued)

(1) Classification, recognition and measurement of financial assets (continued)

③ Financial assets at fair value through profit or loss for the current period

The financial assets other than those measured at amortised costs or measured at fair value through other comprehensive income are classified as financial assets measured at fair value through profit or loss for the current period. In addition, on initial recognition, the Company designated certain financial assets as measured at fair value through profit or loss for the current period in order to eliminate or significantly reduce accounting mismatch. For such financial assets, the Company adopts fair value for subsequent measurement, and changes in fair value are included in current profit and loss.

(2) Classification, recognition and measurement of financial liabilities

Financial liabilities at initial recognition are classified into financial liabilities at fair value through profit or loss for the current period and other financial liabilities. For financial liabilities at fair value through profit or loss for the current period, the relevant transaction costs are directly included in profit or loss for the current period, for other financial liabilities, the relevant transaction costs are included in the amount of initial recognition.

① Financial liabilities at fair value through profit or loss for the current period

Financial liabilities at fair value through profit or loss for the current period include the transactional financial liabilities (including derivatives classified as financial liabilities) and financial liabilities designated at fair value through profit or loss for the current period upon initial recognition.

Transactional financial liabilities (including derivatives classified as financial liabilities) are subsequently measured at fair value, except for those relating to hedge accounting, changes in fair value of which are recognised in profit or loss for the current period.

For financial liabilities designated at fair value through profit or loss for the current period, the changes in fair value arising from changes in the Company's own credit risks are included in other comprehensive income, and the accumulated amount of which shall be transferred to retained earnings upon the de-recognition of these financial liabilities. Other changes in the fair value are included in the current profit and loss. If the effects of changes in the credit risk of these financial liabilities are accounted for as described above, which may cause or expand the accounting mismatch in the profit or loss, the Company will include all gain or loss of financial liabilities (including the amount affected by changes in the Company's credit risks) in the current profit and loss.

② Other financial liabilities

Financial liabilities other than those arising from the transfer of financial assets that do not meet the conditions for the de-recognition or continue to be involved in the transferred financial assets or those subject to a financial guarantee contract, are classified as financial liabilities measured at amortised cost, which are subsequently measured at amortised cost, and the gains or losses arising from the de-recognition or amortisation are included in current profit and loss.



IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(continued)

8. Financial instruments *(continued)*

(3) Recognition basis and measurement methods of transfer of financial assets

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 substantially all of the risks and rewards of ownership of the financial assets have been transferred to the transferee; ③ The financial assets has been transferred and the enterprise has waived the control over the financial assets although it has neither transferred nor reserved substantially all of the risks and rewards of ownership of the financial assets.

Where the enterprise has neither transferred nor reserved substantially all of the risks and rewards of ownership of the financial assets and not waived the control over the financial assets, the relevant financial assets and the relevant liabilities are recognised based on the extent of its continuous involvement in the financial assets transferred, which is the level of risk to which the enterprise exposes due to the change in the value of the financial assets.

Where the overall transfer of the financial assets satisfies the conditions of de-recognition, the carrying amount of the transferred financial assets and the difference between the consideration received from the transfer and the sum of the accumulated changes in the fair value originally recorded in other comprehensive income are included in the profit or loss for the current period.

If a part of the transferred financial asset satisfies the conditions of de-recognition, the carrying amount of the transferred financial asset is allocated between the part that is derecognised and the part that continues to be recognised, based on the respective fair values of those parts, and the difference between the sum of the consideration received from the transfer and the accumulated changes in fair value previously recognised in other comprehensive income to be allocated to the de-recognised portion and the above mentioned allocated carrying amount is included in the profit or loss for the current period.

Where the Company disposes of the financial asset with the right of recourse or transfers the financial asset by endorsement, it shall be ascertained that whether substantially all the risks and rewards of ownership of the financial asset have been transferred. Where substantially all the risks and rewards of ownership of the financial asset have been transferred to the transferee, the financial asset are de-recognised; where substantially all the risks and rewards of ownership of the financial asset have been retained, the financial asset are not de-recognised; and where substantially all the risks and rewards of ownership of the financial asset have been neither transferred nor retained, it shall be determined that whether the enterprise retains the control over the asset and the asset shall be accounted for in accordance with the above mentioned policies.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(continued)

8. Financial instruments (continued)

(4) De-recognition of financial liabilities

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) is 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. If a substantial change is made to the contractual terms of the original financial liability (or a part thereof), the original financial liability is derecognised and a new financial liability is recognised in accordance with the revised terms.

If the financial liability (or a part thereof) is derecognised, the difference between the carrying amount and the consideration paid (including the non-cash assets transferred or liabilities assumed) is recognised in profit or loss for the current period.

(5) 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.

(6) Fair value determination for financial assets and financial liabilities

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. For financial instruments in an active market, the Company adopts the quoted price in the active market as the fair value. The quoted price in the active market is the price that can be obtained readily on a regular basis from exchanges, brokers, industrial associations, pricing institutions and other similar organizations and represents the actual price of the market transaction in a fair transaction. If there is no active market for a financial instrument, the Company adopts valuation techniques to establish the fair value. Such valuation techniques include making reference to the price adopted by the parties trading knowingly and voluntarily in the latest market transaction, making reference to the current fair value of other financial instruments that are substantially the same, the discounted cash flow method and the option pricing model. In the course of valuation, the Company adopts the valuation technique that is applicable under the prevailing situation and supported by enough available data and other information. It selects input values with the same features considered by market players for transactions of relevant assets or liabilities, and maximizes the use of relevant observable input values. Where it is unable or impracticable to obtain observable input value, unobservable input values are used.

With limited exceptions, the Company determines whether the cost represents the fair value based on all information in relation to the results and operations of the investees available since the date of initial recognition. Where the cost may represent the best estimate of fair value of relevant financial assets within the band, it shall represent the appropriate estimate of fair value within the band. Where the cost may not represent the fair value of the relevant financial assets, the fair value shall be determined with valuation techniques.



IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(continued)

8. Financial instruments *(continued)*

(7) Equity instruments

Equity instruments refer to the contracts evidencing the ownership of the remaining interest in the assets after deducting all liabilities. The issue (including refinancing), repurchase, sales and cancellation of equity instruments are accounted for as the change in equity. The transaction costs related to equity transaction are charged to equity. The Company does not recognise fair value change of equity instruments.

The dividends distributed by the Company for its equity instruments (including the “interest” arising from the instruments classified as equity instruments) during the existence period are accounted for as profit distribution.

9. Impairment of financial assets

The Company’s financial assets subject to recognition of impairment loss include financial assets at amortised cost, debt instruments at fair value through other comprehensive income and lease receivables, which mainly include bills receivable, accounts receivable, other receivables, debt investments, other debt investments, contract assets, and long-term receivables. In addition, for contract assets and financial guarantee contract, the Company shall make provisions for impairment and recognise the credit impairment loss in accordance with the accounting policies described in this section.

(1) Recognition approach of impairment provisions

On the basis of expected credit losses, the Company makes provisions for impairment and recognises the credit impairment loss for above items according to the applicable expected credit loss approach (general approach or simplified approach).

Credit loss refers to the difference between all contractual cash flows receivable from contracts and all cash flows expected to be received by the Company at the original effective interest rate, that is, the present value of all cash shortages. Among them, for the credit-impaired financial assets that purchased or originated, the Company discount at the financial assets’ effective interest rate after credit adjustment.

At each balance sheet date, the Company assesses whether the credit risk on a financial asset (including contract assets and other applicable items and the same below) has increased significantly since the initial recognition. If the credit risk has increased significantly since the initial recognition, the Company measures the loss allowance at an amount equal to lifetime ECLs; if the credit risk has not increased significantly since the initial recognition, the Company measures the loss allowance at an amount equal to 12-month ECLs. When assessing expected credit losses, the Company considers all reasonable and evidenced information, including forward-looking information.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(continued)

9. Impairment of financial assets (continued)

(2) Criteria for determining significant increase in credit risk since initial recognition

The credit risk of a financial asset will significantly increase since initial recognition when the probability of default of a financial asset within the expected lifetime determined at the balance sheet date is remarkably higher than that within the expected lifetime determined at the initial recognition date. Unless in special circumstances, the Company adopts the changes in default risks within the next 12 months as the reasonable estimate of the changes in default risks in the lifetime to determine whether the credit risk has increased significantly since initial recognition.

For financial instruments with low credit risk at the balance sheet date, the Company assumes that its credit risk has not increased significantly since initial recognition and chooses to measure the loss allowance at an amount equal to 12-month ECLs.

(3) Methods for assessing expected credit risks on collective basis

The Company adopts individual assessment on financial assets with substantially different credit risks, such as amounts due from related parties; receivables that are in dispute with counterparties or that involve litigation and arbitration; receivables that has obvious indications showing the debtor may be unable to perform the obligation of repayment.

Other than the financial assets for which the credit risk is assessed separately, the Company classifies the financial assets into different categories based on common risk characteristics and performs collective assessment on each category.

(4) Accounting treatment for Impairment of financial assets

As at the end of the Period, the Company determined the expected credit losses by category of the financial assets, when the amount of the expected credit losses was higher or lower than the carrying value of the impairment provision had been made for the assets, the difference was recognized as the impairment losses or gains, respectively.

(5) Approaches for determining the credit losses of various categories of financial assets

① Bills receivables

For bills receivables of the Company, provision is made based on expected credit losses during the lifetime. Based on the characteristics of credit risk, the bills receivables are classified as follows:

Item	Basis of determination
Bank acceptance bills	The acceptors are banks with low credit risk
Commercial acceptance bills	The characteristics of credit risk for this category is the ageing of bills receivables.



IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(continued)

9. Impairment of financial assets (continued)

(5) Approaches for determining the credit losses of various categories of financial assets (continued)

② Account receivables and contract assets

For receivables and contract assets that do not contain a significant financing component, the loss allowance is measured at an amount equal to lifetime ECLs by the Company.

For receivables, contract assets and lease receivables that contain a significant financing component, the loss allowance is measured at an amount equal to lifetime ECLs by the Company.

Other than the account receivables and contract assets for which the credit risk is assessed separately, the Company classifies the account receivables and contract assets into different categories based on the characteristics of credit risk:

Item	Basis of determination
Category 1	The characteristics of credit risk for this category is the ageing of receivables.
Category 2	Receivables of each company within the scope of combination

③ Other receivables

The Company assesses whether the credit risk of other receivables has increased significantly since the initial recognition to determine if a provision should be made for the impairment amounting to expected credit losses over the next 12 months or during the lifetime. Other than those for which the credit risk is assessed separately, the Company classifies other receivables into different categories based on the characteristics of credit risk:

Item	Basis of determination
Category 1	The characteristics of credit risk for this category is the ageing of other receivables.
Category 2	Other receivables of each company within the scope of combination

④ Long-term receivables (excluding receivables and lease receivables contain a significant financing component)

The Company assesses whether the credit risk of long-term receivables has increased significantly since the initial recognition to determine if a provision should be made for the impairment amounting to expected credit losses over the next 12 months or during the lifetime. Other than those for which the credit risk is assessed separately, the Company classifies long-term receivables into different categories based on the characteristics of credit risk:

Item	Basis of determination
Category 1	The characteristics of credit risk for this category is the ageing of long-term receivables.
Category 2	Long-term receivables of each company within the scope of combination

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(continued)

10. 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) Inventory system: The Company maintains a perpetual inventory system.

(3) 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.

(4) The underlying factors in the determination and the basis of provision for diminution in net realisable value of inventories

Net realisable value is the estimated selling price in the ordinary course of business 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.



IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(continued)

11. Assets and disposal groups held for sale

A non-current asset or disposal group will be classified into held-for-sale category where the Company recovers the carrying amount of the non-current asset or disposal group mainly through disposal (including non-monetary assets exchange with commercial substance, the same below) instead of continuous use. The specific criterion for classification is to satisfy all of the conditions mentioned below: 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 Company has made a resolution on the disposal plan and obtained definite purchase commitment from buyer; the disposal is estimated to be completed within one year. In addition, 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. Where the asset group or groups to which a disposal group belongs was allocated the goodwill acquired in a business combination in according with the Accounting Standards for Business Enterprises 8 - Impairment of Assets, the disposal group shall include the goodwill allocated to it.

When the Company measures initially or remeasures the non-current assets and disposal group classified as held for sale on the balance sheet date, its carrying amount is written down to its fair value less selling costs if its carrying amount is higher than its fair value less selling costs. The reduced amount is recognised as asset impairment loss and charged to profit or loss for the current period, with provision made for the impairment of the held-for-sale assets. With regard to the disposal group, the asset impairment loss recognised is offset by the carrying amount of the goodwill in the disposal group first, and then by the carrying amount of each of the non-current assets in the disposal group which are applicable to the measure requirements under the Accounting Standards for Business Enterprises 42 - Non-current Assets Held For Sale, Disposal Group and Discontinued Operation (hereinafter referred to as "Held-For-Sale Standards") pro rata. 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 under the Held-For-Sale Standards after the non-current asset is classified into held-for-sale category. The reversed amount is credited to profit or loss for the current period, and the carrying amount of each non-current asset (other than goodwill) which is applicable to the measurement requirements of Held-For-Sale Standards is increased pro rata according to the percentage of each non-current asset's carrying amount; neither the carrying amount of goodwill which has been offset nor the asset impairment loss recognised before the non-current asset which is applicable to the measurement requirements of Held-For-Sale Standards is classified into held-for-sale category can be reversed.

No depreciation or amortisation is provided for the non-current assets in the held-for-sale non-current assets or disposal group. The interest on the liabilities and other costs in the disposal group held for sale is recognised continuously.

When the non-current asset or disposal group no longer meet the classification condition of the held-for-sale category, the Company will cease to classify them into held-for-sale category or remove the non-current asset from the held-for-sale disposal group, and measures it at the lower of: (1) its carrying amount before it was classified into held-for-sale category, after being adjusted with the depreciation, amortisation or impairment which could have been recognised as if it's not classified into held-for-sale category; (2) recoverable amount.

(Unless specified otherwise, all amount are denominated in RMB.)

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(continued)

12. Long-term equity investment

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

Subsidiaries are the investees over which the Company is able to exercise control. Joint ventures are the investees over which the Group is able to exercise joint control together with other parties and the Company is interested only in the net assets of the investees. Associates are the investees that the Company has significant influence on their financial and operating decisions.

Investment in subsidiaries is presented in the Company's financial statements using the cost method. Investment in joint ventures and associates is accounted for using the equity method.

(1) Determination of investment cost

For long-term equity investment arising from business combination under common control, the initial investment cost will be recognised at the carrying amount of the Company's share in the combined party's equity in the consolidated financial statements of the ultimate controlling party on the date of combination. The difference between the initial cost of the long-term equity investment and the cash paid, non-cash assets transferred and the carrying amount of the debts assumed shall be used to offset against the capital reserve. Where the capital reserve is insufficient to offset, the retained earnings shall be adjusted. In case that the consideration of the business combination is satisfied by issuing equity securities, the initial investment cost of the long-term equity investment shall be recognised at the carrying amount of the Company's share in the combined party's equity in the consolidated financial statements of the ultimate controlling party on the date of combination. With the total nominal value of the shares issued as share capital, the difference between the initial cost of the long-term equity investment and total nominal value of the shares issued shall be used to offset against the capital reserve. Where the capital reserve is insufficient to offset, the retained earnings shall be adjusted.

For a long-term equity investment acquired through a business combination not under common control, the cost of business combination shall be recorded at the sum of the fair value of the assets transferred, liabilities incurred or assumed, and equity securities issued by the acquirer.

The costs incurred by the acquirer due to the combination including intermediary costs such as audit fees, legal fees and valuation fees and other relevant administrative costs, shall be recognised in the profit or loss for the current period as incurred. The transaction costs of the equity securities or debt securities issued by the acquirer as the consideration of the combination shall be included in the initially recognised amount of the equity securities or debt securities.

Except the long-term equity investment arising from business combination, the other equity investments are initially measured at cost. The cost varies with the modes of acquiring the long-term equity investment, and is determined based on the purchase price paid by the Company in cash, the fair value of the equity securities issued by the Company, the value agreed in the investment contracts or agreements, the fair value or the original carrying amount of the assets transferred in the non-monetary asset exchanges or the fair value of the long-term equity investment or by the other methods. The costs, taxes and other necessary expenses directly attributable to the acquisition of the long-term equity investment are also recognised in the investment cost.



IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(continued)

12. Long-term equity investment (continued)

(2) Subsequent measurement and recognition of profit or loss

- ① Long-term equity investment accounted for using the cost method

The long-term equity investment with which the Company is able to exercise control over the investee, will be accounted for using the cost method and recognised in the Company's individual financial statements. When accounted for using the cost method, the long-term equity investment is measured at the initial investment cost, and cash dividend or profit distributions declared by the investee are recognised as current investment income, except the consideration paid for the acquisition of investment or cash dividend declared but not yet paid or appropriated profits which included in the consideration.

- ② Long-term equity investment accounted for using the equity method

If the Company has common control in or significant influence on the investee, the relevant long-term equity investment will be accounted for using the equity method. When accounted for using the equity method, the initial 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 difference will be recognised in the profit or loss for the current period and the cost of the long-term equity investment will be adjusted.

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 profit distribution declared by the investee or the cash dividend attributable to the Company will be deducted from the carrying amount of the long-term equity investment. 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. The Company's share of the net profit or loss of the investees will be recognised after adjustment on the basis of fair value of all identifiable assets of the investee on acquisition. Financial statements of the investee whose accounting policies and accounting periods are different from those of the Company will be adjusted according to the Company's accounting policies and accounting period, and its return on investment and other comprehensive income will be recognised accordingly. For transactions between the Company and its associates and joint ventures not constituting business transactions by transferring or selling assets, the unrealised profit or loss on internal transactions attributable to the Company will be offset on a pro rata basis, and the return on investment will be recognised accordingly. However, the realised loss on internal transactions with the investee will not be used to offset if it has been classified as impairment loss of asset transferred.

In determining the net loss of the investee to be assumed by the Company, the carrying amount of the long-term equity investment and the other long-term equity substantially constituting the net investment on the investee will be written down to zero to the largest extent. In addition, if the Company is obligated to assume the additional loss of the investee, the provisions are recognised based on the obligations expected to be assumed and recognised in the investment loss for the current period. If the investee realises net profits in subsequent periods, the Company will resume recognizing the Company's share in the profits after offsetting the unrecognised amount of the loss to be assumed by the Company.

(Unless specified otherwise, all amount are denominated in RMB.)

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(continued)

12. Long-term equity investment *(continued)*

(2) Subsequent measurement and recognition of profit or loss *(continued)*

③ Acquisition of non-controlling interests

When preparing the consolidated financial statements, the Company adjusts the capital reserve and, if the capital reserve is insufficient, adjust the retained earnings based on the difference between the additional long-term equity investment arising from the acquisition of non-controlling interests and the Company's share in the net assets of the subsidiary consecutively calculated from the acquisition date (or combination date) in proportion to the additional shareholdings.

④ Disposal of long-term equity investment

In the consolidated financial statements, if the parent disposes part of the long-term equity investment in the subsidiary without losing its control, the difference between the disposal price and the Company's share in the net assets of the subsidiary involving the disposal of the long-term equity investment is recognised in the shareholders' equity; if the parent disposes part of the long-term equity investment in the subsidiary and so loses its control over the subsidiary, the accounting treatment shall be in accordance with note IV 5(2) (Preparation of consolidated financial statements).

In other cases, upon the disposal of a long-term equity investment, the difference between the carrying amount of the investment and the sales proceeds received is recognised in the profit or loss for the current period.

For long-term equity investment accounted for using equity method, and the remaining equity accounted with equity method after partial disposal, the other comprehensive income originally accounted into shareholders' equity will be accounted on the same basis as the investee while disposing relative asset or liability according to its proportion. Shareholders' equity recognised by the investee due to change to such item other than net profit/or loss, other comprehensive income or profit distribution, will be accounted into the profit or loss for the current period.

For the remaining equity accounted with cost method after partial disposal, the same basis as the investee while disposing relative asset or liability will be used for the other comprehensive income recognised using equity method before the investment, or recognised by the regulations of financial instrument recognition and measurement, and such income will be transferred to the profit or loss for the current period proportionately. Changes to shareholders' equity other than those caused by net profit or loss, other comprehensive income or profit distribution will be taken into the profit or loss for the current period.



IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(continued)

12. Long-term equity investment *(continued)*

(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. Significant influence refers to the power to participate in the decision making process for financial and operational policies of the investors without control or common control over the formulation of such policies. When determining whether it has control or significant influence over the investee, the Company shall consider the convertible corporate bonds, exercisable warrants and other voting rights of the investee held by the Company in the current period.

(4) Impairment test and provision for impairment

The Company's long-term equity investment is tested for impairment on each balance sheet date. Where an indication of impairment exists, the asset's recoverable amount is estimated. If the recoverable amount of the asset is lower than its carrying amount, the impairment provision of the asset is made based on the difference and recognised in the profit or loss for the current period.

Once recognised, the impairment loss of long-term equity investment shall not be reversed in the subsequent accounting periods.

13. Investment Properties

Investment properties are properties held either to earn rental income or for capital appreciation or for both, which include leased land use rights, land use rights held for sale after appreciation and leased buildings.

Investment properties are initially measured at cost. If there is possible inflow of economic benefits related to the properties and the cost may be reliably measured, the subsequent expenses related to investment properties are recognised in the cost of the investment properties. The other subsequent expenses are recognised in the profit or loss for the current period as incurred.

Investment properties are subsequently accounted for using the cost model, and are depreciated or amortised in accordance with the policies for buildings or land use rights.

Please see note IV 20 (Impairment of non-current non-financial assets) for the impairment test and provision for impairment on investment properties.

Where a self-occupied property or inventories are converted to investment property (or vice versa), upon the conversion, the property shall be stated at the carrying amount prior to the conversion.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(continued)

13. Investment Properties (continued)

Where the purpose of an investment property is changed to self-occupying, it will be transferred to fixed assets or intangible assets on the date of such change. Where the purpose of a self-occupied property is changed to earn rental income or gain capital appreciation, it will be transferred from fixed assets or intangible assets to investment properties on the date of such change. Upon such transfer, an investment property measured using the cost model will be stated at its carrying amount prior to the conversion; and an investment property measured using the fair value model will be stated at its fair value prior to the conversion.

Where an investment property is disposed of or if it withdraws permanently from use and it is expected that no economic benefits may arise from such disposal, the investment property will be de-recognised. When an investment property is sold, transferred, retired or destroyed, the amount of disposal proceeds less its carrying amount and relevant taxes will be recognised as gain on disposal in the profit or loss for the current period.

14. Fixed Assets

(1) Recognition Condition of fixed assets

Fixed assets represent the tangible assets for use in the production of goods, for supply of services, for rental to others or for operation and administrative purposes with the useful life over one accounting year. Fixed asset is recognised when it meets the following conditions:

- ① it is probable that the economic benefits associated with the fixed asset will flow to the enterprise;
- ② its cost can be reliably measured.

(2) Classification of fixed assets

Fixed assets are classified into plant and building, machinery and equipment, motor vehicles, electronic devices and others.

(3) Measurement of fixed assets

Fixed assets are initially measured at actual cost.

- ① Where the payment for purchase of a fixed 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 fixed assets.
- ② The fixed 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 fixed 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 fixed 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 fixed 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.



IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(continued)

14. Fixed Assets (continued)

(3) Measurement of fixed assets (continued)

- ③ The fixed assets acquired in the business combinations under common control are stated at the carrying amount of the fixed assets of the acquiree. The fixed assets acquired in the business combinations not under common control are recognised at its fair value.

The costs of dismantling and removing the fixed assets (ie. OLE_LINK1) are measured at the present value and recognised in the carrying amount of fixed assets.

The subsequent cost on fixed assets is included in the carrying amount of fixed assets provided that it is probable that the economic benefits associated with the fixed asset will flow to the Company with an amount exceeding previous estimate, and upon the subsequent recognition, the carrying amount shall not exceed the recoverable amount of the fixed assets.

(4) Method for depreciation of fixed assets

The Company's fixed assets are depreciated using the straight-line method over their estimated useful lives from the month following the month when they are available for intended use. The depreciation period, annual depreciation rates and estimated residual values of each class of fixed assets are as follows:

Class of fixed assets	Depreciation period (years)	Estimated residual value (%)	Annual depreciation rate (%)
Plant and building	20	5-10	4.5-4.75
Machinery and equipment	10	5-10	9-9.5
Motor vehicles	5	5-10	18-19
Electronic devices and others	5	5-10	18-19

Estimated net residual values refer to the amount obtained by the Company from the disposal of the asset less the expected costs to disposal on the assumption that the expected useful life of the fixed asset has expired and the asset is in the condition expected to exist when its useful life expires.

(5) Impairment test and provision for impairment on fixed assets

Please see note IV 20 (Impairment of non-current non-financial assets) for the impairment test and provision for impairment on fixed assets.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(continued)

15. Construction in progress

(1) Classification of construction in progress

Construction in progress is classified into individual projects.

(2) Time point for transferring construction in progress to fixed assets

Construction in progress is stated at all the expenditures incurred to bring the fixed assets ready for their intended use. When the construction in progress is ready for its intended use but the final account of the completed project has not been issued, the cost of the fixed asset and the depreciation will be recognised in accordance with the estimated cost determined by the construction budget, construction price or actual cost upon the date when the asset is ready for its intended use until the final account of completed project is issued, in which case the estimated cost other than the depreciation charged shall be adjusted according to the actual cost.

(3) Impairment of construction in progress

Please see note IV 20 (Impairment of non-current non-financial assets) for the impairment test and provision for impairment on construction in progress.

16. Borrowing Costs

(1) The borrowing costs incurred by the Company directly attributable to the acquisition, construction or production of a qualifying asset, shall be capitalised as part of the cost of the asset; while other borrowing costs shall be recognised as expenses when incurred and charged to profit or loss for the current period. Qualifying assets are assets that take a substantial period of time for acquisition, construction or production to get ready for their intended use or sale, such as fixed assets, investment properties and inventories. The capitalisation of borrowing costs commences only when all of the following conditions are satisfied:

- ① Expenditures for the asset has being incurred, which include payment by cash, transfer of non-cash asset, undertaking of interest-bearing liability for acquiring, constructing or producing qualifying assets;
- ② Borrowing costs has being 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.



IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(continued)

16. Borrowing Costs *(continued)*

- (2) During the capitalisation period, the amount of interest (including amortisation of any discount or premium on borrowing) to be capitalised in each accounting period shall be determined as follows:
- ① For specific borrowing solely for the acquisition, construction or production of a qualifying asset, the interest to be capitalised is measured at the interest expense calculated using effective interest rates during the period less any interest income earned from depositing the borrowings or any investment income on the temporary investment of the borrowings before being used on the asset.
 - ② For general-purpose borrowings used for the acquisition, construction or production of a qualifying asset, the amount of interest to be capitalised is determined by applying a capitalisation rate to the weighted average of the excess amounts of cumulative expenditures on the asset over the specific-purpose borrowings. The capitalisation rate is the weighted average of the interest rates applicable to the general-purpose borrowings. The capitalisation period is the period from the date of commencement of capitalisation of borrowing costs to the date of cessation of capitalisation, excluding any period over which capitalisation is suspended.
- (3) Where there is any discount or premium for the borrowings, the amount of discounts or premiums is amortised during each accounting period by the effective interest method and the amount of interests for each period is adjusted accordingly.
- (4) During the capitalisation period, exchange differences related to the principal and interest on a specific-purpose borrowing denominated in foreign currency are capitalised as part of the cost of the qualifying asset.
- (5) Capitalisation of borrowing costs for the acquisition, construction or production of a qualifying asset ceases when the assets become ready for their intended use or sale. Borrowing costs incurred after the assets become ready for their intended use or sale are recognised as expenses in the profit or loss for the period when they are incurred. Where the acquisition, construction or production of the qualifying assets is interrupted and suspended for more than 3 consecutive months, the capitalisation of the borrowing costs shall be suspended until the construction or production of the qualifying assets resumes.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(continued)

17. Biological Assets

(1) Determination and classification of biological assets

The Company's biological assets are consumable biological assets which include traditional Chinese medical herbal plant species.

The Company's biological asset is initially measured at cost. The cost of purchased biological assets includes the cost of purchase, relevant taxes, insurance premiums and other costs directly attributable to the purchase of such assets. For biological assets contributed by investors, the cost of the biological assets is stated at the value stipulated in the investment contract or agreement plus relevant taxes. If the value stipulated in the investment contract or agreement is not a fair value, the actual cost shall be recognised at the fair value. Cost of self-cultivated consumable biological assets includes the essential costs incurred prior to crown closure, such as afforestation fees, tending costs, costs of forest operating facilities, seed testing fees, survey design fees, capitalised interests and share of any indirect costs. The costs of maintenance, protection and cultivation of the Company's biological assets subsequent to crown closure or after the assets become ready for their intended production use are recognised in the profit or loss for the period incurred.

The carrying amount of consumable biological assets is recognised in profit or loss by weighted average method when they are harvested.

(2) Impairment test on biological assets and provision of impairment loss

The consumable biological assets are reviewed at least once at the end of each financial year to determine whether there is objective evidence of impairment as a result of natural disasters, pests, invasion from animals or diseases, change in market demand or other factors. If there is any evidence indicating that the net realizable value of the consumable biological assets or the recoverable amount of the productive biological assets are lower than their carrying amounts, provision of impairment loss is recognised in the profit or loss for the current period as the excess of the carrying amount over the net realisable value or the recoverable amount.

If the factors affecting the impairment of consumable biological assets no longer exist, the impairment loss is reversed in the profit or loss for the current period.



IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(continued)

18. Intangible Assets

(1) 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 fixed 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.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(continued)

18. Intangible Assets (continued)

(1) Intangible assets (continued)

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.

(2) 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 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 capable to demonstrate the feasibility of creating new products or new technologies.

Expenditures on the research phase of an internal R&D project of the enterprise shall be recognised in profit or loss when incurred. Expenditures on the development phase will be recognised as intangible assets only when all of the following conditions are satisfied:

- ① It is technically feasible to complete the intangible asset so that it will be available for use or sale;
- ② The Company intends to complete the intangible asset and use or sell it;



IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(continued)

18. Intangible Assets (continued)

(2) Research and development expenditures (continued)

- ③ 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;
- ④ There are adequate technical, financial and other resources to complete the development and the Company is able to use or sell the intangible assets;
- ⑤ The development expenditures attributable to the intangible assets can be reliably measured.

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 of production technology or formulation 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.

(3) Impairment test and provision for impairment on intangible assets

Please see note IV 20 (Impairment of non-current non-financial assets) for the impairment test and provision for impairment on intangible assets.

19. Long-term deferred expenses

Long-term deferred expenses are the various expenses already incurred but to be amortised over the Reporting Period and the subsequent amortisation periods of more than one year. Major repair and maintenance expenditures on fixed assets of the Company are amortised over the interval period using a straight-line method. Other long-term deferred expenses are amortised over the beneficial period using a straight-line method.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(continued)

20. Impairment of Non-current Non-financial Assets

For fixed assets, construction in progress, intangible assets with finite useful life, investment properties measured using cost model, long-term equity investment in subsidiaries, joint ventures and associates and other non-current non-financial assets, the Company will determine whether there is any evidence indicating that such assets may be impaired on each balance sheet date, and if there is evidence of such impairment, the Company shall estimate the recoverable amount and conduct impairment test. Goodwill, intangible assets with indefinite useful life and intangible assets not ready for the intended use are subject to impairment test annually regardless of whether there is any indication of impairment.

