



丽珠医药
LIVZON

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

(a joint stock company incorporated in the People's Republic of China with limited liability)
(Stock code: 1513)

ANNUAL REPORT 2018



* For identification purpose only



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Chairman of the Board
Mr. Zhu Baoguo

Dear Shareholders,

In 2018, the future development of the pharmaceutical industry was deeply affected by a series of medical reform, such as establishment of the National Healthcare Security Administration, the development of consistency evaluation as well as implementation of the scheme for pharmaceutical tendering with procurement quantity in “4 + 7 cities”. During this major reshuffling of the industry, only the outstanding enterprises with core competitiveness could withstand the challenges brought by these and storms and launch reform so as to seek for opportunities. Looking back on 2018, all employees of the Group strived for excellence and forged ahead, and successfully completed the operating target set for the whole year, which was never easy to accomplish in the recent rapid changing economic environment.

For the past 33 years, Livzon was keeping up with the times and developing at a steady pace. Our business started with Livzon Bismuth Potassium Citrate, and now our products have covered a total of over 100 types, such as digestion, assisted reproduction, psychiatry and neurology. Other than the aforesaid specialized areas, we also planned for the research and development of a wide variety of new products, such as the R&D platforms on extended-release formulation and biological medicine. A development line of specialty platforms combining specialty branches of medicine was formed, and at the same time, we have completed thorough planning for precise medical treatment. We believe R&D and innovation are the only way to adapt to the changes in the market. We will maintain our leading position in the industry and in the market by continuous research and development of market competitive products, innovation and improvement coupled with spirit of serving the public with all our hearts.

2018 REVIEW

During the Year, the operating income of the Group was RMB8,860.66 million, representing a year-on-year growth of 3.86%. The net profit was RMB1,181.71 million, showing a year-on-year decrease of 73.67%, and net profit attributable to the shareholders of the Company was RMB1,082.17 million, representing a year-on-year decrease of 75.56%. Excluding extraordinary gains and losses, the Company's net profit attributable to its shareholders generated from principal activities in the year of 2018 amounted to RMB947.22 million, representing a year-on-year growth of 15.51%

Based on the operating results and the overall financial position of the Group in 2018, the Board recommended an Annual Profit Distribution for 2018 as follows: it is expected to distribute cash dividend of RMB12.00 (tax inclusive) for every 10 shares to all Shareholders and to issue 3 bonus shares for every 10 shares to all Shareholders by way of conversion of capital reserve on 26 July 2019, 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 as at the registration date of shareholding as determined by implementation of the 2018 Annual Profit Distribution Plan, with the distribution ratio unchanged. The 2018 Annual Profit Distribution Plan is subject to shareholders' approval at the 2018 Annual General Meeting.

In 2018, the sales performance of the Group continued to grow. The sales team actively explored new markets, expanded our market share and market coverage, refined our management, broadened the sales to lower-end consumers, promoted the low-yielding market, and strived to discover new growth areas for future development. In respect of R&D, the main focus in 2018 was to maintain the well-being of our key products. Ilaprazole sodium for Injection has been put onto the market, recombinant human chorionic gonadotropin for injection has been reported to the competent authorities for production, the R&D of Triptorelin Microspheres, other chemical drugs, biological medicines, and bulk medicines were conducted in a systematic manner. We have formulated plans for our short-, medium-and long-term development; and from the perspective of strategic transformation, we are gradually transforming from a comprehensive pharmaceutical enterprise to a domestic leading specialty pharmaceutical enterprise with international standard.

To reward our employees, shareholders and the public with dividend of the Company for its growth, following the implementation of the 2015 Restricted A Shares Incentive Scheme, the Group launched the 2018 Share Options Incentive Scheme this year and completed the first grant of share options, which further improved the long-term incentive mechanism of the Company.

THE COMPANY MANAGEMENT TEAM



Mr. Tang Yanggang
Executive Director,
President



Mr. Xu Guoxiang
Executive Director,
Vice President



Mr. Fu Daotian
Executive Director,
Vice President



Mr. Yang Daihong
Vice President



Mr. Zhou Peng
Vice President



Ms. Si Yanxia
Vice President,
Chief Financial Officer



Ms. Huang Yuxuan
Vice President



Mr. Yang Liang
Company Secretary

PROSPECTS

In 2019, the Company insists on following work guideline philosophy of “reform, responsibility, innovation and development”, focusing on the implementation of talent cultivation, product development and market expansion strategies. Development is the ultimate goal of Livzon; responsibility is the core value every Livzon employee should shoulder; and reform and innovation is the means and key to enterprise development. To this end, the following three points are especially vital:

First, accelerate the innovation for sales, and increase sales by borrowing new ideas and tools in the environment under the new market policy. We should gain access to multi-channels and layers for sales and improve the overall strength of sales and market coverage.

Second, firmly continue our R&D journey, increase the effectiveness and speed up the progress. We should introduce new products with good marketability as soon as possible to catch the growing demand.

Third, actively bear our responsibility, and work hard with strong dedication. Realising that we must forge ahead or otherwise we will be surpassed, and keeping in mind the clue for survival in an environment of fierce competition.

We believe no winter is too long to get through; no spring is never to come. In the new year, our missions are glorious yet daunting, and the challenges upcoming will be even more compelling. As long as we bear the faith of sure win, with extra efforts and through thorough and hand work, we will overcome all challenges in the end.

My gratitude goes to all shareholders, members of the Board and the management, all staffs and business partners of the Group for their continuing care and support!

Zhu Baoguo
Chairman of the Board

27 March 2019



IMPORTANT NOTICE

The board of directors, the Supervisory Committee and the Directors, Supervisors and senior management of Livzon Pharmaceutical Group Inc.* guarantee that the information in this annual report does not contain any false representation, misleading statement or material omission, and jointly and severally accept full responsibility for the truthfulness, accuracy and completeness of its contents.

The financial report of the Group and the Company for the year ended 31 December 2018, which had been prepared in accordance with China Accounting Standards for Business Enterprises, was audited by Ruihua Certified Public Accountants (LLP), and a standard unqualified audit report thereon was issued.

Mr. Zhu Baoguo (朱保國先生), the person-in-charge of the Company, Ms. Si Yanxia (司燕霞女士), the person-in-charge of the Company's financial affairs (mainly responsible for accounting duties), and Ms. Zhuang Jianying (莊健瑩女士), the person-in-charge of the accounting department, declare that they guarantee the truthfulness, accuracy and completeness of the financial statements in this annual report.

All Directors of the Company attended the Board meeting in person to consider and approve this annual report.

The Board approved the 2018 Annual Profit Distribution Plan of the Company are as follows: it is expected to distribute cash dividend of RMB12.00 (tax inclusive) for every 10 shares to all Shareholders and to issue 3 bonus shares for every 10 shares to all Shareholders by way of conversion of capital reserve on 26 July 2019, 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 as at the registration date of shareholding as determined by implementation of the 2018 Annual Profit Distribution Plan, with the distribution ratio unchanged (the "Dividend Distribution Plan for the Year"). The Dividend Distribution Plan for the Year is subject to approval at the 2018 annual general meeting of the Company (the "AGM") and class meetings.

The Company analysed possible risk factors and corresponding strategies in respect of the future development of the Company in "Chapter IV – Operation Discussion and Analysis (Report of the Board)" of this annual report. Investors are advised to review it.

This annual report contains forward-looking statements which involve subjective assumptions and judgments of future policies and economic conditions. These statements are affected by 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 be subject to investment risks.

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



6 I. IMPORTANT NOTICE AND DEFINITIONS

DEFINITIONS

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

“Company”	麗珠醫藥集團股份有限公司 Livzon Pharmaceutical Group Inc.*, a joint stock limited liability company incorporated in accordance with the PRC’s law, 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
“Year” or “Reporting Period” or “Current Period”	the twelve months from 1 January to 31 December 2018
“Same Period Last Year” or “Last Year”	the twelve months from 1 January to 31 December 2017
“End of Last Year” or “Beginning of the Year” or “Beginning of the Period”	31 December 2017
“End of the Year” or “End of the Reporting Period” or “End of the Period”	31 December 2018
“CSRC”	the China Securities Regulatory Commission
“Shenzhen Stock Exchange”	深圳證券交易所 (the Shenzhen Stock Exchange)

* For identification purpose only

DEFINITIONS *(continued)*

“Hong Kong Stock Exchange”	The Stock Exchange of Hong Kong Limited
“China Accounting Standards for Business Enterprises”	Accounting Standards for Business Enterprises – Basic Standard and 38 specific accounting standards issued by the Ministry of Finance of the PRC on 15 February 2006 and the Application Guidance to Accounting Standards for Business Enterprises, Interpretations of Accounting Standards for Business Enterprises and other related requirements subsequently issued
“the Company Law”	《中華人民共和國公司法》 (the Company Law of the People’s Republic of China)
“Securities Law”	《中華人民共和國證券法》 (the Securities Law of the People’s Republic of China)
“Shenzhen Listing Rules”	《深圳證券交易所股票上市規則》 (the Stock Listing Rules of the Shenzhen Stock Exchange)
“Hong Kong Listing Rules”	Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“Corporate Governance Code”	the Corporate Governance Code 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.*
“B-TO-H Share Conversion”	the domestically listed foreign shares (B Shares) of the Company to be converted into H Shares by way of introduction for listing and trading on the Main Board of the Hong Kong Stock Exchange
“the Restricted A Shares Incentive Scheme”	the Restricted A Shares Incentive Scheme (Revised Draft) considered and approved by the Company at the 2015 First Extraordinary General Meeting
“Restricted Shares”	A Shares granted to the incentive participants under the Restricted A Shares Incentive Scheme of the Company
“Joincare”	健康元藥業集團股份有限公司 Joincare Pharmaceutical Industry Group Co., Ltd.* (Shanghai Stock Exchange stock code: 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
“Baiyeyuan”	深圳市百業源投資有限公司 Shenzhen Baiyeyuan Investment Co., Ltd.*
“Topsino”	天誠實業有限公司 Topsino Industries Limited

* For identification purpose only

8 I. IMPORTANT NOTICE AND DEFINITIONS

DEFINITIONS *(continued)*

“Begol”	廣州市保科力貿易公司 Guangzhou Begol Trading Holdings Limited*
“Livzon MAB”	珠海市麗珠單抗生物技術有限公司 Livzon MABPharm Inc.*
“Xinbeijiang Pharmaceutical”	麗珠集團新北江製藥股份有限公司 Livzon Group Xinbeijiang Pharmaceutical Manufacturing Inc.*
“Fuzhou Fuxing”	麗珠集團福州福興醫藥有限公司 Livzon Group Fuzhou Fuxing Pharmaceutical Co., Ltd.*
“Ningxia Pharmaceutical”	麗珠集團(寧夏)製藥有限公司 Livzon Group (Ningxia) Pharmaceutical Manufacturing Co., Ltd.*
“Pharmaceutical Factory”	麗珠集團麗珠製藥廠 Livzon Group Livzon Pharmaceutical Factory*
“Livzon Reagents”	珠海麗珠試劑股份有限公司 Zhuhai Livzon Diagnostic Reagents Inc.*
“Jiaozuo Joincare”	焦作健康元生物製品有限公司 Jiaozuo Joincare Biological Product Co., Ltd.*
“Haibin Pharma”	深圳市海濱製藥有限公司 Shenzhen Haibin Pharmaceutical Co., Ltd.*
“Blue Treasure Pharma”	廣東藍寶製藥有限公司 Guangdong Blue Treasure Pharmaceutical Co., Ltd.*
“Livzon Shengmei”	珠海麗珠聖美醫療診斷技術有限公司 Zhuhai Livzon Cynvenio Diagnosis Ltd.*(renamed as Zhuhai Sanmed Biotech Inc. *(珠海聖美生物診斷技術有限公司) from 2 August 2018)
“Livzon Gene”	珠海市麗珠基因檢測科技有限公司 Zhuhai Livzon Gene Detection Technology Co., Ltd.*
“Lizhu HK”	Lizhu (Hong Kong) Co., Limited
“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
“China” or “PRC”	the People’s Republic of China
“Hong Kong” or “HK”	Hong Kong Special Administrative Region of China
“RMB”	Renminbi, the lawful currency of China
“HK\$” or “HKD”	Hong Kong dollars, the lawful currency of Hong Kong
“MOP”	Macau Patacas, the lawful currency of Macau
“USD”	United States dollars, the lawful currency of the United States of America
“Cninfo”	巨潮資訊網 www.cninfo.com.cn
“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}
Abbreviation of the changed stocks (if any):	N/A	
Stock exchange	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 Chinese name of the Company	麗珠集團	
English name of the Company	LIVZON PHARMACEUTICAL GROUP INC.*	
Abbreviation of English name of the Company	LIVZON GROUP	
Legal representative of the Company	Zhu Baoguo (朱保國)	
Registered address of the Company in China	Headquarters Building, 38 Chuangye North Road, Jinwan District, Zhuhai City, Guangdong Province, China	
Postal code of the registered address of the Company	519090	
Domestic business address of the Company	Headquarters Building, 38 Chuangye North Road, Jinwan District, Zhuhai City, Guangdong Province, China	
Postal code of the domestic business address of the Company	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"), and H Shares were listed and traded on the Main Board of the Hong Kong Stock Exchange by way of introduction. The stock code of the H Shares of the Company was 01513 and the stock abbreviation of which was 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.

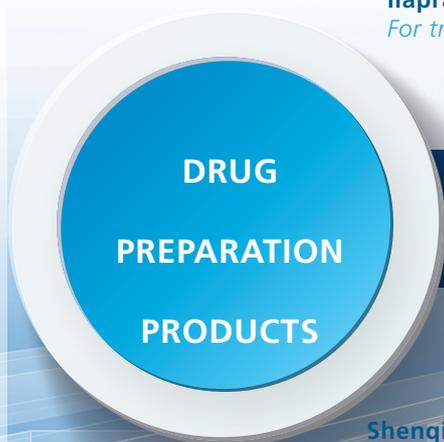
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(II) CONTACT PERSONS AND CONTACT DETAILS

	Secretary to the Board	Representative of securities affairs
Name	Yang Liang	Ye Delong
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) INFORMATION DISCLOSURE AND PLACE WHERE COPIES OF THIS REPORT ARE AVAILABLE

Media for information disclosure selected by the Company	China Securities Journal, Securities Times, Shanghai Securities News, Securities Daily
Website for publishing this annual report appointed by the CSRC	www.cninfo.com.cn
Website for publishing this annual report in HK	www.hkexnews.hk, www.livzon.com.cn
Place where copies of this annual report are available	The Secretariat to the Board of the Company, Principal place of business in Hong Kong of the Company



Ilaprazole Enteric Coated Tablets
For treatment of duodenal ulcers.



Leuporelin Acetate Microspheres for Injection
Endometriosis; fibroid.



Mouse Nerve Growth Factor for Injectio
For treatment of traumatic optic neuropathy.



Shenqi Fuzheng Injection
Supplementing energy. For assisted treatment of Qi-deficiency lung cancer and gastric cancer.



Anti-viral Granules
Used for eliminating heat and detoxifying detumescence. For treatment of viral influenza.



Urofollitropin for Injection
For treatment of dysfunction of the ovary and sufferers for whom Clomifene Citrate produces no curative effect as well as assisted reproductive ovulation induction.



(IV) CHANGE IN REGISTRATION DETAILS

Unified social credit code	914404006174883094
Changes in principal activities since Listing (if any)	No change
Every change in controlling shareholders (if any)	No change of controlling shareholders of the Company in recent 10 years

(V) OTHER RELEVANT INFORMATION**1. Accounting Firm Appointed by the Company**

Name of accounting firm	Ruihua Certified Public Accountants (LLP)
Address of accounting firm	9/F, West Tower of China Overseas Property Plaza, Building 7, NO.8, Yongdingmen Xibinhe Road, Dongcheng District, Beijing
Name of signing accountants	Ling Yunliang, Zhang Fang

2. Authorised Representatives of the Company and institution appointed pursuant to the Listing Rules

Authorised Representatives appointed pursuant to the Listing Rules	Tao Desheng, Yang Liang
Company Secretary, Secretary to the Board	Yang Liang
Alternate to Authorised Representatives	Yuan Ailing
Name of H Share Registrar	Tricor Investor Services Limited
Address of H Share Registrar	Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong

3. Sponsor appointed by the Company for continuing supervisory responsibilities during the Year

Applicable Not applicable

Sponsor	Business address of the Sponsor	Name of representative of the Sponsor	Period of continuous supervisions
Minsheng Securities Co., Ltd.	Minsheng Financial Centre, Block A, Level 16 to 18, 28 Jianguomen Nei Avenue, Dongcheng District, Beijing	Yu Chunyu (于春宇), Xu Weili (徐衛力)	From 20 September 2016 to 31 December 2018

4. Financial advisor appointed by the Company for continuing supervisory responsibilities during the Year

Applicable Not applicable

(VI) CHANGES OF SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND ACCOUNTING METHOD AND CORRECTION OF ACCOUNTING ERRORS AS COMPARED WITH FINANCIAL STATEMENT OF LAST YEAR

✓ Applicable □ Not applicable

(1) Changes of Accounting Policies

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

(1) Ministry of Financial

On 31 March 2017, the Ministry of Finance of the PRC issued "Accounting Standard for Business Enterprises No. 22 – Recognition and Measurement of Financial Instrument" (Revised in 2017) (Cai Kuai [2017] No. 7), "Accounting Standard for Business Enterprises No. 23 – Transfer of Financial Assets" (Revised in 2017) (Cai Kuai [2017] No. 8), "Accounting Standard for Business Enterprises No. 24 – Hedge Accounting" (Revised in 2017) (Cai Kuai [2017] No. 9), and on 2 May 2017, issued "Accounting Standard for Business Enterprises No. 37 – Presentation and Reporting of Financial Instrument" (Revised in 2017) (Cai Kuai [2017] No. 14) (the above standards are collectively as "New Financial Instrument Standards"); and on 5 July 2017, issued the "The Revision and Issuance of 'Accounting Standards for Business Enterprises No. 14 – Revenue'" (Revised in 2017) (Cai Kuai [2017] No. 22). 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 reports shall apply the above-mentioned Standard from 1 January 2018. As resolved in the 12th meeting of the ninth session of the Board of the Company on 29 March 2018, the Company commenced the five accounting standards above at the time as required by the MOF.

On 1 January 2018, the Company adopted the New Financial Instrument Standards in classification and measurement of financial instruments. No adjustment has been made to the figures in the comparative financial statements for prior periods. The difference between the original carrying value of financial instruments and the new carrying value as at 1 January 2018 is to be included in the retained earnings at the beginning of 2018. The major effects of changes of accounting policies on the financial statements this year as a result of the adoption of the above standards are as follows:

A. Consolidated Statement

Unit: RMB

Item	Opening Balance Before Adoption	Adoption of 4 Accounting Standards such as Accounting Standards for Enterprises No. 22 – Recognition and Measurement of Financial Instruments, and Accounting Standards for Enterprises No. 14 – Revenues	Opening Balance After Adoption
Financial assets held for trading	–	18,598,840.91	18,598,840.91
Financial assets at fair value through current profit or loss	8,732,443.07	–8,732,443.07	–
Available-for-sale financial assets	193,530,331.52	–193,530,331.52	–
Investment of other right instruments	–	183,663,933.68	183,663,933.68
Financial liabilities held for trading	–	339,129.90	339,129.90
Financial liabilities at fair value through current profit or loss	339,129.90	–339,129.90	–
Receipts in advance	115,288,797.94	–115,288,797.94	–
Contract liability	–	115,288,797.94	115,288,797.94
Other comprehensive income	–44,546,365.43	–8,352,564.09	–52,898,929.52
Retained earnings	8,028,315,370.19	8,352,564.09	8,036,667,934.28

(VI) CHANGES OF SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND ACCOUNTING METHOD AND CORRECTION OF ACCOUNTING ERRORS AS COMPARED WITH FINANCIAL STATEMENT OF LAST YEAR (continued)

(1) Changes of Accounting Policies (continued)

Change of accounting policies due to adoption of new Accounting Standards for Business Enterprises (continued)

B. Statement of Parent Company

Unit: RMB

Item	Opening Balance Before Adoption	Adoption of 4 Accounting Standards such as Accounting Standards for Enterprises No. 22 – Recognition and Measurement of Financial Instruments, and Accounting Standards for Enterprises No. 14 – Revenues	
			Opening Balance After Adoption
Financial assets held for trading	–	9,866,397.84	9,866,397.84
Available-for-sale financial assets	85,369,506.68	–85,369,506.68	–
Investment of other right instruments	–	75,503,108.84	75,503,108.84
Receipts in advance	39,100,755.02	–39,100,755.02	–
Contract liability	–	39,100,755.02	39,100,755.02
Other comprehensive income	8,352,564.09	–8,352,564.09	–
Retained earnings	4,724,885,078.69	8,352,564.09	4,733,237,642.78

(2) In accordance with requirements of the “Notice on the Revision of the Format for Issuing 2018 General Enterprise Financial Statements” (《關於修訂印發2018年度一般財務報表格式的通知》) (Cai Kuai [2018] No.15) issued by the Ministry of finance, the primary effects on the current financial statements are as follows:

A. Consolidated statement

Unit: RMB

Item	Opening Balance Before Adoption/ Figures of Last Year	Adoption of the Format of Financial Statements of General Enterprises (Applicable to Companies that have Implemented the New Financial Standards or the New Income Standards)	
			Opening Balance After Adoption/ Figures of Last Year
Balance sheet items:			
Bills receivables	1,151,583,176.39	–1,151,583,176.39	–
Accounts receivables	1,356,773,152.45	–1,356,773,152.45	–
Bills receivables and accounts receivables	–	2,508,356,328.84	2,508,356,328.84
Interest receivables	5,945,063.41	–5,945,063.41	–
Other receivables	57,695,538.55	5,945,063.41	63,640,601.96
Bills payables	661,858,884.48	–661,858,884.48	–
Accounts payables	501,668,543.26	–501,668,543.26	–
Bills payables and account payables	–	1,163,527,427.74	1,163,527,427.74
Dividends payables	170,936,288.17	–170,936,288.17	–
Other payables	1,753,221,979.28	170,936,288.17	1,924,158,267.45
Income statement items:			
Administrative expenses	933,971,538.92	–427,152,448.64	506,819,090.28
R&D expenses	–	427,152,448.64	427,152,448.64

(VI) CHANGES OF SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND ACCOUNTING METHOD AND CORRECTION OF ACCOUNTING ERRORS AS COMPARED WITH FINANCIAL STATEMENT OF LAST YEAR *(continued)*

(1) Changes of Accounting Policies *(continued)*

Change of accounting policies due to adoption of new Accounting Standards for Business Enterprises *(continued)*

B. Statement of Parent Company

Unit: RMB

Item	Opening Balance Before Adoption/ Figures of Last Year	Adoption of the Format of Financial Statements of General Enterprises (Applicable to Companies that have Implemented the New Financial Standards or the New Income Standards)	Opening Balance After Adoption/ Figures of Last Year
Balance sheet items:			
Bills receivables	636,582,349.82	-636,582,349.82	-
Accounts receivables	637,179,064.67	-637,179,064.67	-
Bills receivables and accounts receivables	-	1,273,761,414.49	1,273,761,414.49
Interest receivables	5,945,063.41	-5,945,063.41	-
Dividends receivables	566,928,924.56	-566,928,924.56	-
Other receivables	1,662,285,306.91	572,873,987.97	2,235,159,294.88
Bills payables	586,471,643.46	-586,471,643.46	-
Accounts payables	885,478,188.96	-885,478,188.96	-
Bills payables and account payables	-	1,471,949,832.42	1,471,949,832.42
Dividends payables	20,174.46	-20,174.46	-
Other payables	2,810,748,903.74	20,174.46	2,810,769,078.20
Income statement items:			
Administrative expenses	294,001,882.79	-127,773,276.59	166,228,606.20
R&D expenses	-	127,773,276.59	127,773,276.59



Diagnosics Kit for Antibody to Hepatitis C Virus (ELISA)



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



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

(VI) CHANGES OF SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND ACCOUNTING METHOD AND CORRECTION OF ACCOUNTING ERRORS AS COMPARED WITH FINANCIAL STATEMENT OF LAST YEAR *(continued)*

(2) Changes in accounting estimates

As resolved in the 12th meeting of the ninth session of the Board of the Company on 29 March 2018, changes will be made to the expected loss rate for bad debts of accounts receivables and other receivables. The changes in accounting estimates will be implemented from 1 April 2018 onwards and the detailed conditions before and after the changes are as follows:

Unit: RMB

Ageing	Before the changes		Ageing	After the changes	
	Expected loss rate for account receivables	Expected loss rate for other receivables		Expected loss rate for account receivables	Expected loss rate for other receivables
			within 3 months (including 3 months)		1%
within 1 year (including 1 year)	5%	5%	4-6 months (including 6 months)		5%
			7-12 months (including 12 months)		10%
1 year – 2 years (including 2 years)	6%	6%	1 year – 2 years (including 2 years)		20%
2 years – 3 years (including 3 years)	20%	20%	2 years – 3 years (including 3 years)		70%
3 years – 4 years (including 4 years)	70%	70%	3 years – 4 years (including 4 years)		100%
4 years – 5 years (including 5 years)	90%	90%	4 years – 5 years (including 5 years)		100%
over 5 years	100%	100%	over 5 years		100%

The company adopts prospective application in the calculation of the changes in accounting estimates. The effects of such changes in accounting estimates to the operating results for the Year and the statement components are shown as follows:

Unit: RMB

Item	Sum Affected (increased "+", decreased "-")
Balance sheet items:	
Bills receivables and accounts receivables	35,368,896.38
Other receivables	-531,896.46
Deferred tax assets	-5,225,549.99
Retained earnings	29,611,449.93
Income statement items:	
Credit impairment loss	-34,836,999.92
Income tax expenses	5,225,549.99
Net profit	29,611,449.93

(VII) SIGNIFICANT ACCOUNTING DATA AND FINANCIAL INDICATORS PREPARED IN ACCORDANCE WITH THE CHINA ACCOUNTING STANDARDS FOR BUSINESS ENTERPRISES

1. Whether the Company has made retrospective adjustment or restatement of accounting data of the prior years due to changes in accounting policies and corrections of accounting errors:

✓ YES NO

Amount denominated: RMB'000

Items	2018	2017	Year-on-year change	2016	2015	2014
Operating income	8,860,655.67	8,530,968.60	3.86%	7,651,775.29	6,620,516.54	5,544,233.78
Net profit attributable to shareholders of the Company	1,082,174.91	4,428,684.56	-75.56%	784,353.61	622,641.03	515,978.43
Net profit attributable to the shareholders of the Company after deducting the extraordinary gain or loss	947,216.31	820,022.56	15.51%	682,466.19	538,364.28	463,031.47
Net cash from operating activities	1,267,621.18	1,315,865.47	-3.67%	1,279,215.04	927,788.46	717,393.89
Total profit	1,416,674.35	5,724,922.79	-75.25%	1,005,061.18	807,921.30	652,025.03

Items	31 December 2018	31 December 2017	Change from the beginning to the end of the Year	31 December 2016	31 December 2015	31 December 2014
Total assets	17,437,346.86	15,897,730.72	9.68%	10,529,262.95	8,077,537.79	7,302,605.06
Total liabilities	5,687,469.95	4,664,107.16	21.94%	3,423,624.45	3,267,641.05	3,220,183.53
Net assets attributable to the shareholders of the Company	10,651,977.47	10,772,739.77	-1.12%	6,505,987.40	4,346,255.33	3,696,516.57
Share capital	719,050.24	553,231.37	29.97%	425,730.13	396,889.55	295,721.85
Shareholders' equity per share attributable to the shareholders of the Company (RMB)	14.81	19.47	-23.92%	15.28	10.95	12.50

Amount denominated: RMB

Items	2017			Year-on-year change	2016		2015	2014
	2018	Before adjustment	After adjustment		Before adjustment	After adjustment		
Basic earnings per share	1.51	8.09	6.22	-75.72%	1.98	1.17	0.96	0.79
Diluted earnings per share	1.51	8.06	6.20	-75.65%	1.97	1.17	0.95	0.79
Basic earnings per share after deducting extraordinary gain or loss	1.32	1.50	1.15	14.78%	1.72	1.02	0.83	0.71

Items	2018	2017	Year-on-year change	2016	2015	2014
Weighted average return on net assets (%)	10.15%	51.17%	down by 41.02 percentage points	15.48%	15.51%	14.66%
Return on equity attributable to shareholders of the Company (%)	10.16%	41.11%	down by 30.95 percentage points	12.06%	14.33%	13.96%
Equity attributable to shareholders of the Company to total assets ratio (%)	61.09%	67.76%	down by 6.67 percentage points	61.79%	53.81%	50.62%

Note: As a result of the implementation of conversion of capital reserve by the Company in 2018, earnings per share data for the previous years has been adjusted based on the latest share capital in accordance with the requirement of applicable accounting standards.

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

The total share capital of the Company as at the trading day immediately preceding disclosure (shares)	719,050,240
Fully diluted earnings per share based on the most updated share capital (RMB/share)	1.51

(VII) SIGNIFICANT ACCOUNTING DATA AND FINANCIAL INDICATORS PREPARED IN ACCORDANCE WITH THE CHINA ACCOUNTING STANDARDS FOR BUSINESS ENTERPRISES *(continued)***2. Whether corporate debts exist** YES NO**3. Whether the Company has continuous deficit in recent two years** YES NO Not applicable**(VIII) DIFFERENCES IN ACCOUNTING DATA UNDER DOMESTIC AND FOREIGN ACCOUNTING STANDARDS****1. Difference in net profit and net assets in financial report disclosed in accordance with International Accounting Standard and China Accounting Standard** Applicable Not applicable**2. Difference in net profit and net assets in financial report disclosed according to Foreign Accounting Standards and China Accounting Standard** Applicable Not applicable**3. Reasons for differences in accounting data under domestic and foreign accounting standards** Applicable Not applicable**(IX) QUARTERLY PRINCIPAL FINANCIAL INDICATORS***Amount denominated: RMB*

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Operating income	2,369,123,463.71	2,195,580,027.72	2,276,732,402.47	2,019,219,776.83
Net profit attributable to shareholders of the Company	347,363,915.08	285,990,380.45	306,750,394.63	142,070,215.82
Net profit attributable to shareholders of the Company after deducting the extraordinary gains or losses	284,962,982.12	286,162,199.72	224,495,448.31	151,595,675.50
Net cash from operating activities	208,115,855.40	-226,284,403.58	644,520,054.25	641,269,674.97

Whether there is significant difference between the above financial indicators or calculative amounts and the related financial indicators disclosed by the Company in quarterly reports and semi-annual report YES NO

(X) ITEMS AND AMOUNTS OF EXTRAORDINARY GAINS OR LOSSES✓ Applicable Not applicable*Amount denominated: RMB*

Items	Amounts in 2018	Amounts in 2017	Amounts in 2016
Gains and losses from disposal of non-current assets (including those already written off in the provision for impairment of assets as provided)	15,792,181.49	4,504,302,450.88	5,309,155.74
Government grants included in the profit or loss for the Current 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 national standards)	257,704,892.65	161,721,876.94	128,100,925.11
Gains or losses from investments on trust or asset management	-	11,387,922.35	-
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)	-55,583,678.31	7,608,235.70	-930,399.32
Other non-operating income and expenses apart from the above	-32,985,967.52	-2,642,343.73	-4,356,879.36
Less: Effect on income tax	27,784,750.10	1,056,999,539.60	17,442,373.66
Effect on non-controlling interests (after tax)	22,184,077.88	16,716,594.06	8,793,009.36
Total	134,958,600.33	3,608,662,008.48	101,887,419.15

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

(I) PRINCIPAL ACTIVITIES ENGAGED DURING THE YEAR

During the Year, there was no change to the principal activities of the Group. The Group is primarily engaged in the research and development, production and distribution of pharmaceutical products. The products of the Group covered drug preparation products, bulk medicines and intermediates as well as diagnostic reagents and equipment. Major products included Chinese and Western drug preparation products such as Shengqi Fuzheng Injection (參芪扶正注射液), a series of Bismuth Potassium Citrate (麗珠得樂(枸橼酸鉍鉀)) products, Anti-viral Granules (抗病毒顆粒), 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)), Ilaprazole Enteric Coated Tablet (壹麗安(艾普拉唑腸溶片)), 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)) and Leuprorelin Microspheres for Injection (貝依(注射用亮丙瑞林微球)); bulk medicines and intermediates such as Mevastatin (美伐他汀), Colistin (硫酸粘菌素), Phenylalanine (苯丙氨酸), Ceftriaxone Sodium (頭孢曲松鈉); and diagnostic reagent products such as HIV Diagnostic Reagents for Antibody (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

Major assets	Details for material changes
Equity assets	An increase of 83.50%, mainly due to the increase of external investments for the Year.
Fixed assets	A decrease of 3.12%, no material changes for the Year.
Intangible assets	A decrease of 7.43%, no material changes for the Year.
Construction in progress	An increase of 162.55%, mainly due to the investment in the construction of new manufacturing plants and technical input for the Year.
Cash at bank and on hand	An increase of 15.81%, no material changes for the Year.
Prepayments	An increase of 34.23%, mainly due to the increase in prepayments for procurement of materials.
Non-current assets due within one year	“Non-current assets due within one year” at the End of the Reporting Period is RMB10,869,100.00, which is mainly due to the consideration due within one year received for the transfer of part of equity interest in the controlling subsidiary for the Year.
Long-term receivables	“Long-term receivables” at the End of the Reporting Period is RMB20,299,509.76, which is mainly due to the consideration due over one year received for the transfer of part of equity interest for the controlling subsidiary in the Year.
Other equity instrument investments	An increase of 121.99%, mainly due to the purchase of Global Health Science Fund II,L.P.
Development expenses	An increase of 220.37%, mainly due to the increase in R&D expenses as a result of projects such as 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 recombinant biosimilar human chorionic gonadotropin for injection (注射用重組人絨促性素) entered into the clinical test phase for the Year.

Major foreign assets:

Applicable Not applicable

(III) CORE COMPETITIVENESS ANALYSIS

The Group continues to adhere to the development target of becoming a high-end specialty pharmaceutical enterprise with the core business philosophy of “Reform, Responsibility, Innovation and Development” to constantly improve the efficiency of its management and governance standards, thereby steadily promoting research and development, strengthen the sales management, and achieving steady growth in performance. During the Year, there were no major changes in the Group’s general core competitiveness, which was primarily reflected in the following:

(1) Diversified product mix and business portfolio

Our products cover drug preparation products, raw material and intermediaries, diagnostic reagents and equipment in various pharmaceutical sub-sectors. In addition, the Group has established an advantageous position in the specialized pharmaceutical segments of anti-tumor medicine, assisted reproduction, gastrointestinal drugs, psychiatry drugs, and neurology drugs. At this stage, while continuously strengthening the research and development of monoclonal antibodies, the Company constantly accelerated the cultivation of its precise pharmaceutical business.

(2) Comprehensive marketing system and professional marketing team

The Group implemented lean management of marketing and constantly improved its marketing system, optimized its incentive assessment mechanism and strengthened marketing efforts within the academic field as well as to end-users. Through optimization of resources allocation, a more complete marketing system has been gradually established. The Group had almost 10,000 staff members who served in the marketing management teams of its various segments and provided professional sales services to the Group. The Group has a marketing network covering the majority of leading medical institutions, chain drugstores, disease control centres and health authorities across China.

(3) Proven quality management system

The Group has established a three-dimensional quality management system covering production quality, scientific research and sales of products. During the Reporting Period, the Group continuously improved its quality management level to facilitate the sound operation of the quality management system. The overall production and operating quality are in good condition. The quality management system operates in great order as well. Thus, the safety and stability of the Group’s products in various areas has been effectively protected.

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

The Group has strong 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 reagent, and has unique core competitiveness on technology platforms for R&D of Sustained Release Microspheres and R&D of Biomedicine.. By proactively introducing experts and innovative talents from home and abroad, exerting greater efforts in research and development and developing overseas strategic alliances, the Group has established a clear R&D products management pipeline with a focus on specialized products portfolio of anti-tumor, assisted reproduction, gastrointestinal, psychotropic and neurological drugs, which further enhanced its R&D competitiveness.

(I) OPERATING ACTIVITIES

As for the principal activities of the Group during the Year, please refer to “PRINCIPAL ACTIVITIES ENGAGED DURING THE YEAR” in Chapter III of this annual report for relevant information.

(II) SUMMARY

In 2018, under the changing policy of pharmaceutical industry and complex market environment, the Group actively responded to the new trend and adopted the management approach centering on “innovation and standardization”, thereby promoting steady business development. During the Year, the Group recorded an operating income of RMB8,860.66 million, representing an increase of 3.86% as compared with RMB8,530.97 million of the previous year. Net profit was RMB1,181.71 million, representing an decrease of 73.67% as compared with RMB4,487.70 million of the previous year. Net profit attributable to shareholders of the Company was RMB1,082.17 million, representing an decrease of 75.56% as compared with RMB4,428.68 million of the previous year. As in the year 2017, the Group disposed 100% equity interest of a subsidiary, Zhuhai Weixing Shiye Co., Ltd. (珠海維星實業有限公司), and such equity transfer increased the net profit attributable to shareholders of the listing company by RMB3284 million, which leads to the decrease in net profit of the Year. Excluding extraordinary gains and losses, the Company's net profit attributable to its shareholders generated from principal activities in 2018 was RMB947.22 million, representing an increase of 15.51% as compared with RMB820.02 million of the previous year.

During the Year, the Group steadily carried out various major tasks, of which the progress of each business segment is as follows:

(1) Drug preparation business: Intensified sales, strengthen R&D, focused on quality control and planned for the launch of new products

During the Reporting Period, the Group's income from sales of pharmaceutical preparations amounted to RMB5,770.71 million, among which income from western drug preparations amounted to RMB4,238.25 million, representing a year-on-year increase of 14.48%. The income from Chinese drug preparations amounted to RMB1,532.46 million, representing a year-on-year decrease of 25.07%.

In 2018, under the guidance of the “three marketing initiatives” of evidence-based marketing and service-oriented marketing and marketing through cooperation, the marketing team of the Group has done major work in the following aspects: first, it increased sales of low-yielding hospitals, strengthened the coverage of new hospitals, expanded lower-end markets and private hospital markets; second, it arranged the launch of Ilaprazole Sodium for Injection, and there were 23 provinces in total started bidding online during the whole year and have been included in the medical insurance of Jiangsu Province; third, it optimized marketing assessment, and incorporated the penetration rate of key products in hospitals into the assessment system; fourth, the marketing through cooperation made solid progress, and strategic cooperation with large-scale medical centers such as West China Hospital, Sichuan University has been established.

As for research and development, in 2018, the Group further improved the research, development and innovation system, promoted the project management system, reorganised and evaluated the research projects, and prioritized the progress of the key research varieties, and achieved relatively good outcomes. During the Reporting Period, the Shengqi Fuzheng Injection (參芪扶正注射液) was approved for phase I clinical test by the USA FDA and currently reached the clinical research stage; the high-purity Menotropins for Injection (注射用高純度尿促性素) reached the clinical research stage; the Ryanodex for Injection (注射用丹曲林鈉) has completed the clinical research stage; Triptorelin Acetate Microspheres for Injection (注射用醋酸曲普瑞林微球) (1 month sustained release) project reached the clinical research stage and Leuprorelin Acetate Microspheres for Injection (注射用醋酸亮丙瑞林微球) (3-month sustained release) project has applied for production.

(II) SUMMARY *(continued)***(1) Drug preparation business: Intensified sales, strengthen R&D, focused on quality control and planned for the launch of new products** *(continued)*

As for production, as at 31 December 2018, a total of 31 production lines of 4 manufactures of pharmaceutical preparations under the Group passed GMP certification. During the Reporting Period, the quality assurance head office conducted 8 spot checks and 16 audits on manufactures of pharmaceutical preparations of the Group. The quality system standard of each production enterprise of the Group has been steadily improved, and systematic environmental protection and safety risk management and control have been continuously improved. There was no material environmental, safety or occupational health incident. In terms of capacity construction, the Group completed the transformation of Shenqi bag infusion (參芪袋裝輸液) and Microsphere new workshop and construction of workshop for recombinant biosimilar human chorionic gonadotropin for injection (注射用重組人絨促性素).

For overseas sales of pharmaceutical preparations, in 2018, the Group commenced the registration and sales of gonadotropic hormones, gastrointestinal, anti-viral, psychotropic and antibiotics drugs in Pakistan, the countries from the Commonwealth of Independent States, the Philippines, Central America, Sri Lanka, Nigeria, Macau and other countries and regions.

(2) Bulk medicines business: pushed forward R&D, pursued environmental protection and enhanced product global layout

During the Reporting Period, the bulk medicines and intermediates business of the Group recorded a sales revenue of approximately RMB2,354.28 million, representing an increase of 11.95% over the previous year, achieved an operating profit of RMB564.76 million, representing an increase of 13.97% over the previous year, profitability continued to increase. Following continuous restructuring and optimization of its management structure as well as reorientation and development over the past years, the bulk medicines business of the Group has continued to grow steadily and has gradually completed the transformation and upgrading from general bulk medicines to high-end specialty bulk medicines, and from unregulated markets to regulated markets, such as Europe and the U.S.A.

As of the end of the Reporting Period, registration and research for 13 projects in the bulk medicine business have been started, of which moxiktin (莫西克汀) and serramycin (塞拉菌素) have been approved by the European Union. Based on the original bulk medicines and intermediates, the Group further developed and enriched the R&D pipeline bulk medicines and intermediates in the fields of peptides, high-end veterinary medicines and new antibiotics.

In the areas of production and quality, as at 31 December 2018, 28 products of 5 bulk medicines enterprises under the Group had passed the GMP certification, and 11 products had passed the veterinary GMP certification. Production management standard was steadily improving. During the Reporting Period, the head office conducted 1 spot check and 7 audits on manufactures of bulk medicines business of the Group. In terms of registration and certification, 15 products passed the on-site examination for international certifications, 20 international certifications within the validity period were obtained (including 7 products passing the onsite examination of FDA, 7 products passing the CEP certificate), and over 200 registrations have been obtained for 36 products under production in 77 countries (or regions) as of the end of the Reporting Period.

(II) SUMMARY *(continued)***(3) Precise pharmaceutical business: emphasized on R&D and strengthened clinical research and optimized business structure and planning**

During the Reporting Period, in order to facilitate the medium and long-term development of the Group's precise pharmaceutical business, the sector developed the new incentive model and optimized the business structure. Meanwhile, Livzon Shengmei adjusted the shareholding structure and Livzon MAB underwent reorganization and obtained financing. During the Reporting Period, the subsidiaries of the Group have made the following major business achievements:

Livzon Reagents: in 2018, Livzon Reagents recorded sales revenue of RMB697.33 million, representing an increase of 9.69% over the previous year. During the Reporting Period, Livzon Reagents continued to promote the company's strategic transformation, and the proportion of revenue from self-manufactured products continued to increase. It continued to increase investment in self-technology and product research and development, supplementing competitive products for existing superior customer systems, and clinical verification for key project, the nucleic acid products for blood screening, have been completed. For product agency, consensus has been reached with Japan FUJIREBIO INC. that Livzon Reagents will be the sole agent in the China market.

Livzon MAB: During the Reporting Period, Livzon MAB focused on the clinical research work of projects, completed reporting to competent authorities for the production of recombinant biosimilar human chorionic gonadotropin for injection (注射用重組人絨促性素), and realized the strategic transformation from research and development to industrialization. Clinical approval for the Recombinant Anti-IL-6R Humanized Monoclonal Antibody (重組抗IL-6R人源化單克隆抗體) project was obtained, and have completed the application for humanized antiOX40 monoclonal antibody IND (全人源抗OX40單克隆抗體), the CAR-T technology platform has completed the development of multiple targets and made phased progress in innovative research in cell therapy. At the same time, during the Reporting Period, Livzon MAB further strengthened its business development work, completed the screening and evaluation of a number of new drug projects and external cooperation, and formed a medium and long-term research and development pipeline layout based on innovative drugs.

Livzon Gene: in 2018, since the company started submitting products to be commercialized for examination, it started cooperation with nearly 100 hospitals in 25 provinces and regions; completed the development and verification of 10 key testing projects, especially the preliminary completion of the construction of the "Lifeiqing" lung cancer early screening platform. The company further enriched its testing services, including tumors early screening, targeted/immune medication guidance and drug resistance/relapse monitoring. During the Reporting Period, the laboratory of Livzon Gene obtained full marks in the "National Quality Assessment of NGS Data for Tumor" and the "National External Quality Assessment on PCR for Tumor", and successfully passed the "Clinical Gene Amplification Laboratory" of the Hygiene and Health Commission Clinical Inspection Center. It also joined the Guangdong-Hong Kong-Macau Liquid Biopsy Joint Research Center and became the testing laboratory for the clinical process.

(4) Function and strategy: strengthened service, promoted standardization and optimized internal control and management

During the Reporting Period, under the core operation and management principles of "innovation and standardization" of the Group, the business functions actively cooperated with each other. Their works primarily include: expanded multiple channels to introduce high-end talents, formulated and implemented doctoral program; strengthened internal risk monitoring of the Group and improved functional management efficiency and service standard; reasonably arranged fund management to improve the Group's capital income, improved the foreign exchange risk management system and strengthened the tax planning function; continued to improve the information level of the Group. During the Reporting Period, information systems such as the internal ERP system of some subsidiaries, the main data system of the Group, the BPM business process management system, and the R&D information PLM system were successively put into operation.

(II) SUMMARY *(continued)***(4) Function and strategy: strengthened service, promoted standardization and optimized internal control and management** *(continued)*

During the Reporting period, the Group approved the 2018 Share Options Incentive Scheme, and completed the registration of a total of 17,475,500 share options of A Shares under the First Grant. With respect to strategic development and investment, on one hand, based on the business development needs, the Group enhanced the consolidation and management of internal equity. During the Reporting Period, the Group completed the adjustment to the shareholding structure such as minority equity transfer of Xinbeijiang Pharmaceutical, equity transfer of Livzon Shengmei and Livzon MAB underwent reorganization and obtained financing. On the other hand, the Company actively looked for potential investment targets with innovative products and innovative business layouts that are in line with the Company's development strategy. During the Reporting Period, the Company completed funds or equity investments such as Global Health Science Fund II, L.P., Shanghai Jianxin Biosciences Co., Limited (上海健信生物醫藥科技有限公司) and an US Company, Aetio Biotherapy Inc..

(III) ANALYSIS OF PRINCIPAL ACTIVITIES**1. Summary**

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

YES NO

Please refer to "Summary" in Chapter IV of this annual report for relevant information.

2. Segmental information

The Group has been operating in one single operating segment in the PRC, which is pharmaceutical manufacturing. Hence, the Group did not state the information of operating segments.