Where the impairment test indicates that the recoverable amount of the asset is lower than its carrying amount, the provision for impairment is made based on the difference and recognised in impairment loss. The recoverable amount of an asset is the higher of its fair value less costs of disposal and the present value of the future cash flows expected to be derived from the asset. The fair value of the asset is determined based on the price under the sale agreement in a transaction on an arm's length basis. If there is no sale agreement but the asset is traded in an active market, fair value shall be determined based on the bid price. If there is neither sale agreement nor active market for an asset, fair value shall be based on the best information available. The costs to disposal are expenses attributable to disposal of the asset, including the legal costs, taxes and charges, transportation costs and direct costs incurred by the asset to reach the condition ready for its intended use. In assessing the present value of the estimated future cash flow of the assets, the estimated future cash flow expected to be derived from the asset in the course of holding and use and at the time of final disposal are discounted to their present value using an appropriate discount rate. The provision for impairment on the asset is calculated and recognised on an item-by-item basis. Where it is difficult to estimate the recoverable amount of an individual asset, the Company determines the recoverable amount of the asset group to which the asset belongs. The asset group is the minimum set of asset group that may generate cash inflow.

For the purpose of impairment testing, the carrying amount of goodwill presented separately in the financial statements shall be allocated to the asset group or set of asset groups benefiting from synergy of business combination. If the recoverable amount of such asset group or set of asset groups is less than the carrying amount, the Company will recognise an impairment loss. The amount of impairment loss shall first reduce the carrying amount of any goodwill allocated to the asset group or set of asset groups, and then reduce the carrying amount of the assets (other than goodwill) within the asset group or set of asset groups, pro rata on the basis of the carrying amount of each asset.

An impairment loss recognised on the assets as mentioned above, shall not be reversed in a subsequent period.



IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(continued)

21. Employee compensation

Employee compensation of the Company mainly comprises short-term employee compensation, post-employment benefits, and termination benefits, including:

Short-term employee compensation includes, amongst others, wage, bonus, allowances and subsidies, employee welfare, medical insurance premium, maternity insurance premium, work injury insurance premium, housing provident funds, labor union expenditures and employee education expenses, non-monetary welfare. Short-term employee compensation incurred during the accounting period in which the employee renders services to the Company is recognised as liability and included in the profit or loss for the current period or related asset costs. Non-monetary welfare is measured at fair value.

Post-employment benefits mainly comprise of defined contribution plan, which include basic endowment insurance and unemployment insurance. The relevant contribution amount is included in the related asset costs or the profit or loss for the current period when the expenses incurred.

The Company provides compensation for terminating the employment relationship with employees prior to the expiration of the employment contracts or as an offer to encourage employees to accept voluntary redundancy prior to the expiration of the employment contracts. The Company recognises a liability of employee compensation arising from compensation for termination benefits, with a corresponding charge to profit or loss for the current period, on the date when the Company cannot unilaterally withdraw the offer of termination benefits because of an employment termination plan or a curtailment proposal and when the Company recognises costs related to the restructuring that involves the payment of termination benefits, whichever is earlier. However, termination benefits shall be recognised as other long-term employee compensation if the benefits cannot be settled within 12 months after the annual reporting date.

Internal retirement plan adopts the same principle as the above mentioned compensation for the termination of employment relationship with the employee. 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 accounted into the profit or loss for the current period as termination benefits, subject to the conditions for recognition of provisions.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(continued)

22. Provisions

(1) Principles for the recognition of provisions

The provision of the Company is recognised as liabilities when all of the following conditions are satisfied:

- ① The Company has a present obligation;
- 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 estimated reliably.

The loss from contracts and the obligations assumed from restructuring by the Company that satisfy the conditions above are recognised as provisions.

(2) Determination for the best estimate of provisions

If there is a range of the estimated amount required to settle the obligation, the best estimate is determined by the median of the range. In other cases, the best estimate is determined by the following:

- ① If the provision is related to a single outcome, the best estimate is determined by the amount required to settle the obligation of the most likely outcome;
- ② If the provision is related to several outcomes, the best estimate is calculated and determined in accordance with all possible outcomes with the relevant probabilities. When all or part of the liabilities of the Company is expected to be compensated by a third-party or any other parties, the compensation is separately recognised as an asset only when it is virtually certain that the compensation will be received. The amount of asset recognised in respect of compensation should not exceed the carrying amounts of the liabilities recognised.



IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(continued)

23. Share-based payments

(1) Accounting treatment for share-based payments

Share-based payments are transactions that grant equity instruments or assume equity-instrument based liabilities for receiving services rendered by employees or other parties.

① Equity-settled share-based payments

Equity-settled share-based payments made in exchange for services rendered by employees are measured at the fair value on the date of grant of equity instruments granted to employees. If vesting is conditional upon completion of services in the pending period or fulfillment of performance conditions, the amount of such fair value, based on the best estimates of the number of equity instruments that can be vested during the pending period, is charged to relevant costs or expenses (computed using the straight-line method). Instruments which are vested immediately upon the grant are charged to relevant costs or expenses on the date of grant and the capital reserve is credited accordingly.

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. The effect of the above estimate is included in relevant costs or expenses for the period and the capital reserve is adjusted accordingly.

Equity-settled share-based payments in exchange for services rendered by other parties are measured at the fair value of the services rendered by other parties on the receiving date if such fair value can be reliably measured. If the fair value of the services rendered by other parties cannot be reliably measured, equity-settled share-based payments in exchange for services rendered by other parties are measured at the fair value of equity instruments on the date of receiving services and charged to relevant costs or expenses and shareholders' equity is credited accordingly, provided that the fair value of equity instruments can be reliably measured.

② Cash-settled share-based payments

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 charged to relevant costs or expenses 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, according to the amount of fair value of the liabilities assumed by the Company, the services received for the period are charged to costs or expenses and liabilities are increased accordingly.

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 current profit and loss.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(continued)

23. Share-based payments (continued)

(2) Accounting treatment in relation to share-based payment plan modification and termination

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. 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, 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, the Company will undertake an accelerated vesting in respect of the cancelled equity instruments that had been granted, include the remaining amount that shall be recognised during the pending period in the current profit and loss immediately and recognise capital reserve accordingly. Where employees or other parties are permitted to choose to fulfill non-vesting conditions but have not fulfilled during the pending period, the Company will treat the granted equity instruments as cancelled.

(3) 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).



IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(continued)

24. Preferred shares, perpetual bonds and other financial instruments

(1) Classification of perpetual bonds and preferred shares

Perpetual bonds, preferred shares and other financial instruments issued by the Company are classified as equity instruments when all of the following conditions are satisfied:

- ① The financial instruments have no contractual obligation to pay in cash or other financial assets to other parties nor to exchange financial assets or financial liabilities under potential adverse condition with other parties;
- ② If the financial instrument will or may be settled in the entity's own equity instruments, it is a non-derivative instrument that includes no contractual obligations to deliver a variable number of its own equity instruments; or a derivative that will be settled only by the Company exchanging a fixed amount of cash or other financial asset for a fixed number of its own equity instruments.

Other than financial instruments classified as equity instruments according to the above conditions, other financial instruments issued by the Company shall be classified as financial liabilities.

The financial instruments issued by the Company which are compound financial instruments are recognised as a liability based on the fair value of the liability component, and the amount net of the fair value of the liability component from the actual amount received is recognised as "other equity instruments". Transaction costs that relate to the issue of a compound financial instrument are allocated to the liability and equity components in proportion to the allocation of gross proceeds.

(2) Accounting treatment of perpetual bonds and preferred shares

For financial instruments classified as financial liabilities (such as perpetual bonds and preferred shares), except borrowing costs qualifying for capitalisation (please refer to this Note IV. 16 "Borrowing costs"), its related interest, dividends, gains or losses, and gains or losses arising from redemption or refinancing are credited to profit or loss for the current period.

For financial instruments classified as equity instruments (such as perpetual bonds and preferred shares), its issuance (including refinancing), repurchase, sale or cancellation are treated by the Company as changes in equity, with related transaction costs deducted from equity. The Company's distribution to holders of equity instruments are treated as a distribution of profits.

Changes in the fair value of equity instruments are not recognised by the Company.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(continued)

25. 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 has 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.

The Company primarily sells goods by the way of distribution and enters into sales contracts with dealers. Revenue from sales is recognised according to the invoiced amount upon the delivery of goods according to the orders received from dealers.



IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(continued)

26. Assets related to contract costs

The Company shall recognise the incremental costs of obtaining a contract as an asset, if the costs is expected to be recoverable. However, if the amortisation period of the asset is one year or less, its incremental costs shall be included in profit or loss for the current period as incurred.

Where the cost incurred for obtaining the contract does not fall into the scope of other accounting standards for business enterprises (except for “The Accounting Standards for Business Enterprises No. 14-Revenue (Revised in 2017)”) and meets the following conditions at the same time, the Company considers it as contract performance cost and recognises it as an asset: ① The cost is directly related to a current contract or a contract expected to be obtained, including direct labor, direct materials, manufacturing fees (or similar fees), the cost set to be assumed by the customer and other costs arising merely from the contract; ② The cost increased the resources of the Company to be used for performing the performance obligations in the future; ③ The cost is expected to be recovered.

The assets related to contract costs are amortised on the same basis as the recognition of revenue on commodities related to the asset and are included in the profit or loss for the current period.

When the carrying amount of the contract cost-related assets is higher than the difference between, ① the remaining consideration expected to be obtained from transfer of commodities related to the asset and ② the cost estimated to be incurred in the transfer of such commodities, an impairment provisions shall be made for the excess and an impairment loss on assets will be recognised accordingly. The Company shall recognise in profit or loss a reversal of an impairment loss previously recognised when the impairment conditions changes and the difference between ① and ② is higher than the carrying amount of the asset. The increased carrying amount of the asset shall not exceed the amount that would have been determined if no impairment loss had been recognised previously.

27. Government Grant

Government grant is the monetary assets and the non-monetary assets obtained by the Company from the government free of charge, excluding the capital invested by the government as an owner. Government grant is classified into government grant related to assets and government grant related to income.

(1) Principles of recognition and classification standards

The Company generally recognises and measures the government grant at the amount received at the time of actual receipt.

The Company defines the government grant obtained by the Company for purchasing, constructing or otherwise forming long-term assets as the government grant related to assets; and defines the other government grant as the government grant related to income. Where the target is not explicitly stipulated in governmental documents, the government grant will be classified as the government grant related to income or the government grant related to assets by the following methods: ① if the specific project entitled to the grant is explicitly specified in the government documents, the classification will be made in the proportion of the expenditures to be generated by the specific project as per its budget to the expenditures included in the costs, which shall be reviewed on each balance sheet date and adjusted when necessary; ② if the government documents describe the usage of the grant only in general rather than specify the specific project, the grant is classified as the government grant related to income.

(Unless specified otherwise, all amount are denominated in RMB.)

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(continued)

27. Government Grant *(continued)*

(2) Measurement

If a government grant is in the form of a transfer of a monetary asset, it is measured at the amount that is received or receivable. If a government grant is in the form of a transfer of a non-monetary asset, it will be measured at fair value, or at nominal amount when its fair value cannot be measured reliably, in which case it will be recognised directly in profit or loss for the current period.

(3) Accounting treatment

A government grant related to assets is recognised initially as deferred income and amortised to profit or loss for the current period on a straight-line basis over the useful life of the asset. A government grant related to income is recognised by the following methods: a grant that compensates the Company for expenses or loss to be incurred in the subsequent periods is recognised initially as deferred income and included in profit or loss for the same periods in which the expenses are recognised; and a grant that compensates for expenses incurred is recognised in profit or loss for the current period.

Government grant relating to daily activities is recognised in other income based on the nature of business; government grant not relating to daily activities is recognised in non-operating income and expenses.

Where the recognised government grant is to be returned, the balance of the related deferred income, if any, is to offset the carrying amount of the related deferred income; and the excess, if any, is to be recognised in profit or loss for the current period; and the grant is to be directly recognised in profit or loss for the current period in case of no related deferred income.

28. Recognitions of deferred tax assets/deferred tax liabilities

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases (for items not yet recognised as assets and liabilities that have their tax bases determined by reference to the provisions in the relevant tax laws, the difference between such tax bases and their carrying amounts is applied). Deferred tax assets and deferred tax liabilities are measured at tax rates that are expected to be applied in the period when the assets are recovered or the liabilities are settled.

Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which deductible temporary differences can be utilised. At the balance sheet date, if there is objective evidence that future taxable profits will be available against which deductible temporary differences can be utilised, deferred tax assets not recognised in prior accounting periods is recognised.

The carrying amount of a deferred tax asset is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.



IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(continued)

29. Accounting Treatment for Income tax

The balance sheet approach is applied by the Company for the accounting of income tax.

(1) Recognition of deferred tax assets

- ① Apart from the following transactions in which deferred tax assets resulted from initial recognition of assets or liabilities, deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary difference can be utilized:
 - A. The transactions are not business combinations;
 - B. The transactions affect neither accounting profit nor taxable profit (or deductible loss).
- ② Deductible temporary difference related to investments in subsidiaries, associates and joint ventures are recognised as deferred tax assets if the following conditions are satisfied:
 - A. It is probable that the deductible temporary difference will be reversed in the foreseeable future;
 - B. Future Taxable profits will be available against which deductible temporary difference can be utilized.
- ③ The Company recognises deferred tax assets for the carry forward of 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 losses and tax credits can be utilized.

(2) Recognition of deferred tax liabilities

All deferred tax liabilities of the Company arising from taxable temporary difference are recognised except for the following situations:

- ① Initial recognition of goodwill;
- ② Initial recognition of assets or liabilities satisfying both the below conditions:
 - A. The transactions are not business combinations;
 - B. The transactions affect neither accounting nor taxable profit (or deductible loss).
- ③ Taxable temporary difference related to investments in subsidiaries, associates and joint ventures if the following conditions are satisfied:
 - A. The Company controls the timing of reversal of the taxable temporary difference;
 - B. It is probable that the taxable temporary difference will not reverse in the foreseeable future.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(continued)

29. Accounting Treatment for Income tax (continued)

(3) Measurement of income taxes

The current income taxes and deferred tax of the Company in the current period are recognised as income tax expenses or incomes in the profit or loss for the current period, except for the income taxes arising from the following circumstances:

- ① Business combinations;
- ② Transactions or items directly recognised in owners' equity.

30. Other comprehensive income

Any profit or loss not recognised in the current profit or loss in accordance with other accounting policies is stated as other comprehensive income. Under related accounting policies, other comprehensive income is classified into:

- (1) Those not to be reclassified into profit or loss in subsequent periods, which mainly includes changes arising from re-measuring net assets or net liabilities of defined benefit plan, share of investee's other comprehensive income not to be reclassified into profit or loss in subsequent periods using the equity method;
- (2) Those to be reclassified into profit or loss after meeting certain criteria in subsequent periods, which mainly includes share of investee's other comprehensive income to be reclassified into profit or loss after meeting certain criteria in subsequent periods, change in the fair value of other debt investments, financial assets reclassified into other comprehensive income, the effectively hedged portion in profit or loss generated from cash flow hedging instruments, exchange differences on translation of financial statements denominated in foreign currencies.

31. Lease

Lease is a contract in which the Company transfers or obtains the right of use of an identified asset or several identified assets under control for the exchange or payment of consideration within a certain period of time.

(1) The Company's operating lease business recorded as a lessee

The Company recognizes right of use assets and lease liabilities for all leases at the commencement date of the lease, except for short-term leases and leases of low-value asset for which the simplified approach is elected.

Right of use assets are initially measured at cost, which consists of: ① the amount of the initial measurement of the lease liability; ② any lease payments made at or before the commencement date of the lease less any lease incentives received if any; ③ initial direct expenses; ④ costs to dismantle and remove a leased asset, restore the site on which it is located or restore the leased assets to the condition required by the terms and conditions of the lease. The Company depreciates the right of use assets under the depreciation requirements of Accounting Standards for Business Enterprises No. 4 – Fixed Assets (as detailed in Note IV.14 "Fixed Assets"); and under the requirements of Accounting Standards for Business Enterprises No. 8 – Assets Impairment, determines whether the right of use assets are impaired and accounts for the identified impairment losses (as detailed in Note IV.20 "Impairment of Non-Current Financial Assets").



IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(continued)

31. Lease (continued)

(1) The Company's operating lease business recorded as a lessee (continued)

The lease liabilities shall be initially measured at the present value of the lease payments that have not been paid on the commencement date of the lease. Lease payments represent the payments made by the Company to the lessor in relation to the right to use the leased assets within the lease term, which include: ① fixed payments and in-substance fixed payments less any relevant lease incentives if any; ② variable lease payments subject to an index or a rate, which are initially measured using the index or rate as at the commencement date; ③ the exercise price under the purchase option if the Group is reasonably certain to exercise; ④ payments for termination of a lease if the lease term reflects the Group exercising the option to terminate; ⑤ expected payments based on the guaranteed residual values provided by the Company. The Company shall measure the interest expenses on the lease liabilities in each period during the lease term at a constant periodic rate and the amounts shall be included in the current profit or loss or capitalized in underlying assets.

The Company's variable lease payments not included in measurement on lease liabilities are recorded in the current profit or loss or related asset costs when incurred.

For short-term leases and leases of low-value assets, the Company applies simplification method to account for the relevant asset costs or current profit and loss in each period during the lease term using the straight-line method or other systematic method.

If the lease changes in the lease scope, consideration and term beyond the original contract terms, the Company shall account for it as or not as a separate lease based on their respective changes. If not as a separate lease, the Company shall remeasure lease liability at the present value calculated at lease payment after change and the revised discount rate as at the effective date of lease change, with corresponding adjustment made to the related right-of-use asset. The Company shall record the residual value in the current profit or loss if the carrying value of right of use assets is reduced to zero where the lease liability is required to be further reduced.

(2) The Company's operating lease business recorded as a lessor

① Lease classification

The Company classifies lease into finance lease and operating lease based on the substance of transactions at the commencement date of lease. Finance lease is a lease that transfers substantially all the risks and rewards incidental to ownership of an asset. Operating leases are leases other than finance leases.

② Operating leases

The Company recognizes lease receipts under operating leases as rental income in each period during the lease term using the straight-line method or other systematic method. Initial direct costs related to operating lease are capitalized when incurred, and are recognized in the current profit or loss by installments on the same basis as rental income over the entire lease term. Receipts from variable lease payments not included in lease payments in relation to operating lease are included in the current profit or loss when incurred.

(Unless specified otherwise, all amount are denominated in RMB.)

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(continued)

31. Lease *(continued)*

(2) The Company's operating lease business recorded as a lessor *(continued)*

③ Finance leases

At the commencement date of lease, the Company recognizes finance lease receivables and derecognizes finance lease assets.

The finance lease receivables are initially measured at the sum of the unguaranteed residual value and the present value discounted at the interest rate implicit in the lease over the unearned lease receipts as at the commencement date of lease. The lease receipts include: A. lessor's fixed payments and in-substance fixed payments less any relevant lease incentives if any; B. variable lease payments subject to an index or a rate, which are initially measured using the index or rate as at the commencement date; C. the exercise price under the purchase option if the lessor is reasonably certain to exercise; D. payments for termination of a lease if the lease term reflects the lessor exercising the option to terminate; E. the guaranteed residual values provided by the lessor, any parties related to the lessor and the independent third parties who have the financial capability to perform the guarantee obligation.

The Company's variable lease payments not included in measurement on net investment in leases are recorded in the current profit or loss when incurred.

32. Other significant accounting policies and estimates

(1) Discontinued operation

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

For accounting treatment of discontinued operation, please refer to note IV. 11 "Assets and disposal groups held for sale".

(2) Repurchase of shares of the Company

For capital reduction by means of repurchase of shares of the Company under statutory approval, the capital is reduced by the total nominal value of the shares cancelled. The difference between the consideration paid for the repurchase of shares (including the transaction costs) and the nominal value of the shares is adjusted in the shareholders' equity. The excess of consideration paid over the total nominal value is adjusted in the capital reserve (share premium), surplus reserve and retained profits in sequence. The shortfall from the total nominal value is credited to capital reserve (share premium).

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.

Upon the transfer of treasury shares, the excess of proceeds from the transfer over the cost of treasury shares is credited to capital reserve (share premium); whereas the shortfall from the cost of treasury shares is adjusted in the capital reserve (share premium), surplus reserve and retained profits in sequence.



IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(continued)

33. Change in significant accounting policies and accounting estimates and correction to accounting errors

(1) Changes in accounting policies

Change in accounting policies due to adoption of new Accounting Standards for Business Enterprises

On 7 December 2018, the Ministry of Finance of the PRC issued “Accounting Standard for Business Enterprises No. 21 – Leases” (Revised in 2018) (Cai Kuai [2018] No. 35) the (“New Lease Standard”), requiring that enterprises listed in both domestic and overseas stock markets or enterprises listed overseas and applying IFRS or the Accounting Standards for Business Enterprises to prepare financial reports shall apply the above-mentioned Standard from 1 January 2019.

On 27 March 2019, with the approval of the twenty-fifth meeting of the ninth session of the Board of the Company, the Company will adopt the above-mentioned Standard from 1 January 2019 (the “Date of Initial Adoption”) as required by the Ministry of Finance, and change the accounting policies according to the requirements under the above-mentioned Standard.

According to the requirements of New Lease Standard, for contract that already exists before the Date of Initial Adoption, the Company chooses not to re-evaluate whether it is a lease or includes a lease at the Date of Initial Adoption. For the lease contracts of the Company (as a lessee) outstanding as at 1 January 2019 which are short-term leases and leases of low-value assets, a simplified treatment method was adopted and the lease contracts are included in included in the related asset costs or the profit or loss for the period over the lease term by using the straight-line method.

Changes of accounting policies due to adoption of the above accounting standards have no effect on the financial statements for the Period.

(2) Changes in accounting estimates

None.

(3) Correction to accounting errors

None.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(continued)

34. Significant accounting judgements and estimates

The Company needs to make judgments, estimates and assumptions as to the carrying amount of statement items which cannot be accurately measured in applying its accounting policies due to inherent uncertainties of operation activities. Such judgments, estimates and assumptions are made based on the historical experience of the Company's management and taking into account other relevant factors, and may affect the reported amount of revenue, expenses, assets and liabilities and disclosure of contingent liabilities at the balance sheet date. However, the actual results derived from the uncertainties of such estimates may differ from the current estimation of the Company's management, which may cause critical adjustment to the carrying amount of assets or liabilities which may be affected in the future.

The Company regularly reviews the aforesaid judgments, estimates and assumptions on a going concern basis. A revision to accounting estimate is recognised in the period in which the estimate is revised if it only affects that period. A revision is recognised in the period of the revision and future periods if it affects both current and future periods.

At the balance sheet date, the critical areas where the Company needs to make judgments, estimates and assumptions as to the amount of items in the financial statements are set out below:

(1) Income recognition

As stated in note IV. 25. "Income", the Company makes the following significant accounting judgements and estimates in terms of income 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 certain period of time or at a certain 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 can have significant impacts on the operating income, operating costs, and profit or loss of the current or subsequent periods.

(2) Classification of leases

The Company classifies the leases as operating lease and finance lease in accordance with "Accounting Standard for Business Enterprises No. 21 — Leases". When making the classification, the management needs to analyse and judge whether all the risks and rewards relating to the ownership of leased out assets have been substantially transferred to the lessee, or whether the Company has been substantially obliged to all the risks and rewards relating to the ownership of leased assets.

(3) Impairment of financial assets

The Company uses the expected credit loss model to assess the impairment of financial assets. The application of the expected credit loss model requires significant judgments and estimations, and all reasonable and evidenced information, including forward-looking information, should be considered. In making such judgments and estimates, the Company infers the expected changes in the debtor's credit risk based on factors such as the historical repayment data in combination with economic policies, macroeconomic indicators, industry risks, external market environment, technological environment, and changes in the customer situation.



IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(continued)

34. Significant accounting judgements and estimates *(continued)*

(4) Allowance for inventories

In accordance with the accounting policies of inventories and by measuring at the lower of cost and net realisable value, the Company makes allowance for inventories which have costs higher than net realisable value or become obsolete and slow-moving. Write-down of inventories to their net realizable values is based on the valuation of marketability and net realisable values of inventories. Determination of impairment of inventories requires the management to make judgments and estimates on the basis of definite evidence and taking into account the purpose of holding inventories and impacts of events after balance sheet date. The difference between the actual outcome and original estimates shall affect the carrying amount of inventories and provision for and reversal of the provision for the impairment of inventories during the period in which the estimates are revised.

(5) Provision for impairment of long term assets

At the balance sheet date, the Company makes its judgment as to whether there is any evidence indicating potential impairment of non-current assets other than financial assets. Intangible assets with indefinite useful life shall be tested for impairment when there is any indication of impairment in addition to the annual impairment testing. Other non-current assets other than financial assets shall be tested for impairment if there is any evidence indicating that their carrying amount cannot be recovered.

When the carrying amount of an asset or asset groups is higher than the recoverable amount, being the higher of its fair value less costs of disposal and the present value of the future cash flows expected to be derived from the asset, it indicates impairment.

The net amount of the fair value less costs of disposal is determined by making reference to the price in a sale agreement in an arm's length transaction or the observable market price less the incremental costs directly attributable to such assets disposal.

In projecting the present value of the future cash flows, critical judgments shall be made to the output, selling price and relevant operating costs of such assets (or asset groups) and the discount rate applied in calculating the discount. In estimating the recoverable amount, the Company may adopt all relevant materials including the projections as to the output, selling price and relevant operating costs based on reasonable and supportive assumptions.

The test shall be performed at least once a year by the Company as to whether there is any impairment to goodwill. This requires an estimate for the present value of the future cash flows of the asset groups or sets of asset groups to which goodwill is allocated. In estimating the present value of the future cash flows, the Company needs to estimate the cash flows generated from the future asset groups or sets of asset groups. Meanwhile, the present value of future cash flows is determined using an appropriately selected discount rate.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES*(continued)***34. Significant accounting judgements and estimates** *(continued)***(6) Depreciation and amortisation**

The Company shall provide depreciation and amortisation for fixed assets and intangible assets over their useful lives and after taking into account of their residual value by using straight-line method. The Company shall regularly review the useful lives to determine the amount depreciated and amortised to be accounted for in each reporting period. The useful life is determined by the Company according to its previous experience on similar assets and estimated technical updates. If there is any material change in the estimate previously made, the depreciation and amortisation will be adjusted over the future period.

(7) Deferred income tax assets

The deferred income tax assets will be recognised for all unused tax losses to the extent that it is probable there will be sufficient taxable profits against which the loss is utilised. This requires the Company's management to apply 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.

(8) Income tax

There are some uncertainties in tax treatment and calculation for some transactions of the Company during its ordinary course of business. The approval from the tax authority is required for pre-tax expending of some items. Any difference between the final determined outcome of such tax matters and the initially estimated amount will exert an effect on the current income tax and deferred income tax during the period in which the final amount is determined.

(Unless specified otherwise, all amount are denominated in RMB.)

V. TAXATION**1. The main taxes and tax rates applicable to the Company are set out as follows:**

Types of tax	Basis of taxation	Tax rate
Value added tax	Income from sales of products and raw materials	Value added tax rate for sales of biological preparation: 3%, value added tax rate for other sales: 13% <i>(Note 1)</i> .
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	<i>Note 2</i>
Enterprise income tax	Taxable income	<i>Note 3</i>

Note 1. According to the Announcement of the Ministry of Finance, the State Administration of Taxation and General Administration of Customs on Relevant Policies for Deepening Value-Added Tax Reform (Announcement of the Ministry of Finance, the State Administration of Taxation and General Administration of Customs [2019] No. 39), the applicable tax rate is adjusted to 13% from 1 April 2019 onwards.

Note 2. The Company and its subsidiaries that are incorporated in Zhuhai shall pay local education surcharges that are charged as 2% of the turnover tax to be paid. Other subsidiaries shall pay local education surcharges according to the tax rate as specified at their places of incorporation on the basis of turnover tax to be paid.

Note 3. The enterprise income tax rate applicable to the Company and its subsidiaries are set out as follows:

Name	Actual tax rate	Remarks
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%	Policies regarding Hong Kong Profits Tax are applicable
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 Macau dollar 600,000 or more; for those with taxable income less than Macau dollar 600,000, they are exempted from income taxes.

(Unless specified otherwise, all amount are denominated in RMB.)

V. TAXATION (continued)**1. The main taxes and tax rates applicable to the Company are set out as follows:**
(continued)

Name	Actual tax rate	Remarks
<p>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 Diagnostic Reagents Inc. (珠海麗珠試劑股份有限公司), Livzon Group Fuzhou Fuxing Pharmaceutical Co., Ltd. (麗珠集團福州福興醫藥有限公司), Shanghai Livzon Biotechnology Co., Ltd. (上海麗珠生物科技股份有限公司)</p>	15%	<p>Livzon Group Xinbeijiang Pharmaceutical Manufacturing Inc. (麗珠集團新北江製藥股份有限公司) and Zhuhai Livzon Diagnostic Reagents Inc. (珠海麗珠試劑股份有限公司) have reapplied for the high and new technology enterprises recognition for the Period; the Company and 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) were recognised as high and new technology enterprises in 2017 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) was recognised as high and new technology enterprises in 2018 for a valid period of three years.</p>
<p>Livzon Group (Ningxia) Pharmaceutical Manufacturing Co., Ltd. (麗珠集團(寧夏)製藥有限公司), Sichuan Guangda Pharmaceutical Manufacturing Co., Ltd. (四川光大製藥有限公司)</p>	15%	<p>Livzon Group (Ningxia) Pharmaceutical Manufacturing Co., Ltd. (麗珠集團(寧夏)製藥有限公司) was approved to enjoy the tax preference of the Encouraged Industries in Western China during the Period</p>
<p>Livzon MABPharm (US) Inc. (麗珠單抗生物技術(美國)有限公司)</p>	21%	



V. TAXATION *(continued)*

1. The main taxes and tax rates applicable to the Company are set out as follows: *(continued)*

Name	Actual tax rate	Remarks
Livzon International Limited, Livzon Biologics Limited, Livzon International Ventures, Livzon International Ventures I, Livzon International Ventures II	0%	A company incorporated in Cayman Islands is not required to pay enterprise income tax
Other subsidiaries	25%	

2. Tax preference and approvals

Preferential value added tax:

In accordance with the Announcement on Value Added Tax on Biological Products Sold by Pharmaceutical Operation Enterprises (Announcement of State Administration of Taxation 2012 No. 20), the biological products sold by the Company are subject to value added tax at 3% by the simple approach.

Preferential enterprise income tax:

The Company and its subsidiaries, Shanghai Livzon Pharmaceutical Manufacturing Co., Ltd. (上海麗珠製藥有限公司), Sichuan Guangda Pharmaceutical manufacturing Co., Ltd. (四川光大製藥有限公司), Livzon Group Fuzhou Fuxing Pharmaceutical Co., Ltd. (麗珠集團福州福興醫藥有限公司), Livzon Group Limin Pharmaceutical Manufacturing Factory (麗珠集團利民製藥廠), Livzon Group Livzon Pharmaceutical Factory (麗珠集團麗珠製藥廠), Zhuhai FTZ Livzon Hecheng Pharmaceutical Manufacturing Co., Ltd. (珠海保稅區麗珠合成製藥有限公司), are entitled to preferential taxation policies applicable to high and new technology enterprises since 2017 for a valid period of three years; Livzon Group Xinbeijiang Pharmaceutical Manufacturing Inc. (麗珠集團新北江製藥股份有限公司) and Zhuhai Livzon Diagnostic Reagents Inc. (珠海麗珠試劑股份有限公司) have reapplied for the high and new technology enterprises recognition for the Period; Shanghai Livzon Biotechnology Co., Ltd. (上海麗珠生物科技股份有限公司) is entitled to preferential taxation policies applicable to high and new technology enterprises since 2018 for a valid period of three years; Livzon Group (Ningxia) Pharmaceutical Manufacturing Co., Ltd. (麗珠集團(寧夏)製藥有限公司) and Sichuan Guangda Pharmaceutical Manufacturing Co., Ltd. (四川光大製藥有限公司) were approved to enjoy the tax preference of the Encouraged Industries in Western China during the Period. Such companies were subject to an enterprise income tax rate of 15% for the Period.