(III) ANALYSIS OF PRINCIPAL ACTIVITIES (continued)**3. Income and Costs****(1) Income composition of principal activities**

	2018		Amount Denominated: RMB 2017		Year-on-year increase/ decrease
	Amount	As a percentage of principal activities	Amount	As a percentage of principal activities	
Total operating incomes of principal activities	8,822,319,939.95	100%	8,487,126,968.80	100%	3.95%
By sector					
Western drug preparation products					
Gastrointestinal	1,247,598,526.74	14.14%	977,764,495.69	11.52%	27.60%
Cardio-cerebral vascular	247,805,732.58	2.81%	198,551,756.86	2.34%	24.81%
Antibiotics	511,936,181.15	5.80%	448,189,035.98	5.28%	14.22%
Gonadotropic hormones	1,613,273,261.50	18.29%	1,344,208,264.44	15.84%	20.02%
Other	617,634,335.36	7.00%	733,399,310.16	8.64%	-15.78%
Bulk medicines and Intermediates	2,354,276,412.34	26.69%	2,102,959,009.12	24.78%	11.95%
Chinese drug preparation products	1,532,464,641.30	17.37%	2,045,244,765.20	24.10%	-25.07%
Diagnostic reagents and equipment	697,330,848.98	7.90%	635,721,525.53	7.49%	9.69%
Other	-	-	1,088,805.82	0.01%	-100.00%
By product					
Shengqi Fuzheng Injection	1,002,157,802.73	11.36%	1,573,407,878.77	18.54%	-36.31%
By region					
Domestic	7,729,928,025.92	87.62%	7,454,361,371.53	87.83%	3.70%
Overseas	1,092,391,914.03	12.38%	1,032,765,597.27	12.17%	5.77%
Total	8,822,319,939.95	100.00%	8,487,126,968.80	100.00%	3.95%

(2) Industries, products and areas represent over 10% of operating incomes or operating profit to the Company

	Amount Denominated: RMB					
	Principal activities incomes	Principal activities costs	Gross profit margin	Year-on- year change in principal activities income	Year-on- year change in principal activities costs	Year-on- year change in gross profit margin
By sector						
Western drug preparation products	4,238,248,037.33	911,066,207.07	78.50%	14.48%	21.16%	down by 1.19 percentage points
Bulk medicines and intermediates	2,354,276,412.34	1,789,518,716.37	23.99%	11.95%	11.33%	up by 0.43 percentage points
Chinese drug preparation products	1,532,464,641.30	364,099,728.75	76.24%	-25.07%	-15.37%	down by 2.72 percentage points
Diagnostic reagents and equipment	697,330,848.98	274,562,687.71	60.63%	9.69%	3.32%	up by 2.43 percentage points
By product						
Shengqi Fuzheng Injection	1,002,157,802.73	211,699,741.40	78.88%	-36.31%	-26.75%	down by 2.75 percentage points
By region						
Domestic	7,729,928,025.92	2,543,604,959.29	67.09%	3.70%	11.06%	down by 2.19 percentage points
Overseas	1,092,391,914.03	795,642,380.61	27.17%	5.77%	3.87%	up by 1.34 percentage points

(III) ANALYSIS OF PRINCIPAL ACTIVITIES *(continued)***3. Income and Costs** *(continued)***(2) Industries, products and areas represent over 10% of operating incomes or operating profit to the Company** *(continued)*

With the adjusted basis of data statistics of the principal activities of the Company during the Year, the data of the principal business after year ended basis adjustments in the most recent year

Applicable Not applicable

During the Year, the Group's principal activities generated an operating income of RMB8,822.32 million, representing an increase of RMB335.19 million or 3.95% as compared with RMB8,487.13 million of the previous year. Among which, the sales growth in western drug preparation products increased by 14.48% year-on-year and sales growth in bulk medicines and intermediates increased by 11.95% year-on-year.

The income and growth of key drug 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 RMB760.70 million and RMB592.61 million, up by 40.34% and 7.80% year-on-year respectively; the income from sales of key gastrointestinal product Ilaprazole Series (艾普拉唑系列) amounted to RMB588.32 million, representing a year-on-year increase of 37.35%; the income from sales of Rabeprazole (雷貝拉唑) amounted to RMB227.45 million, representing a year-on-year increase of 40.53%; the income from sales of the Bismuth Potassium Citrate series (得樂系列) amounted to RMB163.84 million, representing a year-on-year decrease of 1.39%; the income from sales of Livzon Weisanlian (麗珠維三聯) amounted to RMB202.60 million, representing a year-on-year increase of 21.05%; 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 RMB444.43 million, representing a year-on-year decrease of 14.09%; the income from sales of the neurological drugs Fluvoxamine (氟伏沙明) and Perospirone (呱羅匹隆) amounted to RMB102.10 million and RMB35.56 million respectively, representing a year-on-year increase of 17.05% and 38.07% respectively. The income from sales of Anti-viral Granules (抗病毒顆粒) amounted to RMB332.64 million, representing a year-on-year increase of 10.78%; the income from sales of Voriconazole for Injection (注射用伏立康唑) amounted to RMB231.72 million, representing a year-on-year increase of 18.97%.

The income and growth of key bulk medicines and intermediates are as follows: the income from sales of Acarbose (阿卡波糖) amounted to RMB220.14 million, representing a year-on-year increase of 4.77%; the income from sales of Milbemycin Oxime (米爾貝肼) amounted to RMB119.59 million, representing a year-on-year increase of 51.04%; the income from sales of Lincomycin (林可霉素) amounted to RMB118.33 million, representing a year-on-year decrease of 12.10%; and the income from sales of Vancomycin Hydrochloride (鹽酸萬古黴素) amounted to RMB131.73 million, representing a year-on-year increase of 8.03%; the income from sales of Mevastatin (美伐他汀) amounted to RMB118.88 million, representing a year-on-year increase of 54.60%.

The sales growth of the aforesaid products was primarily due to continuous progress in marketing reform which improved channel penetration, and accelerated the assembling of sales specialty, and driven by the steady growth of the key products with high margin in sector of Bulk medicines through the integration of resources, adjust the product structure, increase 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 Year, the Group's operating costs of principal activities amounted to RMB3,339.25 million, representing an increase of RMB282.88 million or 9.26% as compared with RMB3,056.37 million for the previous year, which was mainly due to the increase in the operating costs of principal activities resulted from the sales growth.

(III) ANALYSIS OF PRINCIPAL ACTIVITIES (continued)**3. Income and Costs** (continued)**(3) Operating income of principal activities by regions**

Regions	Amount incurred for the year		Amount Denominated: RMB Amount incurred for last year	
	Principal activities income	Principal activities cost	Principal activities income	Principal activities cost
Domestic	7,729,928,025.92	2,543,604,959.29	7,454,361,371.53	2,290,342,161.02
Overseas	1,092,391,914.03	795,642,380.61	1,032,765,597.27	766,032,007.83
Total	8,822,319,939.95	3,339,247,339.90	8,487,126,968.80	3,056,374,168.85

(4) Whether the revenue from physical sales are greater than the revenue from rendering of services✓ YES NO

Since the products of the Company are complicated and units constituting of each product are different, it is unable to convert the production and sales into a unified number for comparison.

The reasons for the year-on-year changes of over 30% in the related items Applicable Not applicable**(5) The implementation of the major sales contracts entered into by the Company at the end of this year**✓ Applicable Not applicable

Name of the contracted company	Name of the contracted counterparty	Contract subject	Date of contract	Pricing principle	Transaction consideration (RMB'000)	Connected Transaction or not	Connected relationships	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	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 RMB394.287 million transaction amount (tax inclusive) has been recorded, representing 82.04% 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)

(III) ANALYSIS OF PRINCIPAL ACTIVITIES (continued)**3. Income and Costs** (continued)**(6) Operating costs composition**

By industry	Item	2018		Amount Denominated: RMB 2017		Year-on- year change
		Amount	Proportion to operating costs	Amount	Proportion to operating costs	
Pharmaceutical industry	Material costs	2,225,109,075.65	66.23%	1,989,807,342.97	64.54%	11.83%
	Labour costs	331,567,177.07	9.87%	286,736,530.14	9.30%	15.63%
	Depreciation	214,722,766.17	6.39%	217,702,742.13	7.06%	-1.37%
	Energy and power	238,224,664.11	7.09%	268,903,997.94	8.72%	-11.41%
	Others	390,041,444.93	11.61%	311,809,994.71	10.11%	25.09%
	Movement in inventories from the beginning of the period to the end of the period	-40,010,063.81	-1.19%	8,120,428.82	0.26%	-592.71%
	Operating costs	3,359,655,064.11	100.00%	3,083,081,036.71	100.00%	8.97%

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

Applicable Not applicable

(8) Major customers and suppliers

During the Year, the sales to the five largest customers contributed to 8.95% (2017: 9.11%) of the Group's operating income of principal activities, while the purchases from the five largest suppliers of the Group contributed to approximately 35.15% (2017: 34.83%) of the Group's total purchase of raw materials. The five largest customers have been the customers of the Group for 12.2 years on average, and the five largest suppliers has been the suppliers of the Group for 11.4 years on average.

Major Customers of the Company for the year

Total sales amount from top five customers (RMB)	789,314,780.94
Percentage of sales amount from top five customers to total sales of the Year	8.95%
Percentage of sales amount from related parties in sales amount among top five clients to total sales of the Year	0.00%

Top Five Customers of the Company for the year

Applicable Not applicable

No.	Name of customers	Sales Amount (RMB)	Percentage of sales amount to total sales of the year
1	First	219,421,586.22	2.49%
2	Second	158,800,391.09	1.80%
3	Third	152,185,579.29	1.73%
4	Fourth	150,013,320.17	1.70%
5	Fifth	108,893,904.17	1.23%
Total		789,314,780.94	8.95%

(III) ANALYSIS OF PRINCIPAL ACTIVITIES *(continued)***3. Income and Costs** *(continued)***(8) Major customers and suppliers** *(continued)***Other information about major customers**

Applicable Not applicable

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

Major Suppliers of the Company for the year

Total purchase amount from top five suppliers (RMB)	782,019,612.90
Percentage of purchase amount from top five suppliers to annual total purchase	35.15%
Percentage of purchase amount from related party among top five suppliers to total purchase of the Year	15.48%

Top Five Suppliers of the Company for the year

Applicable Not applicable

No.	Name of suppliers	Sales Amount (RMB)	Percentage of purchase amount to total purchase of the year
1	First	344,378,058.38	15.48%
2	Second	165,155,243.99	7.42%
3	Third	101,276,749.52	4.55%
4	Fourth	92,163,056.13	4.14%
5	Fifth	79,046,504.88	3.55%
Total		782,019,612.90	35.15%

Note: The information in this table is based on the purchase for the principal business activities of the Company.

Other information about major suppliers:

Applicable Not applicable

The largest supplier to the Company, Jiaozuo Joincare (焦作健康元) is a wholly-owned subsidiary of Joincare, the controlling shareholder of the Company, therefore Mr. Zhu Baoguo, the Chairman of the Board, is deemed to be indirectly interested in Jiaozuo Joincare by way of holding shares of Joincare. For the details of such interests, please refer to "Changes in Shareholdings of Directors, Supervisors and Senior management" in Chapter VIII of this annual report.

To the knowledge of the Directors, none of the directors, their respective close associates, supervisors, senior management, core technicians or any shareholder (to the knowledge of the Directors own more than 5% of the Company's issued share capital) own the equities of the five largest suppliers (apart from Jiaozuo Joincare) and the five largest customers mentioned above.

(III) ANALYSIS OF PRINCIPAL ACTIVITIES *(continued)***4. Expenses**

During the Year, the Group's four major expense items (selling expenses, administrative expenses, R&D expenses, and financial expenses) amounted to RMB4,110.68 million, representing a year-on-year decrease of RMB49.46 million or 1.19%. Details are as follows:

	2018	2017	Year-on-year changes	<i>Amount Denominated: RMB</i> Reasons for material changes
Selling expenses	3,267,279,529.29	3,265,169,717.13	0.06%	No significant changes.
Administrative expenses	546,375,495.41	506,819,090.28	7.80%	No significant changes.
R&D expenses	548,972,707.16	427,152,448.64	28.52%	Mainly due to the increase in investment resulted from the increase in research and development projects and expansion of the scale.
Financial expenses	-251,952,496.18	-39,007,812.58	-545.90%	Mainly due to the increase in bank deposits and the increase in interest income, coupled with the increased income from translation of foreign currency assets as a result of the changes in exchange rate.
Total	4,110,675,235.68	4,160,133,443.47	-1.19%	-

During the Year, the total income tax expenses of the Company were RMB234.96 million, representing a year-on-year decrease of RMB1,002.26 million or 81.01%, mainly due to the corresponding enterprise income tax provided according to the relative high income generated from the disposal of a subsidiary's equity interest (and similar transaction did not occur for the Year) in the previous year.

5. Investment in research and development

Applicable Not applicable

During the Year, the Group's expenditures related to research and development amounted to approximately RMB687.24 million (2017: RMB575.50 million), representing a year-on-year increase of 19.42%. The amount accounted for approximately 6.37% of net assets attributable to shareholders of the Company and approximately 7.76% of the Group's total operating income for the Year.

The progress of major research and development projects by fields during the Year is as follows:

(1) Western drugs and Chinese drug preparation products: registration for and research of 37 projects have begun, among which, 4 projects have been reported to the competent authorities for production, 1 project completed clinical trials and 2 projects have obtained approval for clinical research. The Shengqi Fuzheng Injection (參芪扶正注射液) was approved for phase I clinical test by the USA FDA and at present reached the clinical research stage; the high-purity Menotropins for Injection (注射用高純度尿促性素) reached the clinical research stage; Ryanodex for Injection (注射用丹曲林鈉) completed the clinical research stage. Triptorelin Acetate Microspheres for Injection (注射用醋酸曲普瑞林微球) (1 month sustained release) project reached the clinical research stage, Leuprorelin Acetate Microspheres for Injection (注射用醋酸亮丙瑞林微球) (3-month sustained release) project has been reported to the competent authorities for production. The preclinical studies of 20 consistency evaluation works were registered and begun, among which tinidazole tablets (替硝唑片) has been reported to and accepted by Center for Drug Evaluation of the China Food and Drug Administration.

(2) Bulk medicines: moxiktin (莫西克汀) and serratmycin (塞拉菌素) have been approved by the European Union, registration for and research of 13 projects have begun, among which, registration for and research of 3 projects of polypeptide research and development platform, registration for and research of 6 projects of high-end veterinary research platform, 2 projects for new antibiotics and 1 project for psychotropic have begun.

(III) ANALYSIS OF PRINCIPAL ACTIVITIES *(continued)***5. Investment in research and development** *(continued)*

(3) Precise pharmaceutical:

Livzon MAB: Recombinant biosimilar human chorionic gonadotropin for injection (注射用重組人絨促性素) completed Phase III clinical trial and has been reported to the competent authorities for production; Recombinant anti-HER2 humanized monoclonal antibody for injection project (重組人源化抗HER2單克隆抗體注射液項目) completed Phase I clinical trial; Recombinant Anti-IL-6R Humanized Monoclonal Antibody (重組抗IL-6R人源化單克隆抗體) project obtained approval for clinical research and completed preparation for the Phase I clinical trial; Recombinant humanized anti-PD-1 monoclonal antibody (重組人源化抗PD-1單克隆抗體) reached the final research stage of Phase I clinical trial in China and the U.S., and clinical research work of chemotherapy combined drugs in China has begun; 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) reached Phase I clinical trial stage; the construction of CAR-T technology platform has been completed and multi-target development have also been completed, and actively promoted the clinical research and application for clinical research.

Livzon Reagents: obtained registrations for 3 in vitro diagnostic reagents. 6 projects have reached the clinical stage and 2 projects are under examination for registration. For equipment and device, the Group has obtained the registrations for 2 projects, while 2 projects are in the process of registration. In respect of gold-labeled reagent, Chlamydia Pneumoniae IgM Antibody (肺炎衣原體IgM抗體), Diagnostics Kit for IgM Antibody to Mycoplasma pneumoniae (Colloidal Gold) (肺炎支原體IgM抗體檢測試劑(膠體金法)) has obtained the Registration Certificate. In respect of Molecular diagnostic reagents, five products including blood nucleic acid screening (血篩核酸) and DIAS nucleic acid (艾滋核酸) are undergoing clinical phase, BCI Nucleic Acid Molecular Project is in the process of registration. In respect of chemiluminescent reagents: Tuberculosis γ interferon Chemiluminescence kit (結核 γ 干擾素化學發光試劑) is undergoing the clinical studies, 6 products including Procalcitonin (降鈣素原) and interleukin (白介素) are in the process of registration. In respect of drug concentration reagents, voriconazole itraconazole (伏立康唑) has obtained the Registration Certificate. In respect of the equipment: Colloidal gold analyzer (膠體金分析儀), BV full-automatic analyzer (BV全自動分析儀), X-ray blood irradiator (X光血液輻照儀) and 20-speed chemiluminescence analyzer (20速化學發光分析儀) are in the process of registration.

Livzon Gene: completed development and launching of 10 projects, including 2 liquid biopsy projects, 4 tissue gene testing projects, 1 hereditary tumour testing project, 1 lung cancer early screening project, and 2 immunotherapy testing projects.

The major government subsidies received by the Group during the Year are as follows: "Commercialisation and Technical transformation Project of Mouse Nerve Growth Factor for Injection (注射用鼠神經生長因子產業化技術改造項目)" was subsequently granted RMB47.6483 million under industry and enterprise technical transformation special fund of Province; "Liquid Biopsy Technology Development and Commercialisation Team for Major Malignant Tumors in the field of Precise Medicine" (精準醫療領域重大惡性腫瘤的液態活檢技術開發及產業化團隊) was granted RMB 10 million under the introduction of innovative teams in Zhuhai City; "Shengqi Fuzheng Injection International (USA) Clinical Trial and Registration Study" (參芪扶正注射液國際(美國)臨床試驗與註冊研究) was granted RMB5 million under the Shaoguan science and technology innovation project fund; "International Multi-Center Clinical Phase I/II Study for New Drug LZM009 in the Treatment of Advanced Metastatic Solid Tumors for Recombinant Humanized Anti-PD-1 Monoclonal Antibody" (重組人源化抗PD-1單克隆抗體新藥LZM009治療晚期轉移性實體瘤的國際多中心臨床I/II期研究) and "R&D and Internationalization of High-Purity Urinary Gonadotropin Injection to Assist Reproduction" (輔助生殖用高純尿促性素注射劑的研發及國際化) were granted RMB4.8 million and RMB3.1022million respectively under the national major new drug creation fund; "New R & D institutions, Provincial Innovation Team Supporting and High-Level Certification, Patents, Trademark Rewards" (市新型研發機構、省創新團隊配套和高企認證、專利、商標獎勵) was granted RMB4.378 million under 2017 Jinwan district acceleration and promotion of science and technology innovation driving fund; "Qingyuan Citylevel Set Sail Plan 1:1 Matching Fund" (清遠市市級揚帆計劃1:1配套資金) was granted RMB3 million under Qingyuan City's innovation ten fund; each subsidiary of the Group was granted RMB7.262 million in total under the "2017 Provincial Research and Development Grant" (2017年省研發補助).

(III) ANALYSIS OF PRINCIPAL ACTIVITIES *(continued)***5. Investment in research and development** *(continued)***Investment in R&D**

	2018	2017	Change
Number of R&D staff (person)	721	586	23.04%
Proportion of R&D staff to total employees	9.40%	8.42%	up by 0.98 percentage points
Amount of investment in R&D (RMB)	687,239,391.13	575,501,053.28	19.42%
Proportion of investment in R&D to operating revenue	7.76%	6.75%	up by 1.01 percentage points
Amount of capitalized investment in R&D(RMB)	71,045,218.50	10,507,136.29	576.16%
Proportion of capitalized investment in R&D to the total investment in R&D	10.34%	1.83%	up by 8.51 percentage points

As compared with last year, the reasons for significant changes in proportion of total investment in R&D to operating income

Applicable Not applicable

Reasons and reasonable explanations for substantial changes in capitalization rate of investment in R&D

Applicable Not applicable

(IV) ANALYSIS OF NON-PRINCIPAL ACTIVITIES

Applicable Not applicable

Amount Denominated: RMB

	Amount	As a percentage of total profits	Reason for occurrence	Sustainability
Investment income	-42,445,887.41	-3.00%	Mainly due to the loss generated from settlement as a result of maturity of the forward settlement contracts.	No
Gains or losses arising from changes in fair value	-2,410,266.97	-0.17%	Mainly due to fluctuations of the market value of the targets of the securities investment.	Yes
Asset impairment loss	67,768,499.83	4.78%	Mainly due to provision for inventory depreciation and provision for impairment of fixed assets.	No
Credit impairment loss	-30,700,999.19	-2.17%	Mainly due to reversal of credit impairment provision, as a result of reduction in the provision of bad debts for receivables calculated according to the expected loss rate as compare with the Beginning of the Year.	No
Financial expenses	-251,952,496.18	-17.78%	Mainly due to increased interest income as a result of the increase in bank deposit, coupled with increase in exchange gain from foreign currency held as a result of exchange rate fluctuations.	Yes
Non-operating income	176,898,473.07	12.49%	Mainly due to the receipt of government grants not related to ordinary course of business.	Yes
Non-operating expenses	34,719,651.84	2.45%	Mainly due to the upgrade and transformation of production equipment and the discard of old production equipment.	No
Other income	85,097,367.17	6.01%	Mainly due to the receipt of government grants related to ordinary course of business.	Yes

(V) ANALYSIS OF FINANCIAL CONDITIONS**1. Material changes in assets composition**

Amount Denominated: RMB

	At the end of 2018		At the end of 2017		Increase/ decrease in proportion	Reason for material changes
	Amount	As a percentage of total assets	Amount	As a percentage of total assets		
Cash at bank and on hand	8,587,927,272.41	49.25%	7,415,782,198.83	46.65%	2.60%	No material changes
Bills receivable and accounts receivables	2,411,077,498.72	13.83%	2,508,356,328.84	15.78%	-1.95%	No material changes
Inventories	1,117,007,240.91	6.41%	1,102,620,734.51	6.94%	-0.53%	No material changes
Long-term equity investments	188,106,109.58	1.08%	92,598,045.44	0.58%	0.50%	No material changes
Fixed assets	3,217,576,074.00	18.45%	3,321,218,058.56	20.89%	-2.44%	No material changes
Construction in progress	184,518,928.04	1.06%	70,279,348.98	0.44%	0.62%	No material changes
Short-term loans	1,500,000,000.00	8.60%	-	-	8.60%	Mainly due to the loans on credit of the Company for the Year
Long-term Loans	700,000.00	0.004%	700,000.00	0.004%	0.00%	No material changes

2. Assets and liabilities measured at fair value

Applicable Not applicable

Amount Denominated: RMB

Item	At the Beginning of the Year	Change in fair value for the Year	Accumulated change in fair value in equity	Impairment provision for the Year	Amount purchased during the Year	Amount sold during the Year	At the End of the Year
Financial assets							
1. Financial assets held for trading	18,598,840.91	-2,664,102.71	-	-	-	-	15,934,738.20
2. Investment of other right instruments	183,663,933.68	-	12,225,950.51	-	211,817,235.13	-	407,707,119.32
Sub-total of financial assets	202,262,774.59	-2,664,102.71	12,225,950.51	-	211,817,235.13	-	423,641,857.52
Investment properties	-	-	-	-	-	-	-
Productive biological assets	-	-	-	-	-	-	-
Others	-	-	-	-	-	-	-
Total	202,262,774.59	-2,664,102.71	12,225,950.51	-	211,817,235.13	-	423,641,857.52
Financial liabilities							
1. Financial liabilities held for trading	339,129.90	253,835.74	-	-	-	-	85,294.16

Whether there are material changes in measuring assets during the Year

YES NO

(V) ANALYSIS OF FINANCIAL CONDITIONS *(continued)***3. Whether the entitlement to assets was limited 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 reviewed and passed the "Resolution on Launching the Bill Pool Business", pursuant to which it is agreed that the Company and its subsidiaries should collectively share the cap for the bill pool business amount of not more than RMB1.4 billion. The said fund limit is of revolving basis. As of the End of the Reporting Period, the Company had applied to the bank for a remaining sum of pledge of RMB335.7671 million for its bills receivables.

The remaining amount of the actual deposit paid by the subsidiaries to the bank for the application of businesses, such as foreign currency forward contracts and letter of credit was RMB24.2161 million.

4. Material changes in assets

Item	At 31 December 2018	Amount Denominated: RMB	
		At 31 December 2017	Year-on-year change
Prepayments	169,765,301.71	126,471,958.21	34.23%
Non-current assets due within one year	10,869,100.00	–	–
Long-term receivables	20,299,509.76	–	–
Long-term equity investments	188,106,109.58	92,598,045.44	103.14%
Other equity investments	407,707,119.32	183,663,933.68	121.99%
Construction in progress	184,518,928.04	70,279,348.98	162.55%
Development costs	81,146,586.57	25,328,934.25	220.37%

The reasons for the year-on-year changes of over 30% in the related items were:

- (1) Prepayments increased by 34.23% year-on-year, which was mainly due to the increase in prepayments for procurement of materials;
- (2) Non-current assets due within one year of RMB10,869,100.00, which was mainly due to the consideration received for the transfer of part of a controlling subsidiary's equity within a year for the Year;
- (3) Long-term equity investments of RMB20,299,509.76, which was mainly due to the consideration received for the transfer of part of a controlling subsidiary's equity after a year or above for the Year;
- (4) Long-term equity investments increased by 103.14% year-on-year, which was mainly due to the increase in external investments for the Year;
- (5) Other equity investments increased by 121.99% year-on-year, which was mainly due to the acquisition of Global Health Science Fund II, L.P. for the Year;
- (6) Construction in progress increased by 162.55% year-on-year, which was mainly due to the investment in the construction of new manufacturing plants and technical input for the Year;
- (7) Development costs increased by 220.37% year-on-year, which was mainly due to the increase in R&D expenses as a result of projects such as 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 recombinant biosimilar human chorionic gonadotropin for injection (注射用重組人絨促性素) entered the clinical test phase for the Year.

(V) ANALYSIS OF FINANCIAL CONDITIONS *(continued)***5. Material changes in liabilities and equity**

Item	At 31 December 2018	Amount Denominated: RMB	
		At 31 December 2017	Year-on-year change
Short-term loans	1,500,000,000.00	–	–
Held-for-trading financial liabilities	85,294.16	339,129.90	-74.85%
Taxes payables	245,057,455.45	1,045,751,020.24	-76.57%
Deferred tax liabilities	54,479,730.16	26,532,304.04	105.33%
Treasury shares	25,208.04	66,786,741.96	-99.96%
Other consolidated earnings	-29,164,814.15	-52,898,929.52	44.87%
Non-controlling interests	1,097,899,438.37	460,883,784.97	138.22%

The reasons for the year-on-year changes of over 30% in the related items were:

- (1) Short-term loans of RMB1,500,000,000.00, which was mainly due to the loans of credit for the Year;
- (2) Held-for-trading financial liabilities decreased by 74.85% year-on-year, which was mainly due to changes in fair values of forward foreign exchange contracts resulted from changes in exchange rates;
- (3) Taxes payable decreased by 76.57% year-on-year, which was mainly due to the payment of enterprise income tax of RMB789.835 million for the Year, which was generated from the disposal of the equity in Zhuhai Weixing Shiye Co., Ltd.* (珠海維星實業有限公司) in the previous year;
- (4) Deferred tax liabilities increased by 105.33% year-on-year, which was mainly due to the increase in taxable temporary difference arising from accelerated depreciation of fixed assets;
- (5) Treasury shares decreased by 99.96% year-on-year, which was mainly due to the decrease in repurchase obligation confirmed by the issuance of A Shares under the Restricted A Shares Incentive Scheme as a result of the unlock of the third unlocking;
- (6) Other consolidated earnings increased by 44.87% year-on-year, which was mainly due to changes in the differences resulting from the translation of financial statements in foreign currencies as a result of the fluctuations of the exchange rates.
- (7) Non-controlling interests increased by 138.22% year-on-year, which was mainly due to the investments received from non-controlling shareholders for the Year.

Debt ratio

As at 31 December 2018 and 31 December 2017, the debt ratios were calculated by dividing the Group's total liabilities at each respective date by the total assets. The Group's debt ratio increased from 29.34% as at 31 December 2017 to 32.62% as at 31 December 2018.

(V) ANALYSIS OF FINANCIAL CONDITIONS *(continued)***6. Material changes in income statement items**

Amount Denominated: RMB

	During the Year	Same period Last Year	Year-on-year change
Financial expenses	-251,952,496.18	-39,007,812.58	-545.90%
Impairment loss	67,768,499.83	117,855,127.28	-42.50%
Credit impairment loss	-30,700,999.19	-	-
Investment income	-42,445,887.41	4,297,099,345.96	-100.99%
Gains from changes in fair value	-2,410,266.97	2,812,281.15	-185.71%
Gains on disposal of assets	-549,283.16	225,062,922.66	-100.24%
Non-operating Income	176,898,473.07	91,912,647.38	92.46%
Non-operating expenses	34,719,651.84	24,797,925.12	40.01%
Income tax expenses	234,959,635.62	1,237,220,405.36	-81.01%
Profit or loss from non-controlling interests	99,539,813.05	59,017,818.89	68.66%
Net profit attributable to the shareholders of the parent company	1,082,174,905.98	4,428,684,564.57	-75.56%
Other comprehensive net income after taxation	26,035,358.56	-45,429,961.95	157.31%

The reasons for the year-on-year changes of over 30% in the related items were:

- (1) Financial expenses decreased by 545.90% year-on-year, which was mainly due to increase in bank deposit and increase in interest income, coupled the changes in exchange rates and the increased income from translation of foreign currency assets;
- (2) Impairment loss decreased by 42.50% year-on-year, which was mainly due to impairment of the overseas companies invested in the Last Year as a result of ineffective operation;
- (3) Credit impairment loss for the Year of RMB-30,700,999.19, which was mainly due to reversal of credit impairment provision, as a result of reduction in the provision of bad debts for receivables calculated according to the expected provision rate as compare with the Beginning of the Year;
- (4) Investment income decreased by 100.99% year-on-year, which was mainly due to the relative high income generated from the disposal of a subsidiary's equity in the Last Year;
- (5) Gains from changes in fair value decreased by 185.71% year-on-year, which was mainly due to fluctuations of the market value of the targets of the securities investment;
- (6) Gains on disposal of assets decreased by 100.24% year-on-year, which was mainly due to the gain from disposal of fixed assets in the Last Year;
- (7) Non-operating Income increased by 92.46% year-on-year, which was mainly due to the increase in government grant received;
- (8) Non-operating expenses increased by 40.01% year-on-year, which was mainly due to the upgrade and transformation of production equipment and the discard of old production equipment;
- (9) Income tax expenses decreased by 81.01% year-on-year, which was mainly due to the corresponding enterprise income tax expenses as a result of the relative high income generated from the disposal of a subsidiary's equity in the Last Year;
- (10) Profit or loss from non-controlling interests increased 68.66% year-on-year, which was mainly due to the corresponding increase in profit or loss from non-controlling interests as a result of the increase in the profit of non-wholly owned subsidiaries;
- (11) Net profit attributable to the shareholders of the parent company decreased by 75.56% year-on-year, which was mainly due to the higher profit attributable to the shareholders of the parent company as a result of the disposal of a subsidiary's equity in the Last Year;
- (12) Other comprehensive net income after taxation increased by 157.31% year-on-year, which was mainly due to changes in the differences resulting from the translation of financial statements in foreign currencies as a result of the fluctuations of the exchange rates.

(V) ANALYSIS OF FINANCIAL CONDITIONS *(continued)***7. Cash flow**

	<i>Amount Denominated: RMB</i>		
	During the Year	Same period Last Year	Year-on-year change
Sub-total of cash inflows from investing activities	63,431,546.12	5,156,802,404.50	-98.77%
Sub-total of cash outflows from investing activities	1,084,276,714.22	484,081,270.94	123.99%
Net cash flows from investing activities	-1,020,845,168.10	4,672,721,133.56	-121.85%
Sub-total of cash inflows from financing activities	2,438,789,047.19	38,180,507.74	6,287.52%
Sub-total of cash outflows from financing activities	1,581,365,048.31	621,313,895.99	154.52%
Net cash flows from financing activities	857,423,998.88	-583,133,388.25	247.04%
Effect of foreign exchange rate changes on cash and cash equivalents	58,537,258.94	-66,402,282.70	188.16%
Net increase in cash and cash equivalents	1,162,737,270.76	5,339,050,930.30	-78.22%

The reasons for the year-on-year changes of over 30% in the related items were:

- (1) Sub-total of cash inflows from investing activities decreased by 98.77% year-on-year, which was mainly due to the equity transfer amount received from the disposal of equity interest in a subsidiary in the Last Year;
- (2) Sub-total of cash outflows from investing activities increased by 123.99% year-on-year, which was mainly due to the combined effect of the acquisition of Global Health Science Fund II,L.P. and the increased investment in purchase of equipment for the Year;
- (3) Net cash flows from investing activities decreased by 121.85% year-on-year, which was mainly due to the equity transfer amount received from the disposal of equity interest in a subsidiary in the Last Year;
- (4) Sub-total of cash inflows from financing activities increased by 6,287.52% year-on-year, which was mainly due to credit loans of the Company and investments from non-controlling shareholders for the Year;
- (5) Sub-total of cash outflows from financing activities increased by 154.52% year-on-year, which is mainly due to the increase in dividends distributed for the Year;
- (6) Net cash flows from financing activities increased by 247.04% year-on-year, which was mainly due to credit loans of the Company and investments from non-controlling shareholders for the Year;
- (7) Effect of foreign exchange rate changes on cash and cash equivalents increased by 188.16% year-on-year, which was mainly due to the changes in exchange rates and the increased income from translation of foreign currency assets;
- (8) Net increase in cash and cash equivalents decreased by 78.22% year-on-year, which was mainly due to the the consideration received for the transfer of equity interest in the subsidiary in the Last Year.

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

Applicable Not applicable

(V) ANALYSIS OF FINANCIAL CONDITIONS *(continued)***8. Liquidity and financial resources**

As at 31 December 2018, the Group's cash at bank and on hand amounted to RMB8,587.93 million (31 December 2017: RMB7,415.78 million) primarily arising from business operation and the consideration received for the transfer of equity interest in the subsidiary in the Last Year. The fund are mainly used for daily production operation, dividends distribution and investments. The Group established a comprehensive and prudent financial management system in order to guarantee the fund safety of the Company, to provide support for production operation and business development, and to reasonably boost the return of the Group's fund.

During the Year, the granted credit facilities that may be applied for amounted to RMB8,901.00 million were approved by the Board and annual general meeting of the Company; the actual granted amount applied to banks was RMB1,939.18 million.

Item	End of the Year (31 December 2018)			Amount Denominated: RMB End of Last Year (31 December 2017)		
	Foreign currency amount	Translation rate	Amount in RMB	Foreign currency amount	Translation rate	Amount in RMB
Cash on hand:			134,536.84			189,288.49
- RMB	-	-	117,334.89	-	-	172,387.93
- USD	700.00	6.8632	4,804.24	700.00	6.5342	4,573.94
- Euro	1,579.87	7.8473	12,397.71	1,579.87	7.8023	12,326.62
Bank deposits:			8,562,040,609.92			7,400,750,287.84
- RMB	-	-	7,819,701,378.53	-	-	6,588,436,280.79
- HKD	678,362,414.67	0.8762	594,381,147.73	699,709,346.06	0.83591	584,894,039.47
- USD	20,803,732.35	6.8632	142,780,175.87	34,047,231.72	6.5342	222,471,421.50
- Japanese Yen	1.00	0.061887	0.06	22,381,178.00	0.057883	1,295,489.72
- Euro	26,433.60	7.8473	207,432.39	276,436.74	7.8023	2,156,842.38
- MOP	5,831,837.78	0.8523	4,970,475.34	1,842,174.32	0.8122	1,496,213.98
Other monetary fund:			25,752,125.65			14,842,622.50
- RMB	-	-	13,968,683.03	-	-	14,143,201.28
- HKD	1,081,246.23	0.8762	947,387.95	836,718.34	0.83591	699,421.22
- USD	1,578,863.31	6.8632	10,836,054.67	-	-	-
Total	-	-	8,587,927,272.41	-	-	7,415,782,198.83

As at 31 December 2018, the Group's borrowings balance amounted to RMB1,501.10 million (31 December 2017: RMB1.10 million), accounting for 8.61% of the total assets (31 December 2017: 0.01%), of which short-term borrowings to mature within one year amounted to RMB1,500.40 million (31 December 2017: RMB0.40 million), accounting for 8.60% of total assets (31 December 2017: 0.003%) and long-term borrowings balance to mature after one year amounted to RMB0.70 million (31 December 2017: RMB0.70 million), accounting for 0.004% of total assets (31 December 2017: 0.004%). Repayments of bank borrowings denominated in RMB and bank borrowings denominated in Hong Kong dollars during the Year amounted to RMB300.00 million and HK\$0.00 million, respectively. 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 structure comprises the shareholders' equity and liabilities. As at 31 December 2018, the shareholders' equity amounted to RMB11,749.88 million, the total liabilities amounted to RMB5,687.47 million and the total assets amounted to RMB17,437.35 million. Among which, the current liabilities of the Group amounted to RMB5,369.58 million (31 December 2017: RMB4,411.03 million), which increased by 21.73% from the End of Last Year; the aggregated non-current liabilities amounted to RMB317.89 million (31 December 2017: RMB253.08 million), which increased by 25.61% from the End of Last year. During the Year, the Group repaid liabilities of RMB300.00 million (31 December 2017: RMB350.00 million).

Equity attributable to shareholders of the Company amounted to RMB10,651.98 million (31 December 2017: RMB10,772.74 million), which decreased by 1.12% from the End of Last Year. Minority interests of the Group amounted to RMB1,097.90 million (31 December 2017: RMB460.88 million), which increased by 138.22% from the End of Last Year.

10. Capital commitments

Item	<i>Amount Denominated: RMB</i>	
	Balance at the End of the Year	Balance at the Beginning of the Year
Contracted but not recognised in the financial statements – Commitments for purchase and construction of long-term assets	52,554,161.77	43,824,827.39
Total	52,554,161.77	43,824,827.39

11. Interest rate

As at 31 December 2018, the aggregate interest-bearing bank borrowings and other borrowings amounted to RMB1,500.00 million (31 December 2017: RMB0.00 million). Of which, RMB0.00 million bear interest at a floating rate and RMB1,500.00 million bear a fix interest rate of 4.35% per annum.

12. Ageing analysis of outstanding liabilities

	<i>Amount denominated: RMB million</i>	
	31 December 2018	31 December 2017
Within one year	2,218.99	662.26
1-2 years	–	–
2-5 years	–	–
Over 5 years	0.70	0.70
Total	2,219.69	662.96

13. Capital commitments

As at 31 December 2018, the Group's capital commitments contracted in relation to the purchase of long-term assets amounted to RMB52.55 million (31 December 2017: RMB43.82 million).

(V) ANALYSIS OF FINANCIAL CONDITIONS *(continued)***14. Bank borrowings and other borrowings**

Details of the bank borrowings and other borrowings of the Company and the Group as at 31 December 2018 are set out in "Note VI.20, 22, 27 and 28" to the financial statements in this annual report as prepared in accordance with the China Accounting Standards for Business Enterprises.

15. Gearing ratio

As at 31 December 2018 and 31 December 2017, the gearing ratios were calculated by dividing the Group's total debts as at each respective date by shareholders' equity. The gearing ratio was 5.90% as at 31 December 2017 and increased to 18.89% as at 31 December 2018.

16. Interest expenses and capitalization

	<i>Amount Denominated: RMB</i>	
	2018	2017
Interest expenses <i>(Note)</i>	16,772,638.85	3,050,424.10
Capitalised interest	–	386,288.23
Total interest expenses	16,772,638.85	3,436,712.33

Note: Interest expenses mainly comprised of interests arising from the credit loans of the Company in the Current Period.

17. Foreign exchange risks

Details of foreign exchange risks of the Group are set out in "Note IX. Risks Related to Financial Instruments" to the financial statements in this annual report as prepared in accordance with the China Accounting Standards for Business Enterprises. 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 management goal, and established "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 lower the impact arising from fluctuations of exchange rates on the Company.

18. Contingent liabilities

As at 31 December 2018, the Group had no significant contingent liabilities.

19. Pledge of assets

As at 31 December 2018, the assets of the Company subject to pledge were as follows:

	31 December 2018 (RMB)	Reasons for being subject to restriction
Assets pledged:		
Bills receivable	335,767,075.30	Pledged bills for the bill pool business
Other monetary fund	24,216,066.46	Guarantee deposit
Total	359,983,141.76	

(V) ANALYSIS OF FINANCIAL CONDITIONS (continued)**19. Pledge of assets** (continued)**Bill Pledges Guaranteed** (Continued)

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 31 December 2018, 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
			Livzon group Xinbeijiang Pharmaceutical Manufacturing Inc. (麗珠集團新北江製藥股份有限公司)	Opening bank acceptance bills, joint liability guarantee	3,435.19	Till 2019. 5.28
	Industrial and Commercial Bank of China, Zhuhai Branch (工商銀行珠海分行)	13,898.23	Livzon Group Limin Pharmaceutical Manufacturing Co., Ltd. (麗珠集團利民製藥廠)	Opening bank acceptance bills, joint liability guarantee	436.57	Till 2019.3.19
			Livzon Group Livzon Pharmaceutical Factory (麗珠集團麗珠製藥廠)	Opening bank acceptance bills, joint liability guarantee	8,213.95	Till 2019. 6.18
			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	588.45	Till 2019. 5.15
The Company			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	4,013.75	Till 2019. 9.20
			Livzon Group Livzon Pharmaceutical Factory (麗珠集團麗珠製藥廠)	Opening bank acceptance bills, joint liability guarantee	5,798.19	Till 2019.6.21
	China Merchants Bank Zhuhai Branch (招商銀行珠海分行)	19,678.47	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	7,578.69	Till 2019.6.14
			Livzon Group Fuzhou Fuxing Pharmaceutical Co., Ltd. (麗珠集團福州福興醫藥有限公司)	Opening bank acceptance bills, joint liability guarantee	360.97	Till 2019. 6.27
			Sichuan Guangda Pharmaceutical Manufacturing Co., Ltd. (四川光大製藥有限公司)	Opening bank acceptance bills, joint liability guarantee	202.57	Till 2019.6.26
Total balance of actual amount guaranteed for subsidiaries at the End of the Reporting Period					30,628.33	

(V) ANALYSIS OF FINANCIAL CONDITIONS *(continued)***20. Investments****Subscription for new ordinary shares of Livzon Biologics**

During the Reporting Period, please refer to the “Connected Transactions Defined in Hong Kong Listing Rules” in Chapter V of this report for details of the subscription for newly issued ordinary shares of Livzon Biologics by Livzon International, an overseas wholly-owned subsidiary of the Company.

Investment in Global Health Science Fund II, L.P.

On 12 January 2018, the Board of the Company considered and approved the investment of USD30 million in Global Health Science Fund II, L.P. (the “Fund”) (which is set up by GHS Partners Limited (as the ultimate general partner)) by Lian Hong Kong Limited, a wholly-owned subsidiary of the Company, and on the same date, has entered into the subscription agreement with GHS Partners Limited for the investment into the Fund.

The Fund is an offshore fund (limited partnership) registered Cayman Islands with the Company as the limited partner of the Fund. The target sum of the Fund is up to USD150 million, with an investment period of 3 years and a total term of 5 years. The term may be extended for two times, each time for one year, subject to project exit. The Fund invests primarily in businesses specializing in research and development of innovative and groundbreaking medical technology and products. It focuses on product and technology projects that enjoy huge market potential and outstanding cost advantages, and gives priority to growing enterprises that has reached the human clinical trial stage and obtained patent protection. As of the date of this report, the Company has completed the subscription for USD30.0 million.

By investing into the Fund, the Group can indirectly invest or participate in projects qualifying as the outstanding project under the international development strategy of the Company. It will be beneficial in broadening of the investment channels of the Company, and will enhance the investment management standards and accelerate progress of internationalization. In addition, the professional and investment team of the Fund can provide leading global edge for the Company in the medical healthcare sector, allowing the Company to capture the trend and conduct advance planning.

Save as disclosed above, during the Year, the Group did not make significant investment for the acquiring of equity interest and/or otherwise, and there was no significant change in the investments held by the Group compared with the relevant information disclosed in the 2017 annual report of the Company.

(VI) INVESTMENTS**1. Overall status**✓ Applicable Not applicable

Investment during the Year (RMB)	Investment during the Same Period Last Year (RMB)	Change
12,506,875.00	257,351,668.30	-95.14%

2. Material Equity Investment during the Year✓ Applicable Not Applicable*Amount Denominated: RMB*

Name of invested company	Main business	Investment method	Amount of investment	Percentage of shares held	Sources of fund	Partner(s)	Term of investment	Category of products	Progress at the date of the Sheet	Expected revenue	Gains and losses for the Year		Date of disclosure (if any)	Index of disclosure (if any)
											Involved in lawsuit	Involved in lawsuit		
Gongshan Livzon Yaoyuan Technology Co., Ltd. (黄山麗珠藥源科技有限公司)	Agricultural technology research and promotion; medical information consulting services; Chinese herbal medicine planting, acquisition, sales; acquisition, processing and sales of agricultural sideline products, warehousing service; sales: edible sugar, daily necessities, health supplies, medical testing equipment and instruments, fitness equipment.	Newly established	1,000,000.00	100%	Self-fund	Nil	N/A	N/A	Not yet invested	-	-	No	N/A	N/A
Livzon San-Med Diagnostics Inc.	R&D of Biotechnology	Newly established	10,996,875.00 (USD 1,759,500.00)	35.19%	Self-fund	Nil	N/A	N/A	Has invested USD351,900.00	-	-2,224,641.23	No	N/A	N/A
Suzhou Lidi Biological Technology Co., Ltd. (蘇州麗迪生物科技股份有限公司)	Technical development, technical consultation, technical transfer and services within biological science.	Newly established	510,000.00	51%	Self-fund	Nil	N/A	N/A	Not yet invested	-	-	No	N/A	N/A
Total	-	-	12,506,875.00	-	-	-	-	-	-	-	-2,224,641.23	-	-	-

(VI) INVESTMENTS (continued)**3. Material non-equity investment ongoing during the Year**

Applicable Not applicable

4. Financial assets investment**(1) Investment in Securities**

Applicable Not applicable

Amount Denominated: RMB

Types of securities	Securities codes	Securities abbreviation	Initial investment cost	Accounting measurements	Carrying amount at the Beginning of the Year	Gains or losses on fair value change for the Year	Accumulated change in fair value in equity	Amount purchased during the Year	Amount sold during the Year	Profit or loss for the Year	Carrying amount at the End of the Year	Accounting items	Sources of funds
Equity	00135	Kunlun Energy	4,243,647.64	Measured at fair value	7,648,576.50	-376,116.50	-	-	-	-155,253.02	7,272,460.00	Financial assets at fair value through profit or loss for the current period	Self-funding
Fund	206001	Penghua Fund	150,000.00	Measured at fair value	866,066.57	3,218.09	-	-	-	3,218.09	869,284.66	Financial assets at fair value through profit or loss for the current period	Self-funding
Equity	000963	Huadong Medicine	39,851.86	Measured at fair value	9,866,397.84	-2,598,444.42	-	-	-	-2,466,599.46	7,267,953.42	Financial assets at fair value through profit or loss for the current period	Self-funding
Other securities investment held at the End of the Year			-	-	-	-	-	-	-	-	-	-	-
Total			4,433,499.50	-	18,381,040.91	-2,971,342.83	-	-	-	-2,618,634.39	15,409,698.08	-	-
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) INVESTMENTS *(continued)***4. Financial assets investment** *(continued)***(2) Information on Derivatives Investment**✓ Applicable Not applicable*Amount Denominated: RMBO'000*

Name of the operator of derivatives investment	Connected relationships	Connected Transaction or not	Type of derivatives	Initial investment in derivatives investment	Commencement date	Maturity date	Investment amount at the Beginning of the Period	Purchase amount during the Reporting Period	Purchase amount during the Reporting Period	Impairment provision (if any)	Investment amount at the End of the Reporting Period	Percentage of investment amount at the End of the Period in	Actual gains or losses during the Reporting Period
												the net assets of the Company at the End of the Reporting Period	
Financial institution	Non-related party	No	Forward foreign exchange contract (sell)	2,026.76	2018/1/23	2018/6/29	-	2,026.76	1,922.70	-	-	-	7.11
Financial institution	Non-related party	No	Forward foreign exchange contract (sell)	1,318.09	2018/2/23	2018/1/1/2	-	1,318.09	688.22	-	-	-	-32.70
Financial institution	Non-related party	No	Forward foreign exchange contract (sell)	12,949.84	2018/3/2	2018/9/25	-	12,949.84	2,126.09	-	-	-	-105.30
Financial institution	Non-related party	No	Forward foreign exchange contract (sell)	442.72	2018/3/20	2019/3/22	-	442.72	-	-	480.42	0.05%	-
Financial institution	Non-related party	No	Forward foreign exchange contract (sell)	997.31	2017/10/30	2018/1/4	975.65	-	975.65	-	-	-	23.79
Financial institution	Non-related party	No	Forward foreign exchange contract (sell)	5,130.11	2018/4/4	2018/1/1/5	-	5,130.11	5,563.66	-	-	-	-324.38
Financial institution	Non-related party	No	Forward foreign exchange contract (sell)	42,344.11	2018/5/2	2018/12/24	-	42,344.11	45,651.08	-	-	-	-3,124.08
Financial institution	Non-related party	No	Forward foreign exchange contract (sell)	2,778.40	2018/6/1	2018/12/13	-	2,778.40	2,962.04	-	-	-	-176.08
Financial institution	Non-related party	No	Forward foreign exchange contract (sell)	51,263.42	2018/7/4	2019/1/10	-	51,263.42	52,116.58	-	353.59	0.03%	-1,546.92
Financial institution	Non-related party	No	Forward foreign exchange contract (sell)	6,327.99	2018/8/2	2019/3/11	-	6,327.99	3,004.79	-	2,583.72	0.24%	-21.26
Financial institution	Non-related party	No	Forward foreign exchange contract (sell)	3,175.52	2018/9/5	2019/3/11	-	3,175.52	864.91	-	2,323.88	0.22%	-6.09
Financial institution	Non-related party	No	Forward foreign exchange contract (sell)	3,803.89	2018/10/9	2019/4/17	-	3,803.89	248.25	-	3,524.76	0.33%	1.13
Financial institution	Non-related party	No	Forward foreign exchange contract (sell)	7,536.47	2018/1/1/2	2019/5/21	-	7,536.47	227.09	-	7,241.27	0.68%	0.69
Financial institution	Non-related party	No	Forward foreign exchange contract (sell)	5,781.04	2018/12/3	2019/6/25	-	5,781.04	-	-	5,749.82	0.54%	-
Financial institution	Non-related party	No	Forward foreign exchange contract (buy)	1,122.15	2017/11/29	2018/2/9	1,098.04	-	1,099.84	-	-	-	-
Financial institution	Non-related party	No	Forward foreign exchange contract (buy)	564.62	2018/2/16	2018/6/15	-	564.62	569.98	-	-	-	-6.69
Financial institution	Non-related party	No	Forward foreign exchange contract (buy)	468.46	2018/4/19	2018/6/15	-	468.46	464.98	-	-	-	-31.89
Financial institution	Non-related party	No	Forward foreign exchange contract (buy)	175.53	2018/5/29	2018/7/13	-	175.53	177.70	-	-	-	-0.36
Financial institution	Non-related party	No	Forward foreign exchange contract (buy)	592.34	2018/7/13	2018/9/14	-	592.34	614.91	-	-	-	19.24
Financial institution	Non-related party	No	Forward foreign exchange contract (buy)	3,422.00	2018/9/25	2018/12/26	-	3,422.00	3,431.60	-	-	-	6.45
Total				152,220.77	-	-	2,073.69	150,101.31	122,710.07	-	22,257.46	2.09%	-5,317.34

(VI) INVESTMENTS (continued)

4. Financial assets investment (continued)

(2) Information on Derivatives Investment (continued)

✓ Applicable □ Not applicable

Amount Denominated: RMB0'000

Name of the operator of derivatives investment	Connected relationships	Connected Transaction or not	Type of derivatives	Initial investment in derivatives investment	Commencement date	Maturity date	Investment amount at the Beginning of the Period	Purchase amount during the Reporting Period	Sales amount during the Reporting Period	Impairment provision (if any)	Investment amount at the End of the Period	Percentage of investment amount at the End of the Period in	Actual gains or losses during the Reporting Period
												of the net assets of the Company at the End of the Reporting Period	
Source of funding for derivatives investment				Self-funding									
Litigation involved (if applicable)				Not applicable									
Date of announcement of the Board of Directors regarding the approval of derivatives investment (if any)				12 June 2018									
Date of announcement of the shareholders' general meeting regarding the approval of derivatives investment (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.)				<p>To effectively manage the uncertainty risk of assets denominated in foreign currencies of the Company arising from fluctuations in exchange rates, foreign exchange forward contracts and other financial derivatives are employed to fix relevant exchange rates so as to conduct hedging activities. The Company has formulated the "Foreign Exchange Risk Management Measures" for the operation and control of foreign exchange derivatives: 1. Market risk: uncertainties in exchange rate fluctuations in the foreign exchange market leads to relatively high market risk in the foreign exchange forward business. Control measures: The Company's foreign exchange forward business is entered into to hedge exchange rate risks associated with assets denominated in U.S. dollar and fix the future exchange settlement price of assets denominated in U.S. dollar. It is designed to be used as a hedge tool. Such foreign exchange derivatives cannot be subject to 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 defective internal process, man-made operation and systems. Control measures: The Company has formulated the corresponding management methods to clearly define the responsibilities of all parties, improve the review and approval process and establish supervisory mechanism, so as to effectively reduce operational risk. 3. Legal risk: the Company's foreign exchange forward business shall be operated under applicable laws and regulations and shall clearly stipulate the relationship of rights and obligations with financial institutions. Control measures: in addition to strengthening the research on laws and regulations and market rules, the Company's responsible department also stipulates that the Company's legal department shall strictly review various contracts, agreements and other documents in relation to its business, clarify rights and obligations and strengthen compliance inspection, aiming to ensure that the Company's derivatives investment and operations meet the requirements of applicable laws and regulations as well as the Company's internal systems.</p>									
Change in market price or fair value of invested derivatives during the Reporting Period (the analysis of the fair value of derivatives shall disclose the specific methods applied and the assumptions and parameters set)				Gains and losses arising from changes in fair value of the forward settlement contracts during the Reporting Period were RMB0.5611 million.									
Explanation as to whether the Company's accounting policies and accounting principles for derivatives during the Reporting Period have changed significantly as compared with the previous Reporting Period.				No									
Independent Directors' special opinions on the derivatives investment and risk control of the Company				<p>Due to growing import and export business, the Company required a large amount of foreign exchange for transactions. To avert and control foreign exchange risk, we were of the view that the forward foreign exchange derivatives trading business proposed to be launched by the Company and its subsidiaries were in line with the actual development needs of the Company. When the Board considered the above proposal, the relevant procedure was in compliance with the laws, regulations, regulatory documents and the relevant provisions in the Articles of Association of the Company. In view of such, we approved the Company to formulate the management system for the foreign exchange derivative trading business in accordance with the relevant laws and regulations, and conduct such business with its own funds within the limit approved by the Board.</p>									

(VI) INVESTMENTS (continued)**5. Utilization of raised funds**✓ Applicable Not applicable**(1) Overall use of proceeds**✓ Applicable Not applicable

Unit: RMB0'000

Year of fundraising	Method of fundraising	Total proceeds	Total amount of proceeds used during the Year	Accumulated amount of proceeds used	Total amount of proceeds involved in change of use during the Reporting Period	Accumulated amount of proceeds involved in change of use	Proportion of accumulated amount of proceeds involved in change of use	Total amount of proceeds unused	Uses and whereabouts of proceeds unused	Amount of proceeds idle for more than 2 years
2016	Non-public issuance	142,030.04	12,517.91	60,186.30	0.00	30,600.00	21.54%	81,843.74	unused proceeds were deposited in the special account designated for raised fund or cash management and will continue to be used in proceeds-funded project	60,000.00

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

Explanation on overall use of proceeds

With the "Approval in relation to the Non-public Issuance of Shares by Livzon Pharmaceutical Group Inc." (Zheng Jian Xu Ke 2016 No. 1524) issued by the CSRC, the Company has issued 29,098,203 A Shares with a nominal value of RMB1.00 per share at RMB50.10 per share, raised proceeds amounted to RMB1,457.82 million, and RMB1,420.3004 million has transferred into the account of the Company on 2 September 2016 million after deduction of issuance expenses of RMB37.5196 million.

The proceeds are mainly used to research and develop and commercialise the upgrade of innovative product of Deeper Development and Industrialization Upgrade of the innovative Ilaprazole product series, construction of R&D platform of prolonged-action microsphere technologies, project of relocation and expansion of Livzon Group Xinbeijiang Pharmaceutical Manufacturing Inc. (phase I), Technological transformation project of bag infusion workshop for Livzon Group Limin Pharmaceutical Manufacturing Factory and supplement to working capital and repayment of bank borrowings, consistent with use passed by the Board of the Company. As of 31 December 2018, unused proceeds were deposited in the special account designated for raised fund or cash management and will continue to be used in proceeds-funded project.

(VI) INVESTMENTS (continued)**5. Utilization of raised funds** (continued)**(2) Particulars of projects undertaken with the use of proceeds**

✓ Applicable □ Not applicable

Unit: RMB0'000

Investment projects undertaken and the use of the excess funds	Change in project or not (including partial change)	Total amount of proceeds undertaken for investment	Total investment amount after adjustment (1)	Invested amount during the Reporting Period	Cumulative invested amount as of the End of the Period (2)	Progress of investment as of the End of the Period (3)=(2)/(1)	Date of project reaching the working condition for its intended use	Results realised during the Reporting Period	Expected return being achieved or not	Significant change in project
Investment projects undertaken										
1. Deeper Development and Industrialization Upgrade of the innovative Ilaprazole product series	No	45,000.00	45,000.00	2,711.21	6,823.79	15.16%	31 December 2025	-	-	No
2. Capital injections to Livzon MAB for its investment in the construction of "Research & Development and Industrialization of therapeutic antibody-based drugs"	Yes	30,600.00	-	-	-	-	-	-	-	-
3. Relocation and expansion of Livzon Group Xinbeijiang Pharmaceutical Manufacturing Inc. (First Phase)	Yes	-	14,328.94	0.00	0.00	0.00%	30 June 2021	-	-	No
4. Technological transformation project of bag infusion workshop for Livzon Group Limin Pharmaceutical Manufacturing Factory	Yes	-	5,311.73	2,430.08	4,790.87	90.19%	31 August 2018	5.85	Yes	No
5. Construction of Research & Development Platform of prolonged-action Microsphere Technologies	Yes	30,182.00	41,141.33	7,376.62	12,323.60	29.95%	31 December 2021	-	-	No
6. Supplementary working capital and banking loan repayment	No	36,248.04	36,248.04	-	36,248.04	100.00%	Not Applicable	Not Applicable	Not Applicable	No
Sub-total of committed investment projects	-	142,030.04	142,030.04	12,517.91	60,186.30	-	-	5.85	-	-
Use of the excess proceeds	Not applicable	-	-	-	-	-	-	-	-	-
Repayment of bank loans (if any)	-	-	-	-	-	-	-	-	-	-
Replenishment of liquidity (if any)	-	-	-	-	-	-	-	-	-	-
Subtotal of the use of the excess proceeds	-	-	-	-	-	-	-	-	-	-
Total	-	142,030.04	142,030.04	12,517.91	60,186.30	-	-	5.85	-	-
Particulars of and reasons for not meeting schedule or estimated income (by specific projects)	<p>1. Ilaprazole Project: (1) As the approval for production of Ilaprazole for injection was obtained at a time later than expected, resulting in the timing and progress of launching of the later stage clinical research and clinical research trials for new indications of Ilaprazole for injection and Ilaprazole Enteric Coated Tablets being later than expected, and leading to the failure to meet the expected schedule for use of relevant proceeds; (2) In respect of industrialization upgrade, as the approval for production was obtained at a time later than expected, the upgrade of solid dosage forms workshops was delayed correspondingly, and leading to the failure to meet the expected schedule for use of proceeds.</p> <p>2. Project of relocation and expansion of Livzon Group Xinbeijiang Pharmaceutical Manufacturing Inc.: As the progress of the environment impact assessment was lower than expected, the relocation and expansion project has not yet been officially launched.</p> <p>At the annual general meeting of the Company for 2017 on 21 May 2018, "the resolution relating to the adjustment to the use of proceeds from non-public issue on investment projects" was considered and approved, and agreed to adjust the use of proceeds such as the "Deeper Development and Industrialization Upgrade of the innovative Ilaprazole product series" and "Relocation and expansion of Livzon Group Xinbeijiang Pharmaceutical Manufacturing Inc. (first phase)"; on 17 August 2018, the Eighteenth Meeting of the Ninth Session of the Board of the Company was convened to consider and approve the "Proposal in relation to Reassessment and Continuation of the Project Invested with Proceeds from the Non-public Issuance", in which the "Relocation and expansion of Livzon Group Xinbeijiang Pharmaceutical Manufacturing Inc. (first phase)" was reassessed and determined to continue after making adjustments to its construction period. Pursuant to the aforesaid proposal, "Deeper Development and Industrialization Upgrade of the innovative Ilaprazole product series" will have to be carried out in phases, and expected to be available for intended use on 31 December 2025; "Relocation and expansion of Livzon Group Xinbeijiang Pharmaceutical Manufacturing Inc. (first phase)" will be carried out once the environment impact assessment is over, with a construction period of 2.5 year, and was expected to be available for intended use on 30 June 2021.</p>									
Particulars of material change in feasibility of project	Not applicable									
Amount and uses of the excess proceeds and the progress of uses	Not applicable									
Particulars of change in place of application of proceeds	For details, please refer to "Changes in projects funded with the proceeds raised"									
Particulars of adjustment to way of application of proceeds	<p>The fund-raising investment project of Deeper Development and Industrialization Upgrade of the innovative Ilaprazole product series was expected to be implemented by Livzon Pharmaceutical Group Inc., with an investment focus on the in-depth development, industrialization and upgrade of innovative Ilaprazole product series. In order to ensure the effective implementation of fund-raising projects, further increase production capacity, ensure the quality of products and continuously maintain the Company's technological and market advantages, the Resolution on Addition of Implementing Entity for the Fund-raising Investment Project of the Company was passed at the 2016 Third Extraordinary Shareholders Meeting, pursuant to which Livzon Group Livzon Pharmaceutical Factory, a subsidiary of the Company, was added as an implementing entity of the project.</p> <p>On 19 September 2017, the Resolution on Alteration to the Fund-raising Investment Project of the Non-Public Issuance of A Shares of the Company was considered and approved at the 2017 First Extraordinary Shareholders Meeting, pursuant to which the following adjustments to the subprojects of the project of "construction of research & development platform of prolonged-action microsphere technologies" were approved: 1 change the original sub-project of "Renovation Project of Pilot Workshop" to "Microsphere Workshop Construction Project for Livzon Group Livzon Pharmaceutical Factory", and additionally include Livzon Group Livzon Pharmaceutical Factory as one of the implementing entities; and 2. terminate preclinical studies project of "Risperidone Sustained-release Microspheres for Injection (1 month)".</p> <p>The above-mentioned addition of an implementing entity to the fund-raised investment project will not lead to changes in the direction of investment of the Company's raised proceeds, or affect the normal implementation of fund-raised investment projects, or have an adverse impact on the financial position of the Company.</p>									
Particulars of application of proceeds in early stage and replacement of proceeds	<p>On 28 December 2016, the thirty-third meeting of the Eighth Session of the Board of the Company reviewed and approved "the Resolution on Replacement of Self-raised Funds Invested in Advance to Projects Financed by Proceeds Raised from Issuance of Shares" and the Company will replace the self-raised fund of RMB41.8571 million previously invested in the fund-raised investment projects by the proceeds raised. On 4 January 2017, the Company has transferred the funds from its special account for proceeds-funded.</p>									
Particulars of application of idle proceeds for temporary replenishment of working capital	Not Applicable									
Amount of balance of proceeds upon commencement of project and the reason thereof	Not Applicable									
Uses and whereabouts of unused proceeds	Those unused proceeds are deposited into the special account for proceeds-funded utilized for management and will continue to be used for proceeds-funded projects.									
Issues and other particulars of use of proceeds and the disclosure thereof	Not applicable									

(VI) INVESTMENTS (continued)**5. Utilization of raised funds** (continued)**(3) Changes in projects funded with the proceeds raised**

✓ Applicable □ Not applicable

Unit: RMBO'000

Project after change	Corresponding originally committed project	Total amounts of proceeds intended to be invested in the project after change (1)	Actual investment amount for the Reporting Period	Actual accumulated investment amount as of the End of the Period (2)	Investment progress as of the End of the Period (3)=(2)/(1)	Date on which the project is ready for the intended use	Benefits achieved during the Reporting Period	Expected benefits achieved or not	Significant change in feasibility of the project or not
Relocation and expansion of Livzon Group Xinbeijiang Pharmaceutical Manufacturing Inc. (first phase)	Capital injections to Livzon MAB for its investment in the construction of "Research & Development and Industrialization of therapeutic antibody-based drugs"	14,328.94	0.00	0.00	0.00%	30 June 2021	-	-	No
Technological transformation project of bag infusion workshop for Livzon Group Limin Pharmaceutical Manufacturing Factory	Capital injections to Livzon MAB for its investment in the construction of "Research & Development and Industrialization of therapeutic antibody-based drugs"	5,311.73	2,430.08	4,790.87	90.19%	31 August 2018	5.85	Yes	No
Construction of R&D platform of prolonged-action microsphere technologies	Capital injections to Livzon MAB for its investment in the construction of "Research & Development and Industrialization of therapeutic antibody-based drugs"	41,141.33	7,376.62	12,323.60	29.95%	31 December 2021	-	-	No
Total	-	60,782.00	9,806.70	17,114.47	-	-	5.85	-	-
Description of reasons for the change, decision-making procedures and information disclosure (by specific projects)									

In order to better meet the needs of the Company's operations and development, taking into account the relatively long investment and construction cycle of the original fund-raised investment project "Capital injections to Livzon MAB for its investment in the construction of 'Research & development and industrialization of therapeutic antibody-based drugs'" and the urgent needs to invest in and construct the project of relocation and expansion of Livzon Group Xinbeijiang Pharmaceutical Manufacturing Inc. (phase I), the technological transformation project of bag infusion workshop for Livzon Group Limin Pharmaceutical Manufacturing Factory and the Microsphere Workshop Construction Project for Livzon Group Livzon Pharmaceutical Factory, being the new projects to be funded with the proceeds raised, for the purpose of enhancing the efficiency of the Company's raised funds and ensuring the smooth development of the projects, as considered and passed at the second meeting of the ninth session of the Board and the first Extraordinary Shareholders' Meeting in 2017, changes were made to the original fund-raised investment project "Capital injections to Livzon MAB for its investment in the construction of 'Research & development and industrialization of therapeutic antibody-based drugs'" and adjustments were made to relevant sub-projects of construction of research & development platform of prolonged-action microsphere technologies. With details set out as follows:

1. A change was made to the capital injections to Livzon MAB for its investment in the construction of "Research & Development and Industrialization of therapeutic antibody-based drugs" to the effect that the proceeds of RMB306,000,000.00 originally planned to be used in this project are to be utilized as follows: (1) RMB143,289,400.00 for the project of relocation and expansion of Livzon Group Xinbeijiang Pharmaceutical Manufacturing Inc. (phase I); (2) RMB53,117,300.00 for the technological transformation project of bag infusion workshop for Livzon Group Limin Pharmaceutical Manufacturing Factory; (3) RMB109,593,300.00 for the "Microsphere Workshop Construction Project for Livzon Group Livzon Pharmaceutical Factory", being the sub-project of the "construction of R&D platform of prolonged-action microsphere technologies".

Upon the completion of such change, the Company will change to invest its own capital in the capital injections to Livzon MAB for its investment in the construction of "Research & Development and Industrialization of therapeutic antibody-based drugs". The originally invested proceeds will be transferred back to the special fund-raising account for the construction of new projects to be funded with the proceeds raised.

2. Adjustments were made to the sub-projects of the project of "Construction of research & development platform of prolonged-action microsphere technologies" to (1) change the original sub-project of "Renovation Project of Pilot Workshop" to "Microsphere Workshop Construction Project for Livzon Group Livzon Pharmaceutical Factory", and additionally include Livzon Group Livzon Pharmaceutical Factory as one of the implementing entities; and (2) terminate preclinical studies project of "Risperidone Sustained-release Microspheres for Injection (1 month)".

For details, please refer to the Company's announcement in the designated media (Announcement No. 2017-065 and 2017-083).

Project of relocation and expansion of Livzon Group Xinbeijiang Pharmaceutical Manufacturing Inc.: Affected by the progress of the environment impact assessment, which was slower than expectation, the relocation and expansion project has not yet been officially launched.

At the 2017 Annual General Meeting on 21 May 2018, "the resolution relating to the adjustment to the use of proceeds from non-public issue on investment projects" was considered and approved, and agreed to adjust the use of proceeds for "Relocation and expansion of Livzon Group Xinbeijiang Pharmaceutical Manufacturing Inc. (first phase)"; on 17 August 2018, the Eighteenth Meeting of the Ninth Session of the Board of the Company was convened to consider and approve the "Proposal in relation to Reassessment and Continuation of the Project Invested with Proceeds from the Non-public Issuance", in which the "relocation and expansion of Livzon Group Xinbeijiang Pharmaceutical Manufacturing Inc. (first phase)" was reassessed and determined to continue after making adjustments to its construction period. Pursuant to the aforesaid proposal, "Relocation and expansion of Livzon Group Xinbeijiang Pharmaceutical Manufacturing Inc. (first phase)" will be carried out once the environment impact assessment is over, with a construction period of 2.5 year, and was expected to be available for intended use on 30 June 2021.

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

Particulars of material change in feasibility of projects after change

Not applicable

(VII) DISPOSAL OF SUBSTANTIAL ASSETS AND EQUITY**1. Disposal of substantial assets**

Applicable Not applicable

2. Disposal of substantial equity

Applicable Not applicable

(VIII) ANALYSIS OF MAJOR HOLDING AND INVESTEE COMPANIES

Applicable Not applicable

1. Major subsidiaries and investee companies which have impact towards the net profit of the Company over 10%

Amount denominated: RMB

Company names	Company categories	Principal business	Registered capital	Total assets	Net assets	Operational income	Operational profit	Net profit
Livzon Group Livzon Pharmaceutical Factory (麗珠集團製藥廠)	Subsidiary	Principally engaged in production and sale of self-made chemical drugs, biochemical drugs, microbiological preparations, antibiotics, etc.	450,000,000.00	2,272,539,996.50	1,300,519,103.77	2,390,579,541.63	627,273,212.77	543,880,529.68
Sichuan Guangda Pharmaceutical Manufacturing Co., Ltd. (四川光大製藥有限公司)	Subsidiary	Principally engaged in R&D, production and sale of traditional Chinese medicine, major products include Antiviral Granules, Dexaltin Oral Paste, etc.	149,000,000.00	1,051,281,086.63	889,450,246.52	407,346,708.64	97,228,637.71	82,720,486.47
Livzon Group Limin Pharmaceutical Manufacturing Factory (麗珠集團利民製藥廠)	Subsidiary	Principally engaged in production and operation of Chinese drug preparations and pharmaceutical raw materials, etc., major products include Shenqi Fuzheng Injection, Xueshuantong, etc.	61,561,014.73	1,056,057,891.20	554,671,798.01	586,676,230.55	188,045,038.01	161,013,015.57
Shanghai Livzon Pharmaceutical Manufacturing Co., Ltd. (上海麗珠製藥有限公司)	Subsidiary	Principally engaged in production of biochemical and polypeptide bulk medicines, major products include biochemical bulk medicines such as Human Menopausal Gonadotropin and Human Chorionic Gonadotropin.	87,328,900.00	748,296,736.45	471,117,457.24	997,343,938.25	272,325,820.73	244,768,673.48
Zhuhai FTZ Livzon Hecheng Pharmaceutical Manufacturing Co., Ltd. (珠海保稅區麗珠合成製藥有限公司)	Subsidiary	Principally engaged in production and operation of chemical bulk medicines, major products include Cefuroxime Sodium, Cefodizime Sodium, Ceftriaxone Sodium, etc.	128,280,000.00	787,869,484.79	190,400,431.03	844,440,989.41	116,379,254.31	101,970,503.64
Livzon Group Xinbeijiang Pharmaceutical Manufacturing Inc. (麗珠集團新北江製藥股份有限公司)	Subsidiary	Principally engaged in sale of bulk medicines, intermediate products and export of related technologies, major products include Pravastatin, Mevastatin, Salinomycin, etc.	239,887,700.00	2,678,304,310.24	831,240,004.68	1,605,361,856.52	237,628,097.15	138,477,617.23
Livzon Group Fuzhou Fuxing Pharmaceutical Co., Ltd. (麗珠集團福州福興製藥有限公司)	Subsidiary	Principally engaged in production of antibiotics bulk medicines, intermediate and drug preparation products and chemical raw materials for pharmaceutical production, major products include Colistin, Vancomycin, Phenylalanine, etc.	USD41,700,000	872,312,810.79	529,253,304.57	487,634,271.89	152,667,150.43	127,183,139.30
Zhuhai Livzon Diagnostic Reagents Inc. (珠海麗珠試劑股份有限公司)	Subsidiary	Principally engaged in production and sale of diagnostic reagents, major products include Chlamydia Trachomatis Antigen Diagnostic Kit and ELISA HIV Testing Reagents Kit.	88,232,932.32	710,114,038.75	222,344,788.35	708,286,410.40	112,194,100.11	109,938,013.36
Livzon MABPharm Inc. (珠海市麗珠單抗生物技術有限公司)	Subsidiary	Principally engaged in technological R&D for biopharmaceutical products and antibiotics.	1,133,330,000.00	769,968,912.30	705,252,257.95	-	-173,196,492.57	-173,714,225.59

Note: there was a significant change in the principal financial indicators of Xinbeijiang Pharmaceutical (新北江製藥), which is mainly due to the subscription of equity interest in Ningxia Pharmaceutical (寧夏製藥) and Fuzhou Fuxing (福州福興) (to achieve the coordination management within the bulk medicines segment of the Group, optimize the resources allocation and cooperate with the long-term development strategy) by means of cash and share-based payments, and result in holding 100% and 75% equity interests in Ningxia Pharmaceutical and Fuzhou Fuxing respectively. Livzon MAB (麗珠單抗) is our key biopharmaceutical R&D enterprise which currently has no products for sale in market. The loss is mainly due to investment in R&D.

(VIII) ANALYSIS OF MAJOR HOLDING AND INVESTEE COMPANIES *(continued)***2. Subsidiaries acquired and disposed during the Year**✓ Applicable Not applicable

Company name	Method of acquiring and disposing of the subsidiary during the Reporting Period	Effect on the general operation and results
Zhuhai Sanmed Biotech Inc. (珠海聖美生物診斷技術有限公司)	Transfer	No material impact
Gongshan Livzon Yaoyuan Technology Co., Ltd. (貢山麗珠藥源科技有限公司)	Establishment	No material impact
Livzon San-Med Diagnostics Inc.	Establishment	No material impact
Suzhou Lidi Biological Technology Co., Ltd. (蘇州麗迪生物科技有限公司)	Establishment	No material impact

(IX) EMPLOYEES

For details of employees of the Company, please refer to “EMPLOYEES OF THE COMPANY” in Chapter VIII of this annual report.

(X) STRUCTURAL BODY CONTROLLED BY THE COMPANY Applicable ✓ Not applicable**(XI) DETAILS OF MATERIAL INVESTMENTS OR CAPITAL ASSET ACQUISITION PLAN**

Save as disclosed in this annual report, during the Year, the Group did not have any material investment or any material acquisition of subsidiaries or associated companies or any disclosable major event. The Group does not have any other future plan on material investments or capital assets.

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

Since the end of the accounting period, save for disclosed in this annual report, there is no subsequent events with material impact on the Group after the accounting period.

(XIII) PROSPECTS FOR FUTURE DEVELOPMENT**1. Key risks and opportunities and relevant solutions****(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 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 degrees.

Response measures: The Company will pay close attention to and study relevant industry policies, follow the changes in the environment, optimize and adjust the Company's deployment timely, in order to regulate its production and management, promote the research and development of innovative drugs, raise its core competitiveness and actively respond to industry changes.

(XIII) PROSPECTS FOR FUTURE DEVELOPMENT *(continued)***1. Key risks and opportunities and relevant solutions** *(continued)***(2) Risks associated with new drug research and development**

Generally speaking, from R&D to being put onto the market, a drug has to undergo preclinical studies, clinical registry application, clinical trials approval, clinical trials, production registration filing, on-site assessment, production approval, etc., which involved many processes and lengthy period of time, therefore the approvals are uncertain and there is a risk in the research and development. Also, 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 optimise the innovative R&D system by introducing and cultivating high-end talents, actively carry out cooperation and introduction of innovative drugs overseas, strengthen market research and evaluation of varieties, strengthen the procedure norms for establishing a project and risk control and management, concentrate on and focus on breakthroughs in research and development of key products. Meanwhile, the Company will strengthen the secondary development of key products, improve the research level and reduce production costs.

(3) Risk associated with lower price of the product

After the drug product has been approved for the launch, it has to go through medical insurance approval and tendering to gain market access, which makes the pharmaceutical enterprises facing greater downward pressure on drug prices. Meanwhile, due to industry policies such as market competition and quantized purchase, 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 drugs of urgent clinical need and innovative drugs and high-end generic drugs with high added value, further develop the product under production with market potential and technical barrier, actively promote the post-marketing re-evaluation of key drugs and the consistency evaluation of related drugs and optimize the product portfolio, so as to ensure the substantiality of the Company.

(4) Risk associated with supply and price fluctuation of raw materials:

Raw materials such as traditional 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. Many pharmaceutical companies are even facing the problem of production suspension and production restriction.

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

(XIII) PROSPECTS FOR FUTURE DEVELOPMENT *(continued)***2. Future development strategy**

In 2019, the Group's management policy will be "reform, responsibility, innovation, development". We will actively respond to changes in the industry through effective reform and innovation, so that R&D will be promoted according to the target and launch as planned; as for production, we will focus on environmental quality, cost reduction and efficiency; as for marketing, we will focus on compliance and enhance coverage and optimize the business layout. Based on product strategy and market strategy, talent strategy is promoted, where talents are "introduced, cultivated and selected, and assessed scientifically". The main tasks will be focused on the following aspects:

(1) Drug preparation business

In 2019, the marketing team will continue to actively deploy around the "three marketing initiatives" and to reinforce the advantages of the existing products: effectively implement marketing based on evidence, actively pay attention to consensus opinions and clinical guidelines in relevant fields, and promote phase IV clinical research of key products; continue to deepen service-oriented marketing, achieve accurate portraits and precise services; improve marketing through cooperation, continue to strengthen cooperation between hospitals and enterprises and cooperation between schools and enterprises; implement lean management, form a terminal promotion system, standard distribution system, and compliance marketing system; we will supplement the provincial-level medical insurance catalogue with key products and actively participate in standard tender and supplementary tender for new products; the prescription drug province company will expand outside the hospital and cover the grassroots level, and the OTC variety can be strengthened in promotion and coverage. The planning for overseas markets of drug preparation products will also be carried out in phases.

As for the research and development of pharmaceutical preparations, in 2019, the Group will continue to strengthen the management of the target and assessment mechanism, requiring all R&D institutions to advance the progress of project under research in a phased and planned manner. At the same time, we will integrate the resources of the Group and improve the R&D platform. On top of the original chemical drug research and development platform, we will also expand the special formulation research and development platform based on the microsphere technology platform and high-end liquid drug platform, and at the same time, we will prepare the polypeptide preparation research and development platform and high-end veterinary preparation platform, and extend new specialty segments based on original leading segments such as reproduction, psychiatry and neurology; strengthen external cooperation, optimize product construction through external introduction, cooperative development, etc.; and strengthen patent network of key products.

In 2019, quality and safety remain the lifeline of production. The Group will strengthen risk management and control to prevent major quality and safety incidents, ensure safe production, ensure product quality and ensure timely delivery, and to promote lean production management, to improve techniques, so as to lower the cost. At the same time, we will promote various capacity building and GMP Certification as planned, and well-prepared for the production and launch of new products.

(XIII) PROSPECTS FOR FUTURE DEVELOPMENT *(continued)***2. Future development strategy** *(continued)***(2) Bulk Medicines business**

In 2019, the bulk medicines business will continue to improve safety, environmental protection, quality standards and requirements, continue to increase resources and capital investment, rationally allocate resources, continue to strengthen research and development, production quality and marketing management, and further enhance the overall profitability of bulk medicines business and industry competitiveness.

In respect of R&D, we will strengthen the introduction of new products, especially foreign new products or technologies, increase the research and development of new products, focus on the promotion of polypeptide products and high-end veterinary drugs, research and development of new fermentation products and the improvement of old products.

In respect of production, we will focus on risk elimination, strive to ensure safety and environmental protection, improve quality research of the existing products, and improve production techniques to increase the efficiency and to lower the production cost. Meanwhile, we actively promote the integration of the production capacity of bulk medicines and carry out the planning and construction of the new plant of bulk medicines.

In respect of sales, we will further strengthen team building, segment the market, and focus on cultivating core high-margin products. We will add foreign offices, reinforce registration and certification, increase the depth and breadth of international promotion, and promote cooperation with high-end veterinary medicine preparations and international leading companies. At the same time, we will pay close attention to changes in exchange rates and market conditions, and adjust sales strategies in a timely manner.

(3) Precise pharmaceutical business

Livzon MAB: The company will improve internal operation management efficiency and assessment incentive mechanism, guiding by speed, results and market, and promote core product research and development and clinical development work with higher efficiency and standard, quickly promote the transformation of key products, strengthen quality system construction, and enhance industrialization capabilities. It will actively carry out foreign cooperation, screen and introduce more global innovative medical projects, carry out patent application and maintenance work, and strengthen the patent layout of global innovation projects.

Livzon Reagents: The company will continue to promote the development of new products, especially the molecular POCT platform and related reagents, tuberculosis molecular nucleic acid reagents (結核分子核酸試劑), 60-speed chemiluminescence analyzer (60速化學發光分析儀) and other projects. In respect of marketing, according to different target customers such as medical examination, disease control, blood collection and supply system and commercial laboratory, it will refine product promotion plan. It will also promote the launch of the self-produced gold strip, prepare the launch of X-ray irradiator and attract investment.

Livzon Gene: The Company strengthen cooperation with the Group's pharmaceutical marketing team, and consolidate various cooperation modes including routine inspection, scientific research services, and joint effort of hospitals and enterprises to increase the sample detection volume; focus on accelerating the marketization and clinical data accumulation of the benign and malignant auxiliary diagnosis project of Lifeiqing (麗菲清) pulmonary nodules; optimise the testing service project portfolio, especially enriching tumor immunotherapy detection project group; continue to participate in national external quality assessments such as molecular and pathological projects, improve project quality control level, and improve laboratory quality system construction.

(XIII) PROSPECTS FOR FUTURE DEVELOPMENT *(continued)***2. Future development strategy** *(continued)***(4) Functions and strategies**

In 2019, the Company will unswervingly implement the management policy of “reform, responsibility, innovation and development”. All functional departments will closely focus on the Company’s strategic objectives, continue to improve and implement various rules and regulations, improve operational efficiency, and provide strong assurance for sales, production, research and development. In 2019, the Company makes “talents” as one of the major strategies to combine internal cultivation and global introduction, and talents selection will be based on the assessment result. At the same time, according to the medium and long-term strategic development of the Group and the current business development needs, the Group will further improve the medium and long-term internal incentive mechanism, increase the selection and training of middle and senior management officers, integrate and optimize the equity and asset structure of the subordinate enterprises, investment layout and introduction of innovative products and technologies.

In summary, in 2019, the Company will continue to pay close attention to the changes in industry policies, increase efforts in innovation, steadily promote the development of all businesses, fully supports front-line sales and make concerted efforts to accomplish the performance goals under the Share Options Incentive Scheme of the Year.

(XIV) OTHER EVENTS**1. Reserves**

Details of the amount and movements in the reserves of the Group during the Year are set out in “Consolidated Statement of Changes in Shareholders’ Equity” and Financial Statement “Note VI 34. Surplus reserve” in this annual report.

2. Distributable Reserves

As at 31 December 2018, the distributable reserves of the Company calculated in accordance with China Accounting Standards for Business Enterprises amounted to RMB4,477 million (31 December 2017: RMB4,725 million).

3. Fixed Assets

Details of the movements in fixed assets during the Year are set out in “Note VI 12. Fixed Assets” to the financial statements in this annual report.

4. Connected/Related Party Transactions

Details of the connected/related party transactions are set out in Chapter V in this annual report.

5. Management Contracts

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

(XIV) OTHER EVENTS *(continued)***6. Repurchase, sale or redemption of securities**

(1) In view of that 13 original incentive participants under the first grant and 3 original incentive participants under the reserved grant of the Restricted A Shares Incentive Scheme have resigned and 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 2016, pursuant to the provisions of "13. Handling unusual changes to the Company/Incentive Participants" under the Restricted A Shares Incentive Scheme, the Company has repurchased and cancelled 90,098 Restricted Shares held by the 17 Incentive Participants above. On 11 May 2018, the Company has repurchased 77,774 Restricted Shares under the first grant at the price of RMB14.08 per share and 12,324 Restricted Shares under the reserved grant at the price of RMB18.16 per share, respectively, on the Shenzhen Stock Exchange, totaling 90,098 Restricted Shares (the "Repurchased A Shares") (the "Repurchase"). The aggregate purchase price payable for the Repurchase was RMB1,318,861.76, and the actual aggregate purchase price paid for the Repurchase is RMB1,300,873.16 after withholding individual income tax of RMB17,988.60. Pursuant to the Repurchase, the Repurchased A Shares have been cancelled on 15 May 2018.

(2) In view of that 2 original incentive participants under the first grant and 4 original incentive participants under the reserved grant of the Restricted A Shares Incentive Scheme have resigned, pursuant to the provisions of "13. Handling unusual changes to the Company/Incentive Participants" under the Restricted A Shares Incentive Scheme, the Company has repurchased and cancelled the 25,701 Restricted Shares granted but still locked-up as held by 6 resigned Incentive Participants. On 8 June 2018, the Company has repurchased 14,196 Restricted Shares under the first grant at the price of RMB14.08 per share and 11,505 Restricted Shares under the reserved grant at the price of RMB18.16 per share, respectively, on the Shenzhen Stock Exchange, totaling 25,701 Restricted Shares (the "Repurchased A Shares") (the "Repurchase"). The aggregate purchase price payable for the Repurchase was RMB408,810.48, and the actual aggregate purchase price paid for the Repurchase is RMB353,851.97 after withholding individual income tax of RMB54,958.51. Pursuant to the Repurchase, the Repurchased A Shares have been cancelled on 11 June 2018.

(3) In view of 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. Handling unusual changes 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 1 Incentive Participants above with a repurchase price at RMB12.43 per share. The aggregate purchase price payable for the repurchase was RMB25,208.04. As of the date of the Report, the aforesaid repurchase has not yet completed.

Save as disclosed above, throughout the period from 1 January 2018 to 31 December 2018, neither the Company nor any of its subsidiaries repurchased, sold or redeemed any of the listed securities of the Company.

For further details of the Restricted A Shares Incentive Scheme, please refer to "THE RESTRICTED A SHARES INCENTIVE SCHEME" in Chapter IV of this annual report.

(XIV) OTHER EVENTS *(continued)***7. Issue of convertible preferred shares by a subsidiary**

On 22 June 2018, Livzon Biologics, Biologics Limited, Livzon MAB, Livzon International, Lizhu HK, YF Pharmab Limited (“YF Pharmab”, an independent third party) and the Company have entered into the share subscription agreement. Pursuant to which, YF Pharmab agreed to subscribe for 12,500,000 series A preferred shares of Livzon Biologics at a subscription price of USD4.00 per share at a subscription price of USD50,000,000.00; Livzon International agreed to subscribe for 24,574,830 newly issued ordinary shares of Livzon Biologics at a subscription price of USD4.00 per share at a subscription price of USD98,299,320.00. The subscription price has been determined after arm’s length negotiations between Livzon International, the Company and YF Pharmab with reference to existing business conditions, research products, potential market size and future business development of Livzon MAB.

At completion, YF Pharmab shall pay immediately available funds equal to the sum of the subscription price for subscription for series A preferred shares to the bank account of Livzon Biologics by way of wire transfer. Upon the completion of share subscription, YF Pharmab is entitled to appoint 1 director, and to convert series A preferred shares held to ordinary shares at any time, with the initial conversion ratio of 1:1. Prior to the completion of the qualifying public offering, YF Pharmab shall not directly or indirectly transfer all or part of the shares owned or held (present or future) in Livzon Biologics without the prior written consent of Livzon Biologics and Livzon International. Being the holder of series A preferred shares, YF Pharmab shall also have anti-dilution protection for event such as share splits, share dividends, combinations and reorganisation, and also entitled to have pre-emptive rights, right of co-sale, and liquidation preference.

On 20 August 2018, the conditions precedent under the share subscription agreement are fulfilled. Livzon Biologics received the subscription price of series A preferred shares of USD50,000,000 from YF Pharmab. YF Pharmab holds 12,500,000 series A preferred shares, which is 9.12% of the total share capital of Livzon Biologics.

As of 31 December 2018, 12,500,000 series A preferred shares issued by Livzon Biologics were not redeemed, repurchased, cancelled or converted into ordinary shares.

8. Review by Audit Committee

The financial results for the year ended 31 December 2018 have been reviewed by the Audit Committee of the Company. For the details of “KEY AUDIT MATTERS”, please refer to “AUDITORS’ REPORT” in Chapter XI.

9. Relationships with employees, customers and suppliers

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

(XIV) OTHER EVENTS *(continued)***10. Permitted indemnity provisions**

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

11. Compliance with rules and regulations

For the year, the Group confirmed its continuous compliance with relevant rules and regulations that have material impact on the Company and has maintained a good working relationship with regulatory authorities through efficient communication.

12. Environmental policies and performance

During the Year, for details of environmental policies and performance, please refer to the related contents in the paragraph headed “Safe production and environmental protection” under “Social Responsibilities” in Chapter V of this annual report.

(XV) PROFIT DISTRIBUTION PLAN

For profit distribution plan for 2018, please refer to “PROFIT DISTRIBUTION OF ORDINARY SHARES AND CONVERSION OF CAPITAL RESERVE INTO SHARE CAPITAL OF THE COMPANY” and “PROPOSALS ON PROFIT DISTRIBUTION AND CONVERSION OF CAPITAL RESERVES INTO SHARE CAPITAL DURING THE YEAR” of Chapter V in the annual report.

(XVI) AUDITORS

During the Year, the financial statements of the Company were audited by Ruihua Certified Public Accountants (LLP), and a standard unqualified audit report thereon was issued.

As for explanation of changes in accounting policies, accounting estimates and accounting methods as compared with the financial report of previous year, please refer to the related contents in Chapter II “Changes of Significant Accounting Policies, Accounting Estimates And Accounting Methods And Correction Of Accounting Errors” of this annual report.

There has been no change to the auditor of the Company in the last three years.

(XVII) TAXATION AND TAX RELIEF

Shareholders are taxed in accordance with the following tax regulations and the amendments thereof from time to time. They shall enjoy possible tax relief according to the actual situation. The following cited laws, regulations and stipulations are all relevant provisions which were in issue during the year ended 31 December 2018. Shareholders, if necessary, shall seek professional advice from their tax and legal advisors for advices relating to tax payment or its impact:

A Shareholders

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

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

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

(XVII) TAXATION AND TAX RELIEF *(continued)***H Shareholders**

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

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

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

(XVIII) SERVICE CONTRACTS OF DIRECTORS AND SUPERVISORS AND THEIR INTERESTS IN THE CONTRACTS

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

Save for the aforesaid service contracts, the transfer of equity in Xinbeijiang Pharmaceutical and matters disclosed in this annual report, none of the Directors or Supervisors (or any entities connected with them) of the Company had a material interest, whether direct or indirect, in any other transactions, arrangements or contacts of significance which had been entered into by the Company, any of its subsidiaries, or its holding company or the holding company's subsidiaries for the year ended 31 December 2018. Please refer to "1. One-Off Connected Transactions" contained in Chapter V of this annual report for the details of the transfer of equity in Xinbeijiang Pharmaceutical.

(XIX) ARRANGEMENT OF PURCHASING SHARES OR BONDS BY DIRECTORS

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

(XX) THE RESTRICTED A SHARES INCENTIVE SCHEME

In order to set up overall long-term incentive mechanism of the Company, retain and recruit outstanding staff, maximize the proactiveness of core staffs and align the interests of all parties including shareholders, the Company and operators, as 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 Company implemented the Restricted A Shares Incentive Scheme. The validity period of the Restricted A Shares Incentive Scheme shall commence on the date of the Grant of the Restricted Shares and end on the date on which all the Restricted Shares granted to the incentive participants have been unlocked or otherwise repurchased and cancelled with a period for less than 5 years.

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

On 29 March 2018, the Twelfth Meeting of the Ninth Session of the Board of the Company was convened to approve the Company to (i) proceed with matters concerning the third unlocking of the first grant under the Restricted A Shares Incentive Scheme, there were a total of 413 incentive participants satisfying the unlocking conditions, and may apply for 4,038,407 shares of Restricted Shares to be unlocked and traded, representing 27.20% of the total number of locked Restricted Shares under the Restricted A Shares Incentive Scheme. The unlocked Restricted Shares were traded on 13 April 2018; (ii) repurchase 14,196 shares granted to 2 incentive participant that no longer satisfy the unlocked conditions of the first grant at RMB14.08 per share and 11,505 shares of the Restricted Shares granted to 4 incentive participants that no longer satisfy the unlocking conditions of the reserved grant at RMB18.16 per share. On 11 June 2018, the Company has completed the repurchase and cancellation. Please refer to "Repurchase, sale or redemption of securities" contained in Chapter IV of this Report for the details of the repurchase and cancellation.

(XX) THE RESTRICTED A SHARES INCENTIVE SCHEME *(continued)*

On 15 May 2018, considered and approved by the Company at the sixth meeting of the ninth session of the Board on 15 December 2017, the Company has completed the repurchase and cancellation of 90,098 Restricted Shares in total. Please refer to the "Repurchase, sale or redemption of securities" in Chapter IV of this Report for details of the repurchase and cancellation.