In accordance with Article 27 of the Enterprise Income Tax Law of the People's Republic of China and Article 86 of the Regulations for the Implementation of the Enterprise Income Tax Law of the People's Republic of China, the business of planting Chinese herbal medicines engaged by the subsidiaries of the Company, Datong Livzon Qiyuan Medicine Co., Ltd. (大同麗珠芪源藥材有限公司), Longxi Livzon Shenyuan Medicine Co., Ltd. (隴西麗珠參源藥材有限公司) and Wenshan Livzon Sanqi Plantation Co., Ltd. (文山麗珠三七種植有限公司) are exempted from enterprise income tax.

(Unless specified otherwise, all amount are denominated in RMB.)

VI. NOTES TO THE COMPONENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS

Unless specified otherwise, "beginning of the year" refers to 31 December 2018, "End of the Period" refers to 30 June 2019; "Period" refers to January to June 2019 and "Same Period Last Year" refers to January to June 2018 in the following notes (including major notes to the financial statements of the Company):

1. Monetary fund

Item	Balance at the End of the Period	Balance at the beginning of the year
Cash on hand	146,506.97	134,536.84
Bank deposits	7,762,147,488.29	8,562,040,609.92
Other cash at bank and on hand	5,688,710.08	25,752,125.65
Total	7,767,982,705.34	8,587,927,272.41
In which: total overseas deposit	608,471,570.20	605,654,125.40

(1) Other cash at bank and on hand are mainly deposits under guarantee such as deposits for investments, letter of credit issuing and foreign currency forward contracts.

(2) The above mentioned deposits under guarantee such as restricted funds of bank deposits, and bank acceptance bills of cash at bank and on hand, and foreign currency forward contracts were deducted from cash and cash equivalents in cash flow statement. Apart from the restricted funds, there is no other charge, pledge or lock up on the balance of cash at bank and on hand that may limit its use, kept outside China and may have probable risks in its collection. Below are the details of the use of restricted funds:

	Balance at the End of the Period	Balance at the beginning of the year
Guarantee	3,833,108.70	24,216,066.46
Total	3,833,108.70	24,216,066.46

(Unless specified otherwise, all amount are denominated in RMB.)



VI. NOTES TO THE COMPONENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

2. Financial assets held for trading

(1) Classification

Item	Balance at the End of the Period	Balance at the beginning of the year
Classified as financial assets measured at fair value through profit or loss	15,560,367.70	15,934,738.20
In which: Shares	14,547,212.12	14,540,413.42
Funds	883,685.58	869,284.66
Derivative financial assets	129,470.00	525,040.12

① The Company's shares and fund products measured at fair value, with the change in fair value included in the profit or loss 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 date in the Reporting Period.

② Derivative financial assets represents foreign currency forward contracts, gain from unexpired contracts measured at fair value was recognised as financial assets at balance sheet date.

(2) No restrictive financial asset measured at fair value through profit or loss was realised in the ending balance.

(3) No hedges instruments in the ending balance and no hedges transactions during the Period.

3. Bills receivables

(1) Classification of bills receivables

Type	Balance at the End of the Period	Balance at the beginning of the year
Bank acceptance bills	934,010,378.50	1,029,370,542.77
Commercial acceptance bills	50,000.00	0.00
Sub-total	934,060,378.50	0.00
Less: Provision for bad debts	50,000.00	0.00
Total	text-align: right;"> 934,010,378.50	text-align: right;">1,029,370,542.77

(Unless specified otherwise, all amount are denominated in RMB.)

VI. NOTES TO THE COMPONENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. Bills receivables (continued)

(2) Bills receivables classified according to the method of provision for bad debts

Category	Balance at the End of the Period				Carrying value
	Gross amount		Provision for bad debts		
	Amount	Percentage (%)	Amount	Percentage (%)	
Bills receivables with provision for bad debts made on an individual basis	50,000.00	0.01	50,000.00	100.00	0.00
Bills receivables with provision for bad debts made collectively	934,010,378.50	99.99	0.00	0.00	934,010,378.50
Total	934,060,378.50	100.00	50,000.00	0.01	934,010,378.50

(continued)

Category	Balance at the beginning of the year				Carrying value
	Gross amount		Provision for bad debts		
	Amount	Percentage (%)	Amount	Percentage (%)	
Bills receivables with provision for bad debts made on an individual basis	0.00	0.00	0.00	0.00	0.00
Bills receivables with provision for bad debts made collectively	1,029,370,542.77	100.00	0.00	0.00	1,029,370,542.77
Total	1,029,370,542.77	100.00	0.00	0.00	1,029,370,542.77

① Bills receivables with provision for bad debts made on an individual basis at the End of the Period

Bills receivables	Balance at the End of the Period			Reason for provision made
	Bills receivables	Provision for bad debts	Percentage (%)	
Commercial acceptance bills	50,000.00	50,000.00	100.00	Not expected to be recoverable
Total	50,000.00	50,000.00	—	—

② Bills receivables in the portfolio with provision for bad debts made collectively by acceptor' portfolios

Item	Balance at the End of the Period		
	Bills receivables	Provision for bad debts	Percentage (%)
Bank acceptance bills	934,010,378.50	0.00	0.00
Total	934,010,378.50	0.00	0.00

(Unless specified otherwise, all amount are denominated in RMB.)



VI. NOTES TO THE COMPONENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. Bills receivables (continued)

(3) Provision for bad debts of bills receivables

Item	Balance at the beginning of the year	Provisions for bad debts made for the Period	Recoveries or reversals during the Period	Balance at the End of the Period
Bills receivables	0.00	50,000.00	0.00	50,000.00
Total	0.00	50,000.00	0.00	50,000.00

(4) There is no actual write-off of bills receivables for the Period.

(5) Pledged bills receivables were at the End of the Period

Item	Pledged amount at the End of the Period
Bank acceptance bills	276,585,493.11
Total	276,585,493.11

(6) Endorsed or discounted bills receivable not yet mature by the date of balance sheet at the End of the Period

Item	Derecognised amount by the End of the Period	Not derecognised amount by the End of the Period
Bank acceptance bills not yet mature but already endorsed	163,705,388.77	0.00
Bank acceptance bills not yet mature but already discounted	0.00	0.00

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

(8) As of 30 June 2019, bills with carrying amount of RMB276,585,493.11 (31 December 2018: RMB335,767,075.30) were pledged and bank acceptance bills of RMB264,970,181.96 were issued.

For the Period, the Company discounted RMB0.00 bank acceptance bills (RMB0.00 in the Same Period Last Year) to a bank. As the main risks (such as interest risks) and rewards related to these bank acceptance bills were transferred to the bank, the Company derecognised the undue bank acceptance bills that had been discounted. The discounted fee was RMB0.00 (RMB0.00 in the Same Period Last Year).

(Unless specified otherwise, all amount are denominated in RMB.)

VI. NOTES TO THE COMPONENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

4. Accounts receivables

(1) Accounts receivables classified according to the method of provision for bad debts

Category	Balance at the End of the Period				Carrying value
	Gross amount		Provision for bad debts		
	Amount	Percentage (%)	Amount	Percentage (%)	
Accounts receivables with provision for bad debts made on an individual basis	5,804,702.34	0.32	5,804,702.34	100.00	0.00
Accounts receivables with provision for bad debts made collectively	1,812,732,659.76	99.68	54,119,707.07	2.99	1,758,612,952.69
Total	1,818,537,362.10	100.00	59,924,409.41	3.30	1,758,612,952.69

(continued)

Category	Balance at the beginning of the year				Carrying value
	Gross amount		Provision for bad debts		
	Amount	Percentage (%)	Amount	Percentage (%)	
Accounts receivables with provision for bad debts made on an individual basis	7,921,331.66	0.55	7,921,331.66	100.00	0.00
Accounts receivables with provision for bad debts made collectively	1,425,910,466.77	99.45	44,203,510.82	3.10	1,381,706,955.95
Total	1,433,831,798.43	100.00	52,124,842.48	3.64	1,381,706,955.95

- ① As at the End of the Period, accounts receivables with provision for bad debts made on an individual basis

Accounts receivables description	Balance at the End of the Period			Reason for provision made
	Gross amount	Provision for bad debts	Percentage	
Payment for goods	5,804,702.34	5,804,702.34	100.00%	Not expected to be recoverable
Total	5,804,702.34	5,804,702.34	—	—



VI. NOTES TO THE COMPONENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

4. Accounts receivables (continued)

(1) Accounts receivables classified according to the method of provision for bad debts (continued)

- ② Accounts receivables in the portfolio with provision for bad debts made using the ageing analysis method

Ageing	Balance at the End of the Period		
	Account receivables	Provision for bad debts	Percentage (%)
Within 3 months (including 3 months)	1,453,658,197.49	14,536,581.98	1.00
4-6 months (including 6 months)	252,513,920.21	12,625,696.03	5.00
7-12 months (including 12 months)	63,197,207.77	6,319,720.78	10.00
1-2 years (including 2 years)	25,414,493.38	5,082,898.67	20.00
2-3 years (including 3 years)	7,980,104.37	5,586,073.07	70.00
Over 3 years	9,968,736.54	9,968,736.54	100.00
Total	1,812,732,659.76	54,119,707.07	

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

(2) The ageing analysis of accounts receivables (based on dates of recognition of accounts receivables)

Item	Balance at the End of the Period		Balance at the beginning of the year	
	Amount	Percentage (%)	Amount	Percentage (%)
Within 3 months (including 3 months)	1,453,658,197.49	79.94	1,150,263,996.77	80.22
4-6 months (including 6 months)	252,513,920.21	13.89	188,826,372.12	13.17
7-12 months (including 12 months)	63,197,207.77	3.48	50,207,147.98	3.50
1-2 years (including 2 years)	25,414,493.38	1.40	21,484,041.49	1.50
2-3 years (including 3 years)	8,270,919.37	0.45	8,514,549.48	0.59
Over 3 years	15,482,623.88	0.84	14,535,690.59	1.02
Total	1,818,537,362.10	100.00	1,433,831,798.43	100.00

As at 30 June 2019 and 31 December 2018, the Company had no accounts receivables that are past due but not impaired.

(3) Provision for bad debts of account receivables

Item	Balance at the beginning of the year	Provisions for bad debts made for the Period	Recoveries or reversals during the Period	Balance at the End of the Period
Account receivables	52,124,842.48	9,784,575.64	1,985,008.71	59,924,409.41
Total	52,124,842.48	9,784,575.64	1,985,008.71	59,924,409.41

(Unless specified otherwise, all amount are denominated in RMB.)

VI. NOTES TO THE COMPONENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**4. Accounts receivables** (continued)**(4) Actual write-off of receivables for the Period**

Item	Amount written-off
Accounts receivables actually written off	1,985,008.71

(5) The total of account receivables with five largest amount by creditors was RMB215,229,382.79 for the Period, or 11.84% of the total account receivables at the End of the Period, total provision for bad debts at the End of the Period was RMB5,347,809.90.

(6) The Company has no derecognised account receivables out of transfer of financial assets.

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

5. Prepayments**(1) Ageing analysis of prepayments was as follows**

Ageing	Balance at the End of the Period		Balance at the beginning of the year	
	Amount	Percentage (%)	Amount	Percentage (%)
Within 1 year	177,563,154.77	95.43	166,042,685.50	97.81
1 to 2 years	7,202,693.91	3.87	2,640,114.96	1.55
2 to 3 years	949,073.00	0.51	251,378.75	0.15
Over 3 years	359,636.69	0.19	831,122.50	0.49
Total	186,074,558.37	100.00	169,765,301.71	100.00

(2) The total of prepayments with five largest amount by receiver of prepayments was RMB70,816,078.41, or 38.06% of the 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
Interest receivables	282,020.55	0.00
Other receivables	66,733,539.70	49,482,179.59
Total	67,015,560.25	49,482,179.59

(1) Interest receivables

Item	Balance at the End of the Period	Balance at the beginning of the year
Fixed deposit	282,020.55	0.00
Total	282,020.55	0.00



VI. NOTES TO THE COMPONENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

6. Other receivables (continued)

(2) Other receivables

- ① Other receivables disclosed using the ageing analysis method

Ageing	Balance at the End of the Period
Within 3 months (including 3 months)	47,094,399.89
4-6 months (including 6 months)	6,352,027.32
7-12 months (including 12 months)	11,760,509.71
1-2 years (including 2 years)	3,968,381.93
2-3 years (including 3 years)	1,861,342.35
Over 3 years	7,445,337.40
Sub-total	78,481,998.60
Less: Provision for bad debts	11,748,458.90
Total	66,733,539.70

- ② Other receivables by nature

Nature of receivables	Balance at the End of the Period	Balance at the beginning of the year
Deposits under guarantee	1,170,398.64	904,549.60
Reserve fund	14,228,063.44	11,805,931.93
Related party balances	869,682.85	709,142.46
Borrowing due from external entities	5,000,000.00	5,000,000.00
Tax refunds on exports	18,187,795.69	9,590,693.23
Lease expenses and deposits	2,620,681.60	2,404,871.24
Staff advances	29,555,832.90	25,115,272.16
Others	6,849,543.48	5,650,113.11
Sub-total	78,481,998.60	61,180,573.73
Less: Provision for bad debts	11,748,458.90	11,698,394.14
Total	66,733,539.70	49,482,179.59

(Unless specified otherwise, all amount are denominated in RMB.)

VI. NOTES TO THE COMPONENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

6. Other receivables (continued)

(2) Other receivables (continued)

- ③ Provision made for bad debts of other receivables

Provision for bad debts	Step 1	Step 2	Step 3	Total
	Expected credit losses over the next 12 months	Expected credit losses over the lifetime (without impairment of credit)	Expected credit losses over the lifetime (with impairment of credit)	
Balance at the beginning of the year	3,230,471.88	6,945,070.35	1,522,851.91	11,698,394.14
Balance of carrying value of other receivables at the beginning of the year transferred or reversed during the Period as follows:				
– Transferred to step 2	0.00	0.00	0.00	–
– Transferred to step 3	0.00	0.00	332,386.40	–
– Reversed in step 2	0.00	0.00	0.00	–
– Reversed in step 1	0.00	0.00	0.00	–
Provisions made for the Period	742,562.85	-472,584.86	332,386.40	602,364.39
Reversals during the Period	0.00	0.00	0.00	0.00
Write-off during the Period	0.00	0.00	0.00	0.00
Settlement during the Period	0.00	0.00	580,000.00	580,000.00
Other changes	27,700.37	0.00	0.00	27,700.37
Balance at the End of the Period	4,000,735.10	6,472,485.49	1,275,238.31	11,748,458.90

- ④ Provision for bad debts of other receivables

Item	Balance at the beginning of the year	Provisions made for the Period	Recoveries or reversals the Period	Balance at the End of the Period
Other receivables	11,698,394.14	602,364.39	552,299.63	11,748,458.90
Total	11,698,394.14	602,364.39	552,299.63	11,748,458.90

- ⑤ The settlement of other receivables during the Period

Item	Settlement
Settlement of other receivables	580,000.00

(Unless specified otherwise, all amount are denominated in RMB.)



VI. NOTES TO THE COMPONENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

6. Other receivables (continued)

(2) Other receivables (continued)

⑥ 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 (%)	Provision for bad debts at the End of the Period
Tax refunds on exports	Tax refunds on exports	18,187,795.69	Within 3 months	23.17	181,877.96
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	6.37	5,000,000.00
Pioneer Time Investment Limited	Deposit	1,012,089.32	2-3 years	1.29	708,462.52
Guangdong Blue Treasure Pharmaceutical Co. Ltd. (廣東藍寶製藥有限公司)	Energy and power	863,697.46	Within 3 months	1.10	8,636.97
Guangdong Power Grid Corporation Shaoguan Power Supply Bureau (廣東電網公司韶關供電局)	Deposit	500,000.00	Within 3 months	0.64	5,000.00
Total	-	25,563,582.47	-	32.57	5,903,977.45

⑦ The Company has no derecognised other receivables out of transfer of financial assets.

⑧ The Company has no assets or liabilities formed by its continuous involvement of transferring other receivables.

(Unless specified otherwise, all amount are denominated in RMB.)

VI. NOTES TO THE COMPONENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

7. Inventories

(1) Inventories by types

Item	Balance at the End of the Period		
	Gross amount	Provision for diminution in value	Carrying amount
Raw materials	269,151,506.62	4,277,756.44	264,873,750.18
Packaging materials	27,587,476.93	633,574.25	26,953,902.68
Goods in process	226,561,148.38	0.00	226,561,148.38
Finished goods	499,892,808.50	22,969,022.44	476,923,786.06
Sub-contracting materials	369,642.55	0.00	369,642.55
Low-value consumables	8,960,807.50	1,808.55	8,958,998.95
Goods in transit	2,233,812.84	0.00	2,233,812.84
Consumable biological assets	10,074,237.10	0.00	10,074,237.10
Proprietary semi-finished goods	19,712,165.09	0.00	19,712,165.09
Total	1,064,543,605.51	27,882,161.68	1,036,661,443.83

(continued)

Item	Balance at the beginning of the year		
	Gross amount	Provision for diminution in value	Carrying amount
Raw materials	304,726,038.85	5,667,626.41	299,058,412.44
Packaging materials	26,732,851.73	1,151,354.12	25,581,497.61
Goods in process	272,149,349.42	26,893,747.99	245,255,601.43
Finished goods	518,510,962.40	22,386,517.99	496,124,444.41
Sub-contracting materials	1,048,625.89	0.00	1,048,625.89
Low-value consumables	9,751,463.11	0.00	9,751,463.11
Goods in transit	6,566,594.25	0.00	6,566,594.25
Consumable biological assets	10,029,634.55	0.00	10,029,634.55
Proprietary semi-finished goods	23,590,967.22	0.00	23,590,967.22
Total	1,173,106,487.42	56,099,246.51	1,117,007,240.91

The consumable biological assets of the Company represent the planting of Chinese herbal medicines, including astragalus and radix notoginseng, which are the raw materials for the production of Chinese drug preparations.

(Unless specified otherwise, all amount are denominated in RMB.)



VI. NOTES TO THE COMPONENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

7. Inventories (continued)

(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	Written off	
Raw materials	5,667,626.41	1,162,546.75	0.00	0.00	2,552,416.72	4,277,756.44
Packaging materials	1,151,354.12	57,019.05	0.00	0.00	574,798.92	633,574.25
Work in progress	26,893,747.99	0.00	0.00	0.00	26,893,747.99	0.00
Finished goods	22,386,517.99	11,358,056.08	0.00	0.00	10,775,551.63	22,969,022.44
Sub-contracting materials	0.00	0.00	0.00	0.00	0.00	0.00
Low-value consumables	0.00	1,808.55	0.00	0.00	0.00	1,808.55
Total	56,099,246.51	12,579,430.43	0.00	0.00	40,796,515.26	27,882,161.68

(3) Basis for provision for diminution in value of inventories and reason for reversal and write-off during the Period

Item	Basis for provision for diminution in value of inventories	Reason for reversal provision for diminution in value of inventories during the Period	Reason for write off provision for diminution in value of inventories during the Period
Raw materials	Net realisable value is less than carrying amount	Increase in value	Sale of finished goods and discard
Finished goods	Net realisable value is less than carrying amount	Increase in value	Sale and discard
Other inventories	Net realisable value is less than carrying amount		Sale of finished goods

(Unless specified otherwise, all amount are denominated in RMB.)

VI. NOTES TO THE COMPONENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

8. Non-current assets due within one year

Item	Balance at the End of the Period	Balance at the beginning of the year	Note
Long-term receivables due within one year	10,143,994.37	10,869,100.00	Please see note VI. 10
Total	10,143,994.37	10,869,100.00	

9. Other current assets

Item	Balance at the End of the Period	Balance at the beginning of the year
Input VAT pending deduction/attestation	2,610,612.08	3,283,862.23
Remaining VAT credit	13,695,307.64	10,151,915.53
Cash management	90,951,395.96	90,095,643.32
Profit or loss from assets to be processed	7,066,486.64	6,133,501.82
Total	114,323,802.32	109,664,922.90

10. Long-term receivables

(1) Status of long-term receivables

Item	Balance at the End of the Period			Balance at the beginning of the year			Range of discount rate
	Gross amount	Provision for impairment	Carrying value	Gross amount	Provision for impairment	Carrying value	
Receivables from equity transferred by installments	20,800,936.87	0.00	20,800,936.87	31,168,609.76	0.00	31,168,609.76	5%
Less: Parts due within one year (note VI.8)	10,143,994.37	0.00	10,143,994.37	10,869,100.00	0.00	10,869,100.00	
Total	10,656,942.50	0.00	10,656,942.50	20,299,509.76	0.00	20,299,509.76	

(2) The Company has no derecognised long-term receivables out of transfer of financial assets.

(3) The Company has no assets or liabilities formed by its continuous involvement of transferring long-term receivables.

(Unless specified otherwise, all amount are denominated in RMB.)



VI. NOTES TO THE COMPONENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

11. Long-term equity investments

Investee	Balance at the beginning of the year	Change during the Period				
		Investment acquired	Investment disposed of	Investment profit and loss under the equity method	Adjustment in other comprehensive income	Other equity changes
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
Guangdong Blue Treasure Pharmaceutical Co. Ltd. (廣東藍寶製藥有限公司)	56,020,062.41	0.00	0.00	4,224,218.47	0.00	0.00
Jiangsu Nike Medical Equipment Co., Ltd. (江蘇尼科醫療器械有限公司)	30,038,251.43	0.00	0.00	1,721,092.56	0.00	0.00
Shenzhen City Youbao Technology Co., Ltd. (深圳市有寶科技有限公司)	1,040,814.43	0.00	0.00	-6,154.01	0.00	0.00
AbCyte Therapeutics Inc.	19,353,885.24	0.00	0.00	-2,545,661.72	0.00	0.00
L&L Biopharma, Co. Ltd. (上海健信生物醫藥科技有限公司)	14,700,895.35	0.00	0.00	-254,350.80	0.00	0.00
DOSERNA INC	6,000,992.75	0.00	0.00	-55,419.40	0.00	0.00
Zhuhai Sanmed Biotech Inc.* (珠海聖美生物診斷技術有限公司)	40,223,225.99	0.00	0.00	-9,471,834.61	0.00	0.00
Aetio Biotherapy Inc	20,727,981.98	0.00	0.00	0.00	0.00	0.00
Total	189,306,109.58	0.00	0.00	-6,388,109.51	0.00	0.00

(Unless specified otherwise, all amount are denominated in RMB.)

VI. NOTES TO THE COMPONENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

11. Long-term equity investments (continued)

(continued)

Investee	Change during the Period			Balance at the End of the Period	Balance of provision for impairment at the End of the Period
	Cash dividend or profit distribution declared	Provision for impairment	Others		
Associates					
Livzon Medical Electronic Equipment (Plant) Co., Ltd. (麗珠集團麗珠醫用電子設備有限公司)	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)	0.00	0.00	0.00	60,244,280.88	0.00
Jiangsu Nike Medical Equipment Co., Ltd. (江蘇尼科醫療器械有限公司)	0.00	0.00	0.00	31,759,343.99	0.00
Shenzhen City Youbao Technology Co., Ltd. (深圳市有寶科技有限公司)	0.00	0.00	0.00	1,034,660.42	0.00
AbCyte Therapeutics Inc.	0.00	0.00	0.00	16,808,223.52	0.00
L&L Biopharma, Co. Ltd. (上海健信生物醫藥科技有限公司)	0.00	0.00	0.00	14,446,544.55	0.00
DOSERNA INC	0.00	0.00	0.00	5,945,573.35	0.00
Zhuhai Sanmed Biotech Inc.* (珠海聖美生物診斷技術有限公司)	0.00	0.00	0.00	30,751,391.38	0.00
Aetio Biotherapy Inc	0.00	0.00	0.00	20,727,981.98	0.00
Total	0.00	0.00	0.00	182,918,000.07	1,200,000.00

(Unless specified otherwise, all amount are denominated in RMB.)



VI. 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	Dividend income recognised for the Period	Reason for designation	Cumulative gain or loss transferred from other comprehensive income to retained income for the Period	
					Amount	Reason
LUNGLIFE AI, INC. (formerly known as CYNVENIO BIOSYSTEMS, INC)	3,164,497.06	3,158,700.39	0.00	Non-trading purpose	0.00	-
Guangdong Development Bank Co., Ltd. (廣發銀行股份有限公司)	177,348.84	177,348.84	0.00	Non-trading purpose	0.00	-
Zhuhai China Resources Bank Co., Ltd. (珠海華潤銀行股份有限公司)	75,325,760.00	75,325,760.00	0.00	Non-trading purpose	0.00	-
Shanghai Haixin Pharmaceutical Co., Ltd. (上海海欣醫藥股份有限公司)	500,000.00	500,000.00	50,000.00	Non-trading purpose	0.00	-
SEEKERS FUND	0.00	103,432,480.34	0.00	Non-trading purpose	2,296,602.00	-
GLOBAL HEALTH SCIENCE	200,410,120.34	205,702,713.12	0.00	Non-trading purpose	0.00	-
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	0.00	Non-trading purpose	0.00	-
SCC VENTURE VI 2018-B,L.P.	14,436,540.09	14,410,116.63	0.00	Non-trading purpose	0.00	-
SCC-VENTURE VII 2018-C,L.P.	35,060,168.79	0.00	0.00	Non-trading purpose	0.00	-
Nextech V Oncology S.C.S., SICAV-SIF	16,995,604.08	0.00	0.00	Non-trading purpose	0.00	-
Yizun Biopharmaceutics (Shanghai) Co., Ltd. (羿尊生物醫藥(上海)有限公司)	30,000,000.00	0.00	0.00	Non-trading purpose	0.00	-
Zhuhai Maidefa Biotech Co., Ltd. (珠海麥得發生物科技股份有限公司)	1,000,000.00	0.00	0.00	Non-trading purpose	0.00	-
Total	382,070,039.20	407,707,119.32	50,000.00		2,296,602.00	

13. Fixed assets

Item	Balance at the End of the Period	Balance at the beginning of the year
Fixed assets	3,165,749,095.41	3,192,208,026.03
Disposal of fixed assets	51,250,847.88	25,368,047.97
Total	3,216,999,943.29	3,217,576,074.00

(Unless specified otherwise, all amount are denominated in RMB.)

VI. NOTES TO THE COMPONENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

13. Fixed assets (continued)

(1) Fixed assets

① Status of fixed assets

Item	Plant and building	Machinery and equipment	Motor vehicles	Electronic devices and others	Total
I. Original book value					
1. Balance at the beginning of the year	2,805,794,515.43	2,336,023,774.35	76,790,286.98	327,788,144.88	5,546,396,721.64
2. Additions for the Period	54,392,355.32	103,776,392.94	3,206,388.78	18,802,883.21	180,178,020.25
(1) Acquisition	10,158,783.62	65,660,715.07	2,665,626.02	13,487,548.16	91,972,672.87
(2) Construction in progress transferred	44,233,571.70	38,115,677.87	540,762.76	5,315,335.05	88,205,347.38
(3) Others	0.00	0.00	0.00	0.00	0.00
3. Decrease for the Period	36,486,510.94	21,998,715.45	2,157,944.25	6,555,650.43	67,198,821.07
(1) Disposal or written-off	36,486,510.94	21,998,715.45	2,157,944.25	6,555,650.43	67,198,821.07
(2) Transferring to a disposal group classified as held for sale	0.00	0.00	0.00	0.00	0.00
4. Balance at the End of the Period	2,823,700,359.81	2,417,801,451.84	77,838,731.51	340,035,377.66	5,659,375,920.82
II. Accumulated depreciation					
1. Balance at the beginning of the year	815,283,939.09	1,191,479,452.35	49,024,356.01	210,377,778.63	2,266,165,526.08
2. Additions for the Period	67,139,423.14	83,236,596.05	4,281,134.61	19,629,525.28	174,286,679.08
(1) Provision	67,139,423.14	83,236,596.05	4,281,134.61	19,629,525.28	174,286,679.08
(2) Other additions	0.00	0.00	0.00	0.00	0.00
3. Decrease for the Period	9,554,665.50	15,782,076.68	1,600,316.09	4,703,028.64	31,640,086.91
(1) Disposal or written-off	9,554,665.50	15,782,076.68	1,600,316.09	4,703,028.64	31,640,086.91
(2) Transferring to a disposal group classified as held for sale	0.00	0.00	0.00	0.00	0.00
4. Balance at the End of the Period	872,868,696.73	1,258,933,971.72	51,705,174.53	225,304,275.27	2,408,812,118.25
III. Impairment provision					
1. Balance at the beginning of the year	30,960,940.58	55,324,486.33	72,835.46	1,664,907.16	88,023,169.53
2. Additions for the Period	0.00	1,528,554.38	0.00	1,593.44	1,530,147.82
(1) Provision	0.00	1,528,554.38	0.00	1,593.44	1,530,147.82
3. Decrease for the Period	0.00	4,473,542.45	0.00	265,067.74	4,738,610.19
(1) Disposal or written-off	0.00	4,473,542.45	0.00	265,067.74	4,738,610.19
(2) Transferring to a disposal group classified as held for sale	0.00	0.00	0.00	0.00	0.00
4. Balance at the End of the Period	30,960,940.58	52,379,498.26	72,835.46	1,401,432.86	84,814,707.16
IV. Carrying amounts					
1. Carrying amount at the End of the Period	1,919,870,722.50	1,106,487,981.86	26,060,721.52	113,329,669.53	3,165,749,095.41
2. Carrying amount at the beginning of the year	1,959,549,635.76	1,089,219,835.67	27,693,095.51	115,745,459.09	3,192,208,026.03

During the Period, the amount of depreciation was RMB174,286,679.08 (RMB172,628,594.05 in the Same Period Last Year). During the Period, construction in progress transferred to cost of fixed assets was RMB88,205,347.38 (RMB37,273,027.00 in the Same Period Last Year).



VI. NOTES TO THE COMPONENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

13. Fixed assets (continued)

(1) Fixed assets (continued)

② Temporarily idled fixed assets at the End of the Period

Item	Original book value	Accumulated depreciation	Provision for impairment	Carrying amount	Note
Plant and building	22,183,316.22	9,792,496.87	0.00	12,390,819.35	
Machinery and equipment	53,284,672.55	26,685,934.53	20,853,084.07	5,745,653.95	
Electronic devices and others	2,173,307.97	2,047,958.37	13,277.80	112,071.80	
Total	77,641,296.74	38,526,389.77	20,866,361.87	18,248,545.10	

③ The Company has no fixed assets leased in under finance leases.

④ Fixed assets leased out under operating leases

Item	Carrying amount at the End of the Period
Plant and building	19,414,098.27
Electronic devices and others	18,707,688.89
Total	38,121,787.16

⑤ Fixed assets with pending certificates for ownership at the End of the Period

Item	Carrying amount	Reason for pending certificates for ownership
Plant and building	431,692,052.63	Being in progress

(2) Disposal of fixed assets

Item	Balance at the End of the Period	Balance at the beginning of the year
Machinery and equipment	26,018,167.50	25,368,047.97
Plant and building	25,232,680.38	0.00
Total	51,250,847.88	25,368,047.97

(Unless specified otherwise, all amount are denominated in RMB.)