On 18 December 2018, the Twenty-second Meeting of the Ninth Session of the Board of the Company was convened to approve (i) adjustment of the number of Restricted Shares of the reserved grant from 450,723 shares to 585,940 shares (excluding the unlocked and repurchased shares), and adjustment of the repurchase price of the Restricted Shares under the reserved grant from RMB18.16 per share to RMB12.43 per share; (ii) the Company to proceed with matters concerning unlocking the third unlock period for the reserved grant under the Restricted A Shares Incentive Scheme, there were a total of 158 incentive participants satisfying the unlocking conditions, and may apply for 583,912 Restricted Shares to be unlocked and traded, representing 99.65% of the total number of locked Restricted Shares under the Restricted A shares Incentive Scheme. The Restricted Shares unlocked were traded on 28 December 2018; and (iii) repurchase of 2,028 Restricted Shares granted to one incentive participant that no longer satisfy the unlocking conditions of the reserved grant at RMB12.43 per share. Currently, the repurchase and cancellation have not yet completed. Please refer to "Repurchase, sale or redemption of securities" in Chapter IV of this report for the details of the repurchase and cancellation.

(XXI) THE NON-PUBLIC ISSUANCE OF A SHARES

In order to achieve long-term development targets of the Company that sticks to researching and developing initially and completing products line, to complement its liquidity and repay bank loans with optimization of its balance sheet and improvement of financial position, the Company's plan for non-public issuance of A Shares ("the Issuance") was considered and approved by the 2015 Third Extraordinary General Meeting held on 21 December 2015. At the 2016 Second Extraordinary General Meeting held on 25 April 2016, the Board considered and passed the adjustments to the number of issuance, pricing methods and issue price of the plan of the Issuance.

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 of the Issuance amounted to RMB1,457,819,970.30, net of 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.

On 24 March 2017, the Thirty-fifth Meeting of the Eighth Session of the board of directors of the Company was convened, the Board has comprehensively inspected the progress of the projects invested with proceeds from the Issuance in 2016, and considered and approved to make adjustments to the projects invested with proceeds for which the difference between the originally planned use of proceeds and the actual use of proceeds exceeds 30%. The adjustments involved that to the major investment plan of the "Deeper development and industrialization upgrade of innovative Ilaprazole series" and that to the major investment plan of the capital injections to Livzon MAB for investment in the construction of "Research & Development and Industrialization of Therapeutic Antibody-based Drugs" (the "Adjustments"). The Adjustments are made by the Company in view of the actual progress of the projects invested with proceeds. There were only adjustments to the amount of proceeds used in each of the subsequent years of the project and the construction period of industrialization project, without changing the use of the proceeds. The adjustments were considered and approved at the annual general meeting for 2016 on 23 June 2017.

(XXI) THE NON-PUBLIC ISSUANCE OF A SHARES *(continued)*

On 2 August 2017, the Second Meeting of the Ninth Session of the Board of the Company was convened to consider and approve the changes and adjustments to the fund-raising investment projects of the Issuance (the "Changes and Adjustments") to improve the efficiency of the usage of proceeds raised and ensure the normal implementation of the project: (i) make changes to "Capital injections to Livzon MAB on its investment in the construction of "Research & development and industrialization of therapeutic antibody-based drugs" project"; (ii) make adjustments to the sub-project under "Construction of Research & development platform of prolonged-action microsphere technologies". After the Changes and Adjustments, the Company will change to use its own money to invest in "Project of Research & development and industrialization of therapeutic antibody-based drugs". The Changes and Adjustments were considered and approved at the 2017 first extraordinary general meeting on 19 September 2017.

On 23 March 2018, the Eleventh Meeting of the Ninth Session of the Board of the Company was convened to consider and approve the adjustment to the use of proceeds in projects invested with proceeds from the Issuance. Projects involved in the adjustments included the use of proceeds in the "deeper development and industrial upgrading of the innovative Ilaprazole series" and the "relocation and expansion of Livzon Group Xinbeijiang Pharmaceutical Manufacturing Inc. (first phase)". The aforesaid adjustments were made by the Company in view of the actual progress of the projects invested with proceeds. There were only adjustments to the amount of proceeds used in each of the subsequent years of the project, without changing the use of the proceeds. The adjustments were considered and approved at the annual general meeting for 2017 on 21 May 2018.

On 17 August 2018, the Eighteenth Meeting of the Ninth Session of the Board of the Company was convened to consider and approve the "Proposal in relation to Reassessment and Continuation of the Project Invested with Proceeds from the Non-public Issuance", in which the "relocation and expansion of Livzon Group Xinbeijiang Pharmaceutical Manufacturing Inc. (first phase)", the project invested with proceeds and postponed for over one year, was reassessed and determined to continue after making adjustments to its construction period.

(XXII) SHARE OPTIONS INCENTIVE SCHEME

1. 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) and its summary (the "2018 Share Options Incentive Scheme"), proposing to grant 19,500,000 share options to its incentive participants, which involved an aggregate of 19,500,000 ordinary A Shares, representing approximately 2.71% of the total issued share capital of the Company as at the date of this Report. In which, there were 17,550,000 shares options under the first grant (the "First Grant"), representing 90.00% of the aggregate number under the 2018 Share Options Incentive Scheme; and there were 1,950,000 shares options under the reserved grant (the "Reserved Grant"), representing 10.00% of the aggregate number under the 2018 Share Options Incentive Scheme. The exercise price of the Shares Options under the first grant was RMB47.01/A Shares with 1,116 incentive participants.

Pursuant to the 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 Incentive 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 employees, fully motivate the directors, senior management, mid-level management and relevant core personnel of the Company and effectively integrate Shareholders' interests, the Company's interests and individual interests of the core team members so that the parties will make joint efforts for the Company's long-term development.

Incentive Participants, maximum entitlement, Validity Period of the Incentive Scheme

The Incentive Participants of 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 by the Shareholders of 2018 Share Options Incentive Scheme. The Validity Period of 2018 Share Options Incentive Scheme shall commence from the registration date of grant of the Share Options and end on the date on which all the Share Options granted to the Incentive Participants have been exercised otherwise cancelled, which shall not be longer than 60 months.

Vesting Period, Exercise Period and Exercise Date

The vesting period of the Share Options to be granted under 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:

(XXII) SHARE OPTIONS INCENTIVE SCHEME *(continued)***1. 2018 Share Options Incentive Scheme** *(continued)***Vesting Period, Exercise Period and Exercise Date** *(continued)*

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%

Exercise price of the Share Options and basis for determination

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 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 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

(XXII) SHARE OPTIONS INCENTIVE SCHEME *(continued)***1. 2018 Share Options Incentive Scheme** *(continued)***Exercise price of the Share Options and basis for determination** *(continued)*

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

- (1) the average 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 from the three Exercise Periods of Share Options are 3.0670%, 1.9084% and 1.6662% (listed based on the average of the dividend rate of the Company for the latest one year, two years and three years, respectively)

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

Note 2: Risk-free interest rates are listed base 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 parameters aforesaid 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		

(XXII) SHARE OPTIONS INCENTIVE SCHEME *(continued)***1. 2018 Share Options Incentive Scheme** *(continued)***Fair Value and Accounting Policies of the Share Options** *(continued)*(1) Fair value *(continued)*

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 phases 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 Incentive 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 on 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 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.

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 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 associates, the allocation details are set forth in the following table; (ii) 11 September 2018 as the date of 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 Shares. On 28 September 2018, the First Grant has completed registration. The abbreviation of the Share Options: Livzon JLC1. The code of the Share Options is 037067.

(XXII) SHARE OPTIONS INCENTIVE SCHEME *(continued)***1. 2018 Share Options Incentive Scheme** *(continued)***First Grant** *(continued)*

Incentive Participants	Position	Number of share options held as at 1 January 2018	Number of Share Options granted on 11 September 2018 (0'000 share options)	Number of share options held as at 31 December 2018 (0'000 share options)
Mr. Tang Yanggang	Executive director, President	–	15.60	15.60
Mr. Tao Desheng	Vice Chairman and Non-executive director	–	19.50	19.50
Mr. Xu Guoxiang	Executive director, Vice President	–	19.50	19.50
Mr. Fu Daotian	Executive director, Vice President	–	15.60	15.60
Mr. Yang Daihong	Vice President	–	15.60	15.60
Ms. Si Yanxia	Vice President	–	15.60	15.60
Mr. Zhou Peng	Vice President	–	10.40	10.40
Mr. Yang Liang	Secretary to the Board and Company Secretary	–	9.10	9.10
Ms. Hou Xuemei*	Mid-level management	–	7.80	7.80
Mid-level management and relevant core personnel of the Company (1,042 people)		–	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 Incentive 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, pursuant to the Hong Kong Listing Rules, she is an associate of Mr. Tao Desheng.

As at 31 December 2018, all Share Options granted for the First Grant have not been exercised, cancelled or lapsed.

2. Subsidiary Share Option Scheme**Purpose of the Incentive Scheme and Vetting**

In order to fully motivate the core personnel and safeguard the stable and long-term dedication to work of the research and development core personnel of Livzon Biologics (a holding subsidiary of the Company, which the Company indirectly holds 51% of its issued share capital), and in particular of its wholly owned subsidiary, Livzon MAB, and to facilitate the implementation of the Company's strategic objective in relation to its biopharmaceutical development, on 17 July 2018, the Company convened the Sixteenth Meeting of the Ninth Session of the Board to consider and approve (i) the Livzon Biologics Share Options Scheme ("Subsidiary Share Option Scheme"), and the proposal to 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 and General Manager 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 this 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 effective upon obtaining approval at the 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.

(XXII) SHARE OPTIONS INCENTIVE SCHEME *(continued)***2. Subsidiary Share Option Scheme** *(continued)***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 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 this report), the incentive participants include directors, employees and professional consultants of Livzon Biologics or any of its subsidiaries.

The maximum number of Share Options to be granted to Incentive Participants and the relative 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 grantee 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 offer) and an aggregate value of HK\$5,000,000 (based on the closing price of Livzon Biologics's shares at the date of each offer, 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 subsidiary share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive directors of the Company.

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 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. The Incentive Participants accept the subsidiary share options to 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.

(XXII) SHARE OPTIONS INCENTIVE SCHEME *(continued)***2. Subsidiary Share Option Scheme** *(continued)***Duration of the Subsidiary Share Options and Vesting Period**

The exercisable period of 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 Option shall become vested to him in the following manner:

- (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 31 December 2018, the subsidiary share options scheme has not been implemented and therefore no subsidiary share options were granted.

(XXIII) PRE-EMPTIVE RIGHTS

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

(XXIV) CHARITABLE DONATION

During the Year, the expenditure of charitable donation of the Group amounted to RMB3,925,651.05 (2017: RMB12,584,888.51).

(XXV) HOSTING RESEARCHES, COMMUNICATIONS AND INTERVIEWS**1. Registration Form for hosting researches, communications and interviews during the Year**

Applicable Not applicable

Date of reception	Type of reception	Type of guests	Index of basic information of research
9 January 2018	On-site investigation	Institution	Please refer to the Investor Relationship Event Record Form on 9 January 2018 which the Company posted on the Cninfo website on 10 January 2018 for detail of said research
11 January 2018	On-site investigation	Institution	Please refer to the Investor Relationship Event Record Form on 11 January 2018 which the Company posted on the Cninfo website on 11 January 2018 for detail of said research
19 January 2018	On-site investigation	Institution	Please refer to the Investor Relationship Event Record Form on 19 January 2018 which the Company posted on the Cninfo website on 19 January 2018 for detail of said research
18 May 2018	On-site investigation	Institution	Please refer to the Investor Relationship Event Record Form on 18 May 2018 which the Company posted on the Cninfo website on 22 May 2018 for detail of said research
22 May 2018	On-site investigation	Institution	Please refer to the Investor Relationship Event Record Form on 22 May 2018 which the Company posted on the Cninfo website on 23 May 2018 for detail of said research
22 May 2018	On-site investigation	Institution	Please refer to the Investor Relationship Event Record Form on 22 May 2018 which the Company posted on the Cninfo website on 29 May 2018 for detail of said research
8 June 2018	On-site investigation	Institution	Please refer to the Investor Relationship Event Record Form on 8 June 2018 which the Company posted on the Cninfo website on 8 June 2018 for detail of said research
26 June 2018	On-site investigation	Institution	Please refer to the Investor Relationship Event Record Form on 26 June 2018 which the Company posted on the Cninfo website on 27 June 2018 for detail of said research
27 June 2018	On-site investigation	Institution	Please refer to the Investor Relationship Event Record Form on 27 June 2018 which the Company posted on the Cninfo website on 28 June 2018 for detail of said research
12 July 2018	On-site investigation	Institution	Please refer to the Investor Relationship Event Record Form on 12 July 2018 which the Company posted on the Cninfo website on 13 July 2018 for detail of said research
21 August 2018	On-site investigation	Institution	Please refer to the Investor Relationship Event Record Form on 21 August 2018 which the Company posted on the Cninfo website on 22 August 2018 for detail of said research
22 August 2018	On-site investigation	Institution	Please refer to the Investor Relationship Event Record Form on 22 August 2018 which the Company posted on the Cninfo website on 22 August 2018 for detail of said research
27 August 2018	On-site investigation	Institution	Please refer to the Investor Relationship Event Record Form on 27 August 2018 which the Company posted on the Cninfo website on 27 August 2018 for detail of said research
6 September 2018	On-site investigation	Institution	Please refer to the Investor Relationship Event Record Form on 6 September 2018 which the Company posted on the Cninfo website on 6 September 2018 for detail of said research
12 November 2018	On-site investigation	Institution	Please refer to the Investor Relationship Event Record Form on 12 November 2018 which the Company posted on the Cninfo website on 12 November 2018 for detail of said research
13 November 2018	On-site investigation	Institution	Please refer to the Investor Relationship Event Record Form on 13 November 2018 which the Company posted on the Cninfo website on 13 November 2018 for detail of said research
16 November 2018	On-site investigation	Institution	Please refer to the Investor Relationship Event Record Form on 16 November 2018 which the Company posted on the Cninfo website on 16 November 2018 for detail of said research
23 November 2018	On-site investigation	Institution	Please refer to the Investor Relationship Event Record Form on 23 November 2018 which the Company posted on the Cninfo website on 23 November 2018 for detail of said research

(XXV) HOSTING RESEARCHES, COMMUNICATIONS AND INTERVIEWS *(continued)***1. Registration Form for hosting researches, communications and interviews during the Year** *(continued)*

Date of reception	Type of reception	Type of guests	Index of basic information of research
27 November 2018	On-site investigation	Institution	Please refer to the Investor Relationship Event Record Form (I) on 27 November 2018 which the Company posted on the Cninfo website on 27 November 2018 for detail of said research
27 November 2018	On-site investigation	Institution	Please refer to the Investor Relationship Event Record Form (II) on 27 November 2018 which the Company posted on the Cninfo website on 27 November 2018 for detail of said research
30 November 2018	On-site investigation	Institution	Please refer to the Livzon Group Investigation Event Information which the Company posted on the Cninfo website on 3 December 2018 for detail of said research
7 December 2018	On-site investigation	Institution	Please refer to the Livzon Group Investigation Event Information which the Company posted on the Cninfo website on 7 December 2018 for detail of said research
18 December 2018	On-site investigation	Institution	Please refer to the Investor Relationship Event Record Form on 18 December 2018 which the Company posted on the Cninfo website on 18 December 2018 for detail of said research
Number of reception			24
Number of institution reception			102
Number of individual reception			0
Number of others reception			0
Whether disclose, reveal or leak undisclosed information			No

(XXVI) LIST OF DIRECTORS AND SUPERVISORS OF THE COMPANY DURING THE YEAR AND UP TO THE DATE OF THIS ANNUAL REPORT

The Board of the Company consists of eleven directors, including three executive directors, three non-executive directors and five independent non-executive directors.

Executive Directors

Mr. Tang Yanggang (唐陽剛先生) (President) (appointed as an Executive Director with effect from 14 February 2019)
 Mr. Xu Guoxiang (徐國祥先生) (Vice President)
 Mr. Fu Daotian (傅道田先生) (Vice President)

Non-Executive Directors

Mr. Zhu Baoguo (朱保國先生) (Chairman)
 Mr. Tao Desheng (陶德勝先生) (Vice Chairman) (resigned as President and has been re-designated from an Executive Director to a Non-Executive Director with effect from 28 December 2018.)
 Mr. Qiu Qingfeng (邱慶豐先生)

Independent Non-Executive Directors

Mr. Xu Yanjun (徐焱軍先生)
 Mr. Guo Guoqing (郭國慶先生)
 Mr. Wang Xiaojun (王小軍先生)
 Mr. Zheng Zhihua (鄭志華先生)
 Mr. Xie Yun (謝耘先生)

Supervisory Committee of the Company consists of three supervisors. On the date of this annual report, the supervisors of the Company are:

Mr. Wang Maolin (汪卯林先生) (Chief Supervisor)
 Mr. Huang Huamin (黃華敏先生)
 Mr. Tang Yin (湯胤先生)

By order of the Board

Chairman

Zhu Baoguo

27 March 2019

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

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

Applicable Not applicable

During the reporting period, the Company has not made adjustment to the profit distribution policy, and the implementation shall be subject to the dividend policy in strict accordance with "Articles of Association", specific policy for distribution is set out below.

Special Description of Cash Dividends Policy

Whether the policy complied with the provisions of the Articles of Association or the requirements of the Resolution of Shareholders' Meeting:	Yes
Whether the standard and proportion of distribution of dividends were definite and clear:	Yes
Whether the relevant decision-making procedure and mechanisms were well-established:	Yes
Whether the independent Directors performed their duties and carried out their responsibilities:	Yes
Whether the small and medium shareholders had sufficient opportunity to express their opinions and appeal and whether their legitimate rights and interests are fully protected:	Yes
Whether conditions and procedures are compliant and transparent, in the case that the cash dividends policy is to be adjusted and changed:	Yes

Profit Distribution Plan (Proposal) of Ordinary Shares in the Latest Three Years (including this year) and Conversion Plan (Proposal) of Capital Reserves into Share Capital of the Company

The proposed profit distribution plan of the Company for 2018 is as follows: it is expected to distribute cash dividend of RMB12.00 (tax inclusive) for every 10 shares to all Shareholders and to issue 3 bonus shares for every 10 shares to all Shareholders by way of conversion of capital reserve, based on the total share capital of the Company of 719,050,240 shares as at 31 December 2018. If the total share capital of the Company changes during the period from the promulgation to implementation of the 2018 Annual Profit Distribution Plan, the aggregate distribution will be adjusted based on the total share capital as at the registration date of shareholding as determined by implementation of the 2018 Annual Profit Distribution Plan, with the distribution ratio unchanged. The above proposed distribution is subject to the approval at the annual general meeting. A circular of H Shares containing, among other things, further information in respect to the AGM and the Cash Dividend will be dispatched to the shareholders of the Company as soon as practicable.

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

The profit distribution plan for 2016 was as follows: based on the Company's total share capital of 425,562,592 shares as at the registration date of shareholding determined by implementation of the 2016 annual profit distribution plan, to distribute cash dividend of RMB5 (tax inclusive) per 10 shares to all Shareholders of the Company and to issue 3 bonus shares for every 10 shares to all Shareholders by way of conversion of capital reserve.

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

Cash Dividend Distribution of Ordinary Shares of the Company in Recent Three Years (including this Year)

Amount denominated: RMB

Distribution years	Cash dividend amount (taxes inclusive)	Net profit attributable to shareholders of the Company as stated in the consolidated financial statements for the year	Proportion of cash dividend amount to net profit attributable to shareholders of the Company as stated in the consolidated financial statements	Cash dividend amount by other means (including repurchase of shares)	Proportion of cash dividend amount by other means in net profit attributable to the shareholders of the Company as stated in the consolidated financial statements	Total amount of cash dividend (including by other means)	Percentage of total amount of cash dividend (including by other means) to net profit attributable to the shareholders of the Company as stated in the consolidated financial statements
2018 (Proposed)	862,860,288.00	1,082,174,905.98	79.73%	-	-	862,860,288.00	79.73%
2017	1,106,231,140.00	4,428,684,564.57	24.98%	-	-	1,106,231,140.00	24.98%
2016	212,781,296.00	784,353,607.06	27.13%	-	-	212,781,296.00	27.13%

Note: The amount of 2018 cash dividend (taxes inclusive) in the above table is based on 719,050,240 shares of the total share capital of the Company as at 31 December 2018 and the actual cash dividend will be based on the Company's total share capital as at the registration date of shareholding determined by implementation of the proposed 2018 annual profit distribution plan.

Earnings of the Company and distributable profits available for ordinary shareholders of the Parent Company during the Year are positive while plan for cash dividend distribution of ordinary shares in cash is not yet proposed

Applicable Not applicable

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

Applicable Not applicable

Bonus shares (shares) presented per every 10 shares	0
Dividends (RMB) (tax inclusive) presented per every 10 shares	12.00
Converted shares per every 10 shares (share)	3
Equity base (share) for distribution proposal	719,050,240
Total cash dividends (RMB) (tax inclusive)	862,860,288.00
Cash dividend amount by other means (such as repurchase of share) (RMB)	0
Total amount of cash dividend (including by other means) (RMB)	862,860,288.00
Distributable Profit (RMB)	4,476,751,249.86
Proportion of total amount of cash dividend (including by other means) out of the total profit distribution	100%

(II) PROPOSALS ON PROFIT DISTRIBUTION AND CONVERSION OF CAPITAL RESERVES INTO SHARE CAPITAL DURING THE YEAR *(continued)***The Cash Dividends**

The Profit Distribution Plan of the Company in the Reporting Period: Distribute cash dividend of RMB12.00 (tax inclusive) for every 10 shares to all Shareholder, 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 2018 Annual Profit Distribution Plan, the aggregate distribution will be adjusted based on the total share capital as at the registration date of shareholding as determined by implementation of 2018 Annual Profit Distribution Plan, with the distribution ratio unchanged, which is accordance with the requirement of "If the Company is at the mature stage of development and has no significant capital expenditure plan, the proportion of cash dividends shall be at least 80% in the profit distribution" under the Articles of Association.

Particulars of Profit Distribution or Proposal on Conversion of Capital Reserves

It is expected to distribute cash dividend of RMB12.00 (tax inclusive) for every 10 shares to all Shareholders and to issue 3 bonus shares for every 10 shares to all Shareholders by way of conversion of capital reserve, based on the total share capital of the Company of 719,050,240 shares as at 31 December 2018. If the total share capital of the Company changes during the period from the promulgation to implementation of the 2018 Annual Profit Distribution Plan, the aggregate distribution will be adjusted based on the total share capital as at the registration date of shareholding as determined by implementation of the 2018 Annual Profit Distribution Plan, with the distribution ratio unchanged.

(III) MATTERS OF COMMITMENTS**Commitments Performed during the Year or Not Yet Performed as of the End of the Year by the Company, Shareholders, the de facto Controller, Purchaser, Directors, Supervisors, Senior Management or Other Related Persons**✓ Applicable Not applicable

Subject of undertaking	Covenantor	Type of undertaking	Details of undertaking	Undertaking date	Term of undertaking	Performance
Undertaking for share restructuring	-	-	-	-	-	-
Undertaking in acquisition reports or equity change reports	-	-	-	-	-	-
Undertaking during asset reorganizations	-	-	-	-	-	-
Undertakings during B-to-H Share Conversion of the Company	Baiyeyuan, Joicare and Mr. Zhu Baoguo and Ms. Liu Guangxia (person acting- in-concert) (collectively referred to as the "Covenantors" hereinafter)	Other undertaking	Regarding the Company's task of changing the listing place of domestically listed foreign shares for the listing and trading on the Main Board of the Hong Kong Stock Exchange by way of introduction (hereinafter referred to as the "B-to-H Share Conversion"), the Covenantors provided the non-competition undertakings as follows: 1. Subject to Articles 2 and 3 below, the Covenantors together with companies and individuals controlled thereof may not, at present or in the future, engage in businesses which may in any form, directly or indirectly, result in competition or potential competition with the pharmaceutical research, development, production and sale businesses by the Group from time to time (hereinafter referred to as the "Restricted Activities"). 2. The Covenantors together with companies and individuals controlled thereof shall immediately notify the Company in writing and prioritise such business opportunity to the Group on reasonable and fair terms and conditions, upon discovering any new business opportunities which constituted competition with the Restricted Activities. If the Group waives such business opportunity, the Covenantors together with companies and individuals controlled thereof may accept such business opportunity on terms and conditions no more favourable than those made available to the Group. 3. As long as the Covenantors together with companies and individuals controlled thereof intend to transfer, dispose of, lease, allow to use, or otherwise transfer or allow to use such assets and businesses which may, directly or indirectly or potentially constitute competition with the Restricted Activities (hereinafter referred to as the "Disposal and Transfer"), the Covenantors together with companies and individuals controlled thereof shall provide pre-emptive rights to the Group on equivalent terms. If the Group waives such pre-emptive rights, major terms of the Disposal and Transfer between the Covenantors together with companies and individuals controlled thereof and other third parties may not be more favourable than the terms provided to the Group.	10 January 2014	Long-term	Performing

(III) MATTERS OF COMMITMENTS *(continued)*

Commitments Performed during the Year or Not Yet Performed as of the End of the Year by the Company, Shareholders, the de facto Controller, Purchaser, Directors, Supervisors, Senior Management or Other Related Persons *(continued)*

Subject of undertaking	Covenantor	Type of undertaking	Details of undertaking	Undertaking date	Term of undertaking	Performance
			<p>4. The Covenantors together with companies and individuals controlled thereof shall not engage in or carry on any business which may harm the interests of the Group or other shareholders by using their relationship with shareholders of the Group or their identity as shareholders of the Group.</p> <p>5. The Covenantors together with companies and individuals controlled thereof shall not directly or indirectly: a) at any time induce or attempt to induce the Directors, senior management or consultants belonged to any members of the Group to terminate their employment with the Group or end their positions as employees or consultants of the Group (as appropriate), irrespective of whether such person's act would breach his employment contract or consultancy contract (as appropriate); or b) employ any person within three years after terminating his employment as Directors, senior management or consultants belonging to any members of the Group (other than those who serves as the Directors, senior management or consultants belonging to the Company or/and subsidiaries (excluding the Group) of the Company on the date of issuing this letter of undertaking), and such person has or may have any confidential information or commercial secrets relating to the Restricted Activities; or c) alone or jointly with any other person through or as manager, adviser, consultant, employee or agent for or shareholder in any person, firm or company, in competition with any member of the Group, canvass, or solicit or accept orders from or do business with any person with whom any member of the Group has done business or solicit or persuade any person who has dealt with the Group or is in the process of negotiating with the Group in relation to the Restricted Business to cease to deal with the Group or reduce the amount of business which the person would normally do with the Group or seek to improve their terms of trade with any member of the Group.</p> <p>6. The Covenantors and subsidiaries thereof further undertake: a) The Covenantors and subsidiaries thereof (excluding the Group) allow and procure relevant associates (excluding the Group) to allow the Independent Directors of the Company to review at least once each year the compliance of this letter of undertaking by the Covenantors and subsidiaries thereof (excluding the Group); b) The Covenantors and subsidiaries thereof (excluding the Group) shall provide annual review from Independent Directors of the Company and all necessary data in relation to execution of this letter of undertaking; c) The Group be allowed to disclose in annual reports or announcements of the decisions concerning compliance and execution of this letter of undertaking by the Covenantors and subsidiaries thereof (excluding the Group), after reviewed by Independent Directors of the Company; d) The Covenantors (on behalf of subsidiaries thereof excluding the Group) shall provide annual confirmation in respect of compliance of the terms of this letter of undertaking for inclusion into annual reports of the Company.</p>			

(III) MATTERS OF COMMITMENTS *(continued)***Commitments Performed during the Year or Not Yet Performed as of the End of the Year by the Company, Shareholders, the de facto Controller, Purchaser, Directors, Supervisors, Senior Management or Other Related Persons** *(continued)*

Subject of undertaking	Covenantor	Type of undertaking	Details of undertaking	Undertaking date	Term of undertaking	Performance
			<p>7. Commencing from the date of issuing this relevant letter of undertaking, the Covenantors undertake that they shall bear related legal responsibilities and consequences arising from breach of any terms in the relevant letter of undertaking by the Covenantors (or subsidiaries of the Covenantors excluding the Group, and associate(s) of the Covenantors).</p> <p>8. The above undertaking shall terminate upon occurrence of the following events (whichever is earliest): a) The Covenantors and any subsidiaries thereof cease as controlling shareholders of the Company; b) The shares of the Company are no longer listed on the Hong Kong Stock Exchange and other stock exchange overseas (save as suspension of trading of the shares of the Company due to any reason(s)).</p>			
Undertakings during implementation of non-public Issuance of A Shares project	Joincare and Mr. Zhu Baoguo	Other undertaking	The Covenantors undertake not to intervene in the Company's business management activities and not to infringe upon the Company's interest.	8 March 2016	Up to the completion date of the execution of remedial measures of this non-public issuance	Performing
	Zhu Baoguo, Tao Desheng, Yang Daihong, Fu Daotian, Qiu Qingfeng, Zhong Shan, Xu Yanjun, Guo Guoqing, Wang Xiaojun, Zheng Zhihua, Xie Yun, Xu Guoxiang, Lu Wenqi, Si Yanxia And Yang Liang	Other undertaking	<p>1. I undertake not to transfer benefits to other units or individuals at nil consideration or on unfair conditions, nor to damage the interests of the Company by other means.</p> <p>2. I undertake to impose restrictions on spending during performance of duties of directors and senior management.</p> <p>3. I undertake not to apply any assets of the Company for investments and consumption activities that are irrelevant to the duties performed.</p> <p>4. I undertake that the remuneration system set up by the Board or the remuneration committee will be linked with the implementation of remedial measures for returns of the Company.</p> <p>5. If the Company subsequently launches a share incentive scheme, I undertake that the conditions for exercising the right in respect of the prospect share incentive scheme will be linked with the implementation of remedial measures for returns of the Company.</p>	8 March 2016	Up to the completion date of the execution of remedial measures of this non-public issuance	Performing

(III) MATTERS OF COMMITMENTS *(continued)*

Commitments Performed during the Year or Not Yet Performed as of the End of the Year by the Company, Shareholders, the de facto Controller, Purchaser, Directors, Supervisors, Senior Management or Other Related Persons *(continued)*

Subject of undertaking	Covenantor	Type of undertaking	Details of undertaking	Undertaking date	Term of undertaking	Performance
	The Company	Other undertaking	<p>The Company will strictly comply with laws and regulations, such as the Company Law, Securities Law and the Administrative Measures on the Issuance of Securities of Listed Companies, and the requirements of the CSRC. The Company also undertakes the following from the listing date of the new shares under the non-public issuance:</p> <ol style="list-style-type: none"> 1. The Company shall publish periodic reports and disclose all information having material impact on investors in a true, accurate, complete, fair and timely manner, and be monitored and administered by the CSRC and the Shenzhen Stock Exchange; 2. The Company shall make public clarification on a timely basis once noticing any news that may have misleading impact on the share price from mass media; 3. The Directors, Supervisors and senior management of the Company shall take full consideration of opinions and recommendations from the public, and shall not be directly or indirectly engaged in the trading of the Company's shares with inside information and in other inappropriate means. <p>The Company guarantees that there is no false statement or any material omission in the documents submitted to the Shenzhen Stock Exchange, and shall not disclose relevant information without permission of the Shenzhen Stock Exchange during the period of listing application.</p>	19 September 2016	Long-term	Performing
Equity incentive undertaking –			–	–	–	–
Other undertakings to minority shareholders of the Company	Joincare	Undertaking for decrease in shareholding	<p>Joincare, the Company's controlling shareholder, has made undertakings during the elimination of trading moratorium of shares. Details are as follows:</p> <ol style="list-style-type: none"> 1. Joincare shall strictly follow relevant provisions of the Guiding Opinions on Transfer of Shares subject to Trading Moratorium by Listed Companies (2008 No. 15 notice) issued by the China Securities Regulatory Commission when transferring the Group's shares subject to trading moratorium held by it. 2. If Joincare plans to dispose the released tradable shares held by it through the auction system of stock exchanges and its reduced shareholding amounts to 5% and more within 6 months since its first reduction date, it will disclose an indicative announcement through the Group within two trading days prior to the first reduction of shareholding. 	17 December 2008	Long-term	During the Reporting Period, the Covenanters performed the undertaking in good faith.
Performance of undertaking on time	Yes					
If such undertaking has yet to be fulfilled within the stated timeframe, concrete reasons of unperformed undertaking and future plan (if any) should be explained in detail	Not applicable					

The Company has made profit forecast to its assets or projects, and the current year is still within the profit forecast period, and the Company will give an explanation on why its assets or projects reached its profit forecast

Applicable Not applicable

(IV) INFORMATION ON THE NON-OPERATING USE OF FUNDS OF THE LISTED COMPANY BY THE CONTROLLING SHAREHOLDER AND ITS RELATED PARTIES

Applicable Not applicable

During the Year, there is no non-operating occupation of funds of the Company by the controlling shareholder of the Company and its related parties.

(V) DURING THE REPORTING PERIOD, THE EXPLANATION OF “NON-STANDARD AUDITORS’ REPORT” GIVEN BY THE BOARD OF DIRECTORS, THE SUPERVISORY COMMITTEE AND INDEPENDENT DIRECTORS (IF ANY)

Applicable Not applicable

During the Year, no explanation has been given by the supervisory committee and independent directors because no “Non-standard Auditors’ Report” was issued by the accounting firm.

(VI) DURING THE YEAR , THE EXPLANATION OF CORRECTION OF MATERIAL ACCOUNTING ERRORS THAT REQUIRES RETROSPECTIVE ADJUSTMENTS

Applicable Not applicable

(VII) THE EXPLANATION OF CHANGE WITHIN COMBINED STATEMENT AS COMPARED WITH FINANCIAL STATEMENT OF LAST YEAR

Applicable Not applicable

1. Disposal of subsidiaries

Unit:RMB

Name of subsidiary	Consideration from the disposal	Disposal ratio	Disposal method	Time point of loss of control	Basis for determining time point of loss of control	Difference between consideration of disposal and net assets of the subsidiary attributable to the disposed investment based on the consolidated financial statements	Ratio of the remaining equity	Book value of the remaining equity at the date of ceased control	Fair value of the remaining equity at the date of ceased control
Zhuhai Sanmed Biotech Inc. (珠海聖美生物診斷技術有限公司)	47,800,000.00	35.85%	Transfer	23 July 2018	Completion of transfer of relevant assets	16,341,464.65	33.15%	26,893,778.48	26,893,778.48

2. Change to consolidation scope for other reasons

- On 30 March 2018, Gongshan Livzon Pharmaceutical Technology Limited (貢山麗珠藥源科技有限公司) was established with 100% registered capital by Sichuan Guangda Pharmaceutical Manufacturing Co., Ltd. (四川光大製藥有限公司).
- On 8 May 2018, Livzon San-Med Diagnostics Inc. was established with 100% registered capital by Zhuhai Livzon Cynvenio Diagnostics Ltd. (珠海麗珠聖美醫療診斷技術有限公司).
- On 31 August 2018, Suzhou Lidi Biological Technology Co., Ltd. (蘇州麗迪生物科技有限公司) was established with 100% registered capital by Zhuhai Livzon Diagnostic Reagents Inc. (珠海麗珠試劑股份有限公司).

(VIII) APPOINT, DISMISS CERTIFIED PUBLIC ACCOUNTANTS**Current appointed Certified Public Accountants (auditors) and remuneration**

On 21 May 2018, after consideration and approval at the 2017 Annual General Meeting of the Company the appointment of Ruihua Certified Public Accountants (LLP) as the auditors firm of the Company for the year 2018 has been approved. As at the end of the year, remunerations payable to Ruihua Certified Public Accountants (LLP) for its annual audit services and non-annual audit services to the Group for 2018 amounted to RMB2 million (tax inclusive) (including 2018 annual remuneration for financial statement audit and internal control audit) and RMB0.7 million (tax inclusive), respectively. The non-annual audit services include review of half yearly financial statements and capital verification reports, etc.

Name of domestic Certified Public Accountants	Ruihua Certified Public Accountants (LLP)
Remuneration of domestic Certified Public Accountants (RMB0'000)	2018 annual remuneration for financial statements audit and internal control audit are RMB1.64 million (tax inclusive) and RMB0.36 million (tax inclusive), respectively
Continuous years of audit service of domestic Certified Public Accountants	7 years
Name of Certified Public Accountants of domestic Certified Public Accountants	Ling Yunliang, Zhang Fang
Continuous years of audit service of registered public accountants of domestic Certified Public Accountants for auditing	1 year, 2 year
Name of overseas Certified Public Accountants (if any)	N/A
Remuneration of overseas Certified Public Accountants (RMB0'000) (if any)	N/A
Continuous years of audit service of overseas Certified Public Accountants (if any)	N/A
Name of Certified Public Accountants of overseas Certified Public Accountants (if any)	N/A
Continuous years of audit service of overseas Certified Public Accountants (if any)	N/A

Declaration of responsibility borne by Ruihua Certified Public Accountants (LLP) for financial reporting of the Company is set out in the "Auditors' Report" in Chapter XI of this annual report.

(VIII) APPOINT, DISMISS CERTIFIED PUBLIC ACCOUNTANTS *(continued)***Whether to change appointment of Certified Public Accountants during the Year**

Yes No

Whether to change appointment of Certified Public Accountants during the auditing period

Yes No

Whether to perform approval procedure if change the Certified Public Accountants

Yes No

Appointment of internal control auditing Certified Public Accountants, financial advisor or sponsor

Applicable Not applicable

During the Year, the Company appointed Ruihua Certified Public Accountants (LLP) as the internal control auditing Certified Public Accountants of the Company with remuneration for audit services amounting to RMB0.36 million (tax inclusive).

(IX) SUSPENDED AND TERMINATED LISTING AFTER THE DISCLOSURE OF ANNUAL REPORT

Applicable Not applicable

(X) MATTERS RELATED TO BANKRUPTCY RECTIFICATION

Applicable Not applicable

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

(XI) MATERIAL LITIGATION AND ARBITRATION

Applicable Not applicable

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

(XII) PUNISHMENT AND RECTIFICATION

Applicable Not applicable

During the Year, there were no major penalties or rectification of the Company.

(XIII) INTEGRITY OF THE COMPANY AND ITS CONTROLLING SHAREHOLDERS, ULTIMATE BENEFICIAL OWNERS

Applicable Not applicable

The Company and its controlling shareholders, ultimate beneficial owners had no failure to comply with effective court judgments or have a comparatively large amount of personal debts due and unsettled.

(XIV) SUBSTANTIAL CONNECTED TRANSACTION DISCLOSED PURSUANT TO THE SHENZHEN LISTING RULES

1. Connected Transactions in the Ordinary Course of Business

Applicable Not applicable

Transactions with connected persons	Relationships with connected persons	Type of connected transactions	Description of connected transactions	Pricing principle of connected transactions	Amount of connected transaction (RMB0'000)	Proportion to transaction amount of the same category	Settlement method of connected transactions	Disclosure date	Disclosure index
Guangdong Blue Treasure Pharmaceutical Co., Ltd. (廣東藍寶製藥有限公司)	Associate	Procurement of commodities	Procurement of raw materials	Determined by negotiation based on market price	119.95	0.05%	Bank settlement	24 March 2018	"Livzon Pharmaceutical Group Inc. Execution of Connected Transactions in the Ordinary Course of Business for 2017 and the Expected Connected Transactions in the Ordinary Course of Business for 2018 Announcement" (Announcement No.:2018-025)
Shenzhen Haibin Pharmaceutical Co., Ltd. (深圳市海濱製藥有限公司)	Subsidiary of the controlling shareholder	Procurement of commodities	Procurement of raw materials	Determined by negotiation based on market price	4,557.62	2.05%	Bank settlement	26 October 2016, 24 December 2016	"Announcement relating to the 2017-2019 three years continuing connected transactions framework agreement entered into by the Company and Joincare" (Announcement No.: 2016-91), "Resolution announcement of the 2016 Third Extraordinary General Meeting of Livzon Pharmaceutical Group Inc." (Announcement code: 2016-118)"

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

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

Transactions with connected persons	Relationships with connected persons	Type of connected transactions	Description of connected transactions	Pricing principle of connected transactions	Amount of connected transaction (RMB0'000)	Proportion to transaction amount of the same category	Settlement method of connected transactions	Disclosure date	Disclosure index
Joincare Pharmaceutical Industry Group Co., Ltd. (健康元藥業集團股份有限公司)	Controlling Shareholder	Procurement of commodities	Procurement of finished products	Determined by negotiation based on market price	40.84	0.02%	Bank settlement	24 March 2018	"Livzon Pharmaceutical Group Inc. Execution of Connected Transactions in the Ordinary Course of Business for 2017 and the Expected Connected Transactions in the Ordinary Course of Business for 2018 Announcement" (Announcement No.: 2018-025)
Shenzhen Taitai Pharmaceutical Co., Ltd. (深圳太太藥業有限公司)	Subsidiary of the controlling shareholder	Procurement of commodities	Procurement of raw materials	Determined by negotiation based on market price	0.17	0.00%	Bank settlement		
Zhuhai Sanmed Biotech Inc. (珠海聖美生物診斷技術有限公司)	Associate	Procurement of commodities	Procurement of finished products	Determined by negotiation based on market price	50.24	0.02%	Bank settlement		
CYNVENIO BIOSYSTEMS, INC.	A company in which Directors are holding position	Procurement of commodities	Procurement of raw materials	Determined by negotiation based on market price	38.22	0.02%	Bank settlement		
Jiaozuo Joincare Pharmaceutical Industry Group Co., Ltd. (焦作健康元生物製品有限公司)	Subsidiary of the controlling shareholder	Procurement of commodities	Procurement of raw materials	Determined by negotiation based on market price	34,437.81	15.48%	Bank settlement	26 October 2016, 24 December 2016	"Announcement relating to the 2017-2019 three years continuing connected transactions framework agreement entered into by the Company and Joincare" (Announcement No.: 2016-91), "Resolution announcement of the 2016 Third Extraordinary General Meeting of Livzon Pharmaceutical Group Inc." (Announcement code: 2016-118)"

(XIV) SUBSTANTIAL CONNECTED TRANSACTION DISCLOSED PURSUANT TO THE SHENZHEN LISTING RULES (continued)**1. Connected Transactions in the Ordinary Course of Business** (continued)

Transactions with connected persons	Relationships with connected persons	Type of connected transactions	Description of connected transactions	Pricing principle of connected transactions	Amount of connected transaction (RMB'000)	Proportion to transaction amount of the same category	Settlement method of connected transactions	Disclosure date	Disclosure index
Jiaozuo Jincare Pharmaceutical Industry Group Co., Ltd. (焦作健康元生物製品有限公司)	Subsidiary of the controlling shareholder	Acceptance of services	Water, electricity and power, etc.	Determined by negotiation based on market price	1,027.90	4.31%	Bank settlement	24 March 2018	"Livzon Pharmaceutical Group Inc. Execution of Connected Transactions in the Ordinary Course of Business for 2017 and the Expected Connected Transactions in the Ordinary Course of Business for 2018 Announcement" (Announcement No.: 2018-025)
Guangdong Blue Treasure Pharmaceutical Co. Ltd. (廣東藍寶製藥有限公司)	Associate	Sale of commodities	Sale of finished products	Determined by negotiation based on market price	2,033.99	0.23%	Bank settlement		
Jiaozuo Jincare Pharmaceutical Industry Group Co., Ltd. (焦作健康元生物製品有限公司)	Subsidiary of the controlling shareholder	Sale of commodities	Sale of raw materials	Determined by negotiation based on market price	5,733.10	0.65%	Bank settlement		
Shenzhen Haibin Pharmaceutical Co., Ltd. (深圳市海濱製藥有限公司)	Subsidiary of the controlling shareholder	Sale of commodities	Sale of finished products	Determined by negotiation based on market price	27.78	0.00%	Bank settlement		
Shenzhen Taitai Pharmaceutical Co., Ltd. (深圳太太藥業有限公司)	Subsidiary of the controlling shareholder	Sale of commodities	Sale of finished products	Determined by negotiation based on market price	63.15	0.01%	Bank settlement		
Zuhai Sanmed Biotech Inc. (珠海聖美生物診斷技術有限公司)	Associate	Sale of commodities	Sale of finished product and raw materials	Determined by negotiation based on market price	19.72	0.00%	Bank settlement		
Xinxiang Haibin Pharmaceutical Co., Ltd. (新鄉海濱藥業有限公司)	Subsidiary of the controlling shareholder	Sale of commodities	Sale of raw materials	Determined by negotiation based on market price	7.31	0.00%	Bank settlement		
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	411.21	93.42%	Bank settlement		
Zuhai Jincare Pharmaceutical Co., Ltd. (珠海健康元生物製藥有限公司)	Subsidiary of the controlling shareholder	Provision of services	Water, electricity and power	Determined by negotiation based on market price	19.45	4.42%	Bank settlement		
Shenzhen Haibin Pharmaceutical Co., Ltd. (深圳市海濱製藥有限公司)	Subsidiary of the controlling shareholder	Provision of services	Processing fee, testing	Determined by negotiation based on market price	0.30	2.89%	Bank settlement		
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	0.29	0.02%	Bank settlement		

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

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

Transactions with connected persons	Relationships with connected persons	Type of connected transactions	Description of connected transactions	Pricing principle of connected transactions	Amount of connected transaction (RMB'000)	Proportion to transaction amount of the same category	Settlement method of connected transactions	Disclosure date	Disclosure index
Zhuhai Joincare Pharmaceutical Co., Ltd. (珠海健康元生物醫藥有限公司)	Subsidiary of the controlling shareholder	Leasing out of assets	Lease of office premise and equipment	Determined by negotiation based on market price	3.77	0.61%	Bank settlement		
Health Pharmaceutical (China) Co., Ltd. (健康藥業(中國)有限公司)	Subsidiary of the controlling shareholder	Leasing out of assets	Leasing out of office premise	Determined by negotiation based on market price	9.06	1.47%	Bank settlement		
Zhuhai Sanmed Biotech Inc. (珠海聖美生物診斷技術有限公司)	Associate	Leasing out of assets	Leasing out of office premise	Determined by negotiation based on market price	106.32	17.28%	Bank settlement		
Joincare Pharmaceutical Industry Group Co., Ltd. (健康元藥業集團股份有限公司)	Controlling Shareholder	Lease of assets	Lease of office premise	Determined by negotiation based on market price	77.23	12.33%	Bank settlement		
Jiaozuo Joincare Pharmaceutical Industry Group Co., Ltd. (焦作健康元生物製品有限公司)	Subsidiary of the controlling shareholder	Lease of assets	Lease of office premise and equipment	Determined by negotiation based on market price	50.12	8.00%	Bank settlement		
Total					48,835.55				

Substantial amount of returned products
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
During the Year, the total amount of the connected transactions actually conducted in the ordinary course was RMB488.3555 million. Among which, the amount of connected transactions actually conducted in the ordinary course between the Company and controlling shareholder (Joincare) and their subsidiaries was RMB460.5561 million, representing 97.12% of the projected amount (RMB474.2218 million) approved by the operating management, the Board and the general meeting of shareholders of the Company; the amount of connected transactions actually conducted in the ordinary course between the Company and Blue Treasure Pharma (藍寶製藥) was RMB25.6515 million, representing 61.31% of the projected amount (RMB41.8397 million) approved by the operating management and the Board of the Company; the amount of connected transactions conducted in the ordinary course between the Company and Cynvenio Biosystems, Inc. was RMB0.3822 million, representing 2.25% of the projected amount (RMB16.9889 million) approved by the Board of the Company; the amount of connected transactions conducted in the ordinary course between the Company and Zhuhai Sanmed Biotech Inc. (珠海聖美生物診斷技術有限公司) was RMB1.7657 million, representing 44.14% of the projected amount (RMB4.00million) approved by the operating management of the Company. The above connected transactions have not exceeded the projected amount approved.