VI. NOTES TO THE COMPONENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

14. Construction in progress

(1) Status of construction in progress

Item	Balance at the End of the Period			Balance at the beginning of the year		
	Gross amount	Provision for impairment	Carrying amount	Gross amount	Provision for impairment	Carrying amount
Guangda New Factory Project (光大新廠項目)	6,254,389.06	0.00	6,254,389.06	5,828,320.98	0.00	5,828,320.98
Improvement Project of Workshop of Hecheng Co. (合成公司車間改造項目)	6,932,467.29	0.00	6,932,467.29	6,017,286.99	0.00	6,017,286.99
Fuxing Company second phase project Project of Shijiao New Factory (石角新廠項目)	16,999,046.75	0.00	16,999,046.75	41,336,128.21	0.00	41,336,128.21
Transformation Project of Pharmaceutical Factory Workshop (藥廠車間改造項目)	12,307,766.50	0.00	12,307,766.50	6,237,329.19	0.00	6,237,329.19
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)	72,876,410.80	0.00	72,876,410.80	81,710,969.79	0.00	81,710,969.79
Others	59,330,683.96	0.00	59,330,683.96	13,307,330.35	0.00	13,307,330.35
	30,713,737.04	0.00	30,713,737.04	30,081,562.53	0.00	30,081,562.53
Total	205,414,501.40	0.00	205,414,501.40	184,518,928.04	0.00	184,518,928.04

(2) Changes of significant construction in progress

Name of project	Budgeted amount	Balance at the beginning of the year	Additions for the Period	Transferred to fixed asset for the Period	Other deduction	Balance at the End of the Period
Guangda New Factory Project (光大新廠項目)	365,816,500.00	5,828,320.98	426,068.08	0.00	0.00	6,254,389.06
Improvement Project of Workshop of Hecheng Co. (合成公司車間改造項目)	45,195,707.50	6,017,286.99	915,180.30	0.00	0.00	6,932,467.29
Fuxing Company second phase project Project of Shijiao New Factory (石角新廠項目)	101,200,000.00	41,336,128.21	33,524,293.70	57,861,375.16	0.00	16,999,046.75
Transformation Project of Pharmaceutical Factory Workshop (藥廠車間改造項目)	143,289,400.00	6,237,329.19	6,070,437.31	0.00	0.00	12,307,766.50
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)	173,756,629.44	81,710,969.79	3,927,105.16	12,761,664.15	0.00	72,876,410.80
Others	198,455,000.00	13,307,330.35	46,023,353.61	0.00	0.00	59,330,683.96
	0.00	30,081,562.53	19,562,909.14	17,582,308.07	1,348,426.56	30,713,737.04
Total	1,027,713,236.94	184,518,928.04	110,449,347.30	88,205,347.38	1,348,426.56	205,414,501.40

(Unless specified otherwise, all amount are denominated in RMB.)



VI. NOTES TO THE COMPONENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

14. Construction in progress (continued)

(2) Changes of significant construction in progress (continued)

(continued)

Name of project	Accumulated amount of the interest capitalised	Interest capitalised for the Period	Interest capitalized rate for the Period (%)	Percentage of cost incurred over budgeted amount (%)	Construction progress	Sources of funds
Guangda New Factory Project (光大新廠項目)	0.00	0.00	0.00	1.71	Designing process	Self-funding
Improvement Project of Workshop of Hecheng Co. (合成公司車間改造項目)	0.00	0.00	0.00	71.61	Under construction	Self-funding
Fuxing Company second phase project	0.00	0.00	0.00	88.72	Completion of some projects	Self-funding
Project of Shijiao New Factory (石角新廠項目)	0.00	0.00	0.00	8.59	Under construction	Self-funding, Funds raised
Transformation Project of Pharmaceutical Factory Workshop (藥廠車間改造項目)	0.00	0.00	0.00	80.88	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)	0.00	0.00	0.00	29.90	Under construction	Funds raised
Others	0.00	0.00	0.00			Self-funding
Total	0.00	0.00	0.00			

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

(Unless specified otherwise, all amount are denominated in RMB.)

VI. NOTES TO THE COMPONENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

15. Intangible assets

(1) Status of intangible assets

Item	Land use rights	Patent and technical know-how	Software	Trademark rights	Others	Total
I. Original book value						
1. Balance at the beginning of the year	263,527,174.75	211,838,852.50	36,590,943.71	24,000.00	10,985,294.53	522,966,265.49
2. Additions for the Period	0.00	3,700.00	624,576.00	0.00	0.00	628,276.00
(1) Acquisition	0.00	3,700.00	624,576.00	0.00	0.00	628,276.00
(2) Transfer from development costs	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) Disposal	0.00	0.00	0.00	0.00	0.00	0.00
4. Balance at the End of the Period	263,527,174.75	211,842,552.50	37,215,519.71	24,000.00	10,985,294.53	523,594,541.49
II. Accumulated amortisation						0.00
1. Balance at the beginning of the year	71,977,352.59	161,393,460.67	31,898,529.68	24,000.00	2,288,603.02	267,581,945.96
2. Additions for the Period	2,475,745.98	3,573,461.74	1,486,565.16	0.00	549,264.72	8,085,037.60
(1) Provision	2,475,745.98	3,573,461.74	1,486,565.16	0.00	549,264.72	8,085,037.60
3. Decrease for the Period	0.00	0.00	0.00	0.00	0.00	0.00
(1) Disposal	0.00	0.00	0.00	0.00	0.00	0.00
4. Balance at the End of the Period	74,453,098.57	164,966,922.41	33,385,094.84	24,000.00	2,837,867.74	275,666,983.56
III. Impairment provision						0.00
1. Balance at the beginning of the year	981,826.94	10,209,166.79	0.00	0.00	0.00	11,190,993.73
2. Additions for the 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) Disposal	0.00	0.00	0.00	0.00	0.00	0.00
4. Balance at the End of the Period	981,826.94	10,209,166.79	0.00	0.00	0.00	11,190,993.73
IV. Carrying amounts						0.00
1. Carrying amount at the End of the Period	188,092,249.24	36,666,463.30	3,830,424.87	0.00	8,147,426.79	236,736,564.20
2. Carrying amount at the beginning of the year	190,567,995.22	40,236,225.04	4,692,414.03	0.00	8,696,691.51	244,193,325.80

Amortisation for the Period is RMB8,085,037.60 (RMB11,882,272.83 for the Same Period Last Year).

The proportion of intangible assets created due to the Company's internal R&D in the balance of intangible assets at the End of the Period is 5.52%.



VI. NOTES TO THE COMPONENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

15. Intangible assets *(continued)*

(2) Intangible assets with pending certificates for ownership were as follows:

Item	Carrying amount	Reason for pending certificates for ownership
Land use rights	26,098,740.09	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 costs

Item	Balance at the beginning of the year	Increase for the Period	Decrease for the Period		Balance at the End of the Period
			Recognised in profit or loss for the current period	Recognised as intangible assets	
Expensing costs:	0.00	288,459,672.08	288,459,672.08	0.00	0.00
Capitalised expenses:	81,146,586.57	30,514,994.51	0.00	0.00	111,661,581.08
In which: Chemical drug preparation products	9,508,822.29	3,852,801.05	0.00	0.00	13,361,623.34
In which: Biopharmaceutical drugs	71,637,764.28	26,662,193.46	0.00	0.00	98,299,957.74
Total	81,146,586.57	318,974,666.59	288,459,672.08	0.00	111,661,581.08

(Unless specified otherwise, all amount are denominated in RMB.)

VI. 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
Livzon Group Livzon Pharmaceutical Factory (麗珠集團麗珠製藥廠)	47,912,269.66	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	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	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	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	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	3,492,752.58
Total	121,511,804.88	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
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	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	7,271,307.03
Total	18,471,307.03	0.00	0.00	18,471,307.03



VI. NOTES TO THE COMPONENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

17. Goodwill *(continued)*

(3) Impairment test and provision for impairment on goodwill

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. All of the major cash flows of above-mentioned subsidiaries are independent from the Company and those of other subsidiaries of the Company, therefore, each of these subsidiaries is a separate asset group.

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 with a discount rate of 14.12%-16.80%.

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 Livzon Group Livzon Pharmaceutical Factory (麗珠集團麗珠製藥廠), key assumptions are a gross margin of 65.33%-67.14% and a business revenue growth rate of 0~17.80%. 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 Sichuan Guangda Pharmaceutical Manufacturing Co., Ltd. (四川光大製藥有限公司), key assumptions are a gross margin of 66.14%-67.47% and a business revenue growth rate of 0~47.45%. 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 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 45.72%-53.33% and a business revenue growth rate of -8.57%~9.39%. The management took into account historical conditions and predictions for future market development in making above assumptions.

As tested, the management of the Company expects that no impairment provision is needed during the Reporting Period.

(Unless specified otherwise, all amount are denominated in RMB.)

VI. 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	Amortisation for the Period	Other decrease	Balance at the End of the Period	Reason for other decrease
Overhaul costs of fixed assets	7,045,445.90	148,275.81	1,592,042.74	0.00	5,601,678.97	
Renovation costs of offices	20,057,842.04	1,810,971.37	1,042,482.39	0.00	20,826,331.02	
Renovation costs of plants	76,692,652.44	1,328,054.64	3,555,636.60	0.00	74,465,070.48	
Resins and fillers	7,548,842.79	9,463,709.15	2,640,231.07	0.00	14,372,320.87	
Others	2,001,739.66	681,607.58	252,179.86	0.00	2,431,167.38	
Total	113,346,522.83	13,432,618.55	9,082,572.66	0.00	117,696,568.72	

19. Deferred income tax assets/Deferred income tax liabilities

(1) Breakdown of deferred income tax assets

Item	Balance at the End of the Period		Balance at the beginning of the year	
	Deductible temporary difference	Deferred income tax assets	Deductible temporary difference	Deferred income tax assets
Deductible temporary difference arising from provision for impairment of assets	211,720,107.36	32,244,023.12	209,076,521.54	31,783,300.72
Deductible temporary difference arising from accrued expenses	182,517,209.97	28,816,714.19	170,124,443.74	26,586,375.47
Deductible temporary difference arising from deductible loss	31,916,422.66	4,787,463.40	31,916,422.66	4,787,463.40
Deductible temporary difference arising from deferred income	242,397,802.39	36,359,670.34	243,750,004.01	36,562,500.61
Deductible temporary difference arising from gains from unrealized intracompany transactions	211,471,380.33	31,720,707.05	264,002,103.60	39,600,315.54
Deductible temporary difference arising from share incentive cost	6,859,102.47	1,037,040.77	2,810,710.50	421,608.06
Deductible temporary difference arising from changes in fair value	2,820,627.00	423,094.05	85,294.16	12,794.12
Other deductible temporary difference	24,819,927.51	3,863,055.38	12,255,335.49	1,841,906.57
Total	914,522,579.69	139,251,768.30	934,020,835.70	141,596,264.49



VI. NOTES TO THE COMPONENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

19. Deferred income tax assets/Deferred income tax liabilities (continued)

(2) Breakdown of deferred income tax liabilities

Item	Balance at the End of the Period		Balance at the beginning of the year	
	Taxable temporary difference	Deferred income tax liabilities	Taxable temporary difference	Deferred income tax liabilities
Taxable temporary difference arising from financial assets held for trading	9,380,031.26	1,407,004.69	8,472,426.34	1,294,246.16
Taxable temporary difference arising from other equity instrument investments	9,239,290.73	1,550,594.52	17,838,911.04	3,148,872.47
Taxable temporary difference arising from long-term equity investments under equity method	33,318,643.52	4,997,796.52	27,434,905.93	4,115,235.89
Taxable temporary difference arising from accelerated depreciation of fixed assets	343,728,444.34	51,631,600.57	248,352,965.60	37,380,375.64
Taxable temporary difference arising from gains from unrealized intracompany transactions	56,940,000.00	8,541,000.00	56,940,000.00	8,541,000.00
Total	452,606,409.85	68,127,996.30	359,039,208.91	54,479,730.16

(3) Breakdown 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	211,007,125.08	230,740,223.37
Deductible loss	667,385,195.08	609,869,854.04
Total	878,392,320.16	840,610,077.41

(4) 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	Remarks
2019	58,730,829.81	58,730,829.81	
2020	47,491,873.28	83,358,127.84	
2021	94,405,938.69	97,337,885.51	
2022	140,753,751.29	141,810,116.50	
2023	211,237,901.76	211,237,901.76	
2024	89,715,933.98	0.00	
2027	635,203.47	635,203.47	
2028	8,935,708.33	8,935,708.33	
2029	6,070,438.83	0.00	
2032	1,245,859.22	1,245,859.22	
2033	6,578,221.60	6,578,221.60	
2034	1,583,534.82	0.00	
Total	667,385,195.08	609,869,854.04	

(Unless specified otherwise, all amount are denominated in RMB.)

VI. 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	26,082,517.09	19,033,258.68
Prepayment for acquisition of project and equipment	144,487,692.29	138,761,846.47
Prepayment for acquisition of technical know-how	111,451,955.34	106,292,562.55
Total	282,022,164.72	264,087,667.70

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	0.00	1,500,000,000.00
Total	0.00	1,500,000,000.00

(2) Status of outstanding overdue short-term loans

Nil.

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	5,166,927.00	85,294.16
In which: Derivative financial liabilities	5,166,927.00	85,294.16

Derivative financial liabilities represent foreign currency forward contracts, loss from unexpired contracts measured at fair value was recognised as financial liabilities held for trading at balance sheet date.

23. Bills payables

Type	Balance at the End of the Period	Balance at the beginning of the year
Bank acceptance bills	832,870,849.63	718,590,036.85

(1) The amount of RMB832,870,849.63 will be due for the next accounting period.

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

(Unless specified otherwise, all amount are denominated in RMB.)



VI. NOTES TO THE COMPONENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

24. Status of accounts payables

(1) Breakdown of accounts payables (an ageing analysis is based on dates of recognition of accounts payables)

Item	Balance at the End of the Period	Balance at the beginning of the year
Within 3 months (including 3 months)	391,415,232.09	421,288,694.50
4 to 6 months (including 6 months)	138,401,320.00	141,627,643.20
7 to 12 months (including 12 months)	93,601,709.46	36,799,505.54
1 to 2 years (including 2 years)	14,458,480.86	14,519,847.32
Over 2 years	11,256,202.98	22,088,815.96
Total	649,132,945.39	636,324,506.52

(2) Important accounts payables ageing over 1 year

Item	Balance at the End of the Period	Reason for non-payment or non-transfer
Jiaozuo Joicare Pharmaceutical Industry Co., Ltd. (焦作健康元生物製品有限公司)	4,556,041.09	Holdback
Guangdong Jian'an Changsheng Engineering Co., Ltd. (廣東建安昌盛工程有限公司)	1,136,535.47	Holdback
Total	5,692,576.56	

(Unless specified otherwise, all amount are denominated in RMB.)

VI. NOTES TO THE COMPONENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

25. Contract liabilities

(1) Status of contract liabilities

Item	Balance at the End of the Period	Balance at the beginning of the year
Within 1 year	54,698,567.08	91,651,095.70
Over 1 year	22,595,900.33	24,322,368.39
Total	77,294,467.41	115,973,464.09

(2) Major contract liabilities ageing over 1 year

Item	Balance at the End of the Period	Reason for non-payment or non-transfer
Guangdong Center for Disease Control and Prevention (廣東省疾病預防控制中心)	5,974,513.61	The other party has not requested delivery
Hunan Health and Family Planning Commission (湖南省衛生和計劃生育委員會)	2,188,671.47	The other party has not requested delivery
Wenshan Meiluo Junyuan San-qi Planting Base Co., Ltd. (文山美羅君元三七種植基地有限公司)	1,000,000.00	The other party has not requested delivery
Total	9,163,185.08	

(3) 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 RMB75,219,194.65.

26. Employee benefits payables

(1) Presentation of 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
I. Short-term salary	184,392,216.36	456,026,684.69	500,580,717.88	139,838,183.17
II. Post-resignation benefits-defined contribution plans	246,210.19	35,871,928.25	36,097,637.40	20,501.04
III. Dismiss benefits	1,408,000.00	696,886.60	706,886.60	1,398,000.00
IV. Other benefits due within 1 year	0.00	0.00	0.00	0.00
Total	186,046,426.55	492,595,499.54	537,385,241.88	141,256,684.21

(Unless specified otherwise, all amount are denominated in RMB.)



VI. NOTES TO THE COMPONENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

26. Employee benefits payables *(continued)*

(2) Presentation of short-term salary

Item	Balance at the beginning of the year	Increase for the Period	Decrease for the Period	Balance at the End of the Period
1. Salaries, bonuses, allowances and subsidies	178,955,493.25	408,186,278.84	448,706,520.23	138,435,251.86
2. Employee welfare	4,913,244.88	16,392,640.07	20,456,339.55	849,545.40
3. Social insurance	21,516.61	15,036,915.80	15,044,795.77	13,636.64
Of which: Medical insurances	0.00	12,942,734.37	12,930,844.58	11,889.79
Work-related injury insurances	14,415.25	918,417.75	932,106.72	726.28
Maternity insurances	7,101.36	1,175,763.68	1,181,844.47	1,020.57
4. Housing funds	445,182.00	15,381,065.49	15,337,314.49	488,933.00
5. Labour union fees and employee education fees	56,779.62	1,029,784.49	1,035,747.84	50,816.27
6. Short-term compensated absence	0.00	0.00	0.00	0.00
7. Short-term profit distribution plan-operating performance-linked bonuses of subsidiaries	0.00	0.00	0.00	0.00
Total	184,392,216.36	456,026,684.69	500,580,717.88	139,838,183.17

(3) Presentation of 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
1. Basic pension insurance	231,578.08	34,163,825.86	34,377,822.16	17,581.78
2. Unemployment insurance	14,632.11	1,708,102.39	1,719,815.24	2,919.26
Total	246,210.19	35,871,928.25	36,097,637.40	20,501.04

The Company participates in pension insurance and unemployment insurance plans established by the government in accordance with the relevant requirements. According to the plans, the Company deposits the fees in accordance with the relevant rules of the local government. Save for the above fees, the Company no longer undertakes further payment obligation. The corresponding cost charges to the profit or loss for the current period or the cost of a relevant asset when occurs.

(Unless specified otherwise, all amount are denominated in RMB.)

VI. NOTES TO THE COMPONENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

27. Taxes payables

Item	Balance at the End of the Period	Balance at the beginning of the year
Value added tax	57,210,488.82	91,051,071.74
Urban maintenance and construction tax	4,318,453.43	3,689,564.99
Enterprise income tax	76,084,795.84	127,423,429.14
Property tax	8,282,035.97	10,727,445.94
Land use tax	2,176,078.95	2,973,348.48
Individual income tax	1,132,156.15	3,942,663.25
Stamp duty	571,383.94	1,642,708.04
Education surcharges	3,526,747.24	3,459,973.69
Flood prevention fee	20,300.76	20,300.76
Others	165,653.67	126,949.42
Total	153,488,094.77	245,057,455.45

28. Other payables

Item	Balance at the End of the Period	Balance at the beginning of the year
Dividends payable	986,589,278.21	97,536,288.17
Other payables	2,133,368,001.82	1,869,564,529.08
Total	3,119,957,280.03	1,967,100,817.25

(1) Status of dividends payable

Item	Balance at the End of the Period	Balance at the beginning of the year	Reason for outstanding over 1 year
Dividends on ordinary shares	863,116,533.99	20,174.46	Not yet paid
Qingyuan Xinbeijiang (Group) Company (清遠新北江企業(集團)公司)	1,200,710.00	1,200,710.00	Not yet paid
Other legal persons and individual shares of subsidiaries	1,051,300.00	1,051,300.00	Not yet paid
Staff shares of subsidiaries Zhuhai Zhenghe Co., Ltd. (珠海正禾企業有限公司)	259,800.00	259,800.00	Not yet paid
Zheng Fusang (鄭扶桑)	120,960,934.22	90,004,303.71	Not yet paid
	0.00	5,000,000.00	
Total	986,589,278.21	97,536,288.17	

(Unless specified otherwise, all amount are denominated in RMB.)



VI. NOTES TO THE COMPONENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

28. Other payables (continued)

(2) Other payables

- ① Other payables by nature

Item	Balance at the End of the Period	Balance at the beginning of the year
Office expenses	66,445,728.72	81,524,026.34
Deposits under guarantees	40,148,290.60	37,511,839.06
Business promotion expenses	1,148,691,471.27	1,020,057,577.45
Obligations of repurchasing restricted shares	0.00	25,208.04
Technology transfer funds	7,493,225.76	10,168,111.97
Related party balances	11,510,174.78	5,787,078.06
Accrued expenses	800,659,493.44	686,633,258.99
Others	58,419,617.25	27,857,429.17
Total	2,133,368,001.82	1,869,564,529.08

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

- ② The breakdown of accruals included in other payables were as follows:

Item	Balance at the End of the Period	Balance at the beginning of the year	Reason for outstanding
Utilities expenses	14,088,488.41	11,706,301.31	Not yet paid
Research expenses	26,512,277.99	28,044,547.23	Not yet paid
Business promotion expenses	682,634,661.47	565,056,625.35	Not yet paid
Advertising expenses	266,371.28	149,571.28	Not yet paid
Business meeting expenses	27,554,588.70	29,058,996.84	Not yet paid
Auditing and information disclosure expenses	1,842,459.48	2,493,633.59	Not yet paid
Others	47,760,646.11	50,123,583.39	Not yet paid
Total	800,659,493.44	686,633,258.99	

29. Non-current liabilities due within one year

Item	Balance at the End of the Period	Balance at the beginning of the year
Long-term loans due within 1 year (Note VI.30)	400,000.00	400,000.00
Total	400,000.00	400,000.00

(Unless specified otherwise, all amount are denominated in RMB.)

VI. NOTES TO THE COMPONENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

30. Long-term loans

Item	Balance at the End of the Period	Balance at the beginning of the year
Loans on credit	400,000.00	1,100,000.00
Less: Long-term loans due within one year (Note VI.29)	400,000.00	400,000.00
Total	0.00	700,000.00

31. 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	262,712,220.34	19,219,912.95	26,208,836.69	255,723,296.60	

Items related to government grants:

Items of the grants	Balance at the beginning of the year	Increase for the Period	Decrease for the Period			Balance at the End of the Period	Related to assets/ income	
			Recognised in other incomes	Recognised in non-operating income	Written down of costs			Other decrease
R&D and commercialisation of innovative drug of Ilaprazole series	28,639,541.39	0.00	2,455,000.02	0.00	0.00	0.00	26,184,541.37	Related to assets
R&D and commercialisation of innovative drug of Ilaprazole series	3,664,884.28	0.00	374,064.90	0.00	0.00	0.00	3,290,819.38	Related to income
Subsidy for R&D of Leuprorelin	3,681,725.00	0.00	0.00	0.00	0.00	0.00	3,681,725.00	Related to income
Strategic emerging industries in 2014 (sustained release microspheres)	18,700,000.00	0.00	2,000,000.00	0.00	0.00	0.00	16,700,000.00	Related to assets
Fund for commercialisation of prolonged-action microsphere preparation	13,300,000.00	0.00	0.00	0.00	0.00	0.00	13,300,000.00	Related to assets
Pilot-scale enlargement and industrialization of prolonged-action injection Microsphere products	2,400,000.00	0.00	0.00	0.00	0.00	0.00	2,400,000.00	Related to assets
Special funds for innovation-driven projects in 2015	93,000.00	0.00	93,000.00	0.00	0.00	0.00	0.00	Related to assets
Project subsidy from the Ministry of Industry and Information Technology	2,400,000.00	0.00	0.00	0.00	0.00	0.00	2,400,000.00	Related to assets
Project subsidy from the Ministry of Industry and Information Technology	2,059,750.00	0.00	0.00	0.00	0.00	0.00	2,059,750.00	Related to assets
Construction of drug conformity evaluation research center platform	1,520,000.02	0.00	195,499.98	0.00	0.00	0.00	1,324,500.04	Related to assets
R&D and industrialization of mouse nerve growth factor for injection	60,462,693.37	0.00	4,539,023.43	0.00	0.00	0.00	55,923,669.94	Related to assets
Demonstration project on the application of solar photovoltaic architecture	5,761,499.67	0.00	551,000.04	0.00	0.00	0.00	5,210,499.63	Related to assets
Subsidy for the tender of technology upgrade project for PVC soft bag supported by provincial finance departments	3,928,581.84	0.00	204,182.88	0.00	0.00	0.00	3,724,398.96	Related to assets

(Unless specified otherwise, all amount are denominated in RMB.)



VI. NOTES TO THE COMPONENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

31. Deferred income (continued)

Items of the grants	Balance at the beginning of the year	Increase for the Period	Recognised in other incomes	Decrease for the Period			Balance at the End of the Period	Related to assets/ income
				Recognised in non-operating income	Written down of costs	Other decrease		
Technical transformation project of Shenqi								
Fuzheng Injection with flexible bag	27,147,058.82	0.00	1,911,764.70	0.00	0.00	0.00	25,235,294.12	Related to assets
Provision for technology transformation funds and subsequent grants	8,848,245.80	0.00	564,781.68	0.00	0.00	0.00	8,283,464.12	Related to assets
Provision for technology transformation funds and subsequent grants	9,684,152.87	0.00	715,894.26	0.00	0.00	0.00	8,968,258.61	Related to assets
Shenqi Fuzheng Injection	1,029,987.68	0.00	1,029,987.68	0.00	0.00	0.00	0.00	Related to assets
Shenqi Fuzheng Injection	960,523.19	0.00	960,523.19	0.00	0.00	0.00	0.00	Related to income
R&D of chemical drug liquid preparation and commercialisation of management team	1,500,000.00	0.00	0.00	0.00	0.00	0.00	1,500,000.00	Related to assets
Construction of production facilities for the GAP commercialisation of astragalus at Hunyuan in Shanxi	4,641,357.94	0.00	0.00	0.00	0.00	0.00	4,641,357.94	Related to assets
R&D and production transformation of Gemifloxacin tablets	212,527.55	0.00	212,527.55	0.00	0.00	0.00	0.00	Related to assets
Research of technologies for the inspection of toxic substances from high-throughput aquatic products in Guangdong province	80,000.00	0.00	0.00	0.00	0.00	0.00	80,000.00	Related to income
Enterprise technology center innovation capacity development (antibody laboratory)	3,184,403.74	0.00	557,766.09	0.00	0.00	0.00	2,626,637.65	Related to assets
Enterprise technology center innovation capacity development (antibody laboratory)	415,602.60	0.00	43,458.33	0.00	0.00	0.00	372,144.27	Related to income
Technology transfer of blood screening (BCI) nucleic acid detection testing	6,000,000.00	0.00	0.00	0.00	0.00	0.00	6,000,000.00	Related to assets
Technological upgrading and transformation projects of workshop for acarbose (bulk medicines for α -glucosidase inhibitor)	785,714.32	0.00	53,571.42	0.00	0.00	0.00	732,142.90	Related to assets
R&D and commercialisation of Statins	120,000.12	0.00	14,999.94	0.00	0.00	0.00	105,000.18	Related to assets
Scientific technology award and subsidy for technological innovative project	361,343.00	0.00	55,462.80	0.00	0.00	0.00	305,880.20	Related to assets
Scientific technology award and subsidy for technological innovative project	3,881,818.20	3,000,000.00	1,027,272.72	0.00	0.00	0.00	5,854,545.48	Related to income
Commissioner workstation	265,000.00	0.00	30,000.00	0.00	0.00	0.00	235,000.00	Related to assets
Industrial revitalisation supporting funds	5,919,500.01	0.00	579,000.00	0.00	0.00	0.00	5,340,500.01	Related to assets
Innovative drug of Ilaprazole phase IV clinical research	8,210,800.00	0.00	0.00	0.00	0.00	0.00	8,210,800.00	Related to assets
Government grant for industrial transformation	908,333.59	0.00	99,999.89	0.00	0.00	0.00	808,333.70	Related to assets
New industrialization development grant	2,004,166.50	0.00	175,000.09	0.00	0.00	0.00	1,829,166.41	Related to assets
Policy fund for leading industrial enterprises loan interests	966,666.61	0.00	100,000.02	0.00	0.00	0.00	866,666.59	Related to assets
Supporting funds for five advantageous industrial clusters and one high-tech industry	600,000.08	0.00	49,999.98	0.00	0.00	0.00	550,000.10	Related to assets

(Unless specified otherwise, all amount are denominated in RMB.)

VI. NOTES TO THE COMPONENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

31. Deferred income (continued)

Items of the grants	Balance at the beginning of the year	Increase for the Period	Recognised in other incomes	Decrease for the Period			Balance at the End of the Period	Related to assets/ income
				Recognised in non-operating income	Written down of costs	Other decrease		
Set-up and research fund for postdoctoral station	100,000.00	0.00	100,000.00	0.00	0.00	0.00	0.00	Related to assets
Set-up and research fund for postdoctoral station	5,142.15	0.00	5,142.15	0.00	0.00	0.00	0.00	Related to income
New R&D institution subsidy	2,000,000.00	0.00	0.00	0.00	0.00	0.00	2,000,000.00	Related to assets
Capital projects of innovation and entrepreneurship team funding program	9,750,000.00	0.00	0.00	0.00	0.00	0.00	9,750,000.00	Related to assets
R&D of innovative traditional Chinese medicine Qihuo Sugar (芪藿糖) capsule for kidney for cure for diabetes and kidney disease	1,000,000.00	0.00	0.00	0.00	0.00	0.00	1,000,000.00	Related to assets
Zhuhai strategic emerging industries special funds	3,270,000.00	0.00	3,270,000.00	0.00	0.00	0.00	0.00	Related to assets
Funds for R&D and commercialisation of innovative drug of Ilaprazole series	5,600,000.00	0.00	0.00	0.00	0.00	0.00	5,600,000.00	Related to assets
Innovative drug of Ilaprazole sodium for injection	2,400,000.00	11,522,500.00	0.00	0.00	0.00	0.00	13,922,500.00	Related to assets
Technological transformation projects of new cefuroxime	1,533,100.00	0.00	0.00	0.00	0.00	0.00	1,533,100.00	Related to assets
Subsidy for online monitoring equipment for coal-fired boilers	300,000.00	0.00	22,500.00	0.00	0.00	0.00	277,500.00	Related to assets
Funds for joint R&D and commercialisation of integrated platform for molecular diagnostics	2,415,100.00	0.00	0.00	0.00	0.00	0.00	2,415,100.00	Related to assets
Development of key technology of codonopsis industry and big health products	0.00	190,731.00	190,731.00	0.00	0.00	0.00	0.00	Related to income
Energy efficiency improvement for distribution transformers under energy-saving and emission reduction projects	0.00	480,000.00	0.00	0.00	0.00	0.00	480,000.00	Related to income
Subsequent grants for high-tech enterprise cultivation (high-tech recognition and high-tech products)	0.00	60,000.00	60,000.00	0.00	0.00	0.00	0.00	Related to income
Subsidies for stabilizing employment from Zhuhai Municipal Social Security Bureau to enterprises	0.00	86,759.90	86,759.90	0.00	0.00	0.00	0.00	Related to income
Subsidies from Guangdong veterinary bulk medicine engineering technology research center	0.00	500,000.00	500,000.00	0.00	0.00	0.00	0.00	Related to income
Subsidies for the construction of doctoral workstations in the East, West and North of Guangdong in 2019	0.00	500,000.00	500,000.00	0.00	0.00	0.00	0.00	Related to income
Subsequent grants for Qingyuan industrial enterprise technology transformation in 2018	0.00	2,479,863.99	2,479,863.99	0.00	0.00	0.00	0.00	Related to income
Special funds for promoting economic development at the provincial level in 2018	0.00	184,758.06	184,758.06	0.00	0.00	0.00	0.00	Related to income

(Unless specified otherwise, all amount are denominated in RMB.)



VI. NOTES TO THE COMPONENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

31. Deferred income (continued)

Items of the grants	Balance at the beginning of the year	Increase for the Period	Recognised in other incomes	Decrease for the Period			Balance at the End of the Period	Related to assets/ income
				Recognised in non-operating income	Written down of costs	Other decrease		
Special funds for strengthening intellectual property work in 2018	0.00	50,000.00	50,000.00	0.00	0.00	0.00	0.00	Related to income
Capital funding for patents in 2017	0.00	107,700.00	107,700.00	0.00	0.00	0.00	0.00	Related to income
Construction project at astragalus base of Hunyuan County Finance Bureau	0.00	57,600.00	57,600.00	0.00	0.00	0.00	0.00	Related to assets
Total	262,712,220.34	19,219,912.95	26,208,836.69	0.00	0.00	0.00	255,723,296.60	

32. Share capital

January to June 2019

Item	Balance at the beginning of the year		Changes for the Period (+ -)					Balance at the End of the Period	
	Amount	Percentage (%)	Issue of new shares	Number of bonus shares	Reserve fund capitalized	Others	Sub-total	Amount	Percentage (%)
I. Shares subject to selling restrictions									
1. State-owned shares	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
2. State-owned legal person shares	13,312,561	1.85	0.00	0.00	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
Of 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 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
Of which: Domestic 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

(Unless specified otherwise, all amount are denominated in RMB.)

VI. NOTES TO THE COMPONENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

32. Share capital (continued)

January to June 2019 (continued)

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.

January to June 2018

Item	Balance at the beginning of the year		Changes for the Period (+ -)				Balance at the End of the Period		
	Amount	Percentage (%)	Issue of new shares	Amount	Percentage (%)	Issue of new shares	Amount	Percentage (%)	Issue of new shares
I. Shares subject to selling restrictions									
1. State-owned shares	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
2. State-owned legal person shares	10,240,432	1.85	0.00	0.00	3,072,129	0.00	3,072,129	13,312,561	1.85
3. Other domestic shares	5,263,323	0.95	0.00	0.00	135,217	-3,378,458	-3,243,241	2,020,082	0.28
Of which: Domestic legal person shares	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Domestic natural person shares	5,263,323	0.95	0.00	0.00	135,217	-3,378,458	-3,243,241	2,020,082	0.28
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
Of which: Domestic legal person shares	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Overseas natural person shares	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Shares subject to selling restrictions in aggregate	15,503,755	2.80	0.00	0.00	3,207,346	-3,378,458	-171,112	15,332,643	2.13
II. Shares not subject to selling restrictions									
1. Ordinary shares denominated in Renminbi	348,458,846	62.99	0.00	0.00	105,946,694	3,262,659	109,209,353	457,668,199	63.65
2. Domestically listed foreign shares (B-share)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
3. Overseas listed foreign shares (H-share)	189,268,768	34.21	0.00	0.00	56,780,630	0.00	56,780,630	246,049,398	34.22
4. Others	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Shares not subject to selling restrictions in aggregate	537,727,614	97.20	0.00	0.00	162,727,324	3,262,659	165,989,983	703,717,597	97.87
III. Total number of shares	553,231,369	100.00	0.00	0.00	165,934,670	-115,799	165,818,871	719,050,240	100.00



VI. NOTES TO THE COMPONENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

32. Share capital (continued)

January to June 2018 (continued)

On 29 March 2018, the "Resolution on First Grant of Shares to be Unlocked during the Third Unlocking Period under the Restricted Shares Incentive Scheme of the Company" was passed at the Twelfth Meeting of the Ninth Session of the Board, and therefore 4,038,407 Restricted Shares under the First Grant were unlocked during the Third Unlocking Period. According to the authority granted to the Board at the 2015 First Extraordinary General Meeting of the Company, the Company had completed the unlock procedure and related matters for the above shares, with the listing date of such shares being 13 April 2018, resulting in a change in the number of shares. According to the Guidelines of the Shenzhen Stock Exchange for the Standard Operation of Companies Listed on the Main Board, upon completion of this unlock procedure, there are 1,434,142 locked shares held by the senior management.

33. Capital reserve

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
Capital premiums	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.

January to June 2018

Item	Balance at the beginning of the year	Increase for the Period	Decrease for the Period	Balance at the End of the Period
Capital premiums	1,670,409,484.28	46,216,839.78	174,795,231.52	1,541,831,092.54
Other capital reserve	44,861,489.65	0.00	21,213,574.80	23,647,914.85
Total	1,715,270,973.93	46,216,839.78	196,008,806.32	1,565,479,007.39

(Unless specified otherwise, all amount are denominated in RMB.)

VI. NOTES TO THE COMPONENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

33. Capital reserve (continued)

January to June 2018 (continued)

The increase in the capital premium in the Period represented: ① releasing conditions of 4,038,407 Restricted Shares from the First Grant and Reserved Grant have been fulfilled, and the corresponding withdrawal of share incentive expenses RMB21,213,574.80 is transferred from other capital reserve to the share premium reserve; ② upon unlocking of Restricted Shares, the difference between expenses deductible for tax purpose and the accrued expenses reduced income tax payable by RMB25,003,264.98 according to taxation requirements and capital premiums is increased accordingly. The decrease in the capital premium in the Period represented ① the decrease of share premium in the sum of RMB1,611,873.24 by the repurchase and cancellation of 115,799 Restricted Shares granted to incentive participants no longer satisfying the incentive conditions; ② the decrease of share premium in the sum of RMB165,934,670.00 by the conversion of capital; ③ disposal of certain equity of a subsidiary without losing control, the price of disposal corresponds to disposal of long-term equity investment, with entitlement to the difference of RMB10,503.81 between the subsidiary's net assets shares continuously calculated from the date of merger, and the tax of RMB7,259,192.09 incurred in the transaction, the capital premium is totally reduced by RMB7,248,688.28.

34. Treasury shares

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
Total	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 held by an incentive participant who was not eligible for unlock conditions.

January to June 2018

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	66,786,741.96	0.00	59,503,507.76	7,283,234.20
Total	66,786,741.96	0.00	59,503,507.76	7,283,234.20

(Unless specified otherwise, all amount are denominated in RMB.)



VI. NOTES TO THE COMPONENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

34. Treasury shares (continued)

January to June 2018 (continued)

The decrease in our repurchase obligation during the Period represented: ① the releasing conditions of 4,038,407 Restricted Shares from the First Grant have been fulfilled, resulting in a corresponding decrease in our repurchase obligation of RMB56,860,770.56; ② the decrease of treasury shares of RMB915,064.96 due to cash dividends distributed to the holders of Restricted Shares during the Period; ③ the repurchase and cancellation of 115,799 Restricted Shares granted to the Incentive Participants no longer satisfying the incentive conditions, resulting in a repurchase payment of RMB1,727,672.24, among which the decrease of share capital of RMB115,799 and capital reserve of RMB1,611,873.24 were attributable to the cancellation of treasury shares.

35. Other comprehensive income

January to June 2019

Item	For the Period						
	Balance at the beginning of the year	Amount incurred before income tax for the Period	Less: amount recognized in other comprehensive income in Previous Period transferred to profit or loss (or retained earnings) for the Period	Less: income tax expenses	Attributable to the parent company after tax	Attributable to the noncontrolling shareholders after tax	Balance at the End of the Period
I. Other comprehensive income items not to be re-classified as 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
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 as 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
Profit and loss from change in fair value of available-for-sale financial assets (under original Financial Instrument Standards)	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Financial assets reclassified into other comprehensive income (under the New Financial Instrument Standards)	0.00	0.00	0.00	0.00	0.00	0.00	0.00
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
Others	0.00	0.00	0.00	0.00	0.00	0.00	0.00
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

(Unless specified otherwise, all amount are denominated in RMB.)

VI. NOTES TO THE COMPONENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

35. Other comprehensive income (continued)

January to June 2018

Item	Balance at the beginning of the year	Amount incurred before income tax for the Period	For the Period				Balance at the End of the Period
			Less: amount recognized in other comprehensive income in Previous Period transferred to profit or loss (or retained earnings) for the Period	Less: income tax expenses	Attributable to the parent company after tax	Attributable to the noncontrolling shareholders after tax	
I. Other comprehensive income items subsequently not to be re-classified as profit or loss	5,726,534.42	-6,177,120.87	0.00	-1,019,224.95	-5,157,895.92	0.00	568,638.50
II. Other comprehensive income items subsequently to be re-classified as profit or loss	5,726,534.42	-6,177,120.87	0.00	-1,019,224.95	-5,157,895.92	0.00	568,638.50
Profit and loss from change in fair value of available-for-sale financial assets	-58,625,463.94	6,827,645.26	0.00	0.00	6,777,510.90	50,134.36	-51,847,953.04
Translation differences of financial statements denominated in foreign currency	-58,625,463.94	6,827,645.26	0.00	0.00	6,777,510.90	50,134.36	-51,847,953.04
Others	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Total of other comprehensive income	-52,898,929.52	650,524.39	0.00	-1,019,224.95	1,619,614.98	50,134.36	-51,279,314.54

36. Surplus reserve

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

(Unless specified otherwise, all amount are denominated in RMB.)



VI. NOTES TO THE COMPONENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

36. Surplus reserve *(continued)*

January to June 2018

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

37. Retained earnings

(1) Movement in retained earnings

Item	For the Period	For the Previous Period	Allocation or appropriation proportion
Retained earnings for the Same Period Last Year before adjustment	8,012,611,700.26	8,028,315,370.19	
Add: Adjusted retained earnings at the beginning of the year	0.00	8,352,564.09	
Retained earnings at the beginning of the year after adjustment	8,012,611,700.26	8,036,667,934.28	
Add: Net earnings attributable to the shareholders of the parent company for the Period	738,947,763.69	633,354,295.53	
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	862,857,854.40	1,106,231,140.00	
Dividends of ordinary shares capitalised	0.00	0.00	
Add: Gain on disposal of other equity investments	2,296,602.00	0.00	
Retained earnings at the End of the Period	7,890,998,211.55	7,563,791,089.81	

(Unless specified otherwise, all amount are denominated in RMB.)

VI. NOTES TO THE COMPONENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

37. Retained earnings *(continued)*

(2) Notes to appropriation of profits

Unit: RMB'000

Item	For the Period	For the Previous Period
Dividends:		
Final dividends in respect of the year 2018 paid during the year <i>(Note 2)</i>	–	–
Final dividends in respect of the year 2017 paid during the year	–	727,693.60
Dividends proposed after the balance sheet date:		
Final dividends proposed for the year 2018 <i>(Note 1)</i>	862,857.85	–
Final dividends proposed for the year 2017 <i>(Note 2)</i>	–	1,106,231.14

Note 1: 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.

Note 2: On 23 March 2018, the Company held the Eleventh Meeting of the Ninth Session of the Board to consider and approve 2017 annual profit distribution, based on the Company's total share capital as at the registration date of shareholding determined by implementation of the 2017 annual profit distribution plan, a cash dividend of RMB2 per share (tax inclusive) would be distributed to all the shareholders of the Company. At the same time, 3 shares would be issued for every 10 shares held to all shareholders of the Company by way of capitalizing our capital reserve. Such profit contribution plan was approved on 21 May 2018 at the general meeting and RMB1,106,231,140 was paid.

(Unless specified otherwise, all amount are denominated in RMB.)



VI. NOTES TO THE COMPONENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

38. Operating income and operating cost (1)

Item	For the Period		For the Same Period Last Year	
	Income	Cost	Income	Cost
Principal activities	4,914,745,307.40	1,720,974,859.37	4,543,740,467.83	1,699,813,414.69
Other activities	24,320,286.54	13,606,696.64	20,963,023.60	8,625,392.74
Total	4,939,065,593.94	1,734,581,556.01	4,564,703,491.43	1,708,438,807.43

The Company operates in a single operating segment in the PRC, i.e. the manufacture of pharmaceuticals. Accordingly, no operating segment of the Company is presented.

(2) Information of major business income

① Presented by product types

Item	For the Period		For the Same Period Last Year	
	Income	Cost	Income	Cost
Chemical drug preparation products	2,620,972,722.23	558,994,276.64	2,144,998,149.82	449,359,796.02
Bulk medicine and Intermediates	1,218,996,494.87	846,246,039.78	1,199,338,557.03	918,750,352.76
Chinese drug preparation products	709,446,688.37	176,400,921.43	861,803,356.71	198,218,354.11
Diagnostic products and equipment	365,329,401.93	139,333,621.52	337,600,404.27	133,484,911.80
Total	4,914,745,307.40	1,720,974,859.37	4,543,740,467.83	1,699,813,414.69

② Presented by regions of operations

Item	For the Period		For the Same Period Last Year	
	Income	Cost	Income	Cost
Domestic	4,248,447,776.90	1,283,589,909.44	3,985,197,646.14	1,281,587,931.21
Overseas	666,297,530.50	437,384,949.93	558,542,821.69	418,225,483.48
Total	4,914,745,307.40	1,720,974,859.37	4,543,740,467.83	1,699,813,414.69

③ Presented by recognition time of income

Item	For the Period		For the Same Period Last Year	
	Income	Cost	Income	Cost
Commodities (transferred at a point in time)	4,914,745,307.40	1,720,974,859.37	4,543,740,467.83	1,699,813,414.69
Total	4,914,745,307.40	1,720,974,859.37	4,543,740,467.83	1,699,813,414.69

(Unless specified otherwise, all amount are denominated in RMB.)

VI. NOTES TO THE COMPONENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

39. Business taxes and surcharges

Item	For the Period	For the Same Period Last Year
Urban maintenance and construction tax	26,441,111.47	26,422,169.15
Education surcharges	20,211,270.58	22,082,044.13
Flood prevention fee	253,997.03	263,740.74
Land use tax	3,256,482.79	3,192,490.69
Property tax	8,306,355.37	8,712,024.28
Stamp duty	1,867,111.23	3,021,572.36
Vehicle and vessel usage tax	44,093.26	31,149.92
Environmental protection tax	321,681.78	133,318.60
Others	4,230.39	24,230.34
Total	60,706,333.90	63,882,740.21

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

40. Selling expenses

Item	For the Period	For the Same Period Last Year
Marketing and promotional expenses	1,619,937,068.23	1,522,146,121.94
Staff salaries	105,801,077.66	88,831,927.45
Transportation costs	25,431,388.42	25,763,268.70
Travelling expenses and entertainment	16,709,711.13	15,148,942.16
Business meeting expenses	13,608,944.58	11,612,351.55
Others	15,358,065.59	16,177,474.20
Total	1,796,846,255.61	1,679,680,086.00

41. Administrative expenses

Item	For the Period	For the Same Period Last Year
Staff salaries	105,583,302.11	85,094,577.21
Share incentive expenses	4,686,435.12	0.00
Depreciation and amortisation	29,408,365.66	30,612,701.60
Loss on suspension of operations	28,171,982.60	24,036,915.69
Auditing fees	1,164,037.40	1,128,427.13
Others	86,197,724.12	110,267,954.02
Total	255,211,847.01	251,140,575.65

(Unless specified otherwise, all amount are denominated in RMB.)



VI. NOTES TO THE COMPONENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

42. R&D expenses

Item	For the Period	For the Same Period Last Year
Material costs	90,282,687.53	58,652,741.70
Staff salaries	102,264,251.87	90,838,234.99
Share incentive expenses	425,148.78	0.00
Testing fees	43,707,577.23	46,802,724.37
Depreciation and amortisation	26,152,286.78	22,588,023.59
Others	25,627,719.89	25,081,998.37
Total	288,459,672.08	243,963,723.02

43. Financial expenses

Item	For the Period	For the Same Period Last Year
Interest expenses	5,219,055.56	2,390,751.95
Less: Interest income	119,416,636.64	97,677,697.20
Exchange (gains)/losses	-113,107.21	-20,181,635.48
Bank charges	1,671,112.05	1,630,236.68
Total	-112,639,576.24	-113,838,344.05

44. Other income

Item	For the Period	For the Same Period Last Year	Amount included in non-recurring gains or losses during the year
Government grants	37,922,405.15	39,436,755.62	37,547,174.11
Total	37,922,405.15	39,436,755.62	37,547,174.11

(Unless specified otherwise, all amount are denominated in RMB.)

VI. NOTES TO THE COMPONENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

45. Investment income

Item	For the Period	For the Same Period Last Year
Long-term equity investments income under equity method	-6,388,109.51	1,238,167.27
Investment income from disposal of long-term equity investments	0.00	0.00
Investment income from financial assets at fair value through profit or loss during its holding period	316,710.39	131,844.96
Investment income from disposal of financial assets at fair value through profit or loss	2,179,306.59	-515,723.40
Interest income from debts investment during the holding period	0.00	0.00
Interest income from other debt investments during the holding period	0.00	0.00
Gain on disposal of debt investments	0.00	0.00
Gain on disposal of other debt investments	0.00	0.00
Income generated from revaluation of remaining equity measured at fair value upon loss of control	0.00	0.00
Others	50,000.00	0.00
Total	-3,842,092.53	854,288.83

46. Gains from changes in fair value

Sources of gains from changes in fair value	For the Period	For the Same Period Last Year
(1) Financial assets held for trading	-374,370.50	2,115,939.37
In which: Shares	6,798.70	2,320,589.71
Funds	14,400.92	-3,620.34
Foreign exchange forward contracts	-395,570.12	-201,030.00
(2) Financial liabilities held for trading	-5,081,632.84	-19,021,888.89
In which: Foreign exchange forward contracts	-5,081,632.84	-19,021,888.89
Total	-5,456,003.34	-16,905,949.52

47. Credit impairment loss

Item	For the Period	For the Same Period Last Year
Bad debt loss of bills receivables	-50,000.00	0.00
Bad debt loss of accounts receivable	-9,784,575.64	24,400,101.09
Other bad debt loss of accounts receivable	-602,364.39	-396,730.99
Total	-10,436,940.03	24,003,370.10

(Unless specified otherwise, all amount are denominated in RMB.)



VI. NOTES TO THE COMPONENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

48. Asset impairment loss

Item	For the Period	For the Same Period Last Year
Provision for diminution in value of inventories	-12,579,430.43	-14,216,188.08
Provision for impairment of fixed assets	-1,530,147.82	-13,607,616.33
Total	-14,109,578.25	-27,823,804.41

49. Gains on disposal of assets

Item	For the Period	For the Same Period Last Year	Amount charged to non-recurring gains or losses during the year
Disposal of non-current assets	937,832.83	-121,892.09	937,832.83
Total	937,832.83	-121,892.09	937,832.83

50. Non-operating income

Item	For the Period	For the Same Period Last Year	Amount charged to non-recurring gains or losses during the Period
Gain on destruction or retirement of non-current assets	0.00	0.00	0.00
Income from scraps	518,677.58	337,408.69	518,677.58
Government grants not relating to the ordinary activities of enterprises	69,026,100.35	75,079,099.07	69,026,100.35
Compensation income	547,334.30	8,240.00	547,334.30
Waiver of payables	745,000.00	457,837.64	745,000.00
Others	201,363.63	506,282.65	201,363.63
Total	71,038,475.86	76,388,868.05	71,038,475.86

51. Non-operating expenses

Item	For the Period	For the Same Period Last Year	Amount charged to non-recurring gains or losses during the Period
Loss on destruction or retirement of non-current assets	848,144.71	6,707,882.00	848,144.71
Charitable donation expenses	1,096,328.67	570,000.00	1,096,328.67
Others	2,058,979.75	2,183,252.24	2,058,979.75
Total	4,003,453.13	9,461,134.24	4,003,453.13

(Unless specified otherwise, all amount are denominated in RMB.)

VI. NOTES TO THE COMPONENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)***52. Income tax expenses****(1) Breakdown of income tax expenses**

Item	For the Period	For the Same Period Last Year
Current income tax calculated according to tax laws and relevant rules	135,833,277.09	139,464,954.97
Include: Domestic enterprise income tax	135,833,277.09	139,464,954.97
Enterprise income tax in Hong Kong and Macau	0.00	0.00
Deferred income tax expenses	17,591,040.28	2,635,909.21
Total	153,424,317.37	142,100,864.18

(2) Reconciliation between accounting profit and income tax expenses

Item	For the Period	For the Same Period Last Year
Profit before tax	987,950,152.13	817,806,405.51
Income tax calculated at statutory tax rates	246,987,538.03	204,451,601.38
Effect of different tax rates applicable to subsidiaries	169,303.02	599,291.82
Effect of tax deduction	-128,908,762.46	-101,689,170.81
Effect of non-deductible expenses	11,565,224.24	7,886,958.07
Credit (charge) on deductible temporary differences on which deferred income tax assets are not recognised for the year	-170,157.54	1,484,056.54
Deductible losses of deferred income tax assets that are not recognised for the year	18,890,267.19	31,187,922.15
Utilisation of deductible losses of deferred income tax assets that are not recognised in the previous year	0.00	-475,355.87
Others	4,890,904.89	-1,344,439.10
Total	153,424,317.37	142,100,864.18

53. Other comprehensive income

Please see note VI. 35.



VI. NOTES TO THE COMPONENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

54. Notes to cash flow statement item

(1) Cash received relating to other operating activities

Item	For the Period	For the Same Period Last Year
Government grants	99,959,581.76	114,869,636.10
Interest income	119,416,636.64	97,677,697.20
Liquidated damages and compensation income	547,334.30	8,240.00
Income from scraps	518,677.58	337,408.69
Deposits for letter of credit/bank acceptance bills	21,207,970.08	24,233,920.34
Movements in capital and others	45,690,158.00	42,398,730.26
Total	287,340,358.36	279,525,632.59

(2) Cash paid relating to other operating activities

Item	For the Period	For the Same Period Last Year
Office expenses	13,600,586.92	15,490,509.32
Travelling expenses	19,172,149.97	19,119,363.83
Entertainment expenses	18,213,146.16	16,799,348.38
Transportation and miscellaneous fees	35,786,286.13	33,204,949.86
Advertising expenses	458,404.00	295,157.59
Business meeting expenses	11,337,689.46	15,550,970.84
Auditing and information disclosure fees	4,694,632.24	1,574,311.42
Consultancy fees	8,077,319.95	9,449,834.71
Research and development costs	147,356,607.99	132,738,355.07
Bank charges	1,671,112.05	1,630,236.68
Business promotion expenses	1,644,517,808.26	1,669,186,858.38
Deposits for letter of credit and bank acceptance bills	825,012.32	28,391,595.62
Other expenses paid and current account	86,864,163.81	59,964,098.67
Total	1,992,574,919.26	2,003,395,590.37

(3) Cash received from other investing activities

Item	For the Period	For the Same Period Last Year
Deposits under guarantees	0.00	800,000.00
Compensation for demolition	30,000,000.00	0.00
Total	30,000,000.00	800,000.00

(Unless specified otherwise, all amount are denominated in RMB.)

VI. NOTES TO THE COMPONENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)***54. Notes to cash flow statement item** *(continued)***(4) Cash paid relating to other investing activities**

Item	For the Period	For the Same Period Last Year
Deposits under guarantee	75,000.00	245,000.00
Foreign exchange forward contracts loss	2,614,260.04	0.00
Total	2,689,260.04	245,000.00

(5) Cash received relating to other financing activities

Item	For the Period	For the Same Period Last Year
Collection and advance payment of individual income tax	29,811.30	2,653,082.12
Total	29,811.30	2,653,082.12

(6) Cash paid relating to other financing activities

Item	For the Period	For the Same Period Last Year
Repurchase of shares	25,208.04	1,727,672.24
Collection and advance payment of individual income tax	244,137.86	2,148,260.14
Total	269,345.90	3,875,932.38

(Unless specified otherwise, all amount are denominated in RMB.)



VI. NOTES TO THE COMPONENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

55. Supplemental information to cash flow statement

(1) Information about reconciliation of net profit to cash flow from operating activities

Item	For the Period	For the Same Period Last Year
① Reconciliation from net profit to cash flow from operating activities:		
Net profit	834,525,834.76	675,705,541.33
Add: Provision for impairment of assets	24,546,518.28	3,820,434.31
Fixed assets depreciation, oil and gas assets consumption and bearer biological assets depreciation	174,286,679.08	172,628,594.05
Intangible assets amortization	8,085,037.60	11,882,272.83
Long-term deferred expenses amortization	9,082,572.66	8,252,233.72
Loss on disposal of fixed assets, intangible assets and other long-term assets ("-" for gains)	-937,832.83	121,892.09
Loss on retirement of fixed assets ("-" for gains)	848,144.71	6,707,882.00
Loss on fair value change ("-" for gains)	5,456,003.34	16,905,949.52
Finance expenses ("-" for gains)	4,561,255.51	-7,882,494.30
Investment losses ("-" for gains)	3,842,092.53	-854,288.83
Decrease in deferred income tax assets ("-" for increase)	2,344,496.19	-3,449,693.18
Increase in deferred income tax liabilities ("-" for decrease)	15,246,544.09	6,085,602.39
Decrease in inventories ("-" for increase)	67,766,366.65	-65,968,826.32
Decrease in operating items receivable ("-" for increase)	-325,571,089.64	-205,669,653.51
Increase in operating items payable ("-" for decrease)	134,280,881.69	-636,453,994.28
Others	0.00	0.00
Net cash flow from operating activities	958,363,504.62	-18,168,548.18
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:		
Balance of cash at the end of the period	7,764,149,596.64	6,385,627,974.32
Less: Balance of cash at the beginning of the year	8,563,711,205.95	7,400,973,935.19
Add: Balance of cash equivalents at the end of the period	0.00	0.00
Less: Balance of cash equivalents at the beginning of the year	0.00	0.00
Net increase in cash and cash equivalents	-799,561,609.31	-1,015,345,960.87

(Unless specified otherwise, all amount are denominated in RMB.)

VI. NOTES TO THE COMPONENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)***55. Supplemental information to cash flow statement** *(continued)***(2) Net cash payment for acquisition of subsidiaries during the Period**

Nil.

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

Nil.

(4) Composition of cash and cash equivalents

Item	For the Period	For the Same Period Last Year
① Cash	7,764,149,596.64	6,385,627,974.32
Of which: Cash on hand	146,506.97	180,094.61
Bank deposits that are readily available for payment	7,762,147,488.29	6,384,165,021.82
Other cash at bank and on hand that are readily available for payment	1,855,601.38	1,282,857.89
② Cash equivalents	0.00	0.00
Of which: Bond investments due within three months	0.00	0.00
③ Cash and cash equivalents at the end of the Period	7,764,149,596.64	6,385,627,974.32

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

56. Assets with restricted ownership or right of use

Item	Carrying amount at the end of the Period	Reasons
Cash at bank and on hand	3,833,108.70	Deposits under guarantee
– Other cash at bank and on hand		
Bills receivables	276,585,493.11	Pledged bills receivable for the bill pool business
Total	280,418,601.81	

(Unless specified otherwise, all amount are denominated in RMB.)



VI. NOTES TO THE COMPONENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

57. Monetary items denominated in foreign currencies

Item	Balance in Foreign Currency at the End of the Period	Exchange Rate	Equivalent RMB Balance at the End of the Period
Cash at bank and on hand:			
In which: HKD	824,428,960.80	0.87966	725,217,179.66
Euro	103,551.37	7.81700	809,461.06
USD	29,673,578.73	6.87470	203,996,951.70
JPY	1.00	0.063816	0.06
MOP	2,382,695.57	0.85530	2,037,919.52
Total cash at bank and on hand			932,061,512.00
Trade receivables:			
In which: Euro	297,900.00	7.81700	2,328,684.30
USD	47,808,302.42	6.87470	328,667,736.65
JPY	33,458,624.40	0.063816	2,135,195.57
Total trade receivables			333,131,616.52
Other receivables:			
In which: HKD	1,492,938.71	0.87966	1,313,278.47
USD	16,730.20	6.87470	115,015.11
Total other receivables			1,428,293.58
Other current assets:			
In which: HKD	103,393,806.65	0.87966	90,951,395.96
Total other current assets			90,951,395.96
Trade payables:			
In which: Euro	5,665.41	7.81700	44,286.51
USD	13,952.35	6.87470	95,918.22
Total trade payables			140,204.73
Other payables:			
In which: HKD	2,135,161.55	0.87966	1,878,216.21
USD	1,007,804.04	6.87470	6,928,350.43
Total other payables			8,806,566.64
Dividends payable:			
In which: HKD	335,922,723.25	0.87966	295,497,782.73
Total dividends payable			295,497,782.73

(Unless specified otherwise, all amount are denominated in RMB.)

VI. NOTES TO THE COMPONENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

58. Government grants

(1) Basic information of government grants

Items of the grants	Amount	Related to assets		Related to income			Written down of costs	Actually received or not
		Deferred income	Written down of carrying amount of assets	Deferred income	Other income	Nonoperating income		
Part of funds for air pollution control project (grants for eliminating coal-fired boilers) in 2016	560,000.00	0.00	0.00	0.00	0.00	560,000.00	0.00	Yes
Capital funding for patents in 2017	107,700.00	0.00	0.00	107,700.00	0.00	0.00	0.00	Yes
Export credit insurance and policy financing subsidies in the third quarter of 2018	117,262.00	0.00	0.00	0.00	117,262.00	0.00	0.00	Yes
Special funds for scientific and technological innovative strategy in 2018	3,000,000.00	0.00	0.00	3,000,000.00	0.00	0.00	0.00	Yes
Special funds for strengthening intellectual property work in 2018	50,000.00	0.00	0.00	50,000.00	0.00	0.00	0.00	Yes
Subsequent grants for Qingyuan industrial enterprise technology transformation in 2018	2,479,863.99	0.00	0.00	2,479,863.99	0.00	0.00	0.00	Yes
Special fund for business development promotion and foreign trade development in 2018	296,000.00	0.00	0.00	0.00	296,000.00	0.00	0.00	Yes
Special funds for promoting economic development at the provincial level in 2018	184,758.06	0.00	0.00	184,758.06	0.00	0.00	0.00	Yes
Subsidies for the construction of doctoral workstations in the East, West and North of Guangdong in 2019	500,000.00	0.00	0.00	500,000.00	0.00	0.00	0.00	Yes
Technological transformation projects of cefuroxime of WHO	14,503.00	0.00	0.00	0.00	14,503.00	0.00	0.00	Yes
Doctoral and postdoctoral subsidies	1,550,000.00	0.00	0.00	0.00	1,550,000.00	0.00	0.00	Yes
Financial support funds	7,574,000.00	0.00	0.00	0.00	0.00	7,574,000.00	0.00	Yes
Innovative drug of Ilaprazole sodium for injection	11,522,500.00	11,522,500.00	0.00	0.00	0.00	0.00	0.00	Yes
Development of key technology of codonopsis industry and big health products	190,731.00	0.00	0.00	190,731.00	0.00	0.00	0.00	Yes
Subsequent grants for high-tech enterprise cultivation (high-tech recognition and high-tech products)	60,000.00	0.00	0.00	60,000.00	0.00	0.00	0.00	Yes
Return of individual income tax commission	375,231.04	0.00	0.00	0.00	375,231.04	0.00	0.00	Yes
Subsidies from Guangdong veterinary bulk medicine engineering technology research center	500,000.00	0.00	0.00	500,000.00	0.00	0.00	0.00	Yes

(Unless specified otherwise, all amount are denominated in RMB.)