Reason for the significant difference between the transaction amounts and referential projection amounts (if applicable)

Not applicable

(XIV) 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	Connected relationship	Type of connected transaction	Description of connected transaction	Pricing basis for connected transaction	Carrying value of the assets transferred (RMB0'000)	Appraisal value of the assets transferred (RMB0'000)	Consideration of transfer (RMB0'000)	Settlement method of connected transaction	Profit or loss of the transaction (RMB0'000)	Date of disclosure	Index of disclosure
Joincare Pharmaceutical Industry Group Co., Ltd. (健康元藥業集團股份有限公司)	Controlling Shareholder	Asset Transfer	Equity Acquisition	Evaluation	12,914.96	29,400.00	29,400.00	Bank settlement	-	22 December 2017, 8 February 2018	"Announcement relating to the change in shareholding structure and connected transaction of Livzon MABPharm Inc., a controlling subsidiary of the Company" (Announcement No.: 2017-109), "Announcement of Resolution of the 2018 First Extraordinary General Meeting" (Announcement No.: 2018-012)
Zhuhai Sanmed Biotech Inc. (珠海聖美生物診斷技術有限公司)	Associate	Transfer of assets	Procurement of equipment	Determined by negotiation based on market price	545.64	-	545.64	Bank settlement	-	N/A	N/A
Jiaozuo Joincare Pharmaceutical Industry Group Co., Ltd. (焦作健康元生物製品有限公司)	Subsidiary of the controlling shareholder	Transfer of assets	Procurement of equipment	Determined by negotiation based on market price	108.36	-	108.36	Bank settlement	-	N/A	N/A
Zhuhai Joincare Pharmaceutical Co., Ltd. (珠海健康元生物醫藥有限公司)	Subsidiary of the controlling shareholder	Transfer of assets	Procurement of equipment	Determined by negotiation based on market price	997.16	-	997.16	Bank settlement	-	N/A	N/A
CYNVENIO BIOSYSTEMS, INC	A company in which Directors are holding position	Transfer of assets	Procurement of equipment	Determined by negotiation based on market price	79.96	-	79.96	Bank settlement	-	N/A	N/A
CYNVENIO BIOSYSTEMS, INC	A company in which Directors are holding position	Transfer of assets	Acquisition of technical know-how	Determined by negotiation based on market price	658.36	-	658.36	Bank settlement	-	N/A	N/A
Shanghai Jianxin Biosciences Co., Limited (上海健信生物醫藥科技有限公司)	Associate	Transfer of assets	Acquisition of technical know-how	Determined by negotiation based on market price	388.68	-	388.68	Bank settlement	-	N/A	N/A
AbCyte Therapeutics Inc.	Associate	Transfer of assets	Acquisition of technical know-how	Determined by negotiation based on market price	1,358.58	-	1,358.58	Bank settlement	-	N/A	N/A

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

2. Connected Transactions relating to Acquisition and Disposal of Assets or Equity *(continued)*

Connected party	Connected relationship	Type of connected transaction	Description of connected transaction	Pricing basis for connected transaction	Carrying value of the assets transferred <i>(RMB'000)</i>	Appraisal value of the assets transferred <i>(RMB'000)</i>	Consideration of transfer <i>(RMB'000)</i>	Settlement method of connected transaction	Profit or loss of the transaction <i>(RMB'000)</i>	Date of disclosure	Index of disclosure
Reason for the significant difference between transfer consideration and carrying value or appraisal value (if any)				Not applicable							
Effect on the operating results and financial position of the Company				There is no significant impact on the operation results and financial position of the Company.							
Achievement progress of performance target during the Reporting Period where relevant transaction involves committed performance				Not applicable							

3. Connected Transactions on Joint External Investment

Applicable Not applicable

Related party	Relationship	Name of investee	Principal Business	Registered capital	Total assets <i>(RMB'000)</i>	Net asset <i>(RMB'000)</i>	Net profits <i>(RMB'000)</i>
Joicare Pharmaceutical Group Industry Co., Ltd.	Subsidiary of the controlling shareholder	Livzon Biologics Limited	Investment holding	USD50,000.00	118,161.24	111,670.02	-17,536.31
Progress of significant construction in progress of the investee company		Nil					

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

4. Credits and Debts with Connected Persons

✓ Applicable Not applicable

Non-operating credits and debts with connected persons

✓ Yes No

Liabilities receivable to the connected persons

Connected parties	Relationships with connected parties	Reason for occurrence	Use of extraordinary capital	Balance at the Beginning of the Year (RMB0'000)	Amount increased for the Year (RMB0'000)	Amount recovered for the Year (RMB0'000)	Interest rate	Interest of the Year (RMB0'000)	Balance at the end of the Year (RMB0'000)
Guangdong Blue Treasure Pharmaceutical Co. Ltd. (廣東藍寶製藥有限公司)	Associate	Sale of finished products, provision of service	No	1,066.65	2,847.72	3,861.28	-	-	53.09
Jiaozuo Joicare Pharmaceutical Industry Group 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	272.64	6,679.84	6,952.48	-	-	-
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	54.00	73.67	102.60	-	-	25.07
Joicare Pharmaceutical Industry Group Co., Ltd. (健康元藥業集團股份有限公司)	Controlling shareholder	Prepayments for procurement of finished products	No	7.11	41.72	46.21	-	-	2.62
CYNVENIO BIOSYSTEMS, INC	A company in which Directors are holding position	Prepayments for equipment, acquisition of technical know-how	No	11.03	763.47	669.12	-	-	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	-	314.64	157.18	-	-	157.46
AbCyte Therapeutics Inc.	Associate	Prepayments for acquisition of technical know-how	No	-	1,358.58	-	-	-	1,358.58
Shanghai Jianxin Biosciences Co., Limited (上海健信生物醫藥科技有限公司)	Associate	Prepayments for acquisition of technical know-how	No	-	388.68	200.00	-	-	188.68

Effect of creditors with connected parties on the operating results and financial position of the Company: The creditors mainly arose from ordinary course of business of the Company. There is no significant effect on the operating results and financial position of the Company.

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

4. Credits and Debts with Connected Persons (continued)

Liabilities payable to the connected persons

Connected parties	Relationships with connected parties	Reason for occurrence	Balance at the Beginning of the Period (RMB'0'000)	Amount increased for the Year (RMB'0'000)	Amount recovered for the Year (RMB'0'000)	Interest rate	Interest of the Year (RMB'0'000)	Balance at the End of the Year (RMB'0'000)
Guangdong Blue Treasure Pharmaceutical Co., Ltd. (廣東藍寶製藥有限公司)	Associate	Procurement of raw materials	1.18	139.81	81.28	-	-	59.71
Shenzhen Haibin Pharmaceutical Co., Ltd. (深圳市海濱製藥有限公司)	Subsidiary of the controlling shareholder	Procurement of raw materials	2,369.11	5,610.90	7,009.81	-	-	970.20
Jiaozuo Jincare Pharmaceutical Industry Group Co., Ltd. (焦作健康元生物製品有限公司)	Subsidiary of the controlling shareholder	Procurement of raw materials	14,494.83	40,187.57	29,636.27	-	-	25,046.13
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	87.10	87.10	-	-	1.30
Jiaozuo Jincare Pharmaceutical Industry Group Co., Ltd. (焦作健康元生物製品有限公司)	Subsidiary of the controlling shareholder	Water, electricity and power	638.60	1,225.98	1,285.87	-	-	578.71
Zhuhai Jincare Pharmaceutical Co., Ltd. (珠海健康元生物醫藥有限公司)	Subsidiary of the controlling shareholder	Procurement of equipment	-	1,141.31	1,141.31	-	-	-
Zhuhai Sanmed Biotech Inc. (珠海聖美生物診斷技術有限公司)	Associate	Procurement of equipment	-	645.09	33.70	-	-	611.39
Zhuhai Zhenghe Co., Ltd. (珠海正禾企業有限公司)	Company controlled by the director of the subsidiary of the Company	Dividends payable	16,840.43	-	7,840.00	-	-	9,000.43
Topsino Industries Limited (天誠實業有限公司)	Subsidiary of the controlling shareholder	Dividends payable	-	20,038.52	20,038.52	-	-	-
Effect of creditors with connected parties on the operating results and financial position of the Company			The creditors mainly arose from ordinary course of business of the Company and the implementation of profit distribution. There is no significant effect on the operating results and financial position of the Company.					

(XIV) 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 Chapter V “Connected Transactions Defined Pursuant to Hong Kong Listing Rules” of this annual report. Save for the above, the Group has no other major connected transactions during the Year.

(XV) CONNECTED TRANSACTIONS DEFINED IN HONG KONG LISTING RULES

1. One-Off Connected Transactions

Change in the Shareholding Structure of Livzon MAB

In order to optimize the shareholding structure of Livzon MAB (a controlling subsidiary of the Company), to accelerate the internationalisation of the business of Livzon MAB, to attract high caliber personnel and to realize the motivation of talent, and to facilitate future financing for Livzon MAB, as considered and approved at the seventh meeting of the ninth session of the Board, the Company and its controlling shareholder Joicare entered into the “Framework Agreement Involving the Connected Transaction of the Change in the Shareholding Structure of Livzon MABPharm Inc.” (the “Framework Agreement”) on 21 December 2017, in relation to the capital contribution by the Company and Joicare to Livzon Biologics, a company owned as to 51% and 49% by the overseas wholly-owned subsidiary of the Company and the overseas wholly-owned subsidiary of Joicare, based on their respective shareholding (the “Capital Contribution”) and the acquisition of the 100% equity interests of Livzon MAB by Biologics Limited, a wholly-owned subsidiary of Livzon Biologics (the “Equity Acquisition”). After the completion of the Equity Acquisition, the Company and Joicare will indirectly hold instead of directly holding equity interests of Livzon MAB. However, the percentage of equity interests of the Company and Joicare in Livzon MAB will remain unchanged.

Based on the net assets valuation of Livzon MAB, the acquisition consideration of 100% of the equity interests of Livzon MAB by Biologics Limited was determined to be RMB600 million upon agreement by the Company and Joicare. Amongst which, the consideration for 51% and 49% equity interests in Livzon MAB to be indirectly held by the Company and Joicare respectively, were RMB306 million and RMB294 million respectively.

To facilitate the payment of the consideration of acquiring 100% of the equity interests of Livzon MAB, the Company and Joicare agreed to contribute in cash to Livzon Biologics, the holding company of Biologics Limited, in the amounts of RMB306 million and RMB294 million respectively, based on their respective equity interests in Livzon Biologics, and Livzon Biologics will inject such capital to Biologics Limited by means legally permissible under the laws.

As at the date of entering the Framework Agreement, Joicare directly or indirectly held 247,857,176 Shares of the Company, representing approximately 44.80% of the equity interests of the Company, and was the controlling shareholder and connected person of the Company under the Hong Kong Listing Rules. Therefore, the Equity Acquisition contemplated under the Joicare’s Equity Transfer Agreement entered into by Joicare and Biologics Limited constituted a connected transaction of the Company, as one of the applicable percentage ratios (within the meaning of the Hong Kong Listing Rules) exceeds 0.1% but is less than 5%, and is subject to the reporting and announcement requirements of Chapter 14A of the Hong Kong Listing Rules but exempted from the independent shareholders’ approval requirement under Chapter 14A of the Hong Kong Listing Rules.

(XV) CONNECTED TRANSACTIONS DEFINED IN HONG KONG LISTING RULES

(continued)

1. One-Off Connected Transactions *(continued)*

Change in the Shareholding Structure of Livzon MAB *(continued)*

Furthermore, given that Livzon Biologics and Biologics Limited are the controlling subsidiaries indirectly owned as to 51% by the Company, the transactions involve the joint capital contribution to Livzon Biologics by the overseas wholly-owned subsidiary of the Company and the overseas wholly-owned subsidiary of Joicare, and the Company acquired, through Biologics Limited, 49% equity interest of Livzon MAB held by Joicare, which was the controlling shareholder of the Company, Joicare and the overseas wholly-owned subsidiary of Joicare are the related parties of the Company under relevant requirements of the Shenzhen Listing Rules, accordingly, the Capital Contribution and Equity Acquisition under the Framework Agreement constitute the connected transaction under the Shenzhen Listing Rules.

On 7 February 2018, the transaction was approved at the 2018 First Extraordinary General Meeting of the Company, and relevant capital contribution agreements and equity transfer agreements were officially signed.

As at 7 March 2018, the Company has completed the business registration for the shareholding change of Livzon MAB, a new Enterprise Legal Person Business Licence (《企業法人營業執照》) has been granted to Livzon MAB. After completion of the change, the shareholder of Livzon MAB has changed to Biologics Limited, and the enterprise type has changed to limited liability company (Taiwan, Hong Kong or Macau legal person sole investment).

Provision of Financing Guarantees for Livzon MAB

In order to meet the financing requirements for operation of Livzon MAB (a controlling subsidiary of the Company which is owned as to 51% and 49% respectively by the Company and Joicare), on 28 September 2017, the Company convened the fourth meeting of the ninth session of the Board to consider and approve the provision of joint guarantee liability (the "CZB Guarantee") for the credit facilities of not more than RMB300 million (or the equivalent in foreign currency) (the "CZB Facilities") applied by Livzon MAB at China ZheShang Bank Co., Ltd., Shenzhen Branch and the provision of joint guarantee liability (the "CMB guarantee") for the credit facilities of not more than RMB300 million (or the equivalent in foreign currency) (the "CMB Facilities") applied by Livzon MAB at China Merchants Bank Co., Ltd., Zhuhai Branch respectively, subject to the receipt of the "Letter of Undertaking for Counter Guarantee" issued by Joicare.

On 8 December 2017, the Company issued a letter of guarantee to China Merchants Bank Co., Ltd., Zhuhai Branch ("CMB") for providing the CMB Guarantee which is limited up to RMB300,000,000 (or its equivalent in foreign currencies) in favour of the CMB to secure the CMB Facilities to be provided by the CMB to Livzon MAB.

On 16 April 2018, the Company and Livzon MAB entered into the framework agreement pursuant to which the Company agreed to provide the five guarantees (comprising the CZB Guarantee and four guarantees of up to RMB200,000,000 (or its equivalent in foreign currencies) in aggregate (the "Four Guarantees") provided by the Company in favour of another four banks) of up to RMB500,000,000 (or its equivalent in foreign currencies) in aggregate in favour of the relevant banks to secure the relevant facilities to be applied by Livzon MAB subject to the terms and conditions of the specific guarantee agreements to be entered into between the banks and the Company.

As at the date of entering into the framework agreement, Joicare directly and indirectly holds approximately 44.80% of the total issued share capital of the Company, and Livzon MAB is indirectly held as to 49% by Joicare. Therefore, Livzon MAB is a connected person of the Company under Chapter 14A of the Hong Kong Listing Rules. As such, the framework agreement and the CZB Guarantee and the Four Guarantees contemplated thereunder constitute connected transactions of the Company under Chapter 14A of the Hong Kong Listing Rules.

(XV) CONNECTED TRANSACTIONS DEFINED IN HONG KONG LISTING RULES*(continued)***1. One-Off Connected Transactions** *(continued)***Provision of Financing Guarantees for Livzon MAB** *(continued)*

As the CMB Guarantee was entered into within a 12-month period prior to and inclusive of the date of the framework agreement, the transaction amounts of the CMB Guarantee, the CZB Guarantee and the Four Guarantees (collectively “the Livzon MAB Guarantees”) shall be aggregated. As the highest applicable percentage ratios (as defined in the Hong Kong Listing Rules) in respect of the Livzon MAB Guarantees exceeds 5% but is less than 25%, the Livzon MAB Guarantees, in aggregate, constitute discloseable and connected transactions of the Company under the Hong Kong Listing Rules and are subject to reporting, announcement and Independent Shareholders’ approval. Livzon MAB Guarantees have been approved at the 2017 Annual General Meeting on 21 May 2018.

The reason for providing Livzon MAB Guarantees is that Livzon MAB is still in the development stage, it is unable to generate sufficient cashflow to support its operating use, and thus, external funding is required to support its research and development activities and for the future development of Livzon MAB. In addition, the Company will benefit from alleviating its capital contribution requirement into Livzon MAB and optimizing its capital allocation to the other profitable business segments, therefore benefiting the overall business development and financial position of the Group.

Equity Transfer of Xinbeijiang Pharmaceutical

On 23 April 2018, the Board of the Company has considered and approved the resolution on the transfer of 15% equity interests in Livzon Group (Qingyuan) Xinbeijiang Pharmaceutical Manufacturing Inc. (麗珠集團清遠新北江製藥股份有限公司). On 4 May 2018, the Company has entered into the equity transfer agreement with Zhuhai Zhong Hui Yuan Investment Partnership (Limited Partnership) * (珠海中匯源投資合夥企業(有限合夥)), pursuant to which the Company agreed to sell and Zhuhai Zhong Hui Yuan agreed to acquire 15% equity interest in Xinbeijiang Pharmaceutical at a consideration of RMB66,201,050 (the “Disposal”). Upon completion of the Disposal, the Company will hold 77.14% equity interest in Xinbeijiang Pharmaceutical. The Company intended to utilize all the net proceeds from the Disposal for general working capital purpose.

The Disposal is a measure of the Group to implement multi-level business partnerships. Upon completion of the Disposal, the management team and core personnel of Xinbeijiang Pharmaceutical will indirectly hold equity interests of Xinbeijiang Pharmaceutical. The Disposal could motivate the management team and core personnel of Xinbeijiang Pharmaceutical by way of sharing of economic benefits and risks, which could contribute to the improvement of the management and business performance of Xinbeijiang Pharmaceutical.

As at the date of entering into the equity transfer agreement, Zhuhai Zhong Hui Yuan is a connected person of the Company at the subsidiary level by virtue of being an associate of Mr. Tang Yanggang, directors of certain wholly owned or non-wholly-owned subsidiaries of the Company. Accordingly, the Disposal under the equity transfer agreement constitutes connected transaction of the Company under Chapter 14A of the Hong Kong Listing Rules. As the applicable percentage ratios (as defined in the Hong Kong Listing Rules) in respect of the Disposal under the Equity Transfer Agreement exceed 0.1% but are less than 5% and the consideration for the Disposal exceeds HK\$3,000,000, the Disposal under the equity transfer agreement is subject to the reporting and announcement requirements, but is exempt from the independent shareholders’ approval requirement under Chapter 14A of the Hong Kong Listing Rules.

As of 29 June 2018, the Company has received 50% of the consideration, being a total of RMB33,100,525. Xinbeijiang Pharmaceutical has completed the business registration of Industry and Commerce for the equity transfer. The remaining 50% of the consideration will be paid to the Company in three years in accordance with the terms of the Equity Transfer Agreement.

(XV) CONNECTED TRANSACTIONS DEFINED IN HONG KONG LISTING RULES

(continued)

1. One-Off Connected Transactions *(continued)*

Subscription for New Ordinary Shares of Livzon Biologics

On 22 June 2018, after the approval of the Board, Livzon Biologics, Biologics Limited, Livzon MAB, Livzon International, Lizhu HK, YF Pharmab Limited (“YF Pharmab”) and the Company has entered into the share subscription agreement. Pursuant to which, Livzon International agreed to subscribe for 24,574,830 newly issued ordinary shares of Livzon Biologics (the “Share Subscription”) at a subscription price of USD4.00 per share at a subscription price of USD98,299,320.00. YF Pharmab, an independent third party, also agreed to subscribe for 12,500,000 newly issued series A preferred shares of Livzon Biologics at a subscription price of USD4.00 per share at a subscription price of USD50,000,000.00. The subscription price has been determined after arm’s length negotiations between Livzon International, the Company and YF Pharmab with reference to existing business conditions, research products, potential market size and future business development of Livzon MAB.

The reason for Livzon International to subscribe for new ordinary shares of Livzon Biologics is to provide sufficient capital for Livzon MAB’s business development, which includes clinical research and application in domestic and international markets, technical cooperation, product introduction and enrichment of scientific research team, to optimize the capital structure of Livzon MAB and to accelerate the efficiency of its business progress.

As at the date of entering into the share subscription agreement, Livzon International, an indirectly wholly owned subsidiary of the Company, and Joincare BVI, an indirectly wholly-owned subsidiary of Joincare, hold 51% and 49% of the issued share capital of Livzon Biologics respectively. Therefore, Livzon Biologics is a connected person of the Company for the purposes of Chapter 14A of the Hong Kong Listing Rules. Accordingly, the Share Subscription contemplated under the share subscription agreement constitutes a connected transaction of the Company. As one or more of the applicable percentage ratios (as defined in the Hong Kong Listing Rules) in respect of the Share Subscription exceed 0.1% but are less than 5%, the Share Subscription is subject to the reporting and announcement requirements, but is exempt from the independent shareholders’ approval requirement under Chapter 14A of the Hong Kong Listing Rules.

On 20 August 2018, the conditions precedent under the share subscription agreement have been fulfilled. Livzon Biologics has received the subscription price of USD50,000,000.00 of the series A preferred shares from YF Pharmab and has received the subscription price of USD50,000,000.00 of the first tranche of ordinary shares from Livzon International. In November 2018, Livzon Biologics received the remaining subscription price of ordinary shares from Livzon International.

Therefore, Livzon Biologics received a total of USD148,299,320.00 from the issue. Changes of shareholders and shareholdings are: Livzon International holds 75,574,830 ordinary shares (shareholding percentage is 55.13%), Joincare BVI holds 49,000,000 ordinary shares (shareholding percentage is 35.75%), and YF Pharmab holds 12,500,000 series A preferred shares (shareholding percentage is 9.12%).

(XV) CONNECTED TRANSACTIONS DEFINED IN HONG KONG LISTING RULES*(continued)***2. Continuing Connected Transactions**

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

The annual cap of products to be procured from the Joicare Group by the Group for the year ended 31 December 2018 is RMB421 million, while the aggregate amount of purchase for the year arising from the transactions between the Group and Joicare together with its subsidiaries constituting "continuing connected transactions" under Chapter 14A of the Hong Kong Listing Rules was RMB390.36 million. During the Year, both parties complied with the pricing principles and transaction terms as set out in 2014 Joicare Purchases Agreement, Supplementary Agreement and 2017 Joicare Purchases Framework Agreement when undergoing the above continuing connected transactions.

Connected Persons	Relationships	Type of connected transactions	Pricing principle of connected transactions	Amount of connected transactions in 2018 (RMB0'000)	Proportion to transaction amount of the same category (%)
Shenzhen Haibin Pharmaceutical Co., Ltd. (深圳市海濱製藥有限公司)	Subsidiary of the controlling shareholder	Procurement of commodities	Determined by negotiation based on market price	4,557.62	2.05%
Joicare Pharmaceutical Industry Group Co., Ltd. (健康元藥業集團股份有限公司)	Controlling shareholder	Procurement of commodities	Determined by negotiation based on market price	40.84	0.02%
Jiaozuo Joicare Pharmaceutical Industry Group Co., Ltd. (焦作健康元生物製品有限公司)	Subsidiary of the controlling shareholder	Procurement of commodities	Determined by negotiation based on market price	34,437.81	15.48%
Jiaozuo Joicare Pharmaceutical Industry Group Co., Ltd. (焦作健康元生物製品有限公司)	Subsidiary of the controlling shareholder	Acceptance of services	Determined by negotiation based on market price	1,027.90	4.31%

(XV) CONNECTED TRANSACTIONS DEFINED IN HONG KONG LISTING RULES

(continued)

2. Continuing Connected Transactions (continued)

Connected Persons	Relationships	Type of connected transactions	Pricing principle of connected transactions	Amount of connected transactions in 2018 (RMB'000)	Proportion to transaction amount of the same category (%)
Shenzhen Haibin Pharmaceutical Co., Ltd. (深圳市海濱製藥有限公司)	Subsidiary of the controlling shareholder	Sale of commodities	Determined by negotiation based on market price	27.78	0.00%
Shenzhen Taitai Pharmaceutical Co., Ltd. (深圳太太藥業有限公司)	Subsidiary of the controlling shareholder	Sale of commodities	Determined by negotiation based on market price	63.15	0.01%
Xinxiang Haibin Pharmaceutical Co., Ltd. (新鄉海濱藥業有限公司)	Subsidiary of the controlling shareholder	Sale of commodities	Determined by negotiation based on market price	7.31	0.00%
Zhuhai Joicare Pharmaceutical Co., Ltd. (珠海健康元生物醫藥有限公司)	Subsidiary of the controlling shareholder	Provision of services	Determined by negotiation based on market price	19.45	4.42%
Shenzhen Haibin Pharmaceutical Co., Ltd. (深圳市海濱製藥有限公司)	Subsidiary of the controlling shareholder	Provision of services	Determined by negotiation based on market price	0.30	2.89%
Zhuhai Joicare Pharmaceutical Co., Ltd. (珠海健康元生物醫藥有限公司)	Subsidiary of the controlling shareholder	Leasing out of assets	Determined by negotiation based on market price	3.77	0.61%
Health Pharmaceutical (China) Co., Ltd. (健康藥業(中國)有限公司)	Subsidiary of the controlling shareholder	Leasing out of assets	Determined by negotiation based on market price	9.06	1.47%
Joicare Pharmaceutical Industry Group Co., Ltd. (健康元藥業集團股份有限公司)	Controlling shareholder	Lease of assets	Determined by negotiation based on market price	77.23	12.33%
Jiaozuo Joicare Pharmaceutical Industry Group Co., Ltd. (焦作健康元生物製品有限公司)	Subsidiary of the controlling shareholder	Lease of assets	Determined by negotiation based on market price	50.12	8.00%
Total				40,322.34	—

(XV) CONNECTED TRANSACTIONS DEFINED IN HONG KONG LISTING RULES*(continued)***2. Continuing Connected Transactions** *(continued)***Confirmation from Independent Non-Executive Directors in respect of the above Connected Transactions**

In respect of the abovementioned continuing connected transactions between the Group and Joicare together with its subsidiaries, the Independent Non-executive Directors of the Company have reviewed and confirmed under Rule 14A.55 of the Hong Kong Listing Rules that:

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

Confirmation from the Auditors in respect of the above Connected Transactions

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

- The auditors did not notice any matter which caused them to believe that the above transactions had not been approved by the Board of the Company;
- In respect of transactions for provision of goods or services by the Group, the auditors did not notice any matter which caused them to believe that the above transactions had not been conducted in accordance with the pricing policies of the Group;
- The auditors did not notice any matter which caused them to believe that the above transactions had not been conducted in accordance with the relevant agreements governing such transactions; and
- The auditors did not notice any matter which caused them to believe that the amounts of such transactions had exceeded the Group's annual cap of transactions for the year ended 31 December 2018.

3. Connected Transactions and Related Party Transactions

Details of the connected transactions and related party transactions of the Group during the Year are set out in "Note XI. Related Party Transactions" of the financial statements of this annual report prepared in accordance with the China Accounting Standards for Business Enterprises. Other than connected transactions disclosed as above, there is no other related party transactions that falls under the definitions of "connected transactions" or "continuing connected transactions" under Chapter 14A of the Hong Kong Listing Rules and is required thereof to be disclosed. The Company has confirmed these connected transactions are in compliance with requirements of disclosure under Chapter 14A of the Hong Kong Listing Rules.

(XVI) MAJOR CONTRACTS AND ITS ENFORCEMENT

1. Custody, Hiring and Leasing Matters

Custody

Applicable Not applicable

During the Year, the Company has no custody.

Hiring

Applicable Not applicable

During the Year, the Company has no hiring.

Leasing

Items generating gain or loss amounting to 10% or above of total profit in the reporting period of the Company.

Applicable Not applicable

2. Major Guarantees

Applicable Not applicable

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

(1) Guarantees

Credit Facilities Guarantees

Unit: RMB0'000

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

Name of guaranteed party	Disclosure date of related announcements of guaranteed amount	Guaranteed amount	Actual date of event (Signing date of the Agreement)	Actual guarantee amount	Type of guarantee	Period of guarantee	Performance completion	Related party guarantee
-	-	-	-	-	-	-	-	-
Total of external guaranteed amount approved during the Year (A1)				-	Total of actual external guaranteed amount approved during the Year (A2)			-
Total of external guaranteed amount approved at the end of the year (A3)				-	Total of actual external guaranteed amount approved at the end of the year (A4)			-

(XVI) MAJOR CONTRACTS AND ITS ENFORCEMENT (continued)**2. Major Guarantees** (continued)**(1) Guarantees** (continued)**Credit Facilities Guarantees** (continued)

Name of guaranteed party	Disclosure date of related announcements of guaranteed amount	Guarantees between the Company and its subsidiaries						Related party guarantee
		Guaranteed amount	Actual date of event (Signing date of the Agreement)	Actual guarantee amount	Type of guarantee	Period of guarantee	Performance completion	
Livzon Group Livzon Pharmaceutical Factory (麗珠集團麗珠製藥廠)	2018.3.24	17,000.00	2016.11.30	1,054.32	Joint liability guarantee	2016.11.30-2019.11.30	No	No
Livzon Group Livzon Pharmaceutical Factory (麗珠集團麗珠製藥廠)	2018.3.24	15,000.00	2018.05.07	562.74	Joint liability guarantee	2018.4.8-2020.4.8	No	No
Livzon Group Livzon Pharmaceutical Factory (麗珠集團麗珠製藥廠)	2018.3.24	10,000.00	2018.03.28	635.57	Joint liability guarantee	2018.3.28-2022.9.28	No	No
Livzon Group Livzon Pharmaceutical Factory (麗珠集團麗珠製藥廠)	2018.3.24	10,000.00	2018.03.23	3,771.10	Joint liability 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)	2018.3.24	10,000.00	2017.10.09	5,276.21	Joint liability 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)	2018.3.24	5,000.00	2016.06.22	800.90	Joint liability 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)	2018.3.24	20,000.00	2016.12.26	5,491.23	Joint liability guarantee	2016.12.26-2019.12.26	No	No
Zhuhai FTZ Livzon Hecheng Pharmaceutical Manufacturing Co., Ltd. (珠海保稅區麗珠合成製藥有限公司)	2018.3.24	10,000.00	2017.10.09	6,386.31	Joint liability 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)	2018.3.24	23,000.00	2018.04.24	84.85	Joint liability guarantee	2018.4.24-2019.4.23	No	No
Livzon Group Fuzhou Fuxing Pharmaceutical Co., Ltd. (麗珠集團福州福興製藥有限公司)	2018.3.24	10,000.00	2018.08.07	5,464.27	Joint liability guarantee	2018.7.20-2023.7.19	No	No
Sichuan Guangda Pharmaceutical Manufacturing Co., Ltd. (四川光大製藥有限公司)	2018.3.24	8,000.00	2018.03.15	1,499.31	Joint liability guarantee	2018.3.15-2019.3.15	No	No
Livzon Group Limin Pharmaceutical Manufacturing Factory (麗珠集團利民製藥廠)	2018.3.24	1,500.00	2018.02.02	672.36	Joint liability guarantee	2016.12.26-2019.12.26	No	No
Livzon Group (Ningxia) Pharmaceutical Manufacturing Co., Ltd. (麗珠集團(寧夏)製藥有限公司)	2018.3.24	15,000.00	2018.08.07	8,449.93	Joint liability guarantee	2018.7.20-2023.7.19	No	No
Jiaozuo Livzon Hecheng Pharmaceutical Manufacturing Co., Ltd. (焦作麗珠合成製藥有限公司)	2018.3.24	5,000.00	2018.08.07	2,409.14	Joint liability guarantee	2018.7.20-2023.7.19	No	No
Total of guaranteed amount to its subsidiaries approved during the Year (B1)			563,100.00	Total of actual guaranteed amount to its subsidiaries approved during the Year (B2)				144,164.67
Total of guaranteed amount to its subsidiaries approved at the end of the year (B3)			563,100.00	Total of actual guaranteed amount to its subsidiaries approved at the end of the year (B4)				42,558.24

Subsidiaries' guarantees to subsidiaries

Name of guaranteed party	Disclosure date of related announcements of guaranteed amount	Guaranteed amount	Actual date of event (Signing date of the Agreement)	Actual guarantee amount	Type of guarantee	Period of guarantee	Performance completion	Related party guarantee
-	-	-	-	-	-	-	-	-
Total of guaranteed amount to its subsidiaries approved during the Year (C1)				-	Total of actual guaranteed amount to its subsidiaries approved during the Year (C2)			-
Total of guaranteed amount to its subsidiaries approved at the end of the year (C3)				-	Total of actual guaranteed amount to its subsidiaries approved at the end of the year (C4)			-

(XVI) MAJOR CONTRACTS AND ITS ENFORCEMENT (continued)**2. Major Guarantees** (continued)**(1) Guarantees** (continued)**Credit Facilities Guarantees** (continued)

Total guaranteed amount of the Company (the total of the above three items)			
Total of guaranteed amount approved during the Year (A1+B1+C1)	563,100.00	Total of actual guaranteed amount approved during the Year (A2+B2+C2)	144,164.67
Total of guaranteed amount approved at the end of the year (A3+B3+C3)	563,100.00	Total of actual guaranteed amount approved at the end of the year (A4+B4+C4)	42,558.24
Total of actual guaranteed amount (A4+B4+C4) proportion to the net assets of the Company			4.00%
Among which:			
Guaranteed amount provided to shareholders, the ultimate beneficial owner and their related parties (D)			-
Debt guaranteed amount to guaranteed party 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)			-
For not yet mature guarantees, guaranteed obligation or may undertake joint obligation during the Year (if any)			Not applicable
Illegal external guarantees (if any)			Not applicable

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 31 December 2018, the bill pledges guaranteed are as follows:

Unit: RMB

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)	138,982,341.15	Livzon Group Xinbeijiang Pharmaceutical Manufacturing Inc. (麗珠集團新北江製藥股份有限公司)	Opening bank acceptance bills, joint liability guarantee	34,351,920.00	Till 28 May 2019
			Livzon Group Limin Pharmaceutical Manufacturing Co., Ltd. (麗珠集團利民製藥廠)	Opening bank acceptance bills, joint liability guarantee	4,365,676.00	Till 19 March 2019
			Livzon Group Livzon Pharmaceutical Factory (麗珠集團麗珠製藥廠)	Opening bank acceptance bills, joint liability guarantee	82,139,528.39	Till 18 June 2019
	China Merchants Bank Zhuhai Branch (招商銀行珠海分行)	196,784,734.15	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	5,884,515.00	Till 15 May 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	40,137,496.00	Till 20 September 2019
			Livzon Group Livzon Pharmaceutical Factory (麗珠集團麗珠製藥廠)	Opening bank acceptance bills, joint liability guarantee	57,981,887.05	Till 21 June 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	75,786,879.92	Till 14 June 2019

(XVI) MAJOR CONTRACTS AND ITS ENFORCEMENT *(continued)***2. Major Guarantees** *(continued)***(1) Guarantees** *(continued)***Bill pledges guaranteed** *(continued)*

Unit: RMB

Guarantor	Pledgee	Bill pledge amount receivable	Name of guaranteed party	Description of guarantee	Guaranteed amount	Period of guarantee
			Livzon Group Fuzhou Fuxing Pharmaceutical Co., Ltd. (麗珠集團福州福興醫藥有限公司)	Opening bank acceptance bills, joint liability guarantee	3,609,680.40	Till 27 June 2019
			Sichuan Guangda Pharmaceutical Manufacturing Co., Ltd. (四川光大製藥有限公司)	Opening bank acceptance bills, joint liability guarantee	2,025,713.94	Till 26 June 2019
Total balance of actual amount guaranteed for subsidiaries at the end of the Reporting Period					306,283,296.70	

Guarantee provided to the Company by related party

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 49% 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 counter guarantee for 49% of the abovementioned guarantee credit for 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 credit.

(2) Information on illegal external guarantees

Applicable Not applicable

During the Year, the Company had no illegal external guarantee.

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

Applicable Not applicable

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

Entrusted loans

Applicable Not applicable

During the Year, the Company had no entrusted loans.

(XVI) MAJOR CONTRACTS AND ITS ENFORCEMENT *(continued)***4. Other Major Contracts**✓ Applicable Not applicable

Name of the contracted company	Name of the contracted counterparty	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 ZhongmeiHuadong Pharmaceutical Co., Ltd. (杭州中美華東 製藥有限公司)	Acarbose bulk medicines	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 RMB394.2870 million transaction amount (tax inclusive) has been recorded, representing 82.04% 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)

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

5. Other Material Transactions

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

(XVII) SIGNIFICANT EVENT OF SUBSIDIARIES OF THE COMPANY✓ Applicable Not applicable**The transfer of equity interest in Livzon Shengmei from Livzon Reagents**

In order to optimize the shareholding structure of Livzon Shengmei, which is the indirect controlling subsidiary of the Company, and adapt to the new business development needs, on 11 June 2018, the Company convened the fourteenth meeting of the ninth session of the Board to consider and approve the transfer of 69% equity interests in Livzon Shengmei from Livzon Reagents to the Company, Zhuhai Zhenglu Enterprise Management Consulting LP (Limited Partnership) ("Zhuhai Zhenglu"), Zhuhai Lishen Enterprise Management Consulting LP (Limited Partnership) ("Zhuhai Lishen"), Li Lin, Shi Jianfeng and Lin Yan.

Pursuant to the "Equity Transfer Framework Agreement", Livzon Reagents agreed to sell and the Company agreed to purchase 33.15% equity interests in Livzon Shengmei at the consideration of RMB44.2 million. Livzon Reagents agreed to sell and Li Lin agreed to purchase 10.10% equity interests in Livzon Shengmei at the consideration of RMB13.46667 million. Livzon Reagents agreed to sell and Shi Jianfeng agreed to purchase 7.79% equity interest in Livzon Shengmei at the consideration of RMB10.386667 million. Livzon Reagents agreed to sell and Lin Yan agreed to purchase 5.03% equity interests in Livzon Shengmei at the consideration of RMB6.706667 million. Livzon Reagents agreed to sell and Zhuhai Lishen agreed to purchase 2.93% equity interests in Livzon Shengmei at the consideration of RMB3.906667 million. Livzon Reagents agreed to sell and Zhuhai Zhenglu agreed to purchase 10% equity interests in Livzon Shengmei at the consideration of RMB13.33333 million.

Following the completion of the equity transfer, Livzon Shengmei will be held as to 33.15%, 41.10%, 7.79%, 5.03%, 2.93% and 10.00% by the Company, Li Lin, Shi Jianfeng, Lin Yan, Zhuhai Lishen and Zhuhai Zhenglu respectively.

(XVII) SIGNIFICANT EVENT OF SUBSIDIARIES OF THE COMPANY *(continued)***The transfer of equity interest in Livzon Shengmei from Livzon Reagents** *(continued)*

The equity transfer represents a substantial initiative of the Company in optimizing the business structure in the precision medicine sector and innovating the growth incentive model. Upon the completion of the equity transfer, there will be changes in the scope of consolidated statements of the Company and the financial data of Livzon Shengmei will cease to be consolidated to the financial statements of the Company. With the operations management members and key personnel of Livzon Shengmei becoming its controlling and substantial shareholders, its research and development and commercialization in the field of Liquid Biopsy for tumor will accelerate.

As of 14 August 2018, Livzon Reagents has received an amount of RMB92 million for the equity transfer, Livzon Shengmei has completed the business registration of Industry and Commerce for the equity transfer.

Acquisitions and mergers of subsidiaries

In order to achieve coordination management of the enterprises within the bulk medicines segment of the Group, optimize the resources allocation, improve the management efficiency, thereby further enhancing the comprehensive competitiveness of the Group in respect of the bulk medicines aspects, Livzon Group Ningxia Fuxing Pharmaceutical Manufacturing Co., Ltd. (麗珠集團寧夏福興製藥有限公司) a subsidiary of the Company, with the approval from Administration of Industry and Commerce, has completed the acquisitions and mergers of Livzon Group Ningxia Xinbeijiang Pharmaceutical Manufacturing Co., Ltd. (麗珠集團寧夏新北江製藥有限公司) a subsidiary of the Company, and changed its name to Livzon Group (Ningxia) Pharmaceutical Manufacturing Co., Ltd. (麗珠集團(寧夏)製藥有限公司) on 10 May 2018.

The acquisition of equity interests in Ningxia Pharmaceutical and Fuzhou Fuxing by Xinbeijiang Pharmaceutical

To achieve the coordination management within the bulk medicines segment of the Group, optimize the resources allocation and cooperate with the long-term development strategy, on 21 September 2018, the Company, Fuzhou Fuxing and Xinbeijiang Pharmaceutical entered into the "Agreement of Equity Transfer in Livzon Group (Ningxia) Pharmaceutical Manufacturing Co., Ltd.", and was considered and approved at the general meeting of Ningxia Pharmaceutical. Pursuant to which, the Company and Fuzhou Fuxing transferred 90% and 2.03% equity interests in Ningxia Pharmaceutical to Xinbeijiang Pharmaceutical respectively. After the equity transfer, Xinbeijiang Pharmaceutical holds 100% equity interests in Ningxia Pharmaceutical.

On 12 December 2018, Xinbeijiang Pharmaceutical and the Company entered into the "Capital Injection Agreement in Relation to Livzon Xinbeijiang Pharmaceutical Manufacturing Inc.", and was considered and approved at the 2018 third extraordinary general meeting of Xinbeijiang Pharmaceutical, pursuant to which, Xinbeijiang Pharmaceutical issued additional shares to the Company to subscribe 75% equity interest in Fuzhou Fuxing held by the Company. As at 24 December 2018, after completion of the transaction, the Company holds 87.14% equity interests in Xinbeijiang Pharmaceutical.

In addition to the above disclosure, please refer to "Connected Transactions as defined in the Hong Kong Listing Rules" under Chapter V of the Report for details of significant events of subsidiaries of the Company.

(XVIII) SOCIAL RESPONSIBILITY *(continued)***1. Fulfilling social responsibility of targeted poverty alleviation****(1) Summary of targeted poverty alleviation plan**

Basic Strategy:

Under the guidance of the spirit of the Party's Eighteenth Congress, the Third, Fourth, Fifth Plenary Session of the Eighteenth Congress, the company fully implement 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, which become a pillar industry for poverty relief in the long-term. The company will explore the development of Huangqi Industry based on the local resources characteristics to achieve poverty elimination and the construction of "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.

Major Tasks of 2018:

- (i) Complete the training on standardized Huangqi plantation and processing technology for 50 people and enhance the occupational skills of poor households;
- (ii) Adopt the poverty alleviation model "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, bring poor households into the scope of base construction and improve the Huangqi production condition in poverty-stricken areas;

Protection measures: Signing purchasing order with the poor households and their products will be given preference subject to the fulfillment of enterprises' requirement under the standardized production.

(2) Summary of targeted poverty alleviation in the Year

During the Reporting Period, Datong Livzon Qiyuan Medicine Co., Ltd. (大同麗珠芪源藥材有限公司) ("Datong Livzon"), the subsidiary of the Company, has employed around 80 workers for the self-built base and jointly-constructed base, including around 20 poor people (workers at the base and processing staff at the workshop); Datong Livzon has conducted poverty alleviation for around 10 poor households who worked for Huangqi plantation and provided assistance in pest control, which avoided a loss of 2000 mus of Huangqi.

(3) Effectiveness of targeted poverty alleviation

Indicators	Unit	Quantity and Progress
I. Overall situation	-	-
Including: 1. Funds	RMB0'000	20.97
2. Value of resources donated	RMB0'000	-
3. Number of registered poor people lifted out of poverty	Person	20
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	20.97
1.4 Number of registered poor people lifted out of poverty	Person	20

(XVIII) SOCIAL RESPONSIBILITY *(continued)***1. Fulfilling social responsibility of targeted poverty alleviation** *(continued)***(4) Subsequent targeted poverty alleviation plans**

Applicable Not applicable

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”, 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 2018 to 2020 as follows:

- (i) Datong Livzon will provide employment posts for 150 poor people to increase their income and provide learning opportunities on Huangqi plantation and processing technology at the bases in Hunyuan, Tianzhen in Shanxi province and Zizhou in Shaanxi province.
- (ii) Datong Livzon will enter into agreements with more than 10 poor Huangqi growers for the joint establishment of Huangqi base to provide them with technical support. Meanwhile, Datong Livzon will enter into the purchase agreements with the poor Huangqi growers in order to ensure a sales channel for their Huangqi.
- (iii) Datong Livzon will perform collaboration with specialised farmers cooperatives and poverty households to promote the development of local Huangqi industry, which will continuously optimise the promotion mechanism of industrial development, enhance industrial development level, capitalize on the “Teaching, Assistance and Guidance” functions and influence of the demonstration base, cultivating the poverty households into experts for the development of Huangqi industry and performing poverty alleviation for 150 poverty households, as well as improving the Huangqi production conditions in poverty-stricken areas and achieving the poverty elimination.
- (iv) Providing trainings on cooperation, production order and orientation to around 50 people, with a focus on the Huangqi production staff, technical support servicing staff, rural operation leader and poverty households, in order to perform Huangqi plantation technology trainings for “new type of professional farmers” and enhance the establishment of Huangqi poverty alleviation technology services team.

(XVIII) SOCIAL RESPONSIBILITY *(continued)***2. Fulfilling other social responsibilities**

During the Year, the Group actively assumed social responsibility, fulfilled the obligations of information disclosure and effectively protected the legitimate interests of the shareholders, creditors and all employees of the Group in accordance with the relevant provisions of laws and regulations such as the Company Law, the Securities Law, Rules Governing the Listing of Stock and the Rules Governing the Listing of Securities, departmental rules and regulations, normative documents and the Articles of Association. Through continuous improvement of the Group's integrated strength, management of environmental protection is strengthened and harmonious relationship between the Company and shareholders, creditors and consumers is achieved.

(1) Protection of Shareholders and Creditors' Rights and Interests

In accordance with the relevant provisions of the Company Law, the Securities Law and the Guidelines for the Standardized Operation of Companies Listed on the Shenzhen Stock Exchange, the Group fulfilled the obligation of information disclosure, and disclosed the Group's periodic report and interim announcement realistically, accurately, completely, fairly and promptly with no selective disclosure, ensuring the right of all shareholders to be notified of important matters and operating performance of the Group. At the same time, in order to further strengthen the management of investor relations, the Group engaged in adequate communication and exchange with investors through multiple means including telephone, internet, reception of visits from investment research organisations.

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

During the Year, the Group attached great importance to the return on the investment made by investors and, in strict compliance with the relevant provisions of the Articles of Association, proposed the 2018 dividend plan. For details, please refer to "PROFIT DISTRIBUTION OF ORDINARY SHARES AND CONVERSION OF CAPITAL RESERVE INTO SHARE CAPITAL OF THE COMPANY" and "PROPOSALS ON PROFIT DISTRIBUTION AND CONVERSION OF CAPITAL RESERVES INTO SHARE CAPITAL DURING THE YEAR " of Chapter V in the annual report.

(2) Protection of workers' rights and interests

The Group strictly abides by the relevant laws and regulations such as the Labor Law and the Labor Contract Law. Since the establishment of the Company, the Group has adhered to the employment guidelines of "Learning virtues from others, keeping harmony despite differences", fully respecting the career development of staff, protecting their legitimate rights and interests, continuously improving their working environment and effectively protecting the safety of the production staff. During the Year, the Group maintained harmonious relationship with its employees.

In order to further implement the protection of workers' rights and interests, the Group has formulated and improved remuneration system and welfare mechanism, including salary system and employee incentive mechanism. During the Year, the Group successfully completed the second unlocking of the first and reserved grant under the Restricted A Shares Incentive Scheme. During the year, In order to further establish and improve the Company's long-term incentive mechanism, attract and retain outstanding employees, fully motivate the Directors, senior management, mid-level management and relevant core personnel of the Company and effectively integrate Shareholders' interests, the Company's interests and individual interests of the core team members, the Group introduced the 2018 Share Options Incentive Scheme and successfully completed the first registration of the grant of the 2018 Share Options Incentive Scheme. Incentive recipients of the first grant are 1,050 in total.

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

(XVIII) SOCIAL RESPONSIBILITY *(continued)***2. Fulfilling other social responsibilities** *(continued)***(3) Safe production and environmental protection**

During this year, the Group strictly implemented and complied with the "People's Republic of China Environmental Protection Law", "the People's Republic of China Safety Production Law", and environmental protection laws and regulations, operated in accordance with environmental management system and the requirement of occupational health and safety management system articles, and constantly improved the systematic environmental protection and security risk control. In order to ensure that various production enterprises operate in line with the national standards in terms of the waste water discharge, emission, noise control, hazardous waste disposal and other environmental protection aspects, the Group constantly increased the capital investment in environmental protection, thus effectively guaranteeing the safety and environmental protection smoothly. And the Group regularly publicized the information of safety and environmental information in accordance with the requirements of the regulations and actively improves the public participation in various types of information.

The Group's production enterprises are equipped with sewage treatment facilities and waste gas treatment facilities, etc. In order to further strengthen various aspects of environmental protection, the Group actively promoted clean production, and the implementation of "recycling, reduction and harmless" treatment for hazardous waste, improves the utilization rate of resources, reduces pollutant emission concentration and total amount. Through energy saving and emission reduction, we strive to realize the coordinated development of enterprise economic benefit, social benefit and environmental protection benefit.

The various safety and environmental management regulations formulated by the Group's production enterprises have been reported to the local environmental protection authorities for the record, and emergency leadership groups and working groups have been set up to learn the emergency management measures, and the staff have been organised for professional training and contingency planning exercises on a regular basis. This year, the Group's production enterprises witnessed no major environmental accidents and safety production accidents, and the annual safety and environmental protection objectives and plans of the production enterprises were effectively implemented.

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 special types of pollutants	Discharge mode	Number of discharge outlets	Distribution of discharge outlets	Discharge concentration (mg/L)	Implemented standards for discharge of (mg/L)	Total amount of discharge (t)	Approved total amount of discharge (t/a)	Excessive discharge
Livzon Group Fuzhou Fuxing Pharmaceutical Co., Ltd.	Chemical oxygen demand	Interval	1	The northwest side of the factory	63.87	100	60.02	124.5	None
	Ammonia nitrogen				0.59	15	0.56	18.7	None

Note: Discharge concentration is the actual discharge concentration, the standards represent the standards for discharge of COD and Ammonia nitrogen to the environment by Jiangyin sewage plant shall be $\leq 100\text{mg/L}$ and $\leq 15\text{mg/L}$, and the agreed standard for discharge of COD and Ammonia nitrogen from the Company to Jiangyin sewage plant shall be $\leq 500\text{mg/L}$ and $\leq 60\text{mg/L}$ respectively. The data of which was obtained from Fuqing Environmental Protection Bureau.

(XVIII) SOCIAL RESPONSIBILITY *(continued)***2. Fulfilling other social responsibilities** *(continued)***(3) Safe production and environmental protection** *(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 complied with “Three Simultaneous” and employing an advanced sewage treatment process known as “Regulating pool + Hydrolysis acidification tank + SBR + Air float”. After the sewage going through the above treatment process, all indicators are stable and reached the discharge standard. After reaching the discharge standard, sewage will be discharged to Jiangyin sewage plant 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:

“Environmental Impact Report on Product Upgrading Project of Livzon Group Fuzhou Fuxing Pharmaceutical Co., Ltd.” was approved on 7 March 2017; and environmental protection inspection upon the completion of construction was passed on 25 November 2017. Environmental Impact Assessment of the Expansion Project of the 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 of the Company was approved in July 2018. The project is currently under construction. The company strictly implemented the “three simultaneous” system and took environmental protection measures required for environmental assessment, and environmental protection facilities ran normally. On 27 December 2017, new pollutant emission license was obtained from the State, the company operates the discharge of pollutants strictly in compliance with the license requirements and various administrative requirements.

Environmental Emergency Response Plan:

Pursuant to the relevant requirement, “Environmental Emergency Response Plan of Livzon Group Fuzhou Fuxing Pharmaceutical Co., Ltd.” was prepared based on the following principle “Prevention, Self-help, United command, Division of Responsibility” and passed in May 2017. Certificate No. 350181-2017-013-M.

When environmental emergency incidents happens, 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 content and requirements of the plan, the company provides training 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 requirement 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 implemented and completed the self-monitoring programme based on its own situation in a timely manner, and it was made available to the public after examining 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, inspected by environmental protection authorities. The automated monitoring equipment functions properly, and the monitoring information is accurate, valid and authentic. Information publicity website: <http://wryfb.fjemc.org.cn>

(XVIII) SOCIAL RESPONSIBILITY (continued)

2. Fulfilling other social responsibilities (continued)

(3) Safe production and environmental protection (continued)

(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 and subsidiary	Name of major pollutants and special types of pollutants	Discharge mode	Number of discharge outlets	Distribution of discharge outlets	Discharge concentration (mg/L)	Implemented standards for discharge of (mg/L)	Total amount of discharge (t)	Approved total amount of discharge (t/a)	Excessive discharge
Livzon Group Xinbeijiang Pharmaceutical Manufacturing Inc.	Chemical oxygen demand	Interval	1	sewage treatment plant	95.99	240	100.23	162.46	None
	Ammonia nitrogen				14.15	70	14.78	24.5	None

Note: discharge concentration is the concentration discharged into Qingyuan Henghe sewage plant, the standards represent the standards for discharge of COD and Ammonia nitrogen are the standard of pollutant emission license of the company, which shall be $\leq 240\text{mg/L}$ and $\leq 70\text{mg/L}$ respectively. The data of which was obtained from Qingyuan Environmental Protection Bureau.

Construction and operation of pollution prevention & treatment facilities:

"Three wastes" will be collected and treated effectively by strictly complied with the "Three Simultaneous", the upfront investment is more than RMB30 million, with a designed sewage treatment capacity of 3000t/d, with. By employing a treatment process known as "Pre-treatment+ Aerobic pool + Hydrolysis acidification tank + SBR + Catalytic oxidation + Air float", waste water after treatment will be discharged through municipal pipeline network and piped into Qingyuan Henghe sewage plant.

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

"Current Environmental Impact Report on Projects of Livzon Group Xinbeijiang Pharmaceutical Manufacturing Inc." was filed on 6 December 2016; While the company is strictly complying with "Three Simultaneous" to implement environmental protection measures in accordance with environment assessment, the environmental protection facilities function properly. On 29 December 2017, new pollutant emission license was obtained from the State and the procedure for renewal of the pollutant emission license is complete. The company is in strict compliance with various environment protection policies.

Environmental Emergency Response Plan:

Pursuant to the relevant regulations and requirement, "Environmental Emergency Response Plan of Livzon Group Xinbeijiang Pharmaceutical Manufacturing Inc." was prepared based on the following principle "Prevention, On-alert; Division of Management, Division of Response; Department Cooperation, Division of Responsibility; Scientific Prevention, Effective Disposal" and passed and announced. The company regularly identifies internal environmental factors and source of hazards and carries out drills in accordance with emergency response plan, to improve the emergency response plan's operability, enhance the performance level of the emergency rescue persons, enhance the emergency response capacity of the rescue team and enhance the collaboration capabilities relating to interconnection between different positions.

(XVIII) SOCIAL RESPONSIBILITY (continued)**2. Fulfilling other social responsibilities** (continued)**(3) Safe production and environmental protection** (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 Self-monitoring Program:

According to the relevant requirement 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 implemented and completed the self-monitoring programme based on its own situation in a timely manner, and it was made available to the public after examining by and filing with the Qingyuan 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; The online monitoring equipment is inspected by environmental protection authorities and the connection between online information and national development platform and Qingyuan Province platform; The automated monitoring equipment functions properly, and the monitoring information is accurate, valid and authentic. Information publicity website: <https://app.gdep.gov.cn/epinfo/>

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

Company or Subsidiary Name	Names of Key Pollutant and Specific Pollutant	Way of Emission	Quantity of Outlets	Distribution of Outlets	Concentration of Emission (mg/L)	Implemented	Total Amount of Emission (t)	Approved	Excessive Emission
						Pollutant Emission Standard (mg/L)		Total Amount of Emission (t/a)	
Zhuhai FTZ Livzon Hecheng Pharmaceutical Manufacturing Co., Ltd.	Chemical oxygen demand	Indirect	1	Waste water treatment station	63	192	13.07*	49.10	None
	Ammonia nitrogen (NH ₃ -N)				20	40	3.285*	4.91	None
	Sulfur dioxide	Organised continuous discharge	3	Boiler room	9	50	0.425	2.787	None
	Nitrogen oxide	Organised continuous discharge	3	Boiler room	123	200	4.804	11.513	None
	Particulate matter	Organised continuous discharge	3	Boiler room	1.6	30	0.262	/	None
	hydrogen chloride	Organised continuous discharge	7	Plant	0.003	100	3.4	/	None
	Non-Methane Hydrocarbon	Organised continuous discharge	7	Plant	0.063	120	19.038	/	None

Note: The discharge concentration represents the concentration discharged into south district sewage plant, where the standard implemented represents the standard stipulated in the pollutant emission license of the company (i.e. COD ≤ 192 mg/L, Ammonia nitrogen ≤ 40 mg/L). * The total amount of emission is the total amount of sewage discharged into the environmental water from south district sewage plant, which is calculated according to the amount of sewage discharged by the company into south district sewage plant.

(XVIII) SOCIAL RESPONSIBILITY *(continued)***2. Fulfilling other social responsibilities** *(continued)***(3) Safe production and environmental protection** *(continued)***(iii) Zhuhai FTZ Livzon Hecheng Pharmaceutical Manufacturing Co., Ltd.** (珠海保稅區麗珠合成製藥有限公司) *(continued)*

Construction and operation of pollution prevention facilities:

The “three simultaneous” system was strictly implemented, the “three wastes” were treated in a centralized and effective manner, and the maintenance and management of pollution prevention facilities was paid more attention to, so as to ensure the stable up-to-standard emission of pollutants. The treatment process of “pretreatment of drainage from main production process + hydrolytic acidification + upflow anaerobic sludge blanket (UASB) + advanced oxidation + CASS process + ozonation” was adopted. The treated sewage was discharged through the municipal sewage pipe network into Zhuhai Leaguer Environmental Protection Co., Ltd. (water purification plant in the south district). The 2018 new investment of RMB4.48 million was made in environmental protection projects, of which RMB3.20 million was used in investing waste gas ROT incineration treatment and RMB1.20 million was used in retrieving acetone using membrane recovery system of plant 303 and sealed the anaerobic tower of the environmental protection center and CASS tower, etc. The hazardous wastes of the Company are disposed properly by qualified companies in accordance with environmental assessment and completion inspection opinion.

Environmental impact assessment of construction project and other administrative licenses regarding environmental protection:

“Environmental Impact Assessment Report on Product Structure and Current Development of Production Capacity Adjustment Programme of Livzon Group Fuzhou Fuxing Pharmaceutical Co., Ltd.” was approved on December 2016. While the company is strictly complying with “Three Simultaneous” to implement environmental protection measures in accordance with environment assessment, the environmental protection facilities function properly. On 8 December 2017, new pollutant emission license was obtained from the State, the company operates the discharge of pollutants strictly in compliance with the license requirements and various administrative requirements. On 26 October 2018, VOCs comprehensive treatment project completed record filing; On 21 December 2018 VOCs comprehensive treatment project passed the acceptance of clean production.

Environmental Emergency Response Plan:

The Contingency Plan of Zhuhai FTZ Livzon Hecheng Pharmaceutical Manufacturing Co., Ltd. for Environmental Emergencies was drawn up in accordance with relevant provisions and requirements and in line with the principle of “prevention and self-rescue first, unified command, and division of labor with individual responsibility”. Employees are provided with emergency training and advise them of treatment measures on a regular basis so that, in case of any environmental emergency, they can take safety measures in a timely, rapid, effective and orderly manner to control and prevent the extension of the emergency and pollution, effectively reduce or eliminate consequences of such accidents and restore the disciplined production as soon as possible.

Environmental self-monitoring scheme:

Conducting self-monitoring to strictly implement the Technical Specification for Application and Issuance of Pollutant Permit Pharmacy Industry – Active Pharmaceutical Ingredient Manufacturing (HJ858.1-2017), and carrying out the verification and calibration of monitoring analyzers in strict accordance with relevant provisions; installing automatic monitoring equipment according to the requirements of the technical specification for environmental monitoring and installing on-line monitoring equipment for COD, ammonia nitrogen and PH value and connecting to national development platform as required.

(XVIII) SOCIAL RESPONSIBILITY (continued)

2. Fulfilling other social responsibilities (continued)

(3) Safe production and environmental protection (continued)

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

Company or Subsidiary Name	Names of Key Pollutant and Specific Pollutant	Way of Emission	Quantity of Outlets	Distribution of Outlets	Concentration of Emission (mg/L)	Carried	Total	Approved	Excessive Emission
						Emission Standard (mg/L)	Amount of Emission (t)	Total Amount of Emission (t/a)	
Gutian Fuxing Pharmaceutical Co., Ltd.	Chemical oxygen demand	Continuous	1	Southeast of the factory	52.54	120	10.86	108	None
	Ammonia nitrogen				8.26	35	1.71	31.5	None

Note: the concentration of emission is the concentration of final emission into the environment, and the standards for discharge of COD and Ammonia nitrogen are the standard of pollutant emission license of the company, which shall be $\leq 120\text{mg/L}$ and $\leq 35\text{mg/L}$ respectively.

Construction and operation of pollution prevention facilities:

The "three wastes" were collected and treated in accordance with the "three simultaneous" system while the enterprise was starting the production. The designed sewage treatment capacity was 1,200t/d, the front-end investment was more than RMB3.00 million, the treatment process was the advanced "A/O + SBR + Fenton decolorizing + air flotation" waste water treatment process, the effective reservoir capacity of the treatment system was 6,000 m³, and more than 20 sets of treatment equipment were available, whose installed capacity was 100 KW; and so far, about RMB1.00 million has been invested in succession to improve the water treatment process, thus ensuring that all waste water treatment indicators reach the standard stably. The treated sewage reached the grade-II discharge standard and was directly discharged into Minjiang River. The hazardous wastes of the Company are disposed properly by qualified companies in accordance with environmental assessment and completion inspection opinion.

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

An official reply was made to the environmental assessment of the company on June 30, 1999; the completion acceptance was granted by Fujian Provincial Department of Environmental Protection on June 5, 2000. The company strictly implemented the "three simultaneous" system and took environmental protection measures required for environmental assessment, and environmental protection facilities ran normally. The company passed the new pollutant discharge permit review of the State on Friday, December 29, 2017. The company discharges pollutants in strict accordance with the requirements of the permit and strictly complies with all management requirements.

Environmental Emergency Response Plan:

The Contingency Plan for Environmental Emergencies of Gutian Fuxing Pharmaceutical Co., Ltd. was drawn up in accordance with relevant provisions and requirements and in line with the principle of "prevention and self-rescue first, unified command, and division of labor with individual responsibility" and was passed by May 2017. Filing form number: 352200-2017-005-L

After the occurrence of any environmental emergency, the company is able to take rescue actions during emergency in a timely, rapid, effective and orderly manner to control and prevent the extension of the emergency and pollution, effectively protect the surrounding environment and guarantee the life and property safety of all employees, the company and the surrounding social public. Providing employees with training and drill according to the content and requirements of the plan to prepare for any environmental emergency so that, after the occurrence of any environmental emergency, they can offer timely rescue and thus having the emergency effectively controlled within a short time.

(XVIII) SOCIAL RESPONSIBILITY (continued)**2. Fulfilling other social responsibilities** (continued)**(3) Safe production and environmental protection** (continued)**(iv) Gutian Fuxing Pharmaceutical Co., Ltd.** (古田福興醫藥有限公司) (continued)

Environmental self-monitoring scheme:

In accordance with relevant requirements of the Measures for the Self-Monitoring and Information Disclosure by the Enterprises subject to Intensive Monitoring and Control of the State (for Trial Implementation) and according to its own situation, the company timely drew up and completed self-monitoring scheme, which was filed and publicly disclosed after being reviewed by Ningde Municipal Environmental Protection Bureau and Gutian County Environmental Protection Bureau. The monitoring project analysis method complies with the technical specification and measures of the State for environmental monitoring; the company verifies and calibrates monitoring analyzers strictly according to relevant provisions of the State; the company installs automatic monitoring equipment according to the requirements of the technical specification of environmental monitoring, which is connected with and accepted by the competent environmental protection department; the automatic monitoring equipment is sound and the monitoring data is accurate, effective and true. Public disclosure websites: <http://wryfb.fjemc.org.cn>

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

Company or Subsidiary Name	Names of Key Pollutant and Specific Pollutant	Way of Emission	Quantity of Outlets	Distribution of Outlets	Concentration of Emission (mg/L)	Carried	Total	Approved	Excessive Emission
						Emission Standard (mg/L)	Amount of Emission (t)	Total Amount of Emission (t/a)	
Livzon Group Limin Pharmaceutical Manufacturing Factory	Chemical oxygen demand	Intermittent	1	Waste water treatment station	22.18	110	5.9	21.52	None
	Ammonia nitrogen				0.033	15	0.09	0.24	None

Note: sewage from Livzon Group Limin Pharmaceutical Manufacturing Factory discharged into the Second Sewage Treatment Plant of Shaoguan City, which meets the emission standard requirement of the Second Sewage Treatment. The concentration of emission is based on the Company's self-monitoring data.

Construction and operation of pollution prevention facilities:

The "three simultaneous" system was strictly implemented in the treatment of the three wastes, the "three wastes" were effectively collected and treated, and an amount of more than RMB13.00 million was invested in sewage treatment, thus having a designed treatment capacity of 1,500 t/d; the treatment process of "pretreatment + hydrolytic acidification tank + facultative tank + aerobic tank + secondary precipitation" was adopted; the treated sewage was discharged through the municipal pipe network into the Second Sewage Treatment Plant of Shaoguan City; in respect of waste gas treatment, an amount of more than RMB200,000 was invested to treat boiler fuel gas; in respect of noise pollution prevention, an amount of more than RMB100,000 was invested to build sound-insulating walls so as to reduce noise. In January 2018, one natural gas boiler with a capacity of 8 tonnes was acquired and installed. In June, it started to operate and phased out the biomass boilers.

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

The Environmental Assessment Report of Bagged Shenqifuzheng Injection Technical Report Project of Livzon Group Limin Pharmaceutical Manufacturing Factory was approved on July 28, 2017; the company strictly implemented the "three simultaneous" system and took environmental protection measures required for environmental assessment, and environmental protection facilities ran normally. The pollutant discharge permit remains in effect and is to be renewed in the near future pending the notice from the environmental protection bureau.

(XVIII) SOCIAL RESPONSIBILITY *(continued)***2. Fulfilling other social responsibilities** *(continued)***(3) Safe production and environmental protection** *(continued)***(v) Livzon Group Limin Pharmaceutical Manufacturing Factory (麗珠集團利民製藥廠)** *(continued)*

Environmental Emergency Response Plan:

In line with the occupational health and safety and environment management systems: protecting health by means of occupational protection; ensuring safety by means of risk control; protecting environment by means of pollution prevention; making continuous improvement in compliance with disciplines and law. Earnestly confirming environmental factors, taking preventive measures against major environmental factors, improving the control of the three wastes and continuously improving the control ability of the three wastes so as to ensure the emission of the three wastes reaches the standard. The company drew up the Special Emergency Response Plan of Livzon Group Limin Pharmaceutical Manufacturing Factory for Occupational Health and Safety/Environment Management System Accidents according to the standard of two systems, which was published in November 2017 and whose number is LM-SHE-ZX-01. According to the emergency plan of such two systems, the identification of environmental factors and sources of danger and emergency drills were provided within the company on a regular basis. Improve the operability of the emergency plan and the working level of emergency rescue personnel and the coordination ability of the rescue team.

Environmental self-monitoring scheme:

Engaging Shaoguan Lvshao Environmental Engineering Co., Ltd. which is qualified to conduct environmental monitoring to conduct monitoring in strict accordance with relevant laws and regulations and standards of the State. According to its own situation, the company shall authorize the monitoring party to conduct yearly routine environmental monitoring and formulate a manual monitoring plan under which monitoring shall be conducted four times each year, i.e., once each quarter. Each monitoring shall be conducted in strict accordance with relevant provisions of the State so as to ensure that the monitoring data is accurate, valid and true. Completing the on-line data filling and reporting work with Shaoguan Municipal Environmental Protection Bureau. Relevant data will be reviewed, recorded and publicly disclosed by Shaoguan Municipal Environmental Protection Bureau.

(XVIII) SOCIAL RESPONSIBILITY (continued)

2. Fulfilling other social responsibilities (continued)

(3) Safe production and environmental protection (continued)

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

Company or Subsidiary Name	Names of Key Pollutant and Specific Pollutant	Way of Emission	Quantity of Outlets	Distribution of Outlets	Concentration of Emission (mg/L)	Carried Pollutant Emission Standard (mg/L)	Total Amount of Emission (t)	Approved Total Amount of Emission (t/a)	Excessive Emission
Livzon Group (Ningxia) Pharmaceutical Manufacturing Co., Ltd	Chemical oxygen demand	Continuous	1	Sewage treatment plant at the north side of the factory	147	200	176.2	247.71	None
	Ammonia nitrogen				4	25	4.8	61.93	None
	Sulfur dioxide	Continuous	1	Boiler plant at the north side of the factory	82.5	200	84	156.816	None
	Nitrogen oxide	Continuous			99.6	200	104	156.816	None
	Particulate matter	Continuous			17.5	30	17.86	23.522	Yes

Note: On 10 May 2018, Livzon Group Ningxia Fuxing Pharmaceutical Manufacturing Co., Ltd. (麗珠集團寧夏福興製藥有限公司), a subsidiary of the Company, completed the acquisitions and merger of Livzon Group Ningxia Xinbeijiang Pharmaceutical Manufacturing Co., Ltd. (麗珠集團寧夏新北江製藥有限公司), a subsidiary of the Company, and changed its name to Livzon Group (Ningxia) Pharmaceutical Manufacturing Co., Ltd (麗珠集團(寧夏)製藥有限公司) ("Ningxia Pharmaceutical"). Pollutant emission license changed from two discharge outlets into one discharge outlet. The waste water from Ningxia Pharmaceutical is not directly discharged into the environment but into the sewage plant of Environmental Protection Center of Ningxia Xin'an Technology Co., Ltd. ("Xin'an Company") for re-treatment, and the concentration of emission is the concentration of emission of the waste water from Ningxia Pharmaceutical at the inlet of the sewage treatment system of Xin'an Company. The execution of emission standards for the acceptance standard of Xin'an Company sewage plant of COD and ammonia nitrogen shall be ≤ 200 mg/L and ≤ 25 mg/L respectively. The data is from Xin'an Company and total amount of discharge is the data of January – December 2018. The data concerning the concentration of emission, carried standard and total amount of emission of sulfur dioxide, nitrogen oxide and particulate matter is the data of January – December 2018. The source is continuous emission and the approved total amount of emission is the total amount of pollutant emission license. On 22 November 2018, Shizuishan Environmental Protection Bureau conducted a supervising monitoring. The average emission of particulate matter is 69.8 mg/m^3 (Standard limit is 30 mg/m^3), which exceeds the emission limit by 1.3 times. After carrying out the corrective measures, boiler gas particulate matter emitted now can be ensured to meet the emission standard.

Construction and operation of pollution prevention facilities:

The "three simultaneous" system was strictly implemented and the "three wastes" were effectively collected and treated. An amount of RMB25.00 million was invested in sewage treatment and the pretreatment (magnesium ammonium phosphate (MAP) precipitation pretreatment) + improved A/O treatment process was adopted. The designed treatment scale was $5,000 \text{ m}^3/\text{d}$, and the sewage, after being treated to reach the standard set forth in the agreement with Ningxia Xin'an Sewage Treatment Plant, was discharged through the sewage pipe network of the industrial park into Ningxia Xin'an Sewage Treatment Plant. The present boiler fuel gas control process is the "inside-boiler mixed burning of limestone flour + bag dedusting + water film dedusting, alkali liquor desulfurization + spraying defogging" process; since January 2018, the company has carried special emission limit standard set out in the Emission Standard of Air Pollutants for Boiler (GB13271-2014).

(XVIII) SOCIAL RESPONSIBILITY *(continued)***2. Fulfilling other social responsibilities** *(continued)***(3) Safe production and environmental protection** *(continued)***(vi) Livzon Group (Ningxia) Pharmaceutical Manufacturing Co., Ltd (麗珠集團(寧夏)製藥有限公司)**
(continued)

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

An official reply was made by the department of environmental protection of the autonomous region to the Environmental Impact Statement of the Bio-Pharmaceutical Production and Construction Project of Livzon Group Ningxia Fuxing Pharmaceutical Manufacturing Co., Ltd on July 5, 2012; the environmental protection acceptance for completion was granted by the department of environmental protection on May 8, 2015. An official reply was made by Pingluo County Government for the reconstruction and expansion of the coenzyme Q10 product line with an annual output of 120t in April 2016, which was accepted to be completed by Pingluo County Environmental Protection Bureau in March 2017. An official reply was made in respect of the Environmental Impact Statement of the Bio-Pharmaceutical Production and Construction Project of Livzon Group Ningxia Xinbeijiang Pharmaceutical Manufacturing Co., Ltd. on July 5, 2012; the environmental protection acceptance for completion was granted on November 30, 2015. An official reply was made by Pingluo County Government for the reconstruction and expansion of the lincomycin hydrochloride product line with an annual output of 360t in April 2016, which was accepted to be completed by Pingluo County Environmental Protection Bureau in March 2017. The company strictly implemented the “three simultaneous” system and took environmental protection measures required for environmental assessment, and environmental protection facilities ran normally. The company applied and received a new pollutant discharge permit of the State on December 31, 2017 and discharged pollutants in strict accordance with the requirements of the permit and strictly complied with all environmental management requirements and environmental protection policies.

Environmental Emergency Response Plan:

The company drew up the Emergency Plan of Livzon Group Ningxia Fuxing Pharmaceutical Manufacturing Co., Ltd for Environmental Emergencies and the Emergency Plan for Environmental Emergencies of Livzon Group Ningxia Xinbeijiang Pharmaceutical Manufacturing Co., Ltd. which were reviewed and filed (filing form number: 640221-2017-008-L and 640221-2007-007-L) and published in May 2017. Organise the identification of environmental factors and sources of danger and emergency drills within the company on a regular basis. Improve the operability of the emergency plan and the working level of emergency rescue personnel and the comprehensive coordination ability of the rescue team. In November 2018, the company re-amended the emergency plan, completed the preparation and passed expert review and was reporting to the environmental protection department.

Environmental self-monitoring scheme:

According to the planning requirements of Shizuishan Environmental Protection Bureau, the company has conducted self-monitoring since January 2018 and will conduct it once each quarter; the self-monitoring plan has disclosed to Shizuishan Environmental Protection Bureau for review. The automatic monitoring equipment has been connected with and accepted by the competent environmental protection department; the automatic monitoring equipment is sound and the monitoring data is accurate, effective and true.

(XVIII) SOCIAL RESPONSIBILITY *(continued)***2. Fulfilling other social responsibilities** *(continued)***(3) Safe production and environmental protection** *(continued)***(vi) Livzon Group (Ningxia) Pharmaceutical Manufacturing Co., Ltd (麗珠集團(寧夏)製藥有限公司)** *(continued)*

Administrative penalty and rectification:

In November 2018, Pingluo County Environmental Protection Bureau and Shizuishan Environmental Protection Bureau fined Ningxia Pharmaceutical RMB 300,000 and RMB 200,000 respectively, and Ningxia Pharmaceutical has fully paid up the fines. Reason of penalty: Methylbenzene containers in Mevastatin project refining workshop of Ningxia Pharmaceutical were on fire. During the fire extinguishment, as diversion channels were not constructed according to the requirements under the environment valuation, the factory did not have leakage prevention measures that part of the sewage containing Methylbenzene flushed into the green area of the factory and leaked into the open space outside of the east wall of the factory, which polluted the soil. After the incident, the contingent plan and related emergency measures were not carried out in time. Corrective measures: (1) recycle the sewage leaked out of the wall by the sewage recycling system, and entrust qualifying unit to handle the polluted soil with the standard of handling dangerous goods; (2) plan for the constructing of emergency diversion channels in the solvent-using 201 workshop, and use together with the emergency pool of volume of 1600m³; (3) set up monitor points at the incident location, and monitor the underground water and soil according to the requirement, after one month, the data shows the underground water and soil is not polluted; (4) Revise the contingency plan for environmental emergency incident and carry out training and drills. Result of the corrective measures: the data shows the underground water and soil is not polluted; after the construction of the diversion channels, in case of accident, the water can all be collected and handled to avoid pollution to the environment.

In December 2018, Shizuishan Environmental Protection Bureau fined Ningxia Pharmaceutical RMB 100,000, and Ningxia Pharmaceutical has fully paid up the fines. Reason of penalty: the average emission of particulate matter is 69.8mg/m³(Standard limit is 30mg/m³), which exceeds the emission limit in the Table 3 of the "Standards for the Emission of Air Pollutants by Biolers" (GB13271-2014) by 1.3 times. Corrective measures: replaced the damaged de-dusting machine bag, cleaned the stucco deposited in desulfurization tank, and planned for the transformation of the smoke extraction sprinkler system (as the ending part of the desulfurization and de-dusting system). Result of corrective measures: boiler gas particulate matter emitted now can be ensured to meet the emission standard.

Issue social responsibility report

Yes No

In compliance with the requirement of Appendix 27 of the Hong Kong Listing Rules, the Company will publish "Environmental, Social and Governance Report" no later than three months after the publication of this annual report.

(XIX) OTHER SIGNIFICANT EVENT

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

(I) CHANGES IN SHARES**1. Changes in Shares**

As at 31 December 2018, the share capital structure of the Company is as follows:

Unit: Share

	Before the current change		Increase/Decrease (+, -) due to the current change			After the current change	
	Number	Percentage	Reserve fund capitalised	Others	Sub-total	Number	Percentage
I. Shares subject to selling restrictions	15,503,755	2.80%	+3,207,346	-3,930,345	-722,999	14,780,756	2.05%
1 State-owned shares							
2 State-owned legal person shares	10,240,432	1.85%	+3,072,129	-	+3,072,129	13,312,561	1.85%
3 Other domestic shares	5,263,323	0.95%	+135,217	-3,930,345	-3,795,128	1,468,195	0.20%
Of which: Domestic legal person shares							
Domestic natural person shares	5,263,323	0.95%	+135,217	-3,930,345	-3,795,128	1,468,195	0.20%
4 Foreign shares							
Of which: Overseas legal person shares							
Overseas natural person shares							
II. Shares not subject to selling restrictions	537,727,614	97.20%	+162,727,324	+3,814,546	+166,541,870	704,269,484	97.95%
1 Ordinary shares denominated in Renminbi	348,458,846	62.99%	+105,946,694	+3,814,546	+109,761,240	458,220,086	63.73%
2 Domestically listed foreign shares							
3 Overseas listed foreign shares	189,268,768	34.21%	+56,780,630	-	+56,780,630	246,049,398	34.22%
4 Others							
III. Total number of shares	553,231,369	100.00%	+165,934,670	-115,799	+165,818,871	719,050,240	100.00%

Reasons for changes in equity

Applicable Not applicable

In March 2018, the Company has completed the third unlocking of the first grant under the Restricted A Shares Incentive Scheme and 4,038,407 shares have been unlocked with 775,748 locked shares held by the senior management, which resulted in an actual increase of 3,262,659 non-restricted shares of the Company that were listed on 13 April 2018.

In May 2018, the Company repurchased and cancelled Restricted Shares held by 17 Incentive Participants, which resulted in a decrease of the total share capital of the Company by 90,098 shares.

In June 2018, the Company repurchased and cancelled Restricted Shares held by 6 Participants, and the total share capital of the Company has decreased by 25,701 shares. Subsequently, the Company has completed the issuance of 3 A Shares for every 10 A Shares to all A Shareholders by way of conversion of capital reserve. After the conversion of capital reserve, the A Shares of the Company has increased 109,154,040 shares. On 30 June 2018, the Company has 473,000,842 A Shares in issue and 189,268,768 H Shares in issue.

In July 2018, the Company completed the issuance of 3 H Shares for every 10 H Shares to all H Shareholders by way of conversion of capital reserve. Following the conversion, the H Shares of the Company increased by 56,780,630 shares to 246,049,398 shares.

In July 2018, the Board of the Company appointed Mr. Tang Yanggang as Executive Vice President of the Company, therefore, shares subject to selling restrictions increased by 1,732 shares.

In October 2018, the Board of the Company appointed Ms. Huang Yuxuan as Vice President of the Company, therefore, shares subject to selling restrictions increased by 30,293 shares.

In December 2018, the Company has completed the third unlocking under reserved grant of the Restricted A Shares Incentive Scheme with 583,912 shares unlocked and listed on 28 December 2018.

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

Applicable Not applicable

On 15 December 2017, the sixth meeting of the ninth session of the Board and the fifth meeting of the ninth session of the Supervisory Committee of the Company considered and approved the Resolution on the Adjustment of Matters Relating to the Restricted Shares Incentive Scheme, the Resolution on Repurchase and Cancellation of Certain Restricted Shares and the Resolution on the Unlocking of the Second Unlock Period for the Reserved Grant Under the Restricted Shares Incentive Scheme of the Company.

On 29 March 2018, the twelfth meeting of the ninth session of the Board and the ninth meeting of the ninth session of the Supervisory Committee of the Company considered and approved the Resolution on the Adjustment of Matters Relating to the Restricted Shares Incentive Scheme, the Resolution on Repurchase and Cancellation of Certain Restricted Shares and the Resolution on the Unlocking of the Third Unlock Period for the Reserved Grant Under the Restricted Shares Incentive Scheme of the Company.

On 21 May 2018, the Company convened the 2017 Annual General Meeting, 2018 Second Class Meeting of A shareholders and 2018 Second Class Meeting of H Shareholders, at which, the "2017 Annual Profit Distribution Plan of the Company" was considered and approved.

On 18 December 2018, the twenty-second meeting of the ninth session of the Board and the seventeenth meeting of the ninth session of the Supervisory Committee of the Company considered and approved the Resolution on the Adjustment of Matters Relating to the Restricted Shares Incentive Scheme, the Resolution on Repurchase and Cancellation of Certain Restricted Shares and the Resolution on the Unlocking of the Third Unlock Period for the Reserved Grant Under the Restricted Shares Incentive Scheme of the Company.

Transfer of changes in equity

Applicable Not applicable

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

Applicable Not applicable

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

Applicable Not applicable

(I) CHANGES IN SHARES *(continued)***2. Changes in shares with selling restrictions**

✓ Applicable □ Not applicable

Unit: Share

Name of shareholder	Number of shares with selling restrictions at the Beginning of the Year	Number of shares relieved from restrictions for the Year	Increase in number of shares with selling restrictions in the Year	Number of shares with selling restrictions at the End of the Year	Reasons for selling restrictions	Date of relieving from restrictions
Guangzhou Begol Trading Corporation	10,240,432	-	3,072,129	13,312,561	shares pledged, shares locked, shares with selling restriction before initial issue	not confirmed
Tao Desheng	269,090	107,636	188,363	349,817	locked shares held by the senior management	13 April 2018
Tang Yanggang	15,210	15,210	1,732	1,732	locked shares held by the senior management	13 April 2018
Yang Daihong	172,126	68,851	120,489	223,764	locked shares held by the senior management	13 April 2018
Xu Guoxiang	269,090	107,636	188,363	349,817	locked shares held by the senior management	13 April 2018
Lu Wenqi	172,126	68,851	120,489	223,764	locked shares held by the senior management	13 April 2018
Si Yanxia	107,610	43,044	75,328	139,894	locked shares held by the senior management	13 April 2018
Zhou Peng	61,937	28,291	46,871	80,517	locked shares held by the senior management	13 April 2018
Huang Yuxuan	11,154	11,154	30,293	30,293	locked shares held by the senior management	13 April 2018
Yang Liang	51,207	20,483	35,845	66,569	locked shares held by the senior management	13 April 2018
Incentive participants (non-senior management)	4,133,773	4,012,043	135,217	2,028	restricted shares under the share incentive scheme	13 April 2018; 15 May 2018; 11 June 2018; 28 December 2018
Total	15,503,755	4,483,199	4,015,119	14,780,756	-	-

Note: During the Year, additional restricted shares held by the senior management resulted from conversion to bonus shares and restricted shares of the senior management, which will be released from the lock-up at a certain percentage in accordance with the Securities Law of the PRC and other relevant laws and regulations.

(I) CHANGES IN SHARES *(continued)***3. Sufficient public float**

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

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

Applicable Not applicable

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

Applicable Not applicable

Please see Chapter VI “Changes in Shares” of this annual report for details.

Existing Staff Shares

Applicable Not applicable

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

As of the end of the year, the Company had a total of 46,397 Shareholders which included 13 H Shareholders^(Note 1) and 46,384 A Shareholders.

						<i>Unit: Share</i>	
Total number of ordinary shareholders as at the End of the Year	46,397 holders (46,384 A Shareholders)	Total number of ordinary shareholders as at the end of the month prior to the disclosure date of the annual report	43,866 holders (43,849 A Shareholders)	Total number of preferential shareholders with voting rights resumed at the End of the Year (if any)	0	Total number of preferential shareholders with voting rights resumed as at the end of the month prior to the disclosure date of the annual report (if any)	0

(III) SHAREHOLDERS AND ULTIMATE BENEFICIAL OWNER (continued)**2. Shareholdings of Shareholders Holding Above 5% Or Top Ten Shareholders of the Company**

Name of shareholder (Full name)	Nature of shareholder	Class of shares	Shareholding percentage	Number of shares held	Change	Number	Number	Pledge or lock up	
				at the End of the Year (Shares)	during the Year (Shares)	of shares with selling restrictions (Shares)	of shares without selling restrictions (Shares)	Share status	Number (Shares)
HKSCC Nominees Limited ^(Note 2)	Foreign legal person	H Share	34.21%	245,972,852	+56,753,139	-	245,972,852	-	-
Joincare Pharmaceutical Industry Group Co., Ltd.	Domestic non-state owned legal person	A Share	23.68%	170,289,838	+39,297,655	-	170,289,838	-	-
Guangzhou Begol Trading Corporation	State owned legal person	A Share	1.85%	13,312,561	+3,072,129	13,312,561	-	Pledge and lock up	13,312,561
Shenzhen Haibin Pharmaceutical Co., Ltd.	Domestic non-state owned legal person	A Share	1.80%	12,946,796	+2,987,722	-	12,946,796	-	-
Penghua Asset Management-SPDB-Hwabao Trust – Hwabao-Kang Sheng Tian Tian Xiang Shang Assembled Funds Trust Scheme	Others	A Share	1.75%	12,590,500	-1,282,365	-	12,590,500	-	-
Central Huijin Investment Company Limited	State owned legal person	A Share	1.29%	9,274,416	+2,140,250	-	9,274,416	-	-
National Social Security Fund 418	Others	A Share	0.95%	6,796,055	+6,796,055	-	6,796,055	-	-
China Huarong Asset Management Co., Ltd.	State owned legal person	A Share	0.82%	5,895,500	+1,095,500	-	5,895,500	-	-
National Social Security Fund 401	Others	A Share	0.70%	4,999,982	+4,999,982	-	4,999,982	-	-
National Social Security Fund 413	Others	A Share	0.65%	4,641,057	+641,013	-	4,641,057	-	-

Description on strategic investors or general legal persons becoming the top ten shareholders by placing of new shares (if any) Not applicable

Description on connection and concert in actions among the aforesaid shareholders

- (1) On 2 January 2004, Joincare and Begol (保科力) entered into a share transfer and custody agreement and a share pledge agreement, pursuant to which the 6,059,428 original domestic legal person shares (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 after the Company's implementation of 2017 Equity Distribution, the number of shares was increased to 13,312,561 shares) of the Company held by Begol have been directly transferred, entrusted and pledged to Joincare; (2) Haibin Pharma (海濱製藥) is Joincare's directly and indirectly wholly owned subsidiary; (3) both National Social Security Fund 418, National Social Security Fund 401 and National Social Security Fund 413 belong to the National Social Security Fund; (4) the Company does not aware whether the other Shareholders mentioned above are related parties or persons acting-in-concert as defined in the Administration Procedures of the Takeover of Listed Companies.

(III) SHAREHOLDERS AND ULTIMATE BENEFICIAL OWNER *(continued)***3. Shareholdings of Top Ten Shareholders Without Selling Restrictions**

Name of shareholder	Number of shares held without selling restriction at the End of the Year (Shares)	Type of shares	
		Category of shares	Number (Shares)
HKSCC Nominees Limited <i>(Note 2)</i>	245,972,852	Overseas listed foreign shares	245,972,852
Joincare Pharmaceutical Industry Group Co., Ltd.	170,289,838	Ordinary shares denominated in Renminbi	170,289,838
Shenzhen Haibin Pharmaceutical Co., Ltd.	12,946,796	Ordinary shares denominated in Renminbi	12,946,796
Penghua Asset Management-SPDB-Hwabao Trust -Hwabao-Kang Sheng Tian Tian Xiang Shang Assembled Funds Trust Scheme	12,590,500	Ordinary shares denominated in Renminbi	12,590,500
Central Huijin Investment Company Limited	9,274,416	Ordinary shares denominated in Renminbi	9,274,416
National Social Security Fund 418	6,796,055	Ordinary shares denominated in Renminbi	6,796,055
China Huarong Asset Management Co., Ltd	5,895,500	Ordinary shares denominated in Renminbi	5,895,500
National Social Security Fund 401	4,999,982	Ordinary shares denominated in Renminbi	4,999,982
National Social Security Fund 413	4,641,057	Ordinary shares denominated in Renminbi	4,641,057
Industrial Securities-Industrial Securities-Industrial Securities Jin Qilin No. 5 Collective Asset Management Plan	4,457,984	Ordinary shares denominated in Renminbi	4,457,984

(III) SHAREHOLDERS AND ULTIMATE BENEFICIAL OWNER *(continued)***3. Shareholdings of Top Ten Shareholders Without Selling Restrictions** *(continued)*

Description on connection and concert in actions among top ten shareholders without selling restrictions themselves and between top ten shareholders without selling restrictions and top ten shareholders	(1) On 2 January 2004, Joincare and Begol entered into a share transfer and custody agreement and a share pledge agreement, pursuant to which the 6,059,428 original domestic legal person shares (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 after the Company's implementation of 2017 Equity Distribution, the number of shares was increased to 13,312,561 shares) of the Company held by Begol have been directly transferred, entrusted and pledged to Joincare; (2) Haibin Pharma (海濱製藥) is Joincare's directly and indirectly wholly owned subsidiary; (3) both National Social Security Fund 418, National Social Security Fund 401 and National Social Security Fund 413 belong to the National Social Security Fund; (4) the Company does not aware whether the other Shareholders mentioned above are related parties or persons acting-in-concert as defined in the Administration Procedures of the Takeover of Listed Companies.
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Description of the top ten shareholders of ordinary shares involved in the margin financing and securities lending business (if any)	Not Applicable
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Note 1: Total number of H Shareholders is calculated based on the record of Tricor Investor Services Limited, the H Share Registrar of the Company.

Note 2: HKSCC Nominees Limited is a nominee holder of H Shares of the Company, and the Company cannot ascertain whether such H Shares are subject to any pledge or lock-up, and the shareholdings under HKSCC Nominees Limited's name for others include 125,665,133 H Shares held by Topsino (天誠實業), which is a wholly-owned subsidiary of Joincare (健康元), the Company's controlling shareholder.

Whether any of the top ten ordinary shareholders and the top ten non-restricted ordinary shareholders of the Company conducted any transactions on agreed repurchases during the reporting period

YES NO

The top ten ordinary shareholders and the top ten non-restricted ordinary shareholders of the Company did not conduct any transactions on agreed repurchases during the reporting period.

(III) SHAREHOLDERS AND ULTIMATE BENEFICIAL OWNER *(continued)***4. Controlling Shareholder of the Company**

Name of Controlling Shareholder	Legal representative	Date of establishment	Unified social credit code	Registered capital	Principal activities
Joincare Pharmaceutical Industry Group Co., Ltd. (健康元藥業集團股份有限公司)	Zhu Baoguo (朱保國)	18 December 1992	91440300618874367T	RMB1,938,033,338	Research and development of medicines, Chinese medicines, chemical bulk medicines, chemical drug preparation products, antibiotics bulk medicines and their preparations, (exclusive of research and development of state protected resources for Chinese herbal medicines, secret recipe of Chinese medicines), wholesale, import and export and related supplementary businesses (except the commodities subject to the state-run trade management with regard to the commodities subject to quota and license management, make applications in accordance with the relevant regulations of the State), research and development of food, health food, cosmetics; sales of prepackaged food (excluding frozen food), sale of special food (health food sales).

Equity interests in other controlled and invested companies whose shares were listed overseas during the Reporting Period by controlling shareholders

Joincare (Stock Abbreviation: Joincare and Stock Code: 600380) is listed on the Shanghai Stock Exchange and please see the full text of annual report for 2018 as disclosed in the website of the Shanghai Stock Exchange (<http://www.sse.com.cn>) for more details about its operating results, financial position, cash flow and future development strategy.

Changes in controlling shareholders during the Year

Applicable Not applicable

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

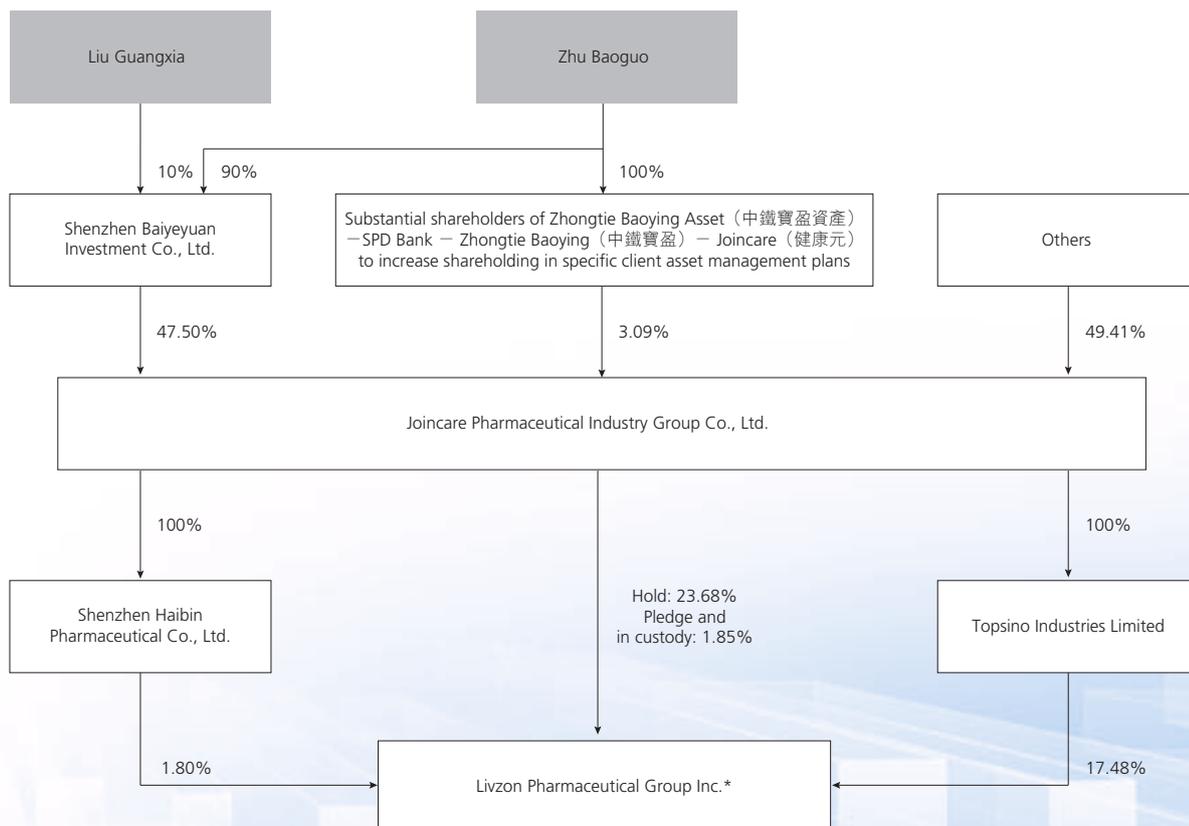
(III) SHAREHOLDERS AND ULTIMATE BENEFICIAL OWNER *(continued)***5. Ultimate Beneficial Owner of the Company**

Name of the ultimate beneficial owner	Nationality	Obtain any right of residence of other countries or regions
Zhu Baoguo (朱保國)	Chinese	No
Careers and duties	Please see related details in the paragraph headed "DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES" of the Chapter VIII in this annual report.	
Controlled domestic and overseas listed companies for the past ten years	Joincare (健康元)	

Changes in the ultimate beneficial owner during the Year

Applicable Not applicable

No change occurred on the ultimate beneficial owner during the Year.