VI. NOTES TO THE COMPONENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

58. Government grants (continued)

(1) Basic information of government grants (continued)

Items of the grants	Amount	Related to assets		Related to income			Written down of costs	Actually received or not
		Deferred income	Written down of carrying amount of assets	Deferred income	Other income	Nonoperating income		
Construction project at astragalus base of Hun yuan County Finance Bureau	57,600.00	57,600.00	0.00	0.00	0.00	0.00	0.00	Yes
Subsidies for technology upgrade	700,000.00	0.00	0.00	0.00	700,000.00	0.00	0.00	Yes
Energy efficiency improvement for distribution transformers under energy-saving and emission reduction projects	480,000.00	0.00	0.00	480,000.00	0.00	0.00	0.00	Yes
Employment subsidies from the Service Station of Human Resources and Social Security of Hongqi Town, Jinwan District	63,407.00	0.00	0.00	0.00	63,407.00	0.00	0.00	Yes
Export credit insurance grants for foreign trade at municipal level in new forms of industry provided by Bureau of Industry and Information Technology of Jinwan District	1,878.88	0.00	0.00	0.00	1,878.88	0.00	0.00	Yes
Others	44,492.18	0.00	0.00	0.00	0.00	44,492.18	0.00	Yes
Enterprise support funds	58,847,608.17	0.00	0.00	0.00	0.00	58,847,608.17	0.00	Yes
Reward and support policy in 2017	4,718,000.00	0.00	0.00	0.00	4,718,000.00	0.00	0.00	Yes
R&D expenditure in 2017	80,700.00	0.00	0.00	0.00	80,700.00	0.00	0.00	Yes
Bounties for import and export growth to BRICS countries in 2017	204,739.00	0.00	0.00	0.00	204,739.00	0.00	0.00	Yes
Incentive funds for expansion of export scale in 2017	457,800.00	0.00	0.00	0.00	457,800.00	0.00	0.00	Yes
Support funds (at district level) for Innovation-driven projects of Jinwan District in 2017	80,000.00	0.00	0.00	0.00	80,000.00	0.00	0.00	Yes
Enterprise support funds in 2015	649,800.00	0.00	0.00	0.00	649,800.00	0.00	0.00	Yes
Subsidies for inland transport of products exported by foreign trade enterprises	215,800.00	0.00	0.00	0.00	215,800.00	0.00	0.00	Yes
Additional deduction on value-added tax	42,293.67	0.00	0.00	0.00	42,293.67	0.00	0.00	Yes
Capital increase and capacity expansion award	2,000,000.00	0.00	0.00	0.00	0.00	2,000,000.00	0.00	Yes
Subsidies for exhibition	22,500.00	0.00	0.00	0.00	22,500.00	0.00	0.00	Yes
Government grants as start-up funds for selected enterprises of the unicorn breeding library in 2018 - Zhuhai Finance Bureau	400,000.00	0.00	0.00	0.00	400,000.00	0.00	0.00	Yes

(Unless specified otherwise, all amount are denominated in RMB.)

VI. NOTES TO THE COMPONENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

58. Government grants (continued)

(1) Basic information of government grants (continued)

Items of the grants	Amount	Related to assets		Related to income			Actually received or not	
		Deferred income	Written down of carrying amount of assets	Deferred income	Other income	Nonoperating income		Written down of costs
Funds from Zhuhai Finance Bureau to Zhuhai Bureau of Industry and Information Technology for small and medium enterprises to improve quality, increase capital, and initiate transformation and upgrading	688,400.00	0.00	0.00	0.00	688,400.00	0.00	0.00	Yes
Innovation public platform funds from Zhuhai Bureau of Science and Technology	700,000.00	0.00	0.00	0.00	700,000.00	0.00	0.00	Yes
Subsidies for stabilizing employment from Zhuhai Municipal Social Security Bureau to enterprises	422,013.77	0.00	0.00	86,759.90	335,253.87	0.00	0.00	Yes
Total	—	11,580,100.00	0.00	7,639,812.95	11,713,568.46	69,026,100.35	0.00	—

(2) Return of government grants for the Period

Nil.

VII. CHANGE TO CONSOLIDATION SCOPE

Change to consolidation scope due to other reasons

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

On 30 April 2019, Lizhu (Hong Kong) Co., Limited (麗珠(香港)有限公司) established Livzon International Ventures and is interested in 100% of its registered capital.

On 21 May 2019, Lizhu (Hong Kong) Co., Limited (麗珠(香港)有限公司) established Livzon International Ventures I and is interested in 100% of its registered capital.

On 21 May 2019, Lizhu (Hong Kong) Co., Limited (麗珠(香港)有限公司) established Livzon International Ventures II and is interested in 100% of its registered capital.

On 27 June 2019, Zhuhai Livzon Diagnostic Reagents Inc. (珠海麗珠試劑股份有限公司) established Zhuhai Qiao Biotechnology Co., Ltd.* (珠海啟奧生物技術有限公司) and is interested in 60% of its registered capital.

On 29 April 2019, Zhuhai Livzon Biotechnology Co., Ltd. (珠海市麗珠生物醫藥科技有限公司) entered into a Shareholder Voting Right Entrustment Agreement with Zhuhai Kadi Medical Biotechnology Inc. (珠海市卡迪生物醫藥有限公司) and all of its shareholders, pursuant to which Zhuhai Livzon Medical Biotechnology Inc. has the control over Zhuhai Kadi Medical Biotechnology Inc. and is interested in 100% of its voting right.

(Unless specified otherwise, all amount are denominated in RMB.)

VIII. EQUITY IN OTHER ENTITIES

1. Equity in subsidiaries

(1) Group structure

Name of Subsidiaries	Type	Type of Legal Entity	Principal Place of Business	Place of Registration	Nature of Business	Registered Capital	Percentage of Shareholding	Proportion of Voting Rights	Acquisition Method
Ando Development Limited (安滔發展有限公司)	Subsidiary of wholly-owned subsidiary	Limited company	Hong Kong	Hong Kong	Investment	HKD500,000	100%	100%	Set-up
Lizhu (Hong Kong) Co., Limited (麗珠(香港)有限公司)	Wholly-owned	Limited company	Hong Kong	Hong Kong	Investment	HKD451,000,000	100%	100%	Set-up
Livzon International Ventures	Subsidiary of wholly-owned subsidiary	Limited company	Cayman	Cayman	Investment	USD50,000	100%	100%	Set-up
Livzon International Ventures I	Subsidiary of wholly-owned subsidiary	Limited company	Cayman	Cayman	Investment	USD50,000	100%	100%	Set-up
Livzon International Ventures II	Subsidiary of wholly-owned subsidiary	Limited company	Cayman	Cayman	Investment	USD50,000	100%	100%	Set-up
Li An (Hong Kong) Co., Ltd. (麗安(香港)有限公司)	Wholly-owned	Limited company	Hong Kong	Hong Kong	Investment	HKD313,000,000	100%	100%	Set-up
Zhuhai Modern Chinese Medicine High Technology Co., Ltd. (珠海現代中藥高科技有限公司)	Wholly-owned	Limited company	Zhuhai	Zhuhai	Provision of services	RMB6,000,000	100%	100%	Set-up
Livzon Group Livzon Pharmaceutical Factory (麗珠集團麗珠製藥廠)	Wholly-owned	Limited company	Zhuhai	Zhuhai	Manufacture of medicine	RMB450,000,000	100%	100%	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	Limited company	Zhuhai	Zhuhai	Sales of goods	RMB20,000,000	100%	100%	Set-up
Zhuhai Livzon Pharmaceutical Trading Co., Ltd. (珠海市麗珠醫藥貿易有限公司)	Wholly-owned	Limited company	Zhuhai	Zhuhai	Sales of goods	RMB60,000,000	100%	100%	Set-up
Shanghai Livzon Pharmaceutical Manufacturing Co., Ltd. (上海麗珠製藥有限公司)	Holding	Limited company	Shanghai	Shanghai	Manufacture of medicine	RMB87,330,000	51%	51%	Set-up
Zhuhai FTZ Livzon Hecheng Pharmaceutical Manufacturing Co., Ltd. (珠海保稅區麗珠合成製藥有限公司)	Subsidiary of wholly-owned subsidiary	Limited company	Zhuhai	Zhuhai	Manufacture of medicine	RMB128,280,000	100%	100%	Set-up
Zhuhai Livzon Diagnostic Reagents Inc. (珠海麗珠試劑股份有限公司)	Holding	Limited company	Zhuhai	Zhuhai	Manufacture of medicine	RMB88,232,900	51%	51%	Set-up
Zhuhai Qiao Biotechnology Co., Ltd. * (珠海啟奧生物技術有限公司)	Subsidiary of holding subsidiary	Limited company	Zhuhai	Zhuhai	Technology development	RMB16,666,667	30.6%	30.6%	Set-up
Datong Livzon Qiyuan Medicine Co., Ltd. (大同麗珠芪源藥材有限公司)	Subsidiary of wholly-owned subsidiary	Limited company	Hunyuan County	Hunyuan County	Crop farming	RMB4,000,000	92.5%	92.5%	Set-up
Longxi Livzon Shenyuan Medicine Co., Ltd. (隴西麗珠參源藥材有限公司)	Subsidiary of wholly-owned subsidiary	Limited company	Longxi County	Longxi County	Crop farming	RMB4,000,000	100%	100%	Set-up
Livzon Pharmaceutical Biotechnology Co., Limited (麗珠醫藥生物技術有限公司)	Wholly-owned	Limited company	Hong Kong	Hong Kong	Provision of services	HKD10,000	100%	100%	Set-up
Zhuhai Livzon Advertising Co., Ltd. (珠海麗珠廣告有限公司)	Wholly-owned	Limited company	Zhuhai	Zhuhai	Provision of services	RMB1,000,000	100%	100%	Set-up

VIII. EQUITY IN OTHER ENTITIES *(continued)*
1. Equity in subsidiaries *(continued)*
(1) Group structure *(continued)*

Name of Subsidiaries	Type	Type of Legal Entity	Principal Place of Business	Place of Registration	Nature of Business	Registered Capital	Percentage of Shareholding	Proportion of Voting Rights	Acquisition Method
Livzon Group Livzon Baiaimeng Biological Materials Co., Ltd. (麗珠集團麗珠一拜阿蒙生物材料有限公司)	Holding	Limited company	Zhuhai	Zhuhai	Manufacture of medicine	RMB12,000,000	82%	82%	Set-up
Livzon Group Livzon Medical Research Centre (麗珠集團麗珠醫藥研究所)	Wholly-owned	Limited company	Zhuhai	Zhuhai	Provision of services	RMB10,000,000	100%	100%	Set-up
Jiaozuo Livzon Hecheng Pharmaceutical Manufacturing Co., Ltd. (焦作麗珠合成製藥有限公司)	Subsidiary of wholly-owned subsidiary	Limited company	Jiaozuo	Jiaozuo	Manufacture of medicine	RMB70,000,000	100%	100%	Set-up
Livzon MABPharm Inc. (珠海市麗珠單抗生物技術有限公司)	Subsidiary of holding subsidiary	Limited company	Zhuhai	Zhuhai	Provision of services	RMB1,133,330,000	55.13%	55.13%	Set-up
Livzon Group Vaccine Engineering Inc. (麗珠集團疫苗工程股份有限公司)	Holding	Limited company	Zhuhai	Zhuhai	Provision of services	RMB65,000,000	83.85%	83.85%	Set-up
Wenshan Livzon Sanqi Plantation Co., Ltd. (文山麗珠三七種植有限公司)	Holding	Limited company	Wenshan	Wenshan	Crop farming	RMB9,200,000	51%	51%	Set-up
Livzon Group Ningxia Pharmaceutical Manufacturing Co., Ltd. (麗珠集團(寧夏)製藥有限公司)	Subsidiary of holding subsidiary	Limited company	Pingluo County	Pingluo County	Manufacture of medicine	RMB200,000,000	87.14%	87.14%	Set-up
Companhia de Macau Carason Limitada (澳門嘉安信有限公司)	Subsidiary of holding subsidiary	Limited company	Macau	Macau	Sales of goods	MOP100,000	51%	51%	Set-up
Li Zhu (Macau) Limitada (麗珠(澳門)有限公司)	Wholly-owned	Limited company	Macau	Macau	Provision of services	MOP100,000	100%	100%	Set-up
Shanghai Livzon Biotechnology Co., Ltd. (上海麗珠生物技術有限公司)	Subsidiary of holding subsidiary	Limited company	Shanghai	Shanghai	Provision of services	RMB10,000,000	38.25%	38.25%	Set-up
Zhuhai Lihe Medical Diagnostic Product Company Limited (珠海麗禾醫療診斷產品有限公司)	Subsidiary of holding subsidiary	Limited company	Zhuhai	Zhuhai	Manufacture of medicine	RMB15,000,000	51%	51%	Set-up
Shanghai Lihang Biotechnology Co., Limited (上海麗航生物技術有限公司)	Subsidiary of holding subsidiary	Limited company	Shanghai	Shanghai	Provision of services	RMB1,000,000	51%	51%	Set-up
Suzhou Lidi Biological Technology Co., Ltd. (蘇州麗迪生物技術有限公司)	Subsidiary of holding subsidiary	Limited company	Suzhou	Suzhou	Technology development	RMB1,000,000	51%	51%	Set-up
Zhuhai Livzon Gene Detection Technology Co., Ltd. (珠海市麗珠基因檢測科技有限公司)	Holding	Limited company	Zhuhai	Zhuhai	Provision of services	RMB100,000,000	60%	60%	Set-up
Livzon MABPharm (USA) Limited (麗珠單抗生物技術(美國)有限公司)	Subsidiary of holding subsidiary	Limited company	Boston	Boston	Technology development	USD1,100,000	55.13%	55.13%	Set-up
Zhuhai Livzon Weiqiu Technology Co., Ltd.* (珠海市麗珠微球科技(有限)公司)	Wholly-owned	Limited company	Zhuhai	Zhuhai	Technology development	RMB500,000	100%	100%	Set-up
Zhuhai Lizhu 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	Limited company	Zhuhai	Zhuhai	Investment	RMB10,000,000	100%	100%	Set-up

(Unless specified otherwise, all amount are denominated in RMB.)

VIII. EQUITY IN OTHER ENTITIES (continued)**1. Equity in subsidiaries** (continued)**(1) Group structure** (continued)

Name of Subsidiaries	Type	Type of Legal Entity	Principal Place of Business	Place of Registration	Nature of Business	Registered Capital	Percentage of Shareholding	Proportion of Voting Rights	Acquisition Method
Livzon International Limited	Subsidiary of wholly-owned subsidiary	Limited company	Cayman	Cayman	Investment	USD50,000	100%	100%	Set-up
Livzon Biologics Limited	Holding	Limited company	Cayman	Cayman	Investment	USD50,000	55.13%	55.13%	Consolidation under common control
Livzon Biologics Hong Kong Limited (麗珠生物科技香港有限公司)	Subsidiary of holding subsidiary	Limited company	Hong Kong	Hong Kong	Investment	HKD400+RMB600,000,000+USD100,640,000	55.13%	55.13%	Set-up
Zhuhai Livzon Biotechnology Co., Ltd. (珠海市麗珠生物醫藥科技有限公司)	Subsidiary of holding subsidiary	Limited company	Zhuhai	Zhuhai	Technology development	RMB250,000,000	55.13%	55.13%	Set-up
Gongshan Livzon Pharmaceutical Technology Limited (貢山麗珠藥源科技有限公司)	Subsidiary of wholly-owned subsidiary	Limited company	Gongshan	Gongshan	Crop farming	RMB1,000,000	100%	100%	Set-up
Sichuan Guangda Pharmaceutical Manufacturing Co., Ltd. (四川光大製藥有限公司)	Wholly-owned	Limited company	Pengzhou	Pengzhou	Manufacture of medicine	RMB149,000,000	100%	100%	Consolidation not under common control
Livzon Group Xinbeijiang Pharmaceutical Manufacturing Inc. (麗珠集團新北江製藥股份有限公司)	Holding	Limited company	Qingyuan	Qingyuan	Manufacture of medicine	RMB239,887,700	87.14%	87.14%	Consolidation not under common control
Livzon Group Limin Pharmaceutical Manufacturing Factory (麗珠集團利民製藥廠)	Wholly-owned	Limited company	Shaoguan	Shaoguan	Manufacture of medicine	RMB61,560,000	100%	100%	Consolidation not under common control
Livzon Group Fuzhou Fuxing Pharmaceutical Co., Ltd. (麗珠集團福州福興醫藥有限公司)	Subsidiary of holding subsidiary	Limited company	Fuzhou	Fuzhou	Manufacture of medicine	USD41,700,000	90.36%	90.36%	Consolidation not under common control
Gutian Fuxing Pharmaceutical Co., Ltd. (古田福興醫藥有限公司)	Subsidiary of holding subsidiary	Limited company	Gutian County	Gutian County	Manufacture of medicine	RMB26,700,000	92.77%	92.77%	Consolidation not under common control
Zhuhai Kadi Medical Biotechnology Inc. (珠海市卡迪生物醫藥有限公司)	Variable interest entity	Limited company	Zhuhai	Zhuhai	Technology development	RMB1,000,000	0%	100%	Contractual arrangements

(Unless specified otherwise, all amount are denominated in RMB.)

VIII. EQUITY IN OTHER ENTITIES (continued)**1. Equity in subsidiaries** (continued)**(2) Important non-wholly owned subsidiaries**

Name of Subsidiaries	Percentage of minority interest	Gains 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 Shanghai Livzon Biotechnology Co., Ltd. (上海麗珠生物科技股份有限公司))	49%	87,102,615.06	98,000,000.00	228,320,350.64
Zhuhai Livzon Diagnostic Reagents Inc. (珠海麗珠試劑股份有限公司) (consolidated Companhia de Macau Carason Limitada (澳門嘉安信有限公司), Zhuhai Lihe Medical Diagnostic Product Co. Ltd (珠海麗禾醫療診斷產品有限公司), Shanghai Lihang Biotechnology Co., Limited (上海麗航生物科技股份有限公司) and Suzhou Lidi Biological Technology Co., Ltd. (蘇州麗迪生物科技股份有限公司))	49%	25,928,930.37	55,456,630.51	78,927,308.85
Livzon MABPharm Inc. (珠海市麗珠單抗生物技術有限公司) (consolidated Livzon MABPharm (US) Inc. (麗珠單抗生物技術(美國)有限公司))	44.87%	-34,105,017.92	0.00	613,401,677.86
Livzon Group Vaccine Engineering Inc. (麗珠集團疫苗工程股份有限公司)	16.15%	-63,936.63	0.00	-1,410,553.69
Livzon Group Xinbeijiang Pharmaceutical Manufacturing Inc. (麗珠集團新北江製藥股份有限公司) (consolidated Livzon Group (Ningxia) Pharmaceutical Manufacturing Co., Ltd. (麗珠集團(寧夏)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) and Gutian Fuxing Pharmaceutical Co., Ltd. (古田福興醫藥有限公司))	12.86%	19,262,917.25	0.00	115,540,240.68

Note: The financial data disclosed in this table and the table below are the data of the consolidated financial statements of Livzon Group (Ningxia) Pharmaceutical Manufacturing Co., Ltd. (麗珠集團(寧夏)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) and Gutian Fuxing Pharmaceutical Co., Ltd. (古田福興醫藥有限公司) under the common control of Livzon Group Xinbeijiang Pharmaceutical Manufacturing Inc. (麗珠集團新北江製藥股份有限公司) as of December 2018, and the data for the Same Period Last Year are disclosed on consolidated basis.

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

Name of Subsidiaries	At the end of the Period		At the beginning of the Year	
	Total assets	Net assets	Total assets	Net assets
Shanghai Livzon Pharmaceutical Manufacturing Co., Ltd. (上海麗珠製藥有限公司) (consolidated Shanghai Livzon Biotechnology Co., Ltd. (上海麗珠生物科技股份有限公司))	727,195,651.39	438,716,353.72	748,296,736.45	471,117,457.24
Zhuhai Livzon Diagnostic Reagents Inc. (珠海麗珠試劑股份有限公司) (consolidated Companhia de Macau Carason Limitada (澳門嘉安信有限公司), Zhuhai Lihe Medical Diagnostic Product Co. Ltd (珠海麗禾醫療診斷產品有限公司), Shanghai Lihang Biotechnology Co., Limited (上海麗航生物科技股份有限公司) and Suzhou Lidi Biological Technology Co., Ltd. (蘇州麗迪生物科技股份有限公司))	678,964,452.66	162,103,810.28	710,114,038.75	222,344,788.35
Livzon MABPharm Inc. (珠海市麗珠單抗生物技術有限公司) (consolidated Livzon MABPharm (US) Inc. (麗珠單抗生物技術(美國)有限公司))	682,972,710.34	617,342,207.08	769,968,912.30	705,252,257.95
Livzon Group Vaccine Engineering Inc. (麗珠集團疫苗工程股份有限公司)	13,924,549.58	-8,734,078.54	14,320,136.51	-8,338,186.12
Livzon Group Xinbeijiang Pharmaceutical Manufacturing Inc. (麗珠集團新北江製藥股份有限公司) (consolidated Livzon Group (Ningxia) Pharmaceutical Manufacturing Co., Ltd. (麗珠集團(寧夏)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) and Gutian Fuxing Pharmaceutical Co., Ltd. (古田福興醫藥有限公司))	2,947,129,774.46	983,113,634.30	2,678,304,310.24	831,240,004.68

(Unless specified otherwise, all amount are denominated in RMB.)

VIII. EQUITY IN OTHER ENTITIES (continued)**1. Equity in subsidiaries** (continued)**(3) Major financial information on important non-wholly owned subsidiaries** (continued)

Name of Subsidiaries	Operating results for the Period			Operating results for the Same Period Last Year		
	Revenue	Net profit	Total comprehensive income	Revenue	Net profit	Total comprehensive income
Shanghai Livzon Pharmaceutical Manufacturing Co., Ltd. (上海麗珠製藥有限公司)(consolidated Shanghai Livzon Biotechnology Co., Ltd. (上海麗珠生物科技有限公司))	589,735,185.00	167,598,896.48	167,598,896.48	479,057,857.57	127,014,559.53	127,014,559.53
Zhuhai Livzon Diagnostic Reagents Inc. (珠海麗珠試劑股份有限公司)(consolidated Companhia de Macau Carason Limitada (澳門嘉安信有限公司), Zhuhai Lihe Medical Diagnostic Product Co. Ltd (珠海麗禾醫療診斷產品有限公司), Shanghai Lihang Biotechnology Co., Limited (上海麗航生物科技有限公司) and Suzhou Lidi Biological Technology Co., Ltd. (蘇州麗迪生物科技有限公司))	365,754,857.50	52,916,184.41	52,926,658.33	343,526,792.66	38,009,013.21	38,052,915.49
Livzon MABPharm Inc. (珠海市麗珠單抗生物技術有限公司)(consolidated Livzon MABPharm (US) Inc. (麗珠單抗生物技術(美國)有限公司))	295,805.31	-87,397,873.89	-87,392,866.10	57,069.58	-78,381,653.54	-78,329,813.28
Livzon Group Vaccine Engineering Inc. (麗珠集團疫苗工程股份有限公司)	0.00	-395,892.42	-395,892.42	7,218.58	-435,331.70	-435,331.70
Livzon Group Xinbeijiang Pharmaceutical Manufacturing Inc. (麗珠集團新北江製藥股份有限公司)(consolidated Livzon Group (Ningxia) Pharmaceutical Manufacturing Co., Ltd. (麗珠集團(寧夏)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) and Gutian Fuxing Pharmaceutical Co., Ltd. (古田福興醫藥有限公司))	856,943,096.95	151,873,629.62	151,873,629.62	902,146,419.76	97,724,372.90	97,724,372.90

(Unless specified otherwise, all amount are denominated in RMB.)

VIII. EQUITY IN OTHER ENTITIES (continued)**1. Equity in subsidiaries** (continued)**(3) Major financial information on important non-wholly owned subsidiaries** (continued)

Name of subsidiaries	Cash flow for the Period					Cash flow for the Same Period Last Year				
	cash flow from operating activities	cash flow from investment activities	cash flow from financing activities	Cash and cash equivalents at the beginning of the Year	Cash and cash equivalents at the End of the Period	cash flow from operating activities	cash flow from investment activities	cash flow from financing activities	Cash and cash equivalents at the beginning of the Year	Cash and cash equivalents at the End of the Period
				2,681,261.22	2,676,080.36				12,036,826.13	277,064.07
Shanghai Livzon Pharmaceutical Manufacturing Co., Ltd. (上海麗珠製藥有限公司) (consolidated Shanghai Livzon Biotechnology Co., Ltd. (上海麗珠生物科技股份有限公司))	150,967,808.80	-20,889,844.51	-130,031,316.94	2,681,261.22	2,676,080.36	91,236,721.37	-7,859,054.16	-94,643,826.58	12,036,826.13	277,064.07
Zhuhai Livzon Diagnostic Reagents Inc. (珠海麗珠試劑股份有限公司) (consolidated Companhia de Macau Carason Limitada (澳門嘉安信有限公司), Zhuhai Lihe Medical Diagnostic Product Co. Ltd (珠海麗禾醫療診斷產品有限公司), Shanghai Lihang Biotechnology Co., Limited (上海麗航生物科技股份有限公司) and Suzhou Lidi Biological Technology Co., Ltd. (蘇州麗迪生物科技股份有限公司))	28,352,799.06	-8,852,170.24	-23,142,917.97	12,836,724.91	9,211,412.89	-7,732,725.37	-25,786,201.93	490,533.29	70,659,208.88	37,685,486.47
Livzon MABPharm Inc. (珠海市麗珠單抗生物技術有限公司) (consolidated Livzon MABPharm (US) Inc. (麗珠單抗生物技術(美國)有限公司))	-107,797,007.69	-8,265,173.49	875,723.38	316,857,282.88	201,507,222.09	-93,133,675.05	-55,451,415.95	285,943,740.83	5,546,748.22	142,959,163.13
Livzon Group Vaccine Engineering Inc. (麗珠集團疫苗工程股份有限公司)	-7,719.42	0.00	-28,070.00	40,529.33	4,739.91	-1,394,495.28	1,399,155.21	10,455.00	25,632.42	40,747.35
Livzon Group Xinbeijiang Pharmaceutical Manufacturing Inc. (麗珠集團新北江製藥股份有限公司) (consolidated Livzon Group (Ningxia) Pharmaceutical Manufacturing Co., Ltd. (麗珠集團(寧夏)製藥有限公司), Livzon Group Fuzhou Fixing Pharmaceutical Co., Ltd. (麗珠集團福州福興製藥有限公司) and Gutian Fixing Pharmaceutical Co., Ltd. (古田福興製藥有限公司))	283,369,134.82	-42,875,847.51	-170,471,608.06	66,620,867.25	138,053,098.47	413,811,356.32	-25,950,302.35	-88,767,872.77	145,271,457.67	458,440,580.98

2. Transactions that Result in Change of Owners' Equity in Subsidiaries without Losing Control

Nil.

(Unless specified otherwise, all amount are denominated in RMB.)

VIII. EQUITY IN OTHER ENTITIES *(continued)***3. Equity in associates or joint ventures****(1) Summarized accounting information for non-important associates or joint ventures**

Item	Balance at the End of the Period/For the Current Period	Balance for the Previous Period/For the Previous Period
Associates:		
Total carrying amount of investment	181,718,000.07	112,490,912.71
Total amount calculated by percentage of shareholding		
– net profit	-6,388,109.51	1,238,167.27
– other comprehensive income	0.00	0.00
– total comprehensive income	-6,388,109.51	1,238,167.27

(2) Explanation of major restriction on capacity of capital transfer from associates or joint ventures to the Company

Nil.

IX. RISKS RELATED TO FINANCIAL INSTRUMENTS**(I) 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 bulk medicines 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.

(Unless specified otherwise, all amount are denominated in RMB.)

IX. RISKS RELATED TO FINANCIAL INSTRUMENTS *(continued)***(I) 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 2019

Amount denominated: RMB'000

Item	HKD item	USD item	Euro item	JPY item	MOP item
Financial assets in foreign currency –					
Cash	725,217.18	203,996.95	809.46	0.00	2,037.92
Held-for-trading financial assets	5,990.48	0.00	0.00	0.00	0.00
Accounts receivables	0.00	328,667.74	2,328.68	2,135.20	0.00
Prepayments	0.00	4,510.23	0.00	0.00	0.00
Other receivables	1,313.28	115.02	0.00	0.00	0.00
Other current assets	90,951.40	0.00	0.00	0.00	0.00
Other equity instrument investments	270,066.93	0.00	0.00	0.00	0.00
Subtotal:	1,093,539.27	537,289.94	3,138.14	2,135.20	2,037.92
Financial liabilities in foreign currency –					
Accounts payables	0.00	95.92	44.29	0.00	0.00
Contract liabilities	0.00	4,090.48	0.00	0.00	0.00
Other payables	1,878.22	6,928.35	0.00	0.00	0.00
Dividends payable	295,497.78	0.00	0.00	0.00	0.00
Subtotal:	297,376.00	11,114.75	44.29	0.00	0.00

(Unless specified otherwise, all amount are denominated in RMB.)

IX. RISKS RELATED TO FINANCIAL INSTRUMENTS (continued)**(I) Management objectives and policies of risks** (continued)**1. Foreign exchange risks** (continued)

(2) 30 June 2018

Amount denominated: RMB'000

Item	HKD item	USD item	Euro item	JPY item	MOP item
Financial assets in foreign currency –					
Cash	376,535.16	514,395.10	214.34	1,438.99	1,952.09
Held-for-trading financial assets	6,643.63	0.00	0.00	0.00	0.00
Accounts receivables	0.00	282,403.40	0.00	365.31	1,119.43
Prepayments	0.00	3,561.03	741.99	0.00	0.00
Other receivables	1,248.01	0.00	0.00	0.00	808.06
Other current assets	85,892.78	0.00	0.00	0.00	0.00
Other equity instrument investments	314,570.91	0.00	0.00	0.00	0.00
Subtotal:	784,890.49	800,359.53	956.33	1,804.30	3,879.58
Financial liabilities in foreign currency –					
Accounts payables	0.00	136.02	44.88	0.00	0.00
Contract liabilities	0.00	2,460.36	0.00	0.00	11.29
Other payables	348,302.11	4,980.69	0.00	0.00	0.00
Subtotal:	348,302.11	7,577.07	44.88	0.00	11.29

As at 30 June 2019, in respect of Group's financial assets and liabilities denominated in Hong Kong dollar, U.S. dollar, Euro, Japanese Yen and Macau dollar, should the value of RMB appreciate or depreciate by 5% against Hong Kong dollar, U.S. dollar, Euro, Japanese Yen and Macau dollar, and other factors remain unchanged, the Group would be subject to an increase or decrease in profit of approximately RMB66,480,270 (30 June 2018: approximately RMB61,797,740).



IX. RISKS RELATED TO FINANCIAL INSTRUMENTS *(continued)*

(I) 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.

4. Liquidity risk

The Company adopts prudent liquidity risk management for the sufficient supply of monetary funds and liquidity. It secures readily available credit loans from banks mainly by maintaining adequate monetary funds and banking facilities. Apart from indirect financing from banks, a number of financing channels were available, such as direct financing by inter-bank market including short-term financing bills and medium term financing bills, corporate bonds etc. These instruments can effectively reduce the effects of scale of financing and the macro monetary policies of China on indirect bank financing, which shall secure adequate funds in a flexible manner.

(Unless specified otherwise, all amount are denominated in RMB.)

IX. RISKS RELATED TO FINANCIAL INSTRUMENTS (continued)**(I) 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 2019

Item	Within 1 year	1-2 years	2-5 years	Over 5 years	Total
Financial assets –					
Cash	7,767,982,705.34	0.00	0.00	0.00	7,767,982,705.34
Held-for-trading financial assets	15,560,367.70	0.00	0.00	0.00	15,560,367.70
Bills receivables	934,010,378.50	0.00	0.00	0.00	934,010,378.50
Accounts receivables	1,758,612,952.69	0.00	0.00	0.00	1,758,612,952.69
Prepayments	186,074,558.37	0.00	0.00	0.00	186,074,558.37
Other receivables	67,015,560.25	0.00	0.00	0.00	67,015,560.25
Non-current assets due					
within one year	10,143,994.37	0.00	0.00	0.00	10,143,994.37
Other current assets	90,951,395.96	0.00	0.00	0.00	90,951,395.96
Long-term receivables	0.00	10,656,942.50	0.00	0.00	10,656,942.50
Subtotal:	10,830,351,913.18	10,656,942.50	0.00	0.00	10,841,008,855.68
Financial liabilities –					
Short-term loans	0.00	0.00	0.00	0.00	0.00
Held-for-trading financial liabilities	5,166,927.00	0.00	0.00	0.00	5,166,927.00
Bills payables	832,870,849.63	0.00	0.00	0.00	832,870,849.63
Accounts payables	649,132,945.39	0.00	0.00	0.00	649,132,945.39
Contract liabilities	77,294,467.41	0.00	0.00	0.00	77,294,467.41
Other payables	3,119,957,280.03	0.00	0.00	0.00	3,119,957,280.03
Non-current liabilities due					
within one year	400,000.00	0.00	0.00	0.00	400,000.00
Long-term loans	0.00	0.00	0.00	0.00	0.00
Subtotal:	4,684,822,469.46	0.00	0.00	0.00	4,684,822,469.46

IX. RISKS RELATED TO FINANCIAL INSTRUMENTS (continued)**(I) Management objectives and policies of risks** (continued)**4. Liquidity risk** (continued)

(2) 30 June 2018

Item	Within 1 year	1-2 years	2-5 years	Over 5 years	Total
Financial assets –					
Cash	6,404,038,913.24	0.00	0.00	0.00	6,404,038,913.24
Held-for-trading financial assets	20,776,009.48	0.00	0.00	0.00	20,776,009.48
Bills receivables	901,676,580.07	0.00	0.00	0.00	901,676,580.07
Accounts receivables	1,775,253,489.38	0.00	0.00	0.00	1,775,253,489.38
Prepayments	162,534,827.33	0.00	0.00	0.00	162,534,827.33
Other receivables	99,283,601.40	0.00	0.00	0.00	99,283,601.40
Other current assets	85,892,784.11	0.00	0.00	0.00	85,892,784.11
Subtotal:	9,449,456,205.01	0.00	0.00	0.00	9,449,456,205.01
Financial liabilities –					
Short-term loans	272,087,290.50	0.00	0.00	0.00	272,087,290.50
Held-for-trading financial liabilities	19,361,018.79	0.00	0.00	0.00	19,361,018.79
Bills payables	773,200,094.89	0.00	0.00	0.00	773,200,094.89
Accounts payables	544,665,679.97	0.00	0.00	0.00	544,665,679.97
Contract liabilities	79,155,861.76	0.00	0.00	0.00	79,155,861.76
Other payables	2,357,273,197.40	0.00	0.00	0.00	2,357,273,197.40
Non-current liabilities due					
within one year	400,000.00	0.00	0.00	0.00	400,000.00
Long-term loans	0.00	0.00	0.00	700,000.00	700,000.00
Subtotal:	4,046,143,143.31	0.00	0.00	700,000.00	4,046,843,143.31

(II) Transfer of financial assets**1. Transferred financial assets that are not derecognized in their entirety**

Nil.

2. Financial assets transferred and ceased to be recognised but with involvement of the transferor.

On 30 June 2019, the Company's carrying amounts of bank acceptance bills undue and endorsed to suppliers for settling account payables is RMB163,705,388.77 (31 December 2018: RMB132,021,509.40); the Company has no commercial acceptance bills undue and endorsed to suppliers for settling account payables (31 December 2018: RMB0.00). On 30 June 2019, the due dates fall into 1 to 10 months. In accordance with the Law of Negotiable Instruments, the holders of the Derecognised 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 derecognised. 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.

From January to June 2019, no gain or loss was generated by the Company on the date of transfer of the bills. The Company had no current or accumulated gain or expense arising from the Continuing Involvement in financial assets which had been derecognized. The endorsement was incurred evenly throughout the period.

(Unless specified otherwise, all amount are denominated in RMB.)

X. DISCLOSURE OF FAIR VALUE**1. Fair value of assets and liabilities measured at fair value at the End of the Period***Amount denominated: RMB'000*

Item	Fair value at the End of the Period			Total
	Measured at fair value level 1	Measured at fair value level 2	Measured at fair value level 3	
I. Continuous fair value measurement				
(I) Financial assets held for trading	15,430.90	129.47	0.00	15,560.37
1. Financial assets at fair value through profit or loss	15,430.90	129.47	0.00	15,560.37
(1) Equity instrument investments	15,430.90	0.00	0.00	15,430.90
(2) Derivative financial assets	0.00	129.47	0.00	129.47
2. Designated as financial assets at fair value through profit or loss	0.00	0.00	0.00	0.00
(II) Other equity instrument investments	0.00	200,410.12	181,659.92	382,070.04
Total assets continuously measured at fair value	15,430.90	200,410.12	181,659.92	397,500.94
(III) Financial liabilities held for trading				
In which: Derivative financial liabilities	0.00	5,166.93	0.00	5,166.93
Total liabilities continuously measured at fair value	0.00	5,166.93	0.00	5,166.93

2. Basis for determining market prices of items continuously measured at fair value level 1

Held-for-trading equity instruments and certain available-for-sale equity instrument investments are listed and traded on the Shenzhen Stock Exchange and Hong Kong Stock Exchange, and their fair value is measured at the closing price on the last trading day of the Reporting Period.

3. Qualitative and quantitative information of the valuation techniques and significant parameters used for items continuously measured at fair value level 2

- (1) Derivative financial instruments are foreign currency forward contracts, and their fair value is measured at the forward exchange rates quoted by the respective matured contract.
- (2) Other equity instruments held for which fair value is determined by the equity amount stated in the entitlement advice provided by the counterparty at the end of the period.

4. Qualitative and quantitative information of the valuation techniques and significant parameters used for items continuously measured at fair value level 3

The fair value of part of the other financial instruments is best estimated by their costs.

From January to June 2019, there were no transfers of the fair value measurements between level 1 and level 2 and no transfers into or out of level 3.



XI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS

1. Parent company of the Company

Name of parent company	Relationship with the related party	Type of entity	Place of registration	Legal representative	Nature of business
Joincare Pharmaceutical Industry Group Co., Ltd. (健康元藥業集團股份有限公司)	Controlling shareholder	Joint stock company with limited liability (listed)	Shenzhen	Zhu Baoguo	Production of oral liquid, drugs and healthcare food

(continued)

Name of parent company	Registered capital	Percentage of the entity's shareholding held by the parent company (%)	Percentage of the entity's voting rights held by the parent company (%)	The ultimate Controlling party of the entity	Unified social credit code
Joincare Pharmaceutical Industry Group Co., Ltd. (健康元藥業集團股份有限公司)	1,938,033,338	23.68	23.68	Zhu Baoguo	91440300618874367T

Notes to the parent company of the Company

As of 30 June 2019, the Company's parent company and its subsidiaries held a total of 322,214,328 shares in the Company, representing 44.81% of the total share capital of the Company. Among these shares, 13,312,561 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.

2. The Company's subsidiaries

Please refer to note VIII.1. Equity in subsidiaries.

3. Joint ventures and associates of the Company

Please refer to note VI.10. Long-term equity investments and note VIII.3. Equity in joint ventures and associates.

(Unless specified otherwise, all amount are denominated in RMB.)

XI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS *(continued)***4. Other related parties of the Company**

Name of other related parties	Relationship with the Company	Organisation code/ Unified social credit code
Shenzhen Haibin Pharmaceutical Co., Ltd. (深圳市海濱製藥有限公司)	A company controlled by the parent company	91440300618855174Y
Xinxiang Haibin Pharmaceutical Co., Ltd. (新鄉海濱藥業有限公司)	A company controlled by the parent company	914107007648945429
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	91410800775129520A
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	914404007578808713
Health Pharmaceutical (China) Co., Ltd. (健康藥業(中國)有限公司)	A company controlled by the parent company	914404006174989103
Shenzhen Taitai Pharmaceutical Co., Ltd. (深圳太太藥業有限公司)	A company controlled by the parent company	91440300741217151R
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	91440300733083333P
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	91440101347516532X
Joincare Pharmaceutical Group Industry Co., Ltd.	A company controlled by the parent company	
EPIRUS SWITZERLAND GmbH	A subsidiary of the company in which a Director of the Company is holding position	
LUNGLIFE AI, INC. (formerly known as CYNVENIO BIOSYSTEMS, INC.)	A company in which a Director of the Company is holding position	
Zhuhai Xianghetai Investment Management Partnership (Limited Partnership) (珠海祥和泰投資管理合夥企業(有限合夥))	A company controlled by a Director of the Company	91440400MA4UXRWA0K
Zhuhai Hengqin New Area Guanlian Gu Investment Partnership (Limited Partnership) (珠海橫琴新區觀聯谷投資合夥企業(有限合夥))	A company controlled by a director of the subsidiary of the Company	91440400MA4UY9CWX9
Zhuhai Zhenghe Co., Ltd. (珠海正禾企業有限公司)	A company controlled by a director of the subsidiary of the Company	91440400618076963F
Zhuhai Zhong Hui Yuan Investment Partnership (Limited Partnership) (珠海中匯源投資合夥企業(有限合夥))	A company controlled by a Director of the Company	91440400MA51CC4355

(Unless specified otherwise, all amount are denominated in RMB.)

XI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (continued)**5. Related party transactions****(1) Related party transactions relating to purchase of goods/receipt of services**

Related party	Description of related party transaction	Pricing basis and decision making procedures of the related party transactions	For the Current Period		For the Previous Period	
			Amount	Proportion to the transaction amount of the same category (%)	Amount	Proportion to the transaction amount of the same category (%)
Guangdong Blue Treasure Pharmaceutical Co., Ltd. (廣東藍寶製藥有限公司)	Raw materials	The market price	1,699,459.25	0.17	811,326.96	0.07
Shenzhen Haibin Pharmaceutical Co., Ltd. (深圳市海濱製藥有限公司)	Raw materials	The market price	10,554,889.88	1.07	45,399,946.40	4.08
Joincare Pharmaceutical Industry Group Co., Ltd. (健康元藥業集團股份有限公司)	Finished goods	The market price	99,875.12	0.01	182,145.34	0.02
Shenzhen Taitai Pharmaceutical Co., Ltd. (深圳太太藥業有限公司)	Raw materials	The market price	6,246.37	0.001	0.00	0.00
LUNGLIFE AI, INC. (formerly known as CYNVENIO BIOSYSTEMS, INC.)	Raw materials	The market price	40,287.49	0.004	251,519.43	0.02
Jiaozuo Joincare Pharmaceutical Industry Co., Ltd. (焦作健康元生物製品有限公司)	Raw materials	The market price	169,969,774.95	17.28	170,916,175.86	15.36
Zhuhai Sanmed Biotech Inc. (珠海聖美生物診斷技術有限公司)	Raw materials	The market price	467,470.79	0.05	0.00	0.00
Purchase of goods in aggregate			182,838,003.85	18.58	217,561,113.99	19.55
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	6,749,092.73	5.67	4,542,148.82	3.38
Receipt of services in aggregate			6,749,092.73	5.67	4,542,148.82	3.38

(Unless specified otherwise, all amount are denominated in RMB.)

XI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (continued)**5. Related party transactions** (continued)**(2) Related party transactions relating to sales of goods/provision of services**

Related party	Description of related party transaction	Pricing basis and decision making procedures of the related party transactions	For the Current Period		For the Previous Period	
			Amount	Proportion to the transaction amount of the same category (%)	Amount	Proportion to the transaction amount of the same category (%)
Guangdong Blue Treasure Pharmaceutical Co. Ltd. (廣東藍寶製藥有限公司)	Finished goods	The market price	11,263,421.24	0.23	15,949,464.01	0.35
Jiaozuo Joicare Pharmaceutical Industry Co., Ltd. (焦作健康元生物製品有限公司)	Raw materials	The market price	8,398,152.61	0.17	47,866,654.11	1.05
Shenzhen Haibin Pharmaceutical Co., Ltd. (深圳市海濱製藥有限公司)	Finished goods	The market price	229,944.98	0.005	0.00	0.00
Shenzhen Taitai Pharmaceutical Co., Ltd. (深圳太太藥業有限公司)	Finished goods	The market price	0.00	0.00	415,384.62	0.01
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	63,959.54	0.001	0.00	0.00
Sales of goods in aggregate			19,955,478.37	0.41	64,231,502.74	1.41
Guangdong Blue Treasure Pharmaceutical Co. Ltd. (廣東藍寶製藥有限公司)	Water and power	The market price	2,979,572.34	53.61	2,129,591.04	91.49
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	194,495.78	8.36
Zhuhai Sanmed Biotech Inc. (珠海聖美生物診斷技術有限公司)	Water and power	The market price	298,566.11	5.37	0.00	0.00
Provision of services in aggregate			3,278,138.45	58.98	2,324,086.82	99.85
Shenzhen Haibin Pharmaceutical Co., Ltd. (深圳市海濱製藥有限公司)	Processing fee	Based on negotiation	5,500.00	0.20	2,000.00	22.30
Shenzhen Taitai Pharmaceutical Co., Ltd. (深圳太太藥業有限公司)	Processing fee	Based on negotiation	278,865.05	10.37	0.00	0.00
Jiaozuo Joicare Pharmaceutical Industry Co., Ltd. (焦作健康元生物製品有限公司)	Processing fee	The market price	141,165.95	5.25	0.00	0.00
Zhuhai Sanmed Biotech Inc. (珠海聖美生物診斷技術有限公司)	Other services	The market price	733.51	0.02	0.00	0.00
Provision of services in aggregate			426,264.51	15.84	2,000.00	22.30

XI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (continued)**5. Related party transactions** (continued)**(3) Related party leases**

① The Company as a lessor

Name of lessee	Type of leased assets	Lease income recognised for the Current Period	Lease income recognised for the Previous Period
Zhuhai Joicare Pharmaceutical Co., Ltd. (珠海健康元生物醫藥有限公司)	Plant & buildings, equipment	0.00	37,705.46
Health Pharmaceutical (China) Co., Ltd. (健康藥業(中國)有限公司)	Plant & buildings	45,639.30	45,021.62
Zhuhai Sanmed Biotech Inc. (珠海聖美生物診斷技術有限公司)	Plant & buildings	1,596,359.64	0.00

② The Company as a lessee

Name of lessor	Type of leased assets	Lease expenses recognised for the Current Period	Lease expenses recognised for the Previous Period
Joicare Pharmaceutical Industry Group Co., Ltd. (健康元藥業集團股份有限公司)	Plant & buildings	389,640.70	386,099.86
Jiaozuo Joicare Pharmaceutical Industry Co., Ltd. (焦作健康元生物製品有限公司)	Plant & buildings, equipment	285,614.54	182,436.60

(4) Related party asset transfers and debt restructuring

Related party	Description of related party transaction	For the Current Period	For the Previous Period
Xinxiang Haibin Pharmaceutical Co., Ltd. (新鄉海濱藥業有限公司)	Sales of equipment	532,021.02	0.00
Jiaozuo Joicare Pharmaceutical Industry Co., Ltd. (焦作健康元生物製品有限公司)	Sales of equipment	393,176.83	0.00
Jiaozuo Joicare Pharmaceutical Industry Co., Ltd. (焦作健康元生物製品有限公司)	Procurement of equipment	0.00	1,074,056.89
Zhuhai Joicare Pharmaceutical Co., Ltd. (珠海健康元生物醫藥有限公司)	Procurement of equipment	0.00	9,971,615.14
LUNGLIFE AI, INC. (formerly known as CYNVENIO BIOSYSTEMS, INC.)	Procurement of equipment	0.00	799,570.58
LUNGLIFE AI, INC. (formerly known as CYNVENIO BIOSYSTEMS, INC.)	Acquisition of technical know-how	0.00	6,583,554.46
L&L Biopharma, Co. Ltd. (上海健信生物醫藥科技有限公司)	Acquisition of technical know-how	1,886,792.45	0.00

(Unless specified otherwise, all amount are denominated in RMB.)

XI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (continued)**5. Related party transactions** (continued)**(5) Related party guarantees**

- ① During the Reporting Period, the details on the guarantees provided to the subsidiaries by the Company were set out as follows:

A. Bank loans guaranteed

Amount denominated: RMB'0,000

Name of guaranteed party	Actual date of event (Signing date of the Agreement)	Balance at the end of the Period	Actual guaranteed amount	Guaranteed amount	Description and type of guarantee	Period of guarantee
Livzon Group Livzon Pharmaceutical Factory (麗珠集團麗珠製藥廠)	2016.11.30	5,793.55	5,793.55	17,000.00	Opening the letter of Guarantee and bank acceptance bills, joint liability guarantee	2016.11.30-2019.11.30 (Bank of Communications)
Livzon Group Livzon Pharmaceutical Factory (麗珠集團麗珠製藥廠)	2018.05.07	13,353.19	13,353.19	20,000.00	Opening bank acceptance bills, joint liability guarantee	2018.4.8-2020.4.8 (Industrial and Commercial Bank of China)
Livzon Group Livzon Pharmaceutical Factory (麗珠集團麗珠製藥廠)	2018.03.23	781.66	781.66	15,000.00	Opening bank acceptance bills, joint liability guarantee	2018.3.23-2019.3.23 (Industrial Bank)
Zhuhai Livzon Diagnostic Reagents Inc. (珠海麗珠試劑股份有限公司)	2017.10.09	4,135.24	4,135.24	10,000.00	Opening the letter of guarantee and bank acceptance bills, joint liability guarantee	2017.08.22-2022.08.21 (Standard Chartered Bank)
Livzon MABPharm Inc. (珠海市麗珠單抗生物技術有限公司)	2016.06.22	1,574.65	1,574.65	5,000.00	Opening bank acceptance bills, joint liability guarantee	2016.6.22-2019.6.22 (Bank of Communications)
Zhuhai FTZ Livzon Hecheng Pharmaceutical Manufacturing Co., Ltd. (珠海保稅區麗珠合成製藥有限公司)	2016.12.26	179.20	179.20	20,000.00	Opening the letter of guarantee and bank acceptance bills, joint liability guarantee	2016.12.26-2019.12.26 (Bank of Communications)
Zhuhai FTZ Livzon Hecheng Pharmaceutical Manufacturing Co., Ltd. (珠海保稅區麗珠合成製藥有限公司)	2017.10.09	7,888.80	7,888.80	12,000.00	Opening bank acceptance bills, joint liability guarantee	2017.08.22-2022.08.21 (Standard Chartered Bank)
Zhuhai FTZ Livzon Hecheng Pharmaceutical Manufacturing Co., Ltd. (珠海保稅區麗珠合成製藥有限公司)	2018.04.24	6,300.90	6,300.90	30,000.00	Opening bank acceptance bills, joint liability guarantee	2018.4.24-2019.4.23 (China Guangfa Bank)
Livzon Group Fuzhou Fuxing Pharmaceutical Co., Ltd. (麗珠集團福州福興醫藥有限公司)	2018.08.07	4,929.58	4,929.58	10,000.00	Opening bank acceptance bills, joint liability guarantee	2018.7.20-2023.7.19 (Standard Chartered Bank)
Sichuan Guangda Pharmaceutical Manufacturing Co., Ltd. (四川光大製藥有限公司)	2018.08.07	2,114.88	2,114.88	5,000.00	Opening bank acceptance bills, joint liability guarantee	2018.7.20-2023.7.19 (Standard Chartered Bank)
Livzon Group Limin Pharmaceutical Manufacturing Factory (麗珠集團利民製藥廠)	2018.11.01	294.74	294.74	1,500.00	Opening bank acceptance bills, joint liability guarantee	2017.06.29-2020.06.26 (Bank of Communications)
Livzon Group (Ningxia) Pharmaceutical Manufacturing Co., Ltd. (麗珠集團(寧夏)製藥有限公司)	2018.08.07	5,102.21	5,102.21	14,000.00	Opening bank acceptance bills, joint liability guarantee	2018.7.20-2023.7.19 (Standard Chartered Bank)
Jiaozuo Livzon Hecheng Pharmaceutical Manufacturing Co., Ltd. (焦作麗珠合成製藥有限公司)	2018.08.07	3,738.81	3,738.81	5,000.00	Opening bank acceptance bills, joint liability guarantee	2018.7.20-2023.7.19 (Standard Chartered Bank)
Livzon Group Xinbeijiang Pharmaceutical Manufacturing Inc. (麗珠集團新北江製藥股份有限公司)	2018.08.07	1,559.31	1,559.31	8,100.00	Opening bank acceptance bills, joint liability guarantee	2018.7.20-2023.7.19 (Standard Chartered Bank)
Zhuhai Livzon Pharmaceutical Trading Co., Ltd. (珠海市麗珠醫藥貿易有限公司)	2019.06.04	2,194.95	2,194.95	5,000.00	Opening bank acceptance bills, joint liability guarantee	2018.12.27-2019.12.27 (Hua Xia Bank)
Total actual amount guaranteed for subsidiaries during the Reporting Period				61,132.61		
Total balance of actual amount guaranteed for subsidiaries at the end of the Reporting Period				59,941.67		

XI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS *(continued)*
5. Related party transactions *(continued)*
(5) Related party guarantees *(continued)*

- ① During the Reporting Period, the details on the guarantees provided to the subsidiaries by the Company were set out as follows: *(continued)*

B. Bill pledges guaranteed

On 23 April 2018, the thirteenth meeting of the Ninth Session of the Board of the Company reviewed and approved “the Resolution on Conducting Notes Pool Business” and agreed that an amount not exceeding RMB1.4 billion for conducting notes pool business is to be shared by the Company and its subsidiaries. The amount of funds may be re-utilized. As of 30 June 2019, the bill pledges guaranteed are as follows:

Amount denominated: RMB'0,000

Guarantor	Pledgee	Bill pledge amount receivable	Name of guaranteed party	Description of guarantee	Guaranteed amount	Period of guarantee
The Company	Industrial and Commercial Bank of China, Zhuhai Branch (工商銀行珠海分行)	5,506.77	Livzon Group Limin Pharmaceutical Manufacturing Factory (麗珠集團利民製藥廠)	Opening bank acceptance bills, joint liability guarantee	734.35	Till 2019.11.27
			Livzon Group Livzon Pharmaceutical Factory (麗珠集團麗珠製藥廠)	Opening bank acceptance bills, joint liability guarantee	4,133.17	Till 2020.1.9
			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	1,643.70	Till 2020.3.20
	China Merchants Bank, Zhuhai Branch (招商銀行珠海分行)	21,892.05	Livzon Group Livzon Pharmaceutical Factory (麗珠集團麗珠製藥廠)	Opening bank acceptance bills, joint liability guarantee	2,511.04	Till 2019.12.20
			Jiaozuo Livzon Hecheng Pharmaceutical Manufacturing Co., Ltd. (焦作麗珠合成製藥有限公司)	Opening bank acceptance bills, joint liability guarantee	6,698.78	Till 2019.12.25
			Livzon Group Fuzhou Fuxing Pharmaceutical Co., Ltd. (麗珠集團福州福興製藥有限公司)	Opening bank acceptance bills, joint liability guarantee	3,257.32	Till 2019.12.20
			Sichuan Guangda Pharmaceutical Manufacturing Co., Ltd. (四川光大製藥有限公司)	Opening bank acceptance bills, joint liability guarantee	1,090.21	Till 2019.12.14
			Livzon Group (Ningxia) Pharmaceutical Manufacturing Co., Ltd. (麗珠集團(寧夏)製藥有限公司)	Opening bank acceptance bills, joint liability guarantee	6,237.74	Till 2019.12.13
			Livzon Group Livzon Pharmaceutical Factory (麗珠集團麗珠製藥廠)	Opening bank acceptance bills, joint liability guarantee	145.29	Till 2019.7.30
			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	45.42	Till 2019.8.13
China ZheShang Bank, Shenzhen Branch (浙商銀行深圳分行)	259.73					
Total balance of actual amount guaranteed for subsidiaries at the end of the Reporting Period					26,497.02	

XI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS *(continued)***5. Related party transactions** *(continued)***(5) Related party guarantees** *(continued)*

② Guarantee provided to the Company by related parties

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

Zhuhai Zhenghe Co., Ltd. (珠海正禾企業有限公司), the other shareholder of Zhuhai Livzon Diagnostic Reagents 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 49% of the obligation of the Company under the guarantee granted to Zhuhai Livzon Diagnostic Reagents 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 Xinbeijiang Pharmaceutical and the guarantee period of which will be expired on the expiry date of the Company's obligation thereunder.

(Unless specified otherwise, all amount are denominated in RMB.)

XI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (continued)**5. Related party transactions** (continued)**(6) Remuneration of key management personnel**

① Directors', supervisors' and senior management's remuneration is disclosed as follows

January – June 2019

Amount denominated: RMB'0,000

	Fees of Director/Supervisor	Salaries and allowances	Social insurance	Housing provident fund	Bonus	Signing bonus	Compensation for loss of office	Others	Total
Directors:									
Zhu Baoguo (朱保國)	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
Xu Guoxiang (徐國祥)	76.80	46.15	2.23	0.61	50.00	0.00	0.00	9.05	184.85
Tang Yanggang (唐陽剛)	3.00	46.15	1.43	0.61	133.44	0.00	0.00	1.50	186.13
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
Independent Directors:									
Xu Yanjun (徐效軍)	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:									
Tang Yanggang (唐陽剛)	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

Mr. Tang Yanggang (唐陽剛) was appointed as Executive Director of the Company in February 2019; Mr. Dai Weiguo (戴衛國) was appointed as Vice President of the Company in April 2019.

(Unless specified otherwise, all amount are denominated in RMB.)

XI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (continued)**5. Related party transactions** (continued)**(6) Remuneration of key management personnel** (continued)

- ① Directors', supervisors' and senior management's remuneration is disclosed as follows (continued)

January – June 2018

Amount denominated: RMB'0,000

	Fees of Director/ Supervisor	Salaries and allowances	Social insurance	Housing provident fund	Bonus	Signing bonus	Compensa- tion for loss of office	Others	Total
Directors:									
Zhu Baoguo (朱保國)	4.50	0.00	0.00	0.00	0.00	0.00	0.00	0.00	4.50
Tao Desheng (陶德勝)	3.60	55.39	2.33	0.56	90.00	0.00	0.00	1.72	153.60
Fu Daotian (傅道田)	3.60	35.83	1.21	0.00	30.00	0.00	0.00	0.00	70.64
Xu Guoxiang (徐國祥)	3.60	30.75	2.20	0.57	80.00	0.00	0.00	11.85	128.97
Qiu Qingfeng (邱慶豐)	3.60	0.00	0.00	0.00	0.00	0.00	0.00	0.00	3.60
Independent 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	2.24	0.56	8.83	0.00	0.00	3.74	42.85
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	2.28	0.56	70.55	0.00	0.00	7.92	122.85
Lu Wenqi (陸文岐)	0.00	40.62	0.00	0.56	80.50	0.00	0.00	8.74	130.42
Si Yanxia (司燕霞)	0.00	36.92	2.28	0.56	66.70	0.00	0.00	7.90	114.36
Zhou Peng (周鵬)	0.00	33.39	2.26	0.56	34.50	0.00	0.00	7.55	78.26
Yang Liang (楊亮)	0.00	27.92	2.25	0.56	4.20	0.00	0.00	4.59	39.52
Total	48.60	327.74	17.05	4.49	465.28	0.00	0.00	54.01	917.17

Mr. Lu Wenqi (陸文岐) has resigned in July 2018.

XI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS *(continued)***5. Related party transactions** *(continued)***(6) Remuneration of key management personnel** *(continued)*

② Individuals with highest emoluments

The emoluments of two and four of the five highest paid individuals were directors of the Company for January to June 2018 and January to June 2019, respectively. The rest were senior management of the Company (three and one for January to June 2018 and January to June 2019, respectively). The remuneration of the five highest paid individuals were already disclosed in note. XI.5.(6) "Remuneration of key management personnel", the emoluments of the five highest paid individuals were within the following bands:

Item	January – June 2019	January – June 2018
Number of individuals within the band of \$0-\$1,000,000	–	–
Number of individuals within the band of \$1,000,001-\$1,500,000	1	4
Number of individuals within the band of \$1,500,001-\$2,000,000	3	1
Number of individuals within the band of \$2,000,001-\$2,500,000	–	–
Number of individuals within the band of \$2,500,001-\$3,000,000	1	–
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	–	–

③ Emoluments band of senior management

Item	January – June 2019	January – June 2018
Number of individuals within the band of \$0-\$1,000,000	5	3
Number of individuals within the band of \$1,000,001-\$1,500,000	1	4
Number of individuals within the band of \$1,500,001-\$2,000,000	2	1
Number of individuals within the band of \$2,000,001-\$2,500,000	–	–
Number of individuals within the band of \$2,500,001-\$3,000,000	1	–
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	–	–

(Unless specified otherwise, all amount are denominated in RMB.)

XI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (continued)**6. Amounts due from/to related parties****(1) Amounts due from related parties and prepayments**

Item	Related parties	Balance at the End of the Period		Balance at the beginning of the year	
		Gross amount	Provision for bad debts	Gross amount	Provision for bad debts
Accounts receivables	Guangdong Blue Treasure Pharmaceutical Co. Ltd. (廣東藍寶製藥有限公司)	7,639,440.00	76,394.40	0.00	0.00
Accounts receivables	Jiaozuo Joincare Pharmaceutical Industry Co., Ltd. (焦作健康元生物製品有限公司)	48,290.00	482.90	0.00	0.00
Accounts receivables	Shenzhen Taitai Pharmaceutical Co., Ltd. (深圳太太藥業有限公司)	565,903.27	28,314.07	250,727.88	2,507.28
Accounts receivables	Zhuhai Sanmed Biotech Inc. (珠海聖美生物診斷技術有限公司)	491.40	4.91	43,093.37	1,568.85
Accounts receivables	Xinxiang Haibin Pharmaceutical Co., Ltd. (新鄉海濱藥業有限公司)	617,144.41	30,857.22	0.00	0.00
Accounts receivables	Shenzhen Haibin Pharmaceutical Co., Ltd. (深圳市海濱製藥有限公司)	3,755.20	37.55	0.00	0.00
Sub-total		8,875,024.28	136,091.05	293,821.25	4,076.13
Prepayments	Joincare Pharmaceutical Industry Group Co., Ltd. (健康元藥業集團股份有限公司)	68,943.80	0.00	25,983.80	0.00
Sub-total		68,943.80	0.00	25,983.80	0.00
Other receivables	Joincare Pharmaceutical Industry Group Co., Ltd. (健康元藥業集團股份有限公司)	240.00	48.00	240.00	24.00
Other receivables	Guangdong Blue Treasure Pharmaceutical Co. Ltd. (廣東藍寶製藥有限公司)	863,697.46	8,636.97	530,858.53	5,308.59
Other receivables	Zhuhai Sanmed Biotech Inc. (珠海聖美生物診斷技術有限公司)	5,745.39	57.45	178,043.93	1,780.44
Sub-total		869,682.85	8,742.42	709,142.46	7,113.03
Non-current assets due within one year	Zhuhai Zhong Hui Yuan Investment Partnership (Limited Partnership) (珠海中匯源投資合夥企業(有限合夥))	10,143,994.37	0.00	10,869,100.00	0.00
Long-term receivables	Zhuhai Zhong Hui Yuan Investment Partnership (Limited Partnership) (珠海中匯源投資合夥企業(有限合夥))	10,656,942.50	0.00	20,299,509.76	0.00
Sub-total		20,800,936.87	0.00	31,168,609.76	0.00
Other non-current assets	AbCyte Therapeutics Inc.	13,585,800.00	0.00	13,585,800.00	0.00
Other non-current assets	L&L Biopharma, Co. Ltd. (上海健信生物醫藥科技有限公司)	3,773,584.80	0.00	1,886,792.40	0.00
Other non-current assets	Zhuhai Sanmed Biotech Inc. (珠海聖美生物診斷技術有限公司)	1,611,830.06	0.00	1,353,430.06	0.00
Other non-current assets	LUNGLIFE AI, INC. (formerly known as CYNVENIO BIOSYSTEMS, INC.)	1,053,767.89	0.00	1,053,767.89	0.00
Sub-total		20,024,982.75	0.00	17,879,790.35	0.00

(Unless specified otherwise, all amount are denominated in RMB.)