Structure chart on ownership and controlling relationship between the Company and its ultimate beneficial owner

(III) SHAREHOLDERS AND ULTIMATE BENEFICIAL OWNER *(continued)***5. Ultimate Beneficial Owner of the Company** *(continued)*

Structure chart on ownership and controlling relationship between the Company and its ultimate beneficial owner *(continued)*

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

2. On 19 June 2018, 850,000 restricted shares have been repurchased and cancelled by Joincare, of which share capital decreased from 1,573,778,272 shares to 1,572,928,272 shares. In October 2018, Joincare implemented a rights issue, and shareholding of Baiyeyuan in Joincare changed from 742,415,520 shares to 920,595,245 shares, Mr. Zhu Baoguo shareholding in Joincare in the form of targeted asset management plans changed from 48,277,046 shares to 59,863,537 shares. On 24 October 2018, 365,105,066 shares in total from Joincare's rights issue were traded, and the total share capital of Joincare changed from 1,572,928,272 shares to 1,938,033,338 shares. As such, the shareholding of Baiyeyuan in Joincare increased to 47.50% from 47.17%. The shareholding of Mr. Zhu Baoguo in the total share capital of Joincare in the form of targeted asset management plans increased from 3.07% to 3.09%.

Control of the ultimate beneficial owner under trust or other asset management

Applicable Not applicable

6. Other legal shareholders holding more than 10%

Applicable Not applicable

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

Applicable Not applicable

(III) SHAREHOLDERS AND ULTIMATE BENEFICIAL OWNER (continued)

8. As at 31 December 2018, 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 the Shares interested/subject to the short position	Position	As a percentage to the specific class of issued share of the Company	As a percentage to 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	Spouse interest	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		
	Person having a 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	Person having a security interest in shares	1,134,880 H Shares ⁽⁶⁾	Long position		
		18,518,362 H Shares ⁽⁶⁾	Long position		
		19,653,242 H Shares ⁽⁶⁾		7.99%	2.73%

Notes:

- (1) Among these shares, 183,602,399 shares and 12,946,796 shares are held directly by Joincare (健康元) and its wholly-owned subsidiary, Haibin Pharma (海濱製藥).
- (2) These shares are held directly by Topsino, a wholly-owned subsidiary of Joincare (健康元).
- (3) As Ms. Liu Guangxia is the spouse of Mr. Zhu Baoguo, Ms. Liu Guangxia is deemed to be interested in Mr. Zhu Baoguo's equities in which he is deemed to be interested.
- (4) These shares are held directly by Haibin Pharma, a wholly-owned subsidiary of Joincare (健康元).
- (5) These shares were directly transferred from, entrusted and pledged by Begol in favor of Joincare (健康元) in accordance with the share transfer, custody and pledge agreement with Joincare (健康元) and Zhuhai Lishi Investment Co., Ltd. (珠海市麗士投資有限公司) dated 2 January 2014, the share transfer and custody agreement and the share pledge agreement with Joincare (健康元).
- (6) These shares include 1,134,880 shares with security interest and 18,518,362 shares that are interest of controlled corporations, among which 146,460 shares are cash-settled derivatives. Interest of controlled corporations is held as to 114,317 shares, 27,620 shares, 4,615,838 shares, 271,796 shares, 5,772 shares, 17,290 shares and 13,465,729 shares by its wholly-owned 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. respectively.

130 VII. PREFERRED SHARES

Applicable Not applicable

There are no preferred shares of the Company during the Year.

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

✓ Applicable □ Not applicable

According to the 2017 profit distribution proposal, the Company completed the issue of 3 Shares for every 10 Shares to all Shareholders by way of conversion of capital reserve in July 2018. Given that the Directors and the senior management of the Company held A Shares of the Company through the Restricted A Shares Incentive Scheme, there was a change in shareholding. Save as disclosed above, there were no changes in shareholdings of Directors, Supervisors and Senior Management of the Company during the Reporting Period. Details of shareholdings of these persons are as follows:

Name	Position	Status of Office		Sex	Age	Date of the beginning of the term	Date of the end of the term	Number of shares held at the				
								Beginning of the Period (shares)	Additional shareholdings this Year (shares)	Reduction of shareholding this Year (shares)	Other changes (shares)	End of the Year (shares)
Tao Desheng (陶德勝)	Vice Chairman	Current		Male	54	August 2014	-	358,787	-	-	107,636	466,423
Xu Guoxiang (徐國祥)	Director, Vice President	Current		Male	56	December 2007	-	358,787	-	-	107,636	466,423
Tang Yanggang (唐揚剛)	Director, President	Current		Male	49	December 2018	-	2,310 ^{note}	-	-	-	2,310
Yang Daihong (楊代宏)	Vice President	Current		Male	52	May 2006	-	229,502	-	-	68,851	298,353
Lu Wenqi (陸文岐)	Vice President	Resigned		Male	51	October 2006	July 2018	229,502	-	-	68,851	298,353
Si Yanxia (司燕霞)	Vice President	Current		Female	50	June 2014	-	143,481	-	-	43,044	186,525
Zhou Peng (周鵬)	Vice President	Current		Male	55	November 2016	-	82,582	-	-	24,775	107,357
Huang Yuxuan (黃喻璇)	Vice President	Current		Female	52	October 2018	-	40,391 ^{note}	-	-	-	40,391
Yang Liang (楊亮)	Secretary to the Board	Current		Male	35	June 2014	-	68,276	-	-	20,483	88,759
Total	-	-	-	-	-	-	-	1,513,618	-	-	441,276	1,954,894

Note: Date of the beginning of the term is effective since the date of first appointment. Mr. Lu Wenqi has resigned as a Vice President of the Company with effect from 17 July 2018. Mr. Tao Desheng has resigned as the President of the Company and has been re-designated from an Executive Director to a Non-Executive Director with effect from 28 December 2018. Mr. Tang Yanggang was appointed as Executive Vice President, President, and Executive Director of the Company on 17 July 2018, 28 December 2018 and 14 February 2019 respectively, the number of shares held at the Beginning of the Period is the number of A shares of the Company held from the date of his appointment. Ms. Huang Yuxuan was appointed as Vice President of the Company on 25 October 2018, the number of shares held at the Beginning of the Period is the number of A shares of the Company held from the date of her appointment.

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

1. As at 31 December 2018, the interests or short positions of the Directors, Supervisors or chief executives of the Company, in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of SFO) as recorded in the register required to be kept under Section 352 of the SFO, or as otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code were as follows:

Interest in shares/underlying shares of the Company

Name of Director	Capacity	Number of shares/underlying shares Interested <i>(Long position)</i>	As a percentage of the specific class to issued shares of the Company	As a percentage to the total issued shares of the Company
Mr. Zhu Baoguo (朱保國先生)	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 (陶德勝先生)	Beneficial owner Spouse interest	661,423 A Shares ⁽⁴⁾⁽¹⁷⁾		
		159,728 A Shares ⁽⁵⁾⁽⁶⁾⁽¹⁷⁾		
		821,151 A Shares	0.17%	0.11%
Mr. Xu Guoxiang (徐國祥先生)	Beneficial owner	661,423 A Shares ⁽⁷⁾⁽¹⁷⁾	0.14%	0.09%
Mr. Fu Daotian (傅道田先生)	Beneficial owner	156,000 A Shares ⁽⁸⁾⁽¹⁷⁾	0.03%	0.02%
Mr. Tang Yanggang (唐陽剛先生)	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 <i>(Long position)</i>	As a percentage of the equity interest of associated corporation
Mr. Zhu Baoguo	Baiyeyuan Joincare	Beneficial owner	72,000,000 (RMB)	90.00%
		Beneficial owner	59,863,537 shares	
		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 Limited ⁽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 (唐陽剛先生)	Xinbeijiang Pharmaceutical ⁽¹⁶⁾	Interest of controlled corporations	20,238,780 shares ⁽¹⁶⁾	8.44%
Mr. Qiu Qingfeng (邱慶豐先生)	Joincare	Beneficial owner	117,409 shares	0.01%

(I) CHANGES IN SHAREHOLDINGS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT *(continued)***1. As at 31 December 2018, the interests or short positions of the Directors, Supervisors or 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)***Interest in shares of associated corporations of the Company** *(continued)*

Notes:

- (1) Joincare (健康元) is 47.50% held by Baiyeyuan which is in turn 90% held by Mr. Zhu Baoguo (朱保國). Mr. Zhu Baoguo (朱保國) is deemed to be interested in the shares of the Company and the equity interest of its associated corporations in which Joincare (健康元) 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 from, entrusted and pledged by Begol in favor of Joincare (健康元) in accordance with the share transfer, custody and pledge agreement with Joincare (健康元) and Zhuhai Lishi Investment Co., Ltd. (珠海市麗士投資有限公司) dated 2 January 2004, the share transfer and custody agreement and the share pledge agreement with Joincare (健康元)) and 12,946,796 shares are held directly by Joincare (健康元) and its wholly-owned subsidiary, Haibin Pharma, respectively.
- (3) These shares are held directly by Topsino, a wholly-owned subsidiary of Joincare (健康元).
- (4) These shares include 195,000 share options, which are able to subscribe 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 78,000 A Shares of the Company pursuant to the 2018 Share Options Incentive Scheme of the Company.
- (6) As Mr. Tao Desheng is the spouse of Ms. Hou Xuemei, Mr. Tao Desheng is deemed to be interested in Ms. Hou Xuemei's shares and underlying shares in which she directly holds.
- (7) These shares include 195,000 share options, which are able to subscribe 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 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 156,000 A Shares of the Company pursuant to the 2018 Share Options Incentive Scheme of the Company.
- (10) These shares are held by Baiyeyuan.
- (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; Zhuhai Livzon Biotechnology Co., Limited (珠海市麗珠生物醫藥科技有限公司) ("Biotechnology Company Limited") 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.
- (15) In August 2018, Livzon Biologics newly issued 24,574,830 ordinary shares and 12,500,000 series A preferred shares. After the issuance, ordinary shares of Livzon Biologics increased from 100,000,000 shares to 124,574,830 shares, and the total share capital increased from 100,000,000 shares to 137,074,830 shares. Hence, Joincare 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 in turn is directly 45.50% held by Mr. Tang Yanggang.
- (17) For details of the aforesaid 2018 Share Options Incentive Scheme, please refer to "Share Options Incentive Scheme" in Chapter IV of this annual report.

(II) CHANGES IN DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Name	Occupation	Type	Date	Reason
Lu Wenqi	Vice President	Resigned	17 July 2018	Personal family reasons
Tang Yanggang	Executive Vice President	Appointed	17 July 2018	Appointed as Executive Vice President of the Company with the approval of the Board of the Company with effect from 17 July 2018.
	President	Appointed	28 December 2018	Appointed as President of the Company with the approval of the Board of the Company with effect from 28 December 2018.
	Executive Director	Appointed	14 February 2019	Appointed as Executive Director of the Company with the approval of the 2019 second extraordinary general meeting of the Company
Huang Yuxuan	Vice President	Appointed	25 October 2018	Appointed as Vice President of the Company with the approval of the Board of the Company with effect from 25 October 2018.
Tao Desheng	President	Resigned	28 December 2018	Work adjustment reasons

(III) HOLD POSITION

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

1. Brief Biography of Executive Director

Mr. Tang Yanggang (唐陽剛), aged 49, is currently our Executive Director and President, and also served as a director in other subsidiaries of the Group. Mr. Tang graduated from Sichuan University with a bachelor degree in microbiology in 1992 and is a senior pharmaceutical engineer. In 2008, he joined Xinbeijiang Pharmaceutical, where he served as the technical director, general manager, chairman of the board and secretary to the party committee. Since July 2015 to present, he has been the general manager of the bulk medicine business division of the Company and the chairman of the board of Xinbeijiang Pharmaceutical. He is also the vice-chairman of Qingyuan Federation of Industry and Commerce, a member of the Qingyuan Municipal Chinese People's Political Consultative Conference and the vice-chairman of Qingyuan High-Tech Enterprise Association. Mr. Tang has been the Executive Vice President of our Company from July December 2018, and has been the President of the Company since December 2018 to present. Mr. Tang has been our Executive Director from February 2019 to present.

Mr. Xu Guoxiang (徐國祥先生), aged 56, is currently our Executive Director and Vice President. From November 2010 to November 2011, Mr. Xu attended an advanced EMBA course in the PRC's pharmaceutical industry organised by the Medical School of Peking University (北京大學醫學部) and obtained a completion certificate. From 2000 to 2005, Mr. Xu was the director of Yangtze River Pharmaceutical Co., Ltd. (揚子江製藥股份有限公司). In March 2007, he was our Chief Sale Supervisor and the general manager of our branch company in Henan Province. Mr. Xu has been our Vice President from December 2007 to present. He is currently the vice president of China Association of Pharmaceutical Commerce, the standing council member of the Chinese Hospital Association and the council member of the Bethune Charitable Foundation. Since June 2017 to present, he has been our executive Director.

(III) HOLD POSITION *(continued)***1. Brief Biography of Executive Director** *(continued)*

Mr. Fu Daotian (傅道田先生), aged 56, is currently our Executive Director and Vice President and serves as a director of the Company's subsidiaries. Mr. Fu graduated from Iowa State University and obtained his doctorate degree in 1989, and carried out his postdoctoral research at the Complex Carbohydrate Research Center in University of Georgia in 1990. He served as the analysis and research manager and the quality control manager of Neose Pharmaceuticals from 1992 to 1998, as a director at Primedica division of Genzyme Transgenics Corporation in the United States from 1998 to 2001, as the technology director, senior technology director and deputy president in technology research of Genzyme Corporation from 2001 to 2012. He has been the director of EPIRUS BIOPHARMACEUTICALS, INC. (NASDAQ: EPRS) from July 2014 to July 2016. From May 2016 to May 2017, he has served as the Chairman of Biological Committee of International Society of Pharmaceutical Engineering (ISPE). He has been the deputy general manager and the current general manager of Livzon MABPharm Inc. from 2012 to present, and our Vice President and our Executive Director from March 2014 and from June 2014 to present, respectively. From May 2015 to present, he has served as a director of Cynvenio Biosystems, Inc. From March 2017 to present, he has served as the General Manager of Livzon MABPharm (US) Inc. (麗珠單抗生物技術(美國)有限公司).

2. Brief Biographies of Non-executive Directors

Mr. Zhu Baoguo (朱保國先生), aged 56, is currently our Chairman, Non-executive Director and the Chairman of our Strategic Committee, and also served as a Director in other subsidiaries of the Group. Mr. Zhu obtained his bachelor's degree in chemistry from Henan Normal University (河南師範大學) in 1985. Since 2002 to present, Mr. Zhu has been the chairman of our Board and since April 2006 to September 2013, he has also been the president of our Company. Mr. Zhu is also the founder of Joincare (健康元), and is currently the chairman of Joincare (健康元). Since November 2014, he has been honorary vice president of Shenzhen General Chamber of Commerce (深圳市工商聯(總商會)). Mr. Zhu Baoguo is the spouse of Ms. Liu Guangxia (劉廣霞女士), being one of our controlling shareholders.

Mr. Tao Desheng (陶德勝先生), aged 54, who joined the Company in 1985 is currently our Non-executive Director, Vice Chairman, authorized representative and a committee member of Strategic Committee, Nomination Committee and Remuneration and Assessment Committee, and also served as a director in other subsidiaries of the Group. Mr. Tao graduated with a bachelor's degree in chemistry from the faculty of pharmaceutical chemistry of the Nanjing School of Pharmaceutical Sciences (南京藥學院). From 2000 to 2002, Mr. Tao attended a postgraduate advanced course in enterprise management organised by Sun Yat-Sen University (中山大學). Mr. Tao obtained his licensed pharmacist qualification (執業藥師) in October 2002 and the title of senior engineer in pharmaceutical manufacturing (professor) (製藥專業高級工程師(教授)職稱) in 2013. Mr. Tao has been the Vice President and President of our Company from June 2005 to March 2014 and from March 2014 to December 2018 respectively. He has been our Executive Director from July 2009 to December 2018. Mr. Tao has been our Vice Chairman since August 2014 to present.

Mr. Qiu Qingfeng (邱慶豐先生), aged 47, is currently our Non-executive Director. Mr. Qiu obtained his EMBA from China Europe International Business School (中歐國際工商學院) in September 2007. He is a nonpracticing member of the Chinese Institute of Certified Public Accountants, Mr. Qiu joined Shenzhen Taitai Pharmaceutical Company Limited (深圳太太藥業有限公司) in 1996 and is currently a director and the vice president of Joincare Pharmaceutical Industry Group Co., Ltd. (健康元藥業集團股份有限公司). Mr. Qiu was the Supervisor and the Chief Supervisor of the Company from June 2005 to April 2007. Mr. Qiu has been our Non-executive Director from April 2007 to present.

(III) HOLD POSITION *(continued)***3. Brief Biographies of Independent Non-executive Directors**

Mr. Xu Yanjun (徐焱軍先生), aged 46, is currently our Independent Non-executive Director, chairman of our Audit Committee and a member of our Remuneration and Assessment Committee and an associate professor and a postgraduate tutor at the International Business School of Jinan University (暨南大學), and a Chinese certified public accountant. He is also a member of China Association Promoting Democracy and member of Zhuhai Committee of Chinese People's Political Consultative Conference. Mr. Xu graduated from Wuhan University (武漢大學) and obtained his bachelor degree of science in 1995, graduated from Zhongnan University of Economics and Law (中南財經政法大學) and obtained his master degree in accounting in 2003, and graduated from Jinan University (暨南大學) and obtained his doctorate degree in management (accounting) in 2010. He had served as a quality controller at Wuhan Research Institute of Biological Products of Sinopharm Group, a project manager of Hubei An Yong Xin Accounting Firm (湖北安永信會計師事務所) and a project manager at Guangdong Branch of Zhongxingcai Guanghua CPA (formerly Zhuhai Yoanda CPA). He has been an independent director of Zhuhai Hokai Medical Instruments Co., Ltd. (300273.SZ) from April 2013 to present. He has been our Independent Non-executive Director from June 2014 to present.

Mr. Guo Guoqing (郭國慶先生), aged 56, is currently our Independent Non-executive Director, the Chairman of our Remuneration and Assessment Committee and a member of our Audit Committee and Nomination Committee. Mr. Guo obtained his doctoral degree in economics from Renmin University of China (中國人民大學) in January 1998. Mr. Guo is a committee member of 7th All-China Youth Federation (全國青聯會), 8th, 9th and 10th CPPCC National Committee (全國政協) and a member of the 11th National People's Congress (全國人民代表大會). He was one of the experts entitled to special subsidy granted by the State Council of the PRC. Mr. Guo has successively been a deputy director of the School of Trade Economics, the vice-president of the Faculty of Business Administration of Renmin University of China and the vice chairman of China Marketing Association of University (中國高校市場學研究會). Mr. Guo is currently a professor and doctoral tutor of the School of Business of Renmin University of China (中國人民大學) and the director of PRC marketing research centre of Renmin University of China (中國人民大學). Mr. Guo is also a consultant of China Marketing Association of University (中國高校市場學研究會), the vice-president of PRC Business History Society (中國商業史學會), an expert of the National Natural Science Foundation of Management Science Review Panel (國家自然科學基金委員會管理科學部評審組) and deputy editor of Journal of Chinese Marketing (《中國營銷學報》). Mr. Guo has been our Independent Non-executive Director from June 2013 to present.

Mr. Wang Xiaojun (王小軍先生), aged 64, is currently our Independent Non-executive Director. Mr. Wang graduated from Renmin University of China (中國人民大學) majoring in law in July 1983 and graduated from the Graduate School of the Chinese Academy of Social Sciences (中國社會科學院) in December 1986. Mr. Wang qualified as a lawyer in the PRC in 1988, and passed solicitor qualifying examinations in Hong Kong in 1992. Mr. Wang currently holds lawyer licences in Hong Kong, England and the PRC. During the period from 1992 to 2001, Mr. Wang served as an assistant manager in the China Listing Affairs Unit of the Hong Kong Stock Exchange, a solicitor of Richards Butler, an assistant director of Peregrine Capital Limited and a director of ING Barings Investment Bank. In 2001, he established X.J. Wang & Co. Mr. Wang is currently a partner of Junhe Law Offices. Mr. Wang was named as "Leading Lawyers in Capital Markets and Corporate Finance" by Asialaw from 2008 to 2016. Mr. Wang has been our Independent Non-executive Director from September 2013 to present.

Mr. Zheng Zhihua (鄭志華先生), aged 48, is currently our Independent Non-executive Director. He graduated from Medical Enterprises Management, China Pharmaceutical University with a Bachelor of Science degree in July 1992. In July 2002, he received an MSc in Biochemistry (pharmacy direction) from Sun Yat-sen University. Since 1992, Mr. Zheng has worked in Guangdong Pharmaceutical Association, and served as a committee member, deputy head of the Information Division, head of the Academic Division and the deputy secretary-general, and is currently as the secretary-general. He was qualified as a director pharmacist by the Department of Personnel of Guangdong Province in 2007. Mr. Zheng has been our Independent Non-executive Director from June 2015 to present.

(III) HOLD POSITION *(continued)***3. Brief Biographies of Independent Non-executive Directors** *(continued)*

Mr. Xie Yun (謝耘先生), aged 48, is currently our Independent Non-executive Director, Chairman of the Nomination Committee and a member of the Audit Committee. Mr. Xie Yun graduated from the School of Finance, Shanghai University of Finance and Economics with a Bachelor Degree in 1993, and has obtained a Master of Business Administration Degree from the International East-West University in the United States in 2000. From 1993 to 2011, he has worked as an office director and financial manager in Zhuhai Airport Power Station Limited Company* (珠海機場電廠有限公司); as a sales manager, general manager assistant and vice-general manager in Zhuhai Huidafeng Electric Power Development (Group) Co., Ltd. of Zhuhai Electrical Bureau* (珠海電力局珠海匯達豐電力發展(集團)有限公司); as a director and general manager in Southern Zhuhai Hua Litong Special Transformer Limited Company* (珠海南方華力通特種變壓器有限公司); as a director of human resources department and director of business development in Zhuhai Water Affairs Group Limited* (珠海水務集團有限公司). Mr. Xie has been an independent director of Shenzhen Click Technology Co., Ltd. (深圳可立克科技股份有限公司) (002782.SZ) from May 2016 to May 2018. He is currently the vice president of Zhuhai Huajin Capital Co., Ltd. (珠海華金資本股份有限公司) (formerly known as Leaguer Stock Co., Ltd. (力合股份有限公司)) (000532.SZ). Mr. Xie has been our Independent Non-executive Director, Chairman of the Nomination Committee and a member of the Audit Committee from June 2015 to present.

4. Brief Biographies of Supervisors of the Company

Mr. Wang Maolin (汪卯林先生), aged 53, graduated from the Law Department of Anhui University (安徽大學) and was awarded with a bachelor's degree in Law. From January 2001 to present, Mr. Wang has been our Chief Supervisor of the legal supervision head office. Mr. Wang has been the chairman of our labour union and the employee representative supervisor of our Supervisory Committee from January 2010 to present. In January 2012, Mr. Wang was elected as a representative of 8th Zhuhai People's Congress (珠海市第八屆人民代表大會). Mr. Wang has served as the deputy chairman of the Zhuhai Committee of Jiusan Society (九三學社珠海市委員會) from July 2016 to present and representative of 9th Zhuhai People's Congress (珠海市第九屆人民代表大會) from January 2017 to present. He has served as the Chief Supervisor of our Supervisory Committee since June 2014 to present.

Mr. Huang Huamin (黃華敏先生), aged 47, an accountant and the Supervisor of the Company, obtained a bachelor's degree in Economics from the Shanghai University of Finance and Economics (上海財經大學) in 1993. Mr. Huang has been the chief financial officer and assistant to the general manager of Livzon Group Lixin Co. Ltd. (麗珠集團麗新公司), the manager of the finance department and business department of Livzon Group Liwei Co., Ltd. (麗珠集團麗威公司) as well as the manager of our finance clearing centre. From September 2008 to May 2009, Mr. Huang was employed by Zhuhai Gree Real Estate Co., Ltd. (珠海格力房產有限公司). Mr. Huang has been the Chief Financial Controller, the secretary to the board of directors and vice president of Gree Real Estate Co., Ltd. (格力地產股份有限公司) from May 2009, October 2009 and March 2016 to March 2017, respectively. He is currently a deputy general manager of Guangzhou Golden Eagle Asset Management Co., Ltd. (廣州金鷹資產管理有限公司) (former name: Shenzhen Qianhai Golden Eagle Asset Management Co., Ltd. (深圳前海金鷹資產管理有限公司)). Mr. Huang has been the Supervisor of our Supervisory Committee from June 2013 to present.

Mr. Tang Yin (湯胤先生), aged 44, is currently our Supervisor. He obtained a double degree in mechanics and mathematics from the South China Institute of Technology in 1996, a master degree in science from the Department of Applied Mathematics from the South China Institute of Technology in 1999, and a doctor degree in the Intelligent Calculation Team of the Faculty of Computer in 2004. Since 2004 to present, he has been the deputy professor and master tutor of the Management Faculty of Jinan University, an assistant to director of the Faculty of Entrepreneurship and the director of Internet Innovation Institute of Jinan University. Since 2013 to 2015, he has held the position of the consultant in information technology and e-commerce of Guangdong Wellfull Holding Group. He is also the deputy secretary of Guangzhou Internet Association, committee member of Guangdong Electronic Commerce Association, vice president of Guangzhou Electronic Commerce and Internet Economy Association and council member of Guangdong Mobile Economy Association. He has been our Supervisor of the Supervisory Committee since February 2016 to present.

(III) HOLD POSITION *(continued)***5. Brief Biographies of Other Senior Management of the Company**

Mr. Yang Daihong (楊代宏先生), aged 52, who joined the Company in 1997 is currently our Vice President, senior engineer and a licensed pharmacist. He studied at China Pharmaceutical University (中國藥科大學) from 1984 to 1988 and was awarded a bachelor's degree in science. From 2000 to 2002, Mr. Yang attended a course in enterprise management organised by the Business School of Sun Yat-Sen University (中山大學). From 1999 to 2009, Mr. Yang was the deputy factory manager and factory manager of Livzon Group Livzon Pharmaceutical Factory (麗珠集團麗珠製藥廠). Mr. Yang was an Executive Director of the Company from October 2014 to June 2017, and he has been the Vice President of the Company since May 2006 to present.

Ms. Si Yanxia (司燕霞女士), aged 50, is currently the Vice President and Chief Financial Officer of the Company. She graduated from the Department of Accounting at Shanxi University of Finance and Economics (山西財經學院) with a bachelor degree in July 1990. She is an accountant and finished part-time CFO study at China Europe International Business School (中歐國際工商學院) from July 2005 to November 2005. She joined the Company since April 1993 and was the manager of the Capital Settlement Center and the manager of the Accounting Center of the Finance & Accounting Head Office of the Group. She has been our Director of Finance & Accounting Head Office from April 2004 to June 2014 and our Vice President and Chief Financial Officer since June 2014 to present.

Mr. Zhou Peng (周鵬先生), aged 55, is currently the Vice President of the Company. He graduated from the Hubei University of Medicine (湖北醫學院) with a bachelor degree in medicine in 1985. He obtained attending physician title in 1994. He completed the course of postgraduate course training class of corporation management at Management School of Sun Yat-Sen University (中山大學) from 2000 to 2002. He joined the Group since 1999 and served as director assistant of Office of General Manager of the Group, general manager of Livzon Chain Drugstore Co., Ltd, director of Human Resources Headquarter of the Group, vicegeneral manager of Livzon Group Marketing Co. Ltd. (麗珠集團營銷公司), vice-general manager of OTC Drug Business Division of Livzon Group and director of Administration Headquarter of Livzon Group. From March 2014 to present, he has been president assistant of Livzon Group, the general manager of Administration Headquarter and Human Resources Headquarter of Livzon Group, and deputy secretary of Party Committee and executive deputy general manager of Livzon Pharmaceutical Industrial Co., Ltd. (麗珠醫藥工業有限公司). He is also the vice president of Zhuhai Medical Association (珠海藥學會), visiting professor of Beijing Normal University Zhuhai Campus (北京師範大學珠海分校), a member of Zhuhai Jinwan District Standing Committee of the National People's Congress (珠海市金灣區人大常委會) and chairman of Zhuhai Jinwan District Industry Development Association (珠海市金灣區產業發展協會), etc. Mr. Zhou has been the Vice President of the Company since November 2016.

Ms. Huang Yuxuan (黃瑜璇女士), aged 52, is currently Vice President of the Company. Ms. Huang graduated from Fujian Agricultural and Forestry University with a bachelor degree. From 2000 to 2002, she studied a program of post-graduate course in business administration at the University of International Business and Economics. In 2004, she was qualified as a senior economist. In 2005, she joined the Group and was the deputy general manager of Livzon Group Fuzhou Fuxing Pharmaceutical Co., Ltd. * (麗珠集團福州福興醫藥有限公司). Since July 2015 and June 2016 to present, she has been the deputy general manager of bulk medicines sales department of the Group and the general manager of Zhuhai Livzon Pharmaceutical Trading Co., Ltd. * (珠海市麗珠醫藥貿易有限公司) respectively; she has been president assistance of the Group since December 2016. Ms. Huang has been the Vice President of the Company from October 2018 to present.

Mr. Yang Liang (楊亮先生), aged 35, is currently the Secretary to the Board, Company Secretary and authorised representative of the Company. In 2006, he graduated from Jinan University with a Bachelor Degree in Management. In 2018, he graduated from the College of Business Administration at South China University of Technology (華南理工大學) with a Master Degree in Management. He obtained the Fund Qualification Certificate, and is eligible to be an independent director. From May 2008 to June 2010, Mr. Yang worked successively as strategic development director and investment and acquisition manager in Zhuhai Wiseman Co., Ltd (珠海威絲曼服飾股份有限公司). From July 2010 to July 2011, he served as the strategic performance director in the Department of Enterprises Management of China International Marine Containers (Group) Ltd. (中國國際海運集裝箱(集團)股份有限公司) (CIMC, 000039.SZ, 02039.HK). He has worked as Senior Investment Project Manager in the Secretariat of the Board of the Company since August 2011. He obtained the Certificate of Secretary to the Board issued by Shenzhen Stock Exchange in December 2012 and Certificate of Affiliated Person of the Hong Kong Institute of Chartered Secretaries in December 2014. He is the current member of the Pharmaceutical Innovation Investment Specialty Committee of China Pharmaceutical Innovation and Research Development Association (PhIRDA). He has been the Secretary to the Board, the Company Secretary and authorised representative of the Company since June 2014 to present.

(III) HOLD POSITION (continued)**6. Hold directorship in shareholder's company as follows:**✓Applicable Not applicable

Name of person	Name of shareholder's company	Position in shareholder's company	Commencement of period	End of period	Whether receive remuneration allowance at shareholder's company
Zhu Baoguo (朱保國)	Joincare (健康元)	Chairman of the Board	August 2018	August 2021	Yes
Qiu Qingfeng (邱慶豐)	Joincare (健康元)	Director, Vice President	August 2018	August 2021	Yes
Note to the directorship held in shareholder's company	The periods above are tenures that they are elected as directors or senior management at the Seventh General Meeting of Joincare.				

7. Hold directorship in other companies as follows:✓Applicable Not applicable

Name of person	Name of other companies	Position in other companies	Commencement of period	End of period	Whether receive remuneration allowance at other companies
Zhu Baoguo (朱保國)	Shenzhen General Chamber of Commerce (深圳市工商聯(總商會))	Honorary Vice chairman	November 2014		No
Tang Yanggang (唐陽剛)	Qingyuan Federation of Industry and Commerce	Vice-chairman	December 2016	November 2021	No
	Qingyuan Municipal Chinese People's Political Consultative Conference	Member	January 2017	January 2022	No
	Qingyuan High-Tech Enterprise Association	Vice-chairman	August 2013	July 2023	No
Xu Guoxiang (徐國祥)	Chinese Hospital Association (中國醫院協會)	Standing council member	January 2012		No
	China Association of Pharmaceutical Commerce (中國醫藥商業協會)	Vice President	November 2012		No
Fu Daotian (傅道田)	EPIRUS BIOPHARMACEUTICAL (NASDAQ:EPRS)	Director	July 2014	July 2016	Yes
	Cynvenio Biosystems, Inc.	Director	May 2015		No
	International Society of Pharmaceutical Engineering (ISPE)	Chairman of Biological Committee	May 2016	May 2017	No
Xu Yanjun (徐焱軍)	Zhuhai Hokai Medical Instruments Co., Ltd. (珠海和佳醫療設備股份有限公司) (300273.SZ)	Independent Director	April 2013		Yes

(III) HOLD POSITION *(continued)***7. Hold directorship in other companies as follows:** *(continued)*

Name of person	Name of other companies	Position in other companies	Commencement of period	End of period	Whether receive remuneration allowance at other companies
Guo Guoqing (郭國慶)	Commercial College of Zhongguo Renmin University (中國人民大學商學院)	Professor and Supervisor for doctorate students	June 1995		Yes
	Research Center of China Marketing of Zhongguo Renmin University (中國人民大學中國市場營銷研究中心)	Director	September 1995		No
	National Natural Science Foundation of China (國家自然科學基金委員會)	Expert of the Management Science Review Panel	August 2000		No
	Longrun Tea Group Company Limited (龍潤茶集團有限公司) (02898.HK)	Independent Non-executive Director	August 2002		Yes
	Journal of Chinese Marketing (《中國營銷學報》)	Associate Editor	December 2008		No
	PRC Business History Society (中國商業史學會)	Vice President	May 2010		No
	Beijing Wangfujing Department Store (Group) Co., Ltd. (北京王府井百貨(集團)股份有限公司) (600859.SH)	Independent Director	June 2011	December 2016	Yes
	China Marketing Association of University(CMAU) (中國高校市場學研究會)	Consultant	July 2012		No
	Gree Real Estate Co., Ltd. (格力地產股份有限公司) (600185.SH)	Director	July 2015		Yes
	Fengrun Bio-Technology and Science Incorporation (豐潤生物科技股份有限公司) (New OTC Market 871329)	Independent Director	December 2017		Yes
	VATS Alcohol Chain Shops (華致酒行連鎖管理股份有限公司) (300755.SZ)	Independent Non-executive Director	December 2018		Yes
	Yantai Changyu Pioneer Wine Company Limited (煙臺張裕葡萄釀酒股份有限公司) (000869. SZ)	Independent Director	December 2018		Yes
	Wang Xiaojun (王小軍)	OP Financial Investments Limited (東英金融投資有限公司) (01140.HK)	Independent Non-executive Director	August 2004	
Junhe Law Offices (君合律師事務所)		Partner	June 2006		Yes
Yanzhou Coal Mining Company Limited (兗州煤業股份有限公司) (01171.HK)		Independent Non-executive Director	May 2011	May 2017	Yes
China Aerospace International Holdings Limited (中國航天國際控股有限公司) (00031.HK)		Independent Non-executive Director	March 2013		Yes
Zheng Zhihua (鄭志華)	Guangdong Pharmaceutical Association (廣東省藥學會)	Secretary-general	May 2014		Yes

(III) HOLD POSITION (continued)**7. Hold directorship in other companies as follows:** (continued)

Name of person	Name of other companies	Position in other companies	Commencement of period	End of period	Whether receive remuneration allowance at other companies
Xie Yun (謝耘)	Zhuhai Huajin Capital Co., Ltd. (珠海華金資本股份有限公司) (formerly known as Leaguer Stock Co., Ltd. (力合股份有限公司)) (000532.SZ)	Vice President	May 2011		Yes
	Shenzhen Click Technology Co., Ltd. (深圳可立克科技股份有限公司) (002782.SZ)	Independent director	May 2016	May 2018	Yes
Wang Maolin (汪卯林)	Zhuhai Committee of Jiusan Society (九三學社珠海市委員會)	Deputy chairman	July 2016		No
Huang Huamin (黃華敏)	Gree Real Estate Co., Ltd. (格力地產股份有限公司)	Chief Financial Controller	May 2009	March 2017	Yes
		Secretary to the Board of Directors	October 2009	March 2017	Yes
	Guangzhou Golden Eagle Asset Management Co., Ltd. (廣州金鷹資產管理有限公司) (former name: Shenzhen Qianhai Golden Eagle Asset Management Co., Ltd. (深圳前海金鷹資產管理有限公司))	Vice President Deputy General Manager	March 2016 August 2017	March 2017	Yes Yes
Tang Yin (湯胤)	Management Faculty of Jinan University (暨南大學管理學院)	Deputy Professor, Master Tutor	September 2004		Yes
	Faculty of Entrepreneurship of Jinan University (暨南大學創業學院)	Assistant to director	January 2012		Yes
	Internet Innovation Institute of Jinan University (互聯網創新研究所)	Director	January 2012		No
	Guangdong Electronic Commerce Association (廣東省電子商務協會)	Member of Expert Committee	December 2012		No
	Guangdong Mobile Economy Association (廣東省移動經濟協會)	Council member	December 2012		No
	Guangzhou Internet Association (廣州互聯網協會)	Deputy Secretary	September 2013		No
	Guangzhou Electronic Commerce and Internet Economy Association (廣州市電子商務與網絡經濟學會)	Vice President	September 2013		No
Zhou Peng (周鵬)	Beijing Normal University Zhuhai Campus (北京師範大學珠海分校)	Visiting Professor	September 2015		No
	Zhuhai Medical Association (珠海市藥學會)	Vice President	March 2016		No
	Zhuhai Jinwan District Standing Committee of the National People's Congress (珠海市金灣區人大常委會)	Member	November 2016		No
	Zhuhai Jinwan District Industry Development Association (珠海市金灣區產業發展協會)	Chairman	September 2018		No
Note to positions held in other companies	Not applicable				

(III) HOLD POSITION *(continued)***8. Punishment of current and resigned directors, supervisors and senior management during the Year from securities regulatory institution in recent three years**

Applicable Not applicable

(IV) REMUNERATION OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT OF THE COMPANY**1. Procedures for determining the remuneration of Directors, Supervisors and senior management**

The remuneration of Directors and Supervisors of the Company must be deliberated and approved by the shareholders' general meetings of the Company. As for the remunerations of senior management, the Remuneration and Assessment Committee of our Board formulated corresponding remuneration standards in accordance with the remuneration management system as well as operating results, and submit it to the Board of Directors for approval.

2. Basis for determining the remuneration of Directors, Supervisors and senior management

By reference to industry and regional income level, and consideration of the factors such as the Company's operating results, job contributions, the Company determined the annual remuneration of Directors, Supervisors and senior management. Meanwhile, the Company implemented corporate performance appraisal and individual performance appraisal system for senior management. The Company decided to implement performance based bonuses and year-end double-pay based on the assessment results. In addition, in accordance with the growth of the Company's annual operating results, additional special incentives were implemented under the authorisation of the Board and the Chairman's approval.

Information about the remuneration of each Director, Supervisor and senior management and the top five highest paid individuals was set out under "Note XI, 5. Related party transactions" to the financial statements in this report.

3. Appraisal and incentive in respect of senior management

For the year, the Company adhered to a combination of corporate performance appraisal and individual performance appraisal for senior management and linked to personal annual remuneration of senior management of the Company. Meanwhile, the Restricted A Shares Incentive Scheme and 2018 Share Options Incentive Scheme were implemented to align the interests of the senior management with the shareholders of the Company so as to achieve mid-to long-term incentive effect. The Company will actively explore and implement a more effective incentive and restriction mechanism, in order to further motivate the senior management and implement the Company's development strategies to facilitate the sustainable and healthy development of the Company.

(IV) REMUNERATION OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT OF THE COMPANY *(continued)***4. Remuneration of directors, supervisors and senior management of the Company during the Year***Unit: RMB0'000*

Name	Position	Gender	Age	Status	Total amount of remuneration before tax from the Company	Whether receive remuneration from related party of the Company
Zhu Baoguo (朱保國)	Chairman of the Board	Male	56	Current	9.00	Yes
Tao Desheng (陶德勝)	Vice Chairman, President	Male	54	Current, Resigned	367.70	Yes
Xu Guoxiang (徐國祥)	Director, Vice President	Male	56	Current	335.39	No
Fu Daotian (傅道田)	Director, Vice President	Male	56	Current	126.08	No
Qiu Qingfeng (邱慶豐)	Director	Male	47	Current	7.20	Yes
Xu Yanjun (徐焱軍)	Independent Director	Male	46	Current	9.60	No
Guo Guoqing (郭國慶)	Independent Director	Male	56	Current	9.60	No
Wang Xiaojun (王小軍)	Independent Director	Male	64	Current	9.60	No
Zheng Zhihua (鄭志華)	Independent Director	Male	48	Current	9.60	No
Xie Yun (謝耘)	Independent Director	Male	48	Current	9.60	No
Wang Maolin (汪卯林)	Chief Supervisor	Male	53	Current	152.01	No
Huang Huamin (黃華敏)	Supervisor	Male	47	Current	3.60	No
Tang Yin (湯胤)	Supervisor	Male	44	Current	3.60	No
Tang Yanggang (唐陽剛)	Director, President	Male	49	Current	266.39	No
Yang Daihong (楊代宏)	Vice President	Male	52	Current	235.49	No
Lu Wenqi (陸文岐)	Vice President	Male	51	Resigned	164.76	No
Si Yanxia (司燕霞)	Vice President	Female	50	Current	250.57	No
Zhou Peng (周鵬)	Vice President	Male	55	Current	326.18	No
Huang Yuxuan (黃瑜璇)	Vice President	Female	52	Current	189.20	No
Yang Liang (楊亮)	Secretary of the Board	Male	35	Current	191.67	Yes
Total	-	-	-	-	2,676.84	

Note: Mr. Lu Wenqi has resigned as a Vice President of the Company with effect from 17 July 2018. Mr. Tao Desheng has resigned as the President of the Company and has been re-designated from an Executive Director to a Non-Executive Director with effect from 28 December 2018. Mr. Tang Yanggang was appointed as Executive Vice President of the company on 17 July 2018, was appointed as President of the Company on 28 December 2018, and was appointed as Executive Director of the Company on 14 February 2019. Ms. Huang Yuxuan was appointed as Vice President of the Company on 25 October 2018.

Share incentive granted to senior management directors, supervisors and senior management of the Company during the Year

Applicable Not applicable

(V) EMPLOYEES OF THE COMPANY

As of the end of the year, the Company, its wholly-owned subsidiaries and controlling subsidiaries had a total of 7,671 current employees (31 December 2017: 6,963).

1. Current employees' number, speciality composition and education level

Number of current employees of parent company	1,413
Number of current employees of principal subsidiaries	6,258
Total of current employees	7,671
Total of employees receive remuneration during the Year	7,671
Total of retired employees to whom parent company and its principal subsidiaries had distributed pension	628

Speciality composition

Speciality composition type	Speciality com position number
Production staff	3,636
Sales staff	1,344
Technical staff	1,439
Financial staff	187
Administrative staff	1,065
Total	7,671

Education level

Education level type	Number
Below post-secondary	3,174
Post-secondary	1,965
Undergraduate	2,071
Postgraduate	395
Doctor	66
Total	7,671

(V) EMPLOYEES OF THE COMPANY *(continued)***2. Employees' Remuneration Policies**

Remuneration of our staff was determined by the Group mainly according to the PRC laws and regulations and linked to the Company's performance with reference to general remuneration level in the society. During the Year, the Company's remuneration policies are in line with the provisions of relevant national laws and regulations, by reference to the industry and regional remuneration level, and consideration of internal equity, depending on the position value, and the basis of the performance and ability of individual employees, the Company determined the Company's employees salary level, formulation and revision of remuneration system are to solicit the views of the majority of employees. To reflect incentive remuneration, employee remuneration comprises of two portions: fixed income and variable income. Variable income was affected by performance of the Company and individual performance, which has fully boosted the morale and initiative of staff, to achieve the Company's goal of promoting sustainable development. The Company completed the third unlocking under the first grant and the reserved grant of the Restricted A Shares Incentive Scheme in 2018 and the Company completed the registration for the first grant under the Restricted Shares Incentive Scheme in 2018. Please refer to "the Restricted A Shares Incentive Scheme" and "Restricted Shares Incentive Scheme" in Chapter IV of the annual report for more details.

During the Year, the total wages, bonuses, allowances, compensation, welfare, housing funds and social insurance paid to the employees by the Group amounted to RMB876.88 million (31 December 2017: RMB657.14 million).

3. Pension Scheme

During the Year, there was no change in the employees remuneration policies. The employees of the Group participated in the social basic pension insurances organised by local labor and social security authorities. Upon retirement, the employees are entitled to the payment of social basic pensions from local labor and social security authorities. The Group is required to contribute certain social basic pension insurance fees for the employees at a specified rate of the employees' salaries to fund the pension benefits. The sole obligation of the Group with respect to the contribution of social basic pension insurance fees for the employees is to make the required contributions under the scheme. There was no change in the details of the pension welfare.

4. Employees' Training Plan

The Company has formed a diversified and comprehensive staff training system with business schools as the core platform. In 2018, the Company continued to improve the operation of Livzon Business School, and 3 new branches were added, basically covering each of its wholly-owned subsidiary, and carried out diversified offline learning for different management level needs, with courses including interpretation of government policy, Internet office system applications, part-time master degree (PhD) studies, continuing education, programmes organised in cooperation with relevant universities, training for fresh graduates and new employees, safety training and courses of laws and regulations etc. In addition, the Company provided online learning courses for middle-level management officers, and as a part of their study, mid-and high-level management officers were required to prepare essays on their job position, visit benchmark enterprises and join human resources training camps.