XI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (continued)

6. Amounts due from/to related parties (continued)

(2) Amounts due to related parties and receipts in advance

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)	40,469,369.40	51,931,079.39
Bills payables	Shenzhen Haibin Pharmaceutical Co., Ltd. (深圳市海濱製藥有限公司)	0.00	9,701,962.00
Bills payables	Guangdong Blue Treasure Pharmaceutical Co. Ltd. (廣東藍寶製藥有限公司)	488,520.00	597,080.00
Sub-total		40,957,889.40	62,230,121.39
Payables	Joincare Pharmaceutical Industry Group Co., Ltd. (健康元藥業集團股份有限公司)	0.00	12,960.00
Payables	Jiaozuo Joincare Pharmaceutical Industry Co., Ltd. (焦作健康元生物製品有限公司)	261,410,451.60	198,530,203.10
Payables	Zhuhai Sanmed Biotech Inc. (珠海聖美生物診斷技術有限公司)	898,769.00	6,113,884.26
Sub-total		262,309,220.60	204,657,047.36
Dividends payable	Zhuhai Zhenghe Co., Ltd. (珠海正禾企業有限公司)	120,960,934.22	90,004,303.71
Dividends payable	Joincare Pharmaceutical Industry Group Co., Ltd. (健康元藥業集團股份有限公司)	204,347,805.60	0.00
Dividends payable	Shenzhen Haibin Pharmaceutical Co., Ltd. (深圳市海濱製藥有限公司)	15,536,155.20	0.00
Dividends payable	Topsino Industries Limited (天誠實業有限公司)	150,920,483.07	0.00
Sub-total		491,765,378.09	90,004,303.71
Other payables	Jiaozuo Joincare Pharmaceutical Industry Co., Ltd. (焦作健康元生物製品有限公司)	11,510,174.78	5,787,078.06
Sub-total		11,510,174.78	5,787,078.06

(Unless specified otherwise, all amount are denominated in RMB.)

XII. SHARE-BASED PAYMENT**1. General information about share-based payments**

Item	Relevant description
Total equity instruments granted during the Current Period by the Company (Share)	–
Total equity instruments exercised during the Current Period by the Company (Share)	–
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 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 1: Share Option

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 9th 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.

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%

XII. SHARE-BASED PAYMENT *(continued)***1. General information about share-based payments** *(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.

2. Equity settled share-based payments

Item	Relevant content
Determination on fair value of equity instruments as the date of grant	Black-Scholes Model
Basis for determining quantity of exercisable equity instruments	–
Reasons for significant discrepancies between estimate of the Current Period and Same Period Last Year	Nil
Accumulated amount of equity settled share-based payments included in capital reserve	89,082,821.70
Total expense recognised for equity settled share-based payments for the Current Period	5,111,583.90

3. Cash settled share-based payments

Nil.

(Unless specified otherwise, all amount are denominated in RMB.)

XIII. COMMITMENTS AND CONTINGENCIES

1. Significant commitments

(1) Capital commitments

Item	Balance at the End of the Period	Balance at the beginning of the year
Contracted but not recognised in the financial statements – Commitments in relation to acquisition of long-term assets	39,275,617.84	52,554,161.77
Total	39,275,617.84	52,554,161.77

(2) Operating lease commitments

As at the balance sheet date, the Company signed the non-cancellable operating leases as follows:

Item	Balance at the End of the Period	Balance at the beginning of the year
Minimum lease payments under non-cancellable operating leases payable:		
Within 1 year	9,411,696.35	4,365,858.28
1 to 2 years	1,891,391.17	3,099,433.60
2 to 3 years	765,700.00	521,590.80
Over 3 years	712,808.00	630,213.00
Total	12,781,595.52	8,617,095.68

(3) Other commitments

Nil.

(4) Performance of previous commitments

The Company has duly performed the capital expenditure commitments and the operating lease commitments dated as at 31 December 2018 and the other commitments.

2. Contingencies

As at the balance sheet date, there were no significant contingencies required to be disclosed by the Company.

XIV. POST BALANCE SHEET DATE EVENTS

As at the date of the Announcement, the Company has no other non-adjustment events that needed to be disclosed after the balance sheet date.



XV. OTHER SIGNIFICANT MATTERS

1. Adjustment to the use of proceeds from Fund-Raising Investment Projects

On 30 May 2019, the Resolution on the Transfer of the Assets Related to Part of Fund-Raising Investment Projects and Alteration to the Sub-Projects of the Fund-Raising Investment Projects (《關於轉讓涉及部分募集資金投資項目相關資產暨變更募集資金投資項目子項目的議案》) has been considered and approved at the annual general meeting for the year 2018:

(1) Transfer of the assets related to part of fund-raising investment projects

Considering that Shanghai Livzon, the controlling subsidiary of the Company, possesses mature clinical study experience and high-end industrialisation standards in the field of microsphere preparation, and has a professional marketing team, the Company entered into a cooperation framework agreement with Shanghai Livzon. Pursuant to the cooperation framework agreement, the Company has transferred the ownership of “Leuprorelin Acetate Sustained Release Microspheres for Injection (3 months)” and its technologies to Shanghai Livzon, and the consideration for the transaction is RMB20,000,000. Shanghai Livzon has also undertaken that from the time the product is launched, it will pay 3% of the gross sales calculated at the base price of the product each year to the Company as sales commission for a term of ten years.

(2) Alteration to the sub-projects of the fund-raising investment projects

Given that the Company has transferred the sub-project “Leuprorelin Acetate Sustained Release Microspheres for Injection (3 months)” under the project “Construction of research and development platform of prolonged-action microsphere technologies” (the “Project”) to Shanghai Livzon and the related work such as clinical trials and application for production shall therefore be carried out by Shanghai Livzon, the Company will no longer invest in this project with the Proceeds. In respect of the Project, RMB9.6142 million of the Proceeds has been invested, with a balance of RMB30.3858 million (the “Balance”).

After considering the present research and development progress of the related products of the project “Construction of research and development platform of prolonged-action microsphere technologies” and the needs for future industrialisation planning, the Company plans to adjust the total amounts of Proceeds to be invested in the sub-project “Microsphere workshop construction project for Livzon Group Livzon Pharmaceutical Factory” under the project “Construction of research and development platform of prolonged-action microsphere technologies” (the “Pharmaceutical Factory Project”) from RMB163.9333 million to RMB198.4550 million, of which the Company intends to transfer the Balance into the Pharmaceutical Factory Project. Additional investment of RMB4.1359 million required for the project will be covered by the Group’s self-raised fund.

2. Major contracts

On 13 February 2019, Livzon Group Xinbeijiang Pharmaceutical Manufacturing Inc. (麗珠集團新北江製藥股份有限公司), a controlled subsidiary of the Company, entered into Materials Procurement Contract with Hangzhou Zhongmei Huadong Pharmaceutical Co., Ltd (杭州中美華東製藥有限公司). Pursuant to the contract, Hangzhou Zhongmei Huadong Pharmaceutical Co., Ltd (杭州中美華東製藥有限公司) purchased acarbose bulk medicines from Livzon Group Xinbeijiang Pharmaceutical Manufacturing Inc. (麗珠集團新北江製藥股份有限公司) at a total amount of RMB539,700,000 (tax inclusive).

As at the date of the balance sheet, the Company has no other major events that need to be disclosed.

(Unless specified otherwise, all amount are denominated in RMB.)

XVI. 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	11,890,385,763.37	12,471,728,254.44
Less: Current liabilities	4,979,567,248.44	5,369,578,000.87
Net current assets	6,910,818,514.93	7,102,150,253.57

2. Total assets less current liabilities

Item	Balance at the End of the Period	Balance at the beginning of the year
Total assets	16,877,654,334.70	17,437,346,860.38
Less: Current liabilities	4,979,567,248.44	5,369,578,000.87
Total assets less current liabilities	11,898,087,086.26	12,067,768,859.51



XVII. NOTES TO THE KEY COMPONENTS OF FINANCIAL STATEMENTS OF THE COMPANY

1. Bills receivables

(1) Classification of bills receivables

Type	Balance at the End of the Period	Balance at the beginning of the year
Bank acceptance bills	609,698,695.90	606,560,125.42
Sub-total	609,698,695.90	606,560,125.42
Less: Provision for bad debts	0.00	0.00
Total	609,698,695.90	606,560,125.42

(2) Bills receivables classified by the method of bad debt provision

Type	Balance at the End of the Period				Carrying value
	Book balance Amount	Percentage (%)	Provision for bad debts Amount	Percentage of provision (%)	
Bills receivables for provision for bad debts on an individual basis	0.00	0.00	0.00	0.00	0.00
Bills receivables for provision for bad debts on a portfolio basis	609,698,695.90	100.00	0.00	0.00	609,698,695.90
Total	609,698,695.90	100.00	0.00	0.00	609,698,695.90

(continued)

Type	Balance at the beginning of the year				Carrying value
	Book balance Amount	Percentage (%)	Provision for bad debts Amount	Percentage of provision (%)	
Bills receivables for provision for bad debts on an individual basis	0.00	0.00	0.00	0.00	0.00
Bills receivables for provision for bad debts on a portfolio basis	606,560,125.42	100.00	0.00	0.00	606,560,125.42
Total	606,560,125.42	100.00	0.00	0.00	606,560,125.42

Bills receivables for provision for bad debts collectively by acceptor' portfolios

Type	Balance at the End of the Period		Percentage of provision(%)
	Bills receivables	Provision for bad debts	
Bank acceptance bills	609,698,695.90	0.00	0.00
Total	609,698,695.90	0.00	0.00

(Unless specified otherwise, all amount are denominated in RMB.)

XVII. NOTES TO THE KEY COMPONENTS OF FINANCIAL STATEMENTS OF THE COMPANY *(continued)*

1. Bills receivables *(continued)*

(3) Provision for bad debts of bills receivables

Item	Balance at the beginning of the year	Provision for the Current Period	Recoveries or reversals during the Current Period	Balance at the End of the Period
Bills receivables	0.00	0.00	0.00	0.00
Total	0.00	0.00	0.00	0.00

(4) There is no bills receivables actually written-off for the Current Period.

(5) Bills receivables that were pledged at the end of the year

Item	Pledged amount at the end of the year
Bank acceptance bills	276,585,493.11
Total	276,585,493.11

(6) 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	21,051,324.83	0.00
Bank acceptance bills discounted but not yet mature	0.00	0.00

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

(8) As of 30 June 2019, bills with carrying amount of RMB 276,585,493.11 (31 December 2018: RMB335,767,075.30) were pledged and bank acceptance bills of RMB264,970,181.96 was issued.

For the Current Period, the bank acceptance bills issued by the Company to banks amounted to RMB0.00 (the corresponding period of the last year: RMB0.00). As the main risks such as interest risks and returns related to these bank acceptance bills were transferred to the bank, the Company derecognised the undue bank acceptance bills that had been discounted. The discounted fee amounted to RMB0.00 (the corresponding period of the last year: RMB0.00).



XVII. NOTES TO THE KEY COMPONENTS OF FINANCIAL STATEMENTS OF THE COMPANY (continued)

2. Accounts receivables

(1) Accounts receivables classified by the method of bad debt provision

Type	Balance at the End of the Period				
	Book balance		Provision for bad debts		Carrying value
	Amount	Percentage (%)	Amount	Percentage (%)	
Accounts receivables for provision for bad debts on an individual basis	4,302,247.18	0.49	4,302,247.18	100.00	0.00
Accounts receivables for provision for bad debts on a portfolio basis	867,392,982.34	99.51	15,626,565.68	1.80	851,766,416.66
Total	871,695,229.52	100.00	19,928,812.86	2.29	851,766,416.66

(continued)

Type	Balance at the Beginning of the period				
	Book balance		Provision for bad debts		Carrying value
	Amount	Percentage (%)	Amount	Percentage (%)	
Accounts receivables for provision for bad debts on an individual basis	5,198,757.18	0.84	5,198,757.18	100.00	0.00
Accounts receivables for provision for bad debts on a portfolio basis	613,363,534.72	99.16	11,619,605.64	1.89	601,743,929.08
Total	618,562,291.90	100.00	16,818,362.82	2.72	601,743,929.08

① Accounts receivables for provision for bad debts on an individual basis at the End of the Period

Accounts receivables	Balance at the Beginning of the period			
	Accounts receivables	Provision for bad debts	Percentage of provision	Reason for provision
Loans	4,302,247.18	4,302,247.18	100.00%	low possibility expected to be recoverable
Total	4,302,247.18	4,302,247.18	—	—

② Accounts receivables for provision for bad debts using the ageing analysis method in the portfolio

Ageing	Balance at the End of the Period		
	Accounts receivables	Provision for bad debts	Percentage of provision (%)
Within 3 months (inclusive)	759,739,406.55	7,597,394.07	1.00
4-6 months (inclusive)	85,425,147.71	4,271,257.39	5.00
7-12 months (inclusive)	15,005,692.87	1,500,569.29	10.00
1-2 years (inclusive)	5,641,422.93	1,128,284.59	20.00
2-3 years (inclusive)	1,507,506.48	1,055,254.54	70.00
Over 3 years	73,805.80	73,805.80	100.00
Total	867,392,982.34	15,626,565.68	

(Unless specified otherwise, all amount are denominated in RMB.)

XVII. NOTES TO THE KEY COMPONENTS OF FINANCIAL STATEMENTS OF THE COMPANY (continued)**2. Accounts receivables** (continued)**(2) Provision for bad debts of accounts receivables**

Item	Balance at the beginning of the year	Provision for the Period	Recoveries or reversals during the Period	Balance at the End of the Period
Accounts receivable	16,818,362.82	3,298,145.16	187,695.12	19,928,812.86
Total	16,818,362.82	3,298,145.16	187,695.12	19,928,812.86

(3) Accounts receivable actually written-off for the Current Period

Item	Amount written-off
Accounts receivable actually written-off	187,695.12

(4) The total of account receivables of the Company with five largest amount by creditors amounted to RMB100,962,605.26 for the Current Period, representing 11.58% of the total accounts receivables at the End of the Period, the corresponding total balance of the provision for bad debts amounted to RMB1,397,186.34.

(5) There is no derecognised accounts receivables in the Company due to the transfer of financial assets.

(6) There are no amount of assets and liabilities that have not been transferred and continue to be involved in the formation in the Company.

3. Other receivables

Item	Balance at the End of the Period	Balance at the beginning of the year
Interest receivables	282,020.55	0.00
Dividend receivables	631,299,031.92	599,078,865.48
Other receivables	1,131,917,083.36	1,180,580,106.85
Total	1,763,498,135.83	1,779,658,972.33

(1) Interest receivables

Item	Balance at the End of the Period	Balance at the beginning of the year
Fixed deposit	282,020.55	0.00
Total	282,020.55	0.00

(Unless specified otherwise, all amount are denominated in RMB.)



XVII. NOTES TO THE KEY COMPONENTS OF FINANCIAL STATEMENTS OF THE COMPANY (continued)

3. Other receivables (continued)

(2) Details of 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)	391,650,975.80	391,650,975.80
Zhuhai Livzon Diagnostic Reagents Inc. (珠海麗珠試劑股份有限公司)	125,898,115.20	93,677,948.76
Livzon Group Fuzhou Fuxing Pharmaceutical Co., Ltd. (麗珠集團福州福興醫藥有限公司)	113,749,940.92	113,749,940.92
Total	631,299,031.92	599,078,865.48

(3) Other receivables

① Other receivables by nature

Nature of receivables	Balance at the End of the Period	Balance at the beginning of the year
Reserve fund	16,734,015.12	8,275,477.20
Receivables of each company within the scope of combination	1,115,621,019.77	1,170,264,619.43
Borrowing due from external entities	5,000,000.00	5,000,000.00
Others	1,021,525.18	3,119,429.56
Sub-total	1,138,376,560.07	1,186,659,526.19
Less: Provision for bad debts	6,459,476.71	6,079,419.34
Total	1,131,917,083.36	1,180,580,106.85

(Unless specified otherwise, all amount are denominated in RMB.)

XVII. NOTES TO THE KEY COMPONENTS OF FINANCIAL STATEMENTS OF THE COMPANY (continued)

3. Other receivables (continued)

(3) Other receivables (continued)

- ② Provision made for bad debts of other receivables

Provision for bad debts	Step 1	Step 2	Step 3	Total
	Expected credit losses over the next 12 months	Expected credit losses over the lifetime (without impairment of credit)	Expected credit losses over the lifetime (with impairment of credit)	
Balance at the beginning of the year	463,559.12	5,378,400.78	237,459.44	6,079,419.34
Balance of carrying value of other receivables at the beginning of the year transferred for the Period as follows:				
– Transfer to step 2	0.00	0.00	0.00	–
– Transfer to step 3	0.00	0.00	0.00	–
– Reversed in step 2	0.00	0.00	0.00	–
– Reversed in step 1	0.00	0.00	0.00	–
Provisions made for the Period	380,057.37	0.00	0.00	380,057.37
Reversals for the Period	0.00	0.00	0.00	0.00
Write-off for the Period	0.00	0.00	0.00	0.00
Settlement for the Period	0.00	0.00	0.00	0.00
Other changes	0.00	0.00	0.00	0.00
Balance at the End of the Period	843,616.49	5,378,400.78	237,459.44	6,459,476.71

- ③ Provision for bad debts of other receivables

Item	Balance at the beginning of the year	Provisions for bad debts made for the Period	Recoveries or reversals during the Period	Balance at the End of the Period
Other receivables	6,079,419.34	380,057.37	0.00	6,459,476.71
Total	6,079,419.34	380,057.37	0.00	6,459,476.71

- ④ Other receivables actually written off during the Period

Item	Amount written-off
Other receivables actually written off	0.00



XVII. NOTES TO THE KEY COMPONENTS OF FINANCIAL STATEMENTS OF THE COMPANY (continued)

3. Other receivables (continued)

(3) 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 (%)	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	961,820,787.01	Within 1 year	84.49	0.00
Ando Development Limited (安滔發展有限公司)	Current account	124,035,129.91	Within 1 year	10.90	0.00
Livzon Group Vaccine Engineering Inc. (麗珠集團疫苗工程股份有限公司)	Current account	21,004,014.65	Within 1 year	1.85	0.00
Wenshan Livzon Sanqi Plantation Co., Ltd. (文山麗珠三七種植有限公司)	Current account	8,957,463.81	Within 1 year	0.79	0.00
Guangzhou Galaxy Sunshine Biological Products Co., Ltd. (廣州銀河陽光生物製品有限公司)	Borrowing due from external entities	5,000,000.00	Over 3 years	0.44	5,000,000.00
Total	-	1,120,817,395.38	-	98.47	5,000,000.00

⑥ The Company has no derecognised other receivables out of transfer of financial assets.

⑦ The Company has no assets or liabilities formed by its continuous involvement of transferring other receivables.

4. Long-term equity investments

(1) Classification of long-term equity investments

Item	Balance at the End of the Period			Balance at the beginning of the year		
	Gross amount	Provision for impairment	Carrying value	Gross amount	Provision for impairment	Carrying value
Investments in subsidiaries	1,840,468,491.59	17,287,569.18	1,823,180,922.41	1,833,673,491.59	17,287,569.18	1,816,385,922.41
Investments in associates and joint ventures	84,078,587.10	1,200,000.00	82,878,587.10	90,952,187.34	1,200,000.00	89,752,187.34
Total	1,924,547,078.69	18,487,569.18	1,906,059,509.51	1,924,625,678.93	18,487,569.18	1,906,138,109.75

(Unless specified otherwise, all amount are denominated in RMB.)

XVII. NOTES TO THE KEY COMPONENTS OF FINANCIAL STATEMENTS OF THE COMPANY (continued)

4. Long-term equity investments (continued)

(2) 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 Baiheng 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 Diagnostic Reagents Inc. (珠海麗珠試劑股份有限公司)	2,896,800.00	0.00	0.00	2,896,800.00	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
Gutian Fuxing Pharmaceutical Co., Ltd. (古田福興醫藥有限公司)	0.00	6,675,000.00	0.00	6,675,000.00	0.00	0.00
Zhuhai Livzon Weiqiu Technology Co., Ltd.* (珠海市麗珠微球科技有限公司)	0.00	120,000.00	0.00	120,000.00	0.00	0.00



XVII. NOTES TO THE KEY COMPONENTS OF FINANCIAL STATEMENTS OF THE COMPANY (continued)

4. Long-term equity investments (continued)

(2) Investments in subsidiaries (continued)

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
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
Livzon Group (Ningxia) Pharmaceutical Manufacturing Co., Ltd. (麗珠集團(寧夏)製藥有限公司)	0.00	0.00	0.00	0.00	0.00	0.00
Wenshan Livzon Sangji Plantation Co., Ltd. (文山麗珠三七種植有限公司)	4,694,000.00	0.00	0.00	4,694,000.00	0.00	0.00
Zhuhai Livzon Gene Diagnostics Ltd. (珠海市麗珠基因檢測科技有限公司)	30,000,000.00	0.00	0.00	30,000,000.00	0.00	0.00
Total	1,833,673,491.59	6,795,000.00	0.00	1,840,468,491.59	0.00	17,287,569.18

(3) Investments in associates and joint ventures

Investee	Balance at the beginning of the year	Investment acquired	Investment disposed of	Change during the Period		
				Investment profit and loss under the equity method	Adjustment in other comprehensive income	Other equity changes
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
Guangdong Blue Treasure Pharmaceutical Co. Ltd. (廣東藍寶製藥有限公司)	12,448,902.74	0.00	0.00	938,715.22	0.00	0.00
Jiangsu Nike Medical Equipment Co., Ltd. (江蘇尼科醫療器械有限公司)	30,038,251.43	0.00	0.00	1,721,092.56	0.00	0.00
Shenzhen City Youbao Technology Co., Ltd (深圳市有寶科技有限公司)	1,040,814.43	0.00	0.00	-6,154.01	0.00	0.00
DOSERNA INC	6,000,992.75	0.00	0.00	-55,419.40	0.00	0.00
Zhuhai Sanmed Biotech Inc. (珠海聖美生物診斷技術有限公司)	40,223,225.99	0.00	0.00	-9,471,834.61	0.00	0.00
Total	90,952,187.34	0.00	0.00	-6,873,600.24	0.00	0.00

(Unless specified otherwise, all amount are denominated in RMB.)

XVII. NOTES TO THE KEY COMPONENTS OF FINANCIAL STATEMENTS OF THE COMPANY (continued)

4. Long-term equity investments (continued)

(3) Investments in associates and joint ventures (continued)

(continued)

Investee	Change during the Period			Balance at the End of the Period	Balance of provision for impairment at the End of the Period
	Cash dividend or profit distribution declared	Provision for impairment	Others		
Associates					
Livzon Medical Electronic Equipment (Plant) Co., Ltd. (麗珠醫用電子設備(廠)有限公司)	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)	0.00	0.00	0.00	13,387,617.96	0.00
Jiangsu Nike Medical Equipment Co., Ltd. (江蘇尼科醫療器械有限公司)	0.00	0.00	0.00	31,759,343.99	0.00
Shenzhen City Youbao Technology Co., Ltd (深圳市有寶科技有限公司)	0.00	0.00	0.00	1,034,660.42	0.00
DOSERNA INC	0.00	0.00	0.00	5,945,573.35	0.00
Zhuhai Sanmed Biotech Inc. (珠海聖美生物診斷技術有限公司)	0.00	0.00	0.00	30,751,391.38	0.00
Total	0.00	0.00	0.00	84,078,587.10	1,200,000.00

5. Operating income and operating cost

Item	For the Period		For the Same Period Last Year	
	Income	Cost	Income	Cost
Principal activities	2,697,862,900.45	1,645,034,856.38	2,422,216,496.01	1,454,491,104.66
Other activities	18,829,658.98	0.00	3,499,891.85	0.00
Total	2,716,692,559.43	1,645,034,856.38	2,425,716,387.86	1,454,491,104.66



XVII. NOTES TO THE KEY COMPONENTS OF FINANCIAL STATEMENTS OF THE COMPANY (continued)

5. Operating income and operating cost (continued)

(1) Information of major business income

① Presented by product types

Item	For the year		For the last year	
	Income	Cost	Income	Cost
Chemical drug preparation products	2,098,670,825.54	1,283,943,177.56	1,691,532,106.75	1,022,189,108.50
Chinese drug preparation products	599,192,074.91	361,091,678.82	730,684,389.26	432,301,996.16
Total	2,697,862,900.45	1,645,034,856.38	2,422,216,496.01	1,454,491,104.66

② Presented by regions of operations

Item	For the year		For the last year	
	Income	Cost	Income	Cost
Domestic	2,697,862,900.45	1,645,034,856.38	2,422,216,496.01	1,454,491,104.66
Total	2,697,862,900.45	1,645,034,856.38	2,422,216,496.01	1,454,491,104.66

③ Presented by recognition time of income

Item	For the year		For the last year	
	Income	Cost	Income	Cost
Commodities (transferred at a point in time)	2,697,862,900.45	1,645,034,856.38	2,422,216,496.01	1,454,491,104.66
Total	2,697,862,900.45	1,645,034,856.38	2,422,216,496.01	1,454,491,104.66

(Unless specified otherwise, all amount are denominated in RMB.)

XVII. NOTES TO THE KEY COMPONENTS OF FINANCIAL STATEMENTS OF THE COMPANY *(continued)*

6. Investment income

Item	For the Period	For the Same Period Last Year
Long-term equity investments income under cost method	129,720,166.44	771,485,900.94
Long-term equity investments income under equity method	-6,873,600.24	-308,816.56
Investment income from disposal of long-term equity investments	0.00	-2,572,285.54
Investment income from financial assets at fair value through profit or loss during its holding period	90,643.41	131,844.96
Investment income from disposal of financial assets at fair value through profit or loss	0.00	0.00
Interest income from debts investment during the holding period	0.00	0.00
Interest income from other debt investments during the holding period	0.00	0.00
Gain on disposal of debt investments	0.00	0.00
Gain on disposal of other debt investments	0.00	0.00
Income generated from revaluation of remaining equity measured at fair value upon loss of control	0.00	0.00
Total	122,937,209.61	768,736,643.80

(Unless specified otherwise, all amount are denominated in RMB.)



XVII. NOTES TO THE KEY COMPONENTS OF FINANCIAL STATEMENTS OF THE COMPANY (continued)

7. Supplemental information to cash flow statement

Items	The Period	The Previous Period
(1) Reconciliation from net profit to cash flow from operating activities:		
Net profit	225,497,264.57	821,240,458.27
Add: Provision for impairment of assets	5,497,198.64	-13,358,877.71
Fixed assets depreciation, oil and gas assets consumption and bearer biological assets depreciation	7,117,447.71	6,558,988.27
Intangible assets amortization	1,884,997.66	3,509,126.02
Long-term deferred expenses amortization	98,618.34	158,618.34
Loss on disposal of fixed assets, intangible assets and other long-term assets ("-" for gains)	-4,683.51	17,700.66
Loss on retirement of fixed assets ("-" for gains)	7,970.35	1,582.88
Loss on fair value change ("-" for gains)	-1,288,774.10	-3,386,767.41
Finance expenses ("-" for gains)	1,344,556.96	-14,246,774.34
Investment losses ("-" for gains)	-122,937,209.61	-768,736,643.80
Decrease in deferred income tax assets ("-" for increase)	62,001.45	6,329,053.41
Increase in deferred income tax liabilities ("-" for decrease)	935,934.98	1,551,448.78
Decrease in inventories ("-" for increase)	79,287,383.18	-190,852,024.55
Decrease in operating items receivable ("-" for increase)	-211,233,851.63	-902,362.75
Increase in operating items payable ("-" for decrease)	-22,648,765.35	-818,385,447.32
Others	0.00	0.00
Net cash flow from operating activities	-36,379,910.36	-970,501,921.25
(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:		
Balance of cash at the end of the period	6,689,116,474.22	5,306,721,848.28
Less: Balance of cash at the beginning of the year	7,505,401,614.22	6,494,605,142.51
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 year	0.00	0.00
Net increase in cash and cash equivalents	-816,285,140.00	-1,187,883,294.23

(Unless specified otherwise, all amount are denominated in RMB.)

XVIII. Supporting Information**1. Statement of non-recurring profit or loss**

Items	The Period	The Previous Period
Profit or loss from disposal of non-current assets	89,688.12	-121,892.09
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	106,573,274.46	114,515,854.69
Funds occupation fees included in current profit or loss and 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 held-for-trading financial assets and held-for-trading financial liabilities and gains from investment as a result of the disposal of held-for-trading financial assets, held-for-trading financial liabilities and available-for-sale financial assets	-3,276,696.75	-17,421,672.92
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

(Unless specified otherwise, all amount are denominated in RMB.)

XVIII. Supporting Information (continued)**1. Statement of non-recurring profit or loss** (continued)

Items	The Period	The Previous Period
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 one-time 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	-1,142,932.91	-8,151,365.26
Other profit or loss items as defined by the non-recurring profit or loss	0.00	0.00
Sub-total	102,243,332.92	88,820,924.42
Effect on income tax	15,136,842.49	12,541,409.68
Effect on minority shareholders (after tax)	6,757,366.82	14,050,401.05
Total	80,349,123.61	62,229,113.69

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).

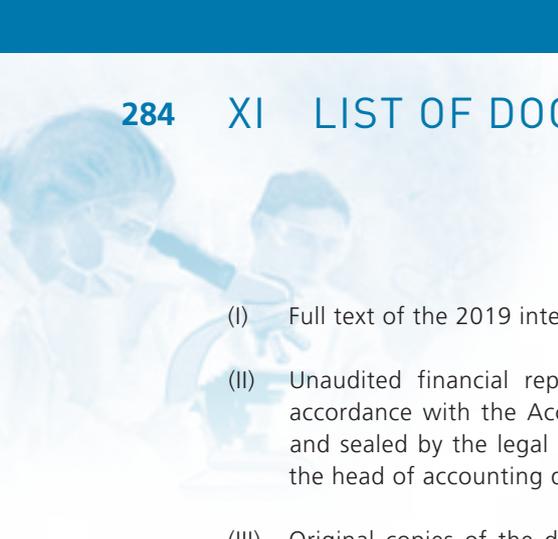
2. Rate of return on net assets and earnings per share

January to June 2019

Profit during the reporting period	Rate of return on weighted average net assets	Earnings per share (RMB/share)	
		Basic earnings per share	Diluted earnings per share
Net profit attributable to the Company's ordinary shareholders	6.79%	1.03	1.03
Net profit attributable to the ordinary shareholders after a deduction of non-recurring profit or loss	6.05%	0.92	0.92

January to June 2018

Profit during the reporting period	Rate of return on weighted average net assets	Earnings per share (RMB/share)	
		Basic earnings per share	Diluted earnings per share
Net profit attributable to the Company's ordinary shareholders	5.79%	0.88	0.88
Net profit attributable to the ordinary shareholders after a deduction of non-recurring profit or loss	5.22%	0.80	0.80

- 
- (I) Full text of the 2019 interim report of the Company which is signed by the legal representative.
 - (II) Unaudited financial report of the Company for the six months ended 30 June 2019 prepared in accordance with the Accounting Standards for Business Enterprises in the PRC, which has been signed and sealed by the legal representative of the Company, the head of finance (chief financial officer) and the head of accounting department (chief accountant).
 - (III) Original copies of the documents and announcements of the Company which have been disclosed on designated websites as approved by CSRC during the Reporting Period.
 - (IV) The 2019 Interim Report of the Company in English and Chinese versions published on the website of Hong Kong Exchanges and Clearing Limited.

Livzon Pharmaceutical Group Inc.
Zhu Baoguo
Chairman

16 August 2019



Livzon,
Cultivate Nourished Lives

www.livzon.com.cn