At the same time, the Company comprehensively upgraded the training for new employees, added new employment guidelines, to ensure that employees can receive comprehensive counseling when they enter the Company. It also enriched the training courses and invited the Company's internal (external) high quality lecturers and experts in various fields to educate new employees on the content and advantages of the Group in quality control, production control, safety and environmental protection, financial system, personnel system, administrative system and information system, so that new employees can fully understand Livzon Group.

5. Labour outsourcing

Applicable Not applicable

(I) BASIC CORPORATE GOVERNANCE

During the year ended 31 December 2018, 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 enhanced the corporate governance structure and strengthened the internal control systems of the Company to achieve higher corporate governance standards. The Board believed that the actual conditions of corporate governance of the Company are compliant with the rules and requirements of normative documents including the Guidelines for Corporate Governance of Listed Companies without deviation.

During the Year, the decision-making and supervisory authorities of the Company (i.e. shareholders' general meetings, the Board, supervisory committee, etc.) all conducted management decision and supervision strictly pursuant to the requirements of normative operation rules and internal control. The special committees of the Board all performed corresponding duties.

Whether the actual management of the Company exists deviation with normative documents relating to the governance of listed companies announced by the CSRC

Yes No

(II) THE COMPANY'S INDEPENDENCE IN (AMONG OTHER THINGS) BUSINESS, PERSONNEL, ASSET, INSTITUTION AND FINANCE COMPARED WITH CONTROLLING SHAREHOLDERS

The Company and controlling shareholders are totally independent in terms of business, personnel, asset, institution and finance.

1. Business. The Company has independent and complete business and self-management ability, owns independent production, procurement and sales system, which is strictly separated from controlling shareholders;
2. Personnel. The Company's labour, personnel and salary management are completely separated from controlling shareholders;
3. Asset. The Company has clear equity relationship with controlling shareholders and owns complete and independent asset equity;
4. Institution. The Company has independent and complete institution settings, which is strictly separated from controlling shareholders;
5. Finance. The Company has independent financial management department and financial accounting system, which is strictly separated from controlling shareholders.

(III) COMPETING BUSINESS

Applicable Not applicable

On 10 January 2014, for the purposes of advancing the implementation of the Company's B-to-H Share Conversion, Mr. Zhu Baoguo (the ultimate beneficial owner of the Company), Ms. Liu Guangxia and Joincare (健康元) (the controlling shareholder of the Company) and its controlling shareholder, namely Baiyeyuan (百業源) (collectively the "Covenantors") entered into the non-competition undertakings letter (for specific details, please refer to relevant content as set out in the section headed "Performance of Undertakings" of this report). The Covenantors have provided confirmations concerning their compliance with the terms of the "non-competition undertaking letter", details are as follows:

Each of the Covenantors hereby confirmed that from the date they signed the "non-competition undertaking letter" (i.e. 10 January 2014) up to 31 December 2018, the Covenantor and the companies under his/her/its control (other than the Company and its subsidiaries) have strictly complied with and enforced the terms of the "non-competition undertaking" without breaching any terms of the "non-competition undertaking letter" under any circumstances.

Independent Directors of the Company conducted review on the compliance and enforcement of the non-competition undertaking by the Covenantors, and believed that the Covenantors complied with the "non-competition undertaking letter". Save as disclosed in this annual report, none of the Directors has interest in any business which competes or is likely to compete, either directly or indirectly, with the businesses of the Group.

(IV) GENERAL MEETINGS CONVENED DURING THE YEAR**General Meetings during the Year**

Session of meeting	Type of meeting	Percentage of Investors participating	Date of meeting	Date of A Shares disclosure	Resolutions	Disclosure index
2018 First Extraordinary General Meeting	Extraordinary General Meeting	33.3349%	7 February 2018	8 February 2018	"a connected transaction in respect of the change in the shareholding structure of Livzon MABPharm Inc., a controlling subsidiary of the Company", "granting mandate to the board of directors to deal with matters regarding the change in the shareholding structure of Livzon MABPharm Inc."	Announcement on Livzon Pharmaceutical Group Inc.'s Resolutions Passed at 2018 First Extraordinary General Meeting (Announcement No.: 2018-012), Published on the website of Cninfo (http://www.cninfo.com.cn/)
2018 Second Extraordinary General Meeting	Extraordinary General Meeting	34.1665%	16 April 2018	17 April 2018	"the 2017 Share Options Incentive Scheme of the Company (Draft) and its summary", "the Administrative Measures for Appraisal System of the 2017 Share Options Incentive Scheme of the Company", "granting mandate to the board of directors to deal with matters regarding the 2017 Share Options Incentive Scheme"	
2018 First Class Meeting of A Shareholders	Class Meeting	39.2245%	16 April 2018	17 April 2018	"the 2017 Share Options Incentive Scheme of the Company (Draft) and its summary", "the Administrative Measures for Appraisal System of the 2017 Share Options Incentive Scheme of the Company", "granting mandate to the board of directors to deal with matters regarding the 2017 Share Options Incentive Scheme"	Announcement on Livzon Pharmaceutical Group Inc.'s Resolutions Passed at 2018 Second Extraordinary General Meeting, 2018 First Class Meeting of A Shareholders and 2018 First Class Meeting of H Shareholders (Announcement No.: 2018-038), Published on the website of Cninfo (http://www.cninfo.com.cn/)
2018 First Class Meeting of H Shareholders	Class Meeting	24.8763%	16 April 2018	17 April 2018	"the 2017 Share Options Incentive Scheme of the Company (Draft) and its summary", "the Administrative Measures for Appraisal System of the 2017 Share Options Incentive Scheme of the Company", "granting mandate to the board of directors to deal with matters regarding the 2017 Share Options Incentive Scheme"	

(IV) GENERAL MEETINGS CONVENED DURING THE YEAR *(continued)***General Meetings during the Year** *(continued)*

Session of meeting	Type of meeting	Percentage of Investors participating	Date of meeting	Date of A Shares disclosure	Resolutions	Disclosure index
2017 Annual General Meeting	Annual General Meeting	49.3432%	21 May 2018	22 May 2018	"the work report of the Board of the Company for the year 2017", "the work report of the Supervisory Committee of the Company for the year 2017", "the financial accounts report of the Company for the year 2017", "the reappointment of Ruihua Certified Public Accountants (LLP) (瑞華會計師事務所(特殊普通合夥)) as the auditor of the Company for the year 2018 and fix its remuneration", "the 2017 annual report of Livzon Pharmaceutical Group Inc.", "the adjustment to the fund-raising investment project plan of the non-public issuance of A shares of the Company", "the 2017 Annual Profit Distribution Plan of the Company", "the Company's facility financing and provision of financing guarantees to its subsidiaries", "the grant of general mandate to the Board for issuing of shares"	Announcement on Livzon Pharmaceutical Group Inc.'s Resolutions Passed at 2017 Annual General Meeting, 2018 Second Class Meeting of A Shareholders and 2018 Second Class Meeting of H Shareholders (Announcement No.: 2018-049), Published on the website of: Cninfo (http://www.cninfo.com.cn/)
2018 Second Class Meeting of A Shareholders	Class Meeting	39.5703%	21 May 2018	22 May 2018	"the 2017 Annual Profit Distribution Plan of the Company"	
2018 Second Class Meeting of H Shareholders	Class Meeting	67.8732%	21 May 2018	22 May 2018	"the 2017 Annual Profit Distribution Plan of the Company"	

(IV) GENERAL MEETINGS CONVENED DURING THE YEAR *(continued)***General Meetings during the Year** *(continued)*

Session of meeting	Type of meeting	Percentage of Investors participating	Date of meeting	Date of A Shares disclosure	Resolutions	Disclosure index
2018 Third Extraordinary General Meeting	Extraordinary General Meeting	49.2522%	5 September 2018	6 September 2018	"the Subsidiary Share Option Scheme and related matters", "the Proposed Grant of Subsidiary Share Options under the Subsidiary Share Option Scheme to Mr. Fu Daotian", "the 2018 Share Options Incentive Scheme of the Company (Revised Draft) and its summary", "the Administrative Measures for Appraisal System of the 2018 Share Options Incentive Scheme of the Company", "granting mandate to the board of directors to deal with matters regarding the 2018 Share Options Incentive Scheme", "the increase of the registered capital of the Company", "the amendments to the articles of association of the Company"	Announcement on Livzon Pharmaceutical Group Inc.'s Resolutions Passed at 2018 Third Extraordinary General Meeting, 2018 Third Class Meeting of A Shareholders and 2018 Third Class Meeting of H Shareholders (Announcement No.: 2018-088), Published on the website of Cninfo (http://www.cninfo.com.cn/)
2018 Third Class Meeting of A Shareholders	Class Meeting	40.8177%	5 September 2018	6 September 2018	"the 2018 Share Options Incentive Scheme of the Company (Revised Draft) and its summary", "the Administrative Measures for Appraisal System of the 2018 Share Options Incentive Scheme of the Company", "granting mandate to the board of directors to deal with matters regarding the 2018 Share Options Incentive Scheme"	
2018 third Class Meeting of H Shareholders	Class Meeting	65.4530%	5 September 2018	6 September 2018	"the 2018 Share Options Incentive Scheme of the Company (Revised Draft) and its summary", "the Administrative Measures for Appraisal System of the 2018 Share Options Incentive Scheme of the Company", "granting mandate to the board of directors to deal with matters regarding the 2018 Share Options Incentive Scheme"	

Preferential shareholders with voting rights resumed request to convene an extraordinary general meeting

Applicable Not applicable

(V) PERFORMANCE OF DUTIES BY INDEPENDENT DIRECTORS**1. Attendance of Board meetings and general meetings by Independent Directors**

Attendance of Board meetings and general meetings during their term of office							Attendance of general meeting(s) during their term of office
Name of Independent Director	Required attendance at Board meetings during the Year	Attendance in person	Attendance by communication	Attendance by proxy	Absence	Unable to attend in person for two consecutive meetings	Attendance of general meeting(s)/ Number of general meetings convened
Guo Guoqing (郭國慶)	16	3	13	0	0	No	10/10
Wang Xiaojun (王小軍)	16	0	16	0	0	No	0/10
Xu Yanjun (徐焱軍)	16	1	15	0	0	No	1/10
Zheng Zhihua (鄭志華)	16	0	16	0	0	No	3/10
Xie Yun (謝耘)	16	0	16	0	0	No	3/10

Notes: The above table is compiled according to the relevant requirements under CSRC and the Shenzhen Stock Exchange.

Note to unable to attend in person for two consecutive meetings

Applicable Not applicable

2. Independent Directors' objection to any matters related to the Company**Whether independent Directors have objection to any matters related to the Company**

Yes No

Independent Directors have no objection to any matters related to the Company during the Year.

(V) PERFORMANCE OF DUTIES BY INDEPENDENT DIRECTORS *(continued)***3. Other explanations about performance of duties by Independent Directors**

During the Year, the opinions from the Independent Directors of the Company are as follows:

- (1) Prior approval and independent opinion on matters considered at the ninth meeting of the ninth session of the Board:
 1. Prior approval for the capital contribution to relevant overseas wholly-owned subsidiary: we agreed to submit the above resolution to the ninth session of the Board for consideration.
 2. Independent opinion on the Company's capital contribution to relevant overseas wholly-owned subsidiary: we approved the Company's capital contribution to relevant overseas wholly-owned subsidiary.
 3. Independent opinion on the transfer of equity interest of Livzon MABPharm Inc.: we unanimously agreed the transfer of 100% equity interest of Livzon MABPharm Inc. by the Company
- (2) Independent opinion on matters considered at the 11th meeting of the ninth session of the Board of the Company:
 1. The independent opinion in relation to 2017 profit distribution plan of the Company: we approved the 2017 profit distribution plan of the Company, and the plan was submitted to the general meeting of the Company for consideration.
 2. The independent opinion in relation to the provision for assets impairment in 2017: we approved the provision for assets impairment in 2017.
 3. The independent opinion in relation to 2017 risk management and internal control self-evaluation report: we approved the 2017 risk management and internal control self-evaluation report of the Company.
 4. The independent opinion in relation to the report on the deposit and usage of the proceeds of the Company in 2017: we approved the report prepared by the Company on the deposit and usage of the proceeds in 2017.
 5. The independent opinion in relation to the adjustments to the amount of proceeds used in fund-raising investment projects of non-public issuance: we approved the adjustments to the amount of proceeds used in the fund-raising investment projects and to submission of them to the general meeting of the Company for consideration.
 6. The independent opinion in relation to the usage of non-business capital by affiliates and other capital dealings in 2017: we approved the above-mentioned audit report.
 7. The independent opinion in relation to the expected general connected transactions in 2018: we approved the submission of the above-mentioned general connected transactions to the Board of the Company for consideration and the execution of the general connected transactions in 2018 when the necessary approval processes are completed.
 8. The independent opinion in relation to the appointment of financial report auditor and internal control auditor of the Company in 2018: we unanimously agreed to reappoint Ruihua Certified Public Accountants (Special General Partnership) as the financial report auditor and internal control auditor of the Company in 2018, and the reappointment was submitted to the general meeting of the Company for consideration.

(V) PERFORMANCE OF DUTIES BY INDEPENDENT DIRECTORS *(continued)***3. Other explanations about performance of duties by Independent Directors** *(continued)*

9. The independent opinion in relation to the remuneration of the senior management of the Company in 2017: we approved the remuneration of the senior management of the Company in 2017.
 10. The independent opinion in relation to the Company's provision of financing guarantees to its subsidiaries: we unanimously approved the Company's provision of financing guarantees to its subsidiaries.
 11. The independent opinion of the Company's external guarantees in 2017: we believe that the guarantees provided by the Company to the subsidiaries are in the interest of the Company, and the guarantees do not undermine the interest of the Company and the shareholders as a whole. The decision-making processes of the guarantees executed meet the relevant laws, regulations and other requirements of the Company.
- (3) Independent opinion on matters considered at the 12th meeting of the ninth session of the Board of the Company:
1. The independent opinion in relation to the resolution on the repurchase and cancellation of locked restricted shares granted to the incentive participants no longer satisfying the conditions for incentive: we unanimously approved the repurchase and cancellation of certain above-mentioned restricted shares pursuant to relevant requirements.
 2. The independent opinion in relation to the resolution on the first grant of unlocking of third tranche of the Company's restricted shares under the Company's incentive scheme: we approved the first grant of unlocking of third tranche of the Company's restricted shares according to the Incentive Scheme and Administrative Measures. There were a total of 413 incentive participants satisfying the unlocking conditions, and may apply for 4,038,407 shares of Restricted Shares to be unlocked and traded, representing 27.20% of the total number of locked Restricted Shares under share incentive scheme and 0.73% of the current total share capital of the Company.
 3. Independent opinion on the resolution on the changes in the accounting policy and accounting estimates: we unanimously approved the changes in accounting policy and accounting estimates.
- (4) Independent opinion on matters considered at the 13th meeting of the ninth session of the Board of the Company:
1. Independent opinion in relation to the "resolution on the Company's transfer of 15% equity interests in Livzon Group Qingyuan Xinbeijiang Pharmaceutical Manufacturing Inc.": we unanimously approved the transfer of 15% equity interests in Xinbeijiang Pharmaceutical.
 2. Independent opinion in relation to the Resolution on Launching the Bill Pool Business: we unanimously approved the launching of bill pool business.
- (5) Independent opinion on matters considered at the 14th meeting of the ninth session of the Board of the Company:
1. Independent opinion in relation to the "resolution on the transfer of equity interest of Zhuhai Livzon Cynvenio Diagnosis Ltd. by controlled subsidiary company Zhuhai Livzon Diagnostic Reagents Inc.": we approved the transfer of equity interest of Zhuhai Livzon Cynvenio Diagnosis Ltd.
 2. Independent opinion on the resolution on the foreign exchange derivative trading business: we agreed the Company to use our own capital within the range approved by the Board to conduct foreign exchange derivative trading business.

(V) PERFORMANCE OF DUTIES BY INDEPENDENT DIRECTORS *(continued)***3. Other explanations about performance of duties by Independent Directors** *(continued)*

- (6) Independent opinion on the joint capital contribution to Livzon Biologics Limited by a wholly-owned subsidiary of the Company and YF Pharmab Limited: we unanimously approved the joint capital contribution to Livzon Biologics Limited by a wholly-owned subsidiary of the Company and YF Pharmab Limited.
- (7) Independent opinion on matters considered at the 16th meeting of the ninth session of the Board of the Company:
1. Independent opinion on the “2018 Share Options Incentive Scheme (Draft)” and its summary: we unanimously agreed the implementation of the Share Options Incentive Scheme.
 2. Independent opinion on the scientificness and reasonableness of the objective set in the share options scheme: the evaluation system of the share options scheme is comprehensive, integrated and feasible, the performance indicators are set in a scientific and reasonable manner, and the incentive scheme is binding to the participants, thereby facilitating the objectives of the incentive scheme.
 3. Independent opinion on the appointment of senior management of the Company: we agreed to appoint Mr. Tang Yanggang as executive vice president of the Company and his term will end upon expiry of the ninth session of the Board.
- (8) Independent opinion on matters considered at the 17th meeting of the ninth session of the Board of the Company:
- Independent opinion in relation to “the resolution on the use of the idle funds raised for cash management purpose”: we agreed the Company to use idle funds raised for cash management.
- (9) Independent opinion on matters considered at the 18th meeting of the ninth session of the Board of the Company:
1. Independent opinion on the deposit and the actual use of the fund raised by the Company as at 30 June 2018: we approved the “Special Report on the Deposit and the Actual Use of the Fund Raised by the Company as at 30 June 2018” prepared by the Company.
 2. Independent opinion in relation to the “resolution on provision for assets impairment in the first half of 2018: we approved the provision for assets impairment in the first half of 2018.
 3. Independent opinion in relation to the “resolution on the writing-off of asset losses of the Company”: we agreed the treatment of the above writing-off of assets.
 4. Independent opinion in relation to the “resolution on the reassessment and continued implementation of fund-raising investment projects of the non-public issuance”: we unanimously approved the above resolution.
 5. Independent opinion on “the 2018 Share Options Incentive Scheme of the Company (Revised Draft) ” and its summary: we unanimously agreed the implementation of the Share Options Incentive Scheme by the Company and agreed the submission of the “resolution on the 2018 Share Options Incentive Scheme of the Company (Revised Draft) and its summary” to the general meeting for consideration.

(V) PERFORMANCE OF DUTIES BY INDEPENDENT DIRECTORS *(continued)***3. Other explanations about performance of duties by Independent Directors** *(continued)*

- (10) Independent opinion on matters considered at the 19th meeting of the ninth session of the Board of the Company:
1. Independent opinion on 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 of the Company: we approved the corresponding adjustments of the list of incentive participants of the first grant and the quantity to be granted for the first grant of the Share Options Incentive Scheme of the Company.
 2. Independent opinion on matters related to the first grant under the 2018 Share Options Incentive Scheme of the Company: we unanimously approved the date for the first grant under the Scheme to be 11 September 2018 and approved the granting of 17,475,500 share options to 1,050 incentive participants.
- (11) Independent opinion on the appointment of senior management of the Company: we agreed the appointment of Ms. Huang Yuxuan as vice president of the Company and her term will end upon expiry of the ninth session of the Board.
- (12) Independent opinion on matters considered at the 22nd meeting of the ninth session of the Board of the Company:
1. Independent opinion in relation to the Resolution on Adjustment to the Restricted Shares Incentive Scheme: In accordance with the relevant requirements of Administrative Measures on Share Incentives of Listed Companies (Trial) (《上市公司股權激勵管理辦法(試行)》), we seriously examined the relevant matters concerning the adjustment and believed that the adjustment is in compliance with law and regulations, therefore, we approved the adjustment to the number of and the repurchase price of Restricted Shares granted.
 2. Independent opinion on the Resolution on Repurchase and Cancellation of Certain Restricted Shares: we unanimously approved the repurchase and cancellation of certain above-mentioned Restricted Shares by the Company pursuant to the relevant requirements.
 3. Independent opinion in relation to the Resolution on the Unlocking of the Third Unlock Period for the Reserved Grant Under the Restricted Shares Incentive Scheme of the Company: we unanimously approved the relevant matters concerning the unlock of the third unlock period for the Reserved Grant under the Restricted Shares Incentive Scheme by the Company in accordance with the Incentive Scheme and Administrative Measures. There were a total of 158 incentive participants satisfying the unlocking conditions, and may apply for 583,912 shares of Restricted Shares to be unlocked and traded, representing 99.65% of the total number of locked Restricted Shares under share incentive scheme and 0.08% of the current total share capital of the Company.

(V) PERFORMANCE OF DUTIES BY INDEPENDENT DIRECTORS *(continued)***3. Other explanations about performance of duties by Independent Directors** *(continued)*

(13) Independent opinion on matters considered at the 23rd meeting of the ninth session of the Board of the Company:

1. Independent opinion in relation to the Resolution on the Appointment of President of the Company: we agreed the appointment of Mr. Tang Yanggang as president of the Company and his term will end upon expiry of the ninth session of the Board.
2. Independent opinion in relation to the “resolution on the nomination of Mr. Tang Yanggang as candidate for executive director of the ninth session of the Board of the Company”: the nomination of Mr. Tang Yanggang as candidate for executive director of the ninth session of the Board of the Company was agreed and the nomination was submitted to the general meeting for consideration upon consideration and approval of the Board.
3. Independent opinion in relation to the “resolution on the adjustment of fees for the Chairman and Vice Chairman of the Company”: we unanimously approved the adjustment of fees for the Chairman and Vice Chairman of the Company.
4. Independent opinion in relation to the “resolution on the writing-off of asset losses of the Company”: we agreed the treatment of the above writing-off of assets.

Whether the opinions from the Independent Directors of the Company are adopted

Yes No Not applicable

(VI) CORPORATE GOVERNANCE SITUATION DISCLOSED PURSUANT TO THE HONG KONG LISTING RULES**1. Compliance with the Corporate Governance Code**

The board of directors of the Company regularly monitors and reviews the implementation on corporate governance practices of the Group so as to ensure compliance with such code. The Company adopted the Corporate Governance Code as set out in Appendix 14 of the Hong Kong Listing Rules as the Corporate Governance Code of the Company.

The Company confirmed that since 1 January 2018 up to 31 December 2018, the Company strictly complied with principles and all of the code provisions (the “Code”) in the Corporate Governance Code as set out in the new Appendix 14 of Hong Kong Listing Rules, excluded the following deviation:

According to the E.1.2 under the Code, the chairman of the Board shall attend the annual general meeting. Mr. Zhu Baoguo, the chairman of the Board did not attend the Annual General Meeting for the year 2017 due to urgent business trip.

2. Securities Transactions of Directors and Supervisors

The Company 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 sufficient and specific enquiries to all of the Directors and Supervisors of the Company, the Company was not informed of any information which reasonably revealed that each of the Directors and Supervisors had not complied with the standard required by the above codes during the period from 1 January 2018 to the date of this annual report. All Directors and Supervisors have confirmed that they had complied with the standards as set out in the above codes during the period from 1 January 2018 to the date of this annual report. The Company also made specific enquiry to all of the employees in respect of the codes in the above mentioned Code by the employees, and note that there has been no incident of non-compliance with the codes in the above mentioned Code.

(VI) CORPORATE GOVERNANCE SITUATION DISCLOSED PURSUANT TO THE HONG KONG LISTING RULES *(continued)***3. Board of Directors**

The Board of the Company is responsible for directing and monitoring the Company, governing and supervising affairs of the Company with collective responsibility to drive the Company for success. The Company authorises Executive Directors and senior management and management members in charge of each segment and function to deal with routine management. The Directors of the Company act in an objective manner and made decisions in the interests of the Company. The management and senior management of the Company convene meetings with the Board on periodic basis to discuss day-to-day operation and performance of the Company, as well as specific implementation of relevant Board decisions. If the Board or any committee under the Board considers itself necessary to seek for independent and professional advice, the Company will arrange for independent legal advice according to the requirements of the Board or such committee under the Board.

Board members of the Company are elected at and accountable to the shareholders' general meetings and mainly exercise the following authority and powers: (1) to convene the shareholders' general meetings and report duties to the meetings; (2) implement resolutions passed at the shareholders' general meetings; (3) determine business plans and investment proposals of the Company; (4) prepare annual financial budget and final accounts of the Company; (5) formulate the profit distribution plan and loss offset plan of the Company; (6) formulate plans in respect of increase in or reduction on registered capital, issuance of bonds or other securities and listing of the Company; (7) draft proposals in relation to major acquisition of the Company, purchase of the Company's shares, or merger, sub-division, dissolution and change in the Company's form of business; (8) determine such matters as the Company's external investment, acquisition or disposal of major assets, pledge of asset, external guarantee and entrusted wealth management, related party transactions and so on within the scope authorised by the shareholders' general meetings, save as those otherwise required by the securities regulatory authorities and stock exchange where the Company's shares are listed; (9) decide on the set up of internal management departments; (10) appoint or dismiss the President of the Company and Secretary to the Board; based on the nomination of the President, appoint or dismiss senior management such as the Vice President of the Company and chief financial officer, and determine their remuneration, rewards and sanctions; (11) formulate the fundamental administration system; (12) formulate proposed amendments to the Articles of Association; (13) administer the information disclosure of the Company; (14) propose the appointment or replacement of the accounting firm that performs audits for the Company at the shareholders' general meetings; (15) receive work reporting from the President of the Company and review the work of the President; (16) other authority and powers required by laws, rules and regulations or the Articles of Association, and authorised by the shareholders' general meetings.

(VI) CORPORATE GOVERNANCE SITUATION DISCLOSED PURSUANT TO THE HONG KONG LISTING RULES *(continued)***3. Board of Directors** *(continued)*

The Board is responsible for performing the functions set out in the code provision D.3.1 of the Corporate Governance Code to ensure that the Company establishes good corporate governance policies, practices and procedures. During the reporting period, the Board:

- (1) formulated and reviewed the Company's policies and practices on corporate governance;
- (2) reviewed and monitored the training and continuous professional development of directors and senior management;
- (3) reviewed and monitored the Company's policies and practices on compliance with legal and regulatory requirements;
- (4) formulated, reviewed and monitored the code of conduct and compliance manual of directors and employees; and
- (5) reviewed the Company's compliance with the Corporate Governance Code and disclosure in the Corporate Governance Report.

As of the date of this annual report, the Board of the Company has a total of eleven members, of which three Executive Directors are Tang Yanggang (President), Fu Daotian (Vice President) and Xu Guoxiang (Vice President); three Non-executive Directors are Zhu Baoguo (Chairman), Tao Desheng (Vice Chairman) and Qiu Qingfeng; and five Independent Non-executive Directors are Xu Yanjun, Guo Guoqing, Wang Xiaojun, Zheng Zhihua and Xie Yun. For details of the biographies of the above Directors, please refer to Chapter VIII "Directors, Supervisors, Senior Management and Employees" of this annual report.

(VI) CORPORATE GOVERNANCE SITUATION DISCLOSED PURSUANT TO THE HONG KONG LISTING RULES *(continued)***3. Board of Directors** *(continued)*

During the Year, the Company convened a total of sixteen Board meetings and ten shareholders' general meetings. Attendance of the Directors of the Company is as follows:

Name	Position	Attendance of relevant meetings during their term of office/ Number of relevant meetings held during their term of office	
		Board meetings	Shareholders' general meetings (including class meetings)
I. Executive Directors			
Fu Daotian (傅道田)	Director, Vice President	16/16	10/10
Xu Guoxiang (徐國祥)	Director, Vice President	16/16	0/10
II. Non-executive Directors			
Zhu Baoguo (朱保國)	Chairman	16/16	0/10
Tao Desheng (陶德勝) <i>(Note)</i>	Vice Chairman	16/16	10/10
Qiu Qingfeng (邱慶豐)	Director	16/16	6/10
III. Independent Non-executive Directors			
Xu Yanjun (徐焱軍)	Independent Director	16/16	1/10
Guo Guoqing (郭國慶)	Independent Director	16/16	10/10
Wang Xiaojun (王小軍)	Independent Director	16/16	0/10
Zheng Zhihua (鄭志華)	Independent Director	16/16	3/10
Xie Yun (謝耘)	Independent Director	16/16	3/10

Note: Mr. Tao Desheng was re-designated from an Executive Director to a Non-Executive Director due to work adjustment reasons, with effect from 28 December 2018.

Save as sixteen Board meetings as above, the Chairman also held one meeting with Non-executive Directors (including Independent Non-executive Directors) during the Year.

Save as those described in the section of biographies of Directors of the Company as set out in this annual report, there is no financial, business or family relationship or material/relevant relationship between all Board members.

(VI) CORPORATE GOVERNANCE SITUATION DISCLOSED PURSUANT TO THE HONG KONG LISTING RULES *(continued)***3. Board of Directors** *(continued)*

Prior notice are given for meetings convened during the Year in accordance with requirements, as to ensure all Directors have the opportunity to attend meetings, and propose matters for discussion to be incorporated into agenda. All of the Directors may obtain opinions and services provided by the Secretary to the Board, as to ensure compliance with Board procedures and all applicable rules and regulations. The Company purchased liability insurance for Directors, Supervisors and senior management.

Training and professional development: the Company arranged professional trainings organised by CSRC and the Shenzhen Stock Exchange for its Directors on irregular basis, for obtaining training certificates or qualification certificates recognised by relevant authority. The Company also provides the latest information in relation to updates of laws and rules, industry information and the Directors' responsibilities in a regular basis. The Directors are encouraged to attend lessons and lectures held by professional groups to enhance their continuing professional development and refresh their knowledge and skills. Each director has provided records of training they have taken during the year ended 31 December 2018 and attended trainings rendered by professional groups and/or learned materials about his/her duty and responsibility.

	Continuous professional development of Directors	
	Attending professional training/lessons/lectures	Reading books and materials
Executive Directors		
Fu Daotian (傅道田)	✓	✓
Xu Guoxiang (徐國祥)	✓	✓
Non-Executive Directors		
Zhu Baoguo (朱保國)	✓	✓
Tao Desheng (陶德勝) <i>(Note)</i>	✓	✓
Qiu Qingfeng (邱慶豐)	✓	✓
Independent Non-executive Directors		
Xu Yanjun (徐焱軍)	✓	✓
Guo Guoqing (郭國慶)	✓	✓
Wang Xiaojun (王小軍)	✓	✓
Zheng Zhihua (鄭志華)	✓	✓
Xie Yun (謝耘)	✓	✓

Note: Mr. Tao Desheng was re-designated from an Executive Director to a Non-Executive Director due to work adjustment reasons, with effect from 28 December 2018.

(VI) CORPORATE GOVERNANCE SITUATION DISCLOSED PURSUANT TO THE HONG KONG LISTING RULES *(continued)*

4. Chairman and President

As required by the Company, the positions of Chairman and President are held by different persons and there is a clear division of work between the two roles. The Chairman of the Company is Mr. Zhu Baoguo and the President of the Company is Mr. Tang Yanggang (the original President of the Company Mr. Tao Desheng resigned as the President of the Company on 28 December 2018 and Mr. Tang Yanggang was appointed as the President of the Company on 28 December 2018).

The Chairman mainly exercises the following duties and powers: to preside over shareholders' general meetings and to convene and preside over Board meetings; to supervise and monitor the implementation of resolutions of board meetings; to sign share certificates, debentures and other quoted securities of the Company; to sign important documents of the Board and other documents which should be signed by the Company's legal representative; to exercise the authority and powers of a legal representative; to exercise special discretionary power on corporate affairs in accordance with laws and in the Company's interests in case of emergency situations such as the occurrence of natural disasters of an exceptional scale and other force majeure events, and provide aftermath reports to the Board and shareholders' general meeting; perform other duties and powers authorised by the Board.

The President is accountable to the Board and exercises the following duties and powers: to direct the production, operation and management of the Company, to arrange for the implementation of Board resolutions and report to the Board; to organise and implement the annual business plans and investment proposals of the Company; to draft proposals in connection with the setup of internal management departments of the Company; formulate the fundamental administration system of the Company; to formulate the Company's detailed rules; to recommend the appointment and dismissal of the Vice President and chief financial officer to the Board; decide on appointment or dismissal of other administration officers (other than those required to be appointed or dismissed upon decision of the Board); perform other duties and powers authorised by the Articles of Association or the Board.

5. Independent Non-Executive Directors

The Board comprises of five Independent Non-executive Directors, exceeding the minimum requirement under the Hong Kong Listing Rules in relation to the number of Independent Non-executive Directors. Mr. Xu Yanjun, being an Independent Non-executive Director of the Company, possesses appropriate accounting and financial management expertise, in compliance with the requirements under Rule 3.10 of the Hong Kong Listing Rules, the biography of whom is set out in the Chapter VIII "Directors, Supervisors, Senior Management and Employees" of this annual report. The Company has received from each of the Independent Non-executive Directors an annual confirmation of independence pursuant to independence guidelines set out in Rule 3.13 of the Hong Kong Listing Rules. The Company considers that all of the Independent Non-executive Directors are independent.

6. Directors' Term of Office

Pursuant to the requirements under the Articles of Association, all of the Directors of the ninth session of the Board (including Non-executive Directors) are elected in shareholders' general meetings, with a three-year term of office from 30 June 2017 to 30 June 2020. Directors can be re-elected upon expiry of their term, and only the consecutive term of office of each Independent Non-executive Director shall not be more than six years.

(VI) CORPORATE GOVERNANCE SITUATION DISCLOSED PURSUANT TO THE HONG KONG LISTING RULES *(continued)***7. Directors' Responsibility for the Financial Statements**

The Directors declared their responsibility for preparation of true and fair financial statements in reflecting the state of affairs of the Company for each of the financial years. The Directors believed that the Company consistently followed appropriate accounting policies and complied with the relevant accounting standards during preparation of financial statements.

8. Special Committees of the Board

Pursuant to the Corporate Governance Code, three committees are set up under the Board, namely the Audit Committee, Remuneration and Assessment Committee, and Nomination Committee, as to oversee specific scopes concerning the state of affairs of the Company. Each of the Board committees specifies the 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. Save as the requirements under the Hong Kong Listing Rules and the Corporate Governance Code, the Company also established the Strategic 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 Board comprises three Independent Non-executive Directors of the Company. The Chairman of committee is Mr. Xu Yanjun, and other committee members include Mr. Xie Yun and Mr. Guo Guoqing. 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 the external auditors and consider the annual audit plans submitted by external auditors; examine reports submitted in confidence by the Company's employees in relation to concern of possible improprieties in financial reporting, internal control or other aspects, and give relevant suggestions.

During the Year, the Audit Committee had discussed the Group's annual, interim and quarterly financial statements, review the accounting principles and practices, internal supervision system and consider audit conducted and fees charged by auditors. On 7 March 2019, the Committee reviewed the 2018 Self-Evaluation Report on Risk Management and Internal Control.

(VI) CORPORATE GOVERNANCE SITUATION DISCLOSED PURSUANT TO THE HONG KONG LISTING RULES *(continued)***8. Special Committees of the Board** *(continued)***Audit Committee** *(continued)*

During the Year, six meetings were convened by the Audit Committee, details were as follows:

- (1) On 3 January 2018, the Third Meeting of the Audit Committee of the Ninth Session of the Board of the Company was held on-site in the meeting room on the fourth floor of our office building, during which the resolution on the Financial Audit Plan of Livzon Pharmaceutical Group Inc. for the year 2017 was considered and approved.
- (2) On 28 February 2018, the Fourth Meeting of the Audit Committee of the Ninth Session of the Board of the Company was held on-site in the meeting room on the fourth floor of our office building, during which the resolution on consideration of the draft auditors' report for the year 2017 and the resolution on consideration of the final financial report for the year 2017 were considered and approved.
- (3) On 7 March 2018, the Fifth Meeting of the Audit Committee of the Ninth Session of the Board of the Company was held on-site in the meeting room on the fourth floor of our office building, during which the resolution on consideration of the auditors' report for the year 2017, the resolution on consideration of the results announcement for the year 2017 and the draft of the annual report, the resolution on consideration of continuing connected transactions, the resolution on consideration of the 2017 Self-Evaluation Report on Risk Management and Internal Control, the resolution in relation to review arrangements of employees to raise concern about misconduct and the resolution of the evaluation report on the audit work carried out by Ruihua Certified Public Accountants (LLP) for the year 2017 and the resolution on consideration in relation to the re-appointment of Ruihua Certified Public Accountants (LLP) as the audit firm of the Company for the year 2018 were considered and approved.
- (4) On 20 April 2018, the Sixth Meeting of the Audit Committee of the Ninth Session of the Board of the Company was held through written communication and voting, during which the resolution of the Company's and its subsidiaries' unaudited consolidated financial statements and the quarterly results announcement for three months ended 31 March 2018 were considered and approved.
- (5) On 7 August 2018, the Seventh Meeting of the Audit Committee of the Ninth Session of the Board of the Company was held on-site in the meeting room on the fourth floor of our office building, during which the resolutions on consideration of the Company's unaudited half-yearly results announcement, the half-yearly report, consolidated financial reports for the six months ended 30 June 2018, Continuing Connected Transaction of the Company in the Half Year of 2018 and Deposit and the Actual Use of the Fund Raised from Non-public Issuance of A Shares by the Company were considered and approved.
- (6) On 22 October 2018, the Eighth Meeting of the Audit Committee of the Ninth Session of the Board of the Company was held through written communication and voting, during which the resolution on consideration of the Company's and its subsidiaries' unaudited consolidated financial statements and the quarterly results announcement for nine months ended 30 September 2018 and Special Report of the Company on the Deposit and the Actual Use of the Fund Raised as at 30 September 2018 were considered and approved.

(VI) CORPORATE GOVERNANCE SITUATION DISCLOSED PURSUANT TO THE HONG KONG LISTING RULES *(continued)***8. Special Committees of the Board** *(continued)***Remuneration and Assessment Committee**

The Remuneration and Assessment Committee under the Ninth Session of Board is comprised of three Directors. The Chairman of the committee is Mr. Guo Guoqing (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 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 etc.

During the Year, the Remuneration and Assessment Committee held four meetings to assess, review and make recommendations to the Board on remuneration, remuneration policy and framework of the Directors and senior management of the Company and the interests of the Company as a whole, adjustment of the fees for the Chairman and Vice Chairman of the Board, the Restricted A Shares Incentive Scheme and 2018 Share Options Incentive Scheme.

Details in relation to remuneration of the senior management are disclosed in "Note 11. RELATED PARTIES AND RELATED PARTY TRANSACTIONS" of the annual report.

Nomination Committee

The Nomination Committee under the Ninth Session of 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. Guo Guoqing (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 (including gender, ages, cultural and education background, skills, knowledge and experience); study the criterions and procedures for selection and appointment of Directors and senior management, and give recommendations to the Board; recommend the Board on the appointment or re-appointment of Directors, and succession plan for Directors (particularly the Chairman and the President); and evaluate the independence of the Independent Non-executive Directors.

During the Year, the Nomination Committee held three meetings to consider matters on nomination of senior management and President of the Company and the Executive Directors of the Ninth Session of Board, review the Board Diversity Policy and monitor its implementation, assess independence of the Independent Non-executive Directors, review the structure, number of members and composition of the Board and make recommendations on its size and composition.

(VI) CORPORATE GOVERNANCE SITUATION DISCLOSED PURSUANT TO THE HONG KONG LISTING RULES *(continued)***8. Special Committees of the Board** *(continued)***Nomination Committee** *(continued)*

The Nomination Committee has adopted a set of nomination procedures and adopted the Director Nomination Policy on 19 November 2018. The Committee may search extensively for candidates for directorship and senior management from the Company, its subsidiaries or holding companies (participating stock companies) and the job market, and in compliance with the relevant laws and regulations, the Director Nomination Policy and the relevant provisions in the Articles of Association, and in consideration of the Company's actual circumstances, study the election criteria, selection procedures and term of service for Directors and senior management of the Company, and submit the resolution to the Board for approval. The Nomination Committee may select candidates for Directors and Senior Management of the Company according to the Company's needs within the extent permitted by statutory requirements, laws and regulations by making reference to their occupations, education, job titles, detailed work experience, their part-time jobs, character and integrity, professional qualifications, independence, diversity, willingness, the time they can devote and the potential contributions they can bring to the Board. For any person that is nominated by a shareholder for election as a Director at the general meeting of the Company, the Nomination Committee and/or the Board should evaluate such candidate based on the criteria as set out above. For re-election of Directors, the Nomination Committee and/or the Board should review the overall contribution and service to the Company of the retiring director and the level of participation and performance on the Board as well as whether the retiring director to be re-elected continues to meet the criteria as set out above, and make recommendation to shareholders.

According to the Director Nomination Policy, The Nomination Committee and/or the Board should, upon receipt of the proposal on appointment of new Director and the biographical information (or relevant details) of the candidate, evaluate such candidate based on the criteria as set out above to determine whether such candidate is qualified for directorship.

The Company is of the view that the diversity of the Board is one of the essential factors in sustaining the competitive edge of the Company and facilitating the sustainable development of the Company. The Company formulated the Board Diversity Policy (the "Policy"). Under the Policy, when considering the composition of the Board, various aspects would be considered for the Board Diversity Policy, including but not limited to gender, age, cultural and education, background, professional qualifications, skills and knowledge etc. On top of the above basis, in accordance with several objective conditions such as comprehensive values that the candidates can bring to the business and development of the Company, contributions that the candidates can make to the Board whilst ensuring the diversity of the Board, decisions can be made thereafter. In order to ensure the effectiveness of the Policy, the Nomination Committee will periodically monitor and review the Policy. The Company is of the view that the current composition of the Board is a balanced and diversified mix that is suitable for the Company's business development.

Strategic Committee

The Strategic Committee under the Ninth Session of Board is comprised of two Directors. The Chairman of the committee is Mr. Zhu Baoguo (Non-executive Director), and other committee member is Mr. Tao Desheng (Non-Executive Director). Mr. Zhong Shan (previously a committee member of Strategic Committee) resigned as Non-Executive Director of the Company due to personal work and time arrangement, effective from 1 September 2017. The Company will elect and appoint a new member according to the terms of reference for strategy committee of the Board as soon as possible. The key responsibilities of the Strategic Committee are to conduct research on the Company's long term development strategy and major investment decisions, and give recommendations thereon. During the Year, the Strategic Committee did not convene any meeting.

(VI) CORPORATE GOVERNANCE SITUATION DISCLOSED PURSUANT TO THE HONG KONG LISTING RULES *(continued)***8. Special Committees of the Board** *(continued)***Attendance of Special Committees of the Board**

During the Year, attendance of special committees of the Board was as follows:

Name	Position	Attendance of relevant meetings during their term of office/ Number of relevant meetings held during their term of office			
		Meetings of Audit Committee	Meetings of Nomination Committee	Meetings of Remuneration and Assessment Committee	Meetings of Strategic Committee
Zhu Baoguo (朱保國)	Non-executive Director/Chairman	N/A	N/A	N/A	0/0
Tao Desheng (陶德勝) <i>(Note)</i>	Non-executive Director/Vice Chairman	N/A	3/3	4/4	0/0
Xu Yanjun (徐焱軍)	Independent Non-executive Director	6/6	N/A	4/4	N/A
Xie Yun (謝耘)	Independent Non-executive Director	6/6	3/3	N/A	N/A
Guo Guoqing (郭國慶)	Independent Non-executive Director	6/6	3/3	4/4	N/A

Note: Mr. Tao Desheng resigned as the President of the Company and re-designated from an Executive Director to a Non-Executive Director, effective from 28 December 2018.

9. Communication with Shareholders

The Company attaches high importance to its effective communication with shareholders through which the shareholders can conduct clear assessment on the results of the Group, and make inquiries to the Board. Major ways of communication between the Company and shareholders are as follows:

Information disclosure on the Company's website

The Company will use the most comprehensive and timely manner for disclosure of all significant information related to the Group to those who are interested in receiving the Company's information. The Company's website (www.livzon.com.cn) may provide important information related to the Group's activities and corporate issues (such as annual reports and half-yearly reports to shareholders, announcements, business development and operation, corporate governance practice and other information etc.) available for inspection by shareholders and other stakeholders. In addition, announcements issued through the Hong Kong Stock Exchange are also available on the website of the Company.

Telephone number and email

The Company provide telephone number (86-756-8135888) and email address (LIVZON_GROUP@livzon.com.cn) for communicating with the Company.

Convening of shareholders' general meetings

Shareholders' general meetings serve as a useful platform for the Board's direct communication with shareholders. The Company will submit separate resolutions at the shareholders' general meeting on substantially different topics for discussion, reserve sufficient time for direct communication and exchange between senior management of the Company and shareholders attending the meeting, and answer various inquiries made by shareholders.

(VI) CORPORATE GOVERNANCE SITUATION DISCLOSED PURSUANT TO THE HONG KONG LISTING RULES *(continued)***10. Shareholders' Rights****Procedure for convening shareholders' general meetings by shareholders**

Pursuant to Article 73 of the Articles of Association: "shareholders, individually or jointly, holding 10% or more of the Company's shares may request the Board to convene an extraordinary general meeting of shareholders or a class meeting, and such proposals shall be made to the Board in writing. For such proposal, the Board shall, in accordance with laws, administrative regulations and this Articles of Association, make a written response as to whether or not it agrees to convene an extraordinary general meeting of shareholders or a class meeting, within 10 days upon receipt of such proposal.

If the Board agrees to convene the extraordinary general meeting or class meeting of shareholders, a notice of such meeting shall be issued within 5 days after the resolution of the Board is passed. Changes made to the original proposal in the notice shall be approved by the relevant shareholder.

If the Board disagrees to convene the extraordinary general meeting or class meeting of shareholders, or fails to give a relevant notice within 10 days after the receipt of the request, shareholders, individually or jointly, holding 10% or more of the Company's shares may request the Supervisory Committee to convene an extraordinary general meeting of shareholders or a class meeting, and such proposals shall be made to the Supervisory Committee in writing.

If the Supervisory Committee agrees to convene the extraordinary general meeting or class meeting of shareholders, a notice of such meeting shall be issued within 5 days after the receipt of the request. Changes made to the original proposals in the notice shall be approved by the relevant shareholder.

If the Supervisory Committee fails to give a relevant notice of the general meeting within the designated period, it shall be deemed that the Supervisory Committee fails to convene and preside over the shareholders' general meeting. The shareholder(s) continuously holding 10% or more of the shares of the Company for 90 days or more individually or collectively may convene and preside over the meeting by himself/themselves.

All reasonable expenses incurred by the shareholders to convene a shareholder's general meeting where the Board and the Supervisory Committee fail to do so shall be assumed by the Company. Any sum so assumed shall be set off against any sums owed by the Company to the defaulting Directors."

Pursuant to Articles 74, 75 and 76 of the Articles of Association: "Supervisory Committee or Shareholder(s) decide(s) to convene the general meeting by itself/themselves, it/they shall issue a written notice to the Board and file with the local office of CSRC and the stock exchange.

Shareholding proportion of the convening shareholders who intend to convene a shareholders' general meeting shall not be less than 10% prior to announcement of the resolution of the shareholders' general meeting.

To convene a Supervisory Committee meeting or a shareholders' general meeting, corresponding supporting materials shall be submitted to the local office of CSRC and the stock exchange when issuing the notice of convening a shareholders' general meeting and declaring the resolution of shareholders' general meeting.

For a Supervisory Committee meeting or a shareholders' general meeting convened by shareholders, the Board and the Secretary to the Board shall coordinate accordingly. The Board shall provide the register of members as at the registered date for entitlements of shares.

All necessary expenses incurred by the shareholders to convene a shareholder's general meeting shall be assumed by the Company."

(VI) CORPORATE GOVERNANCE SITUATION DISCLOSED PURSUANT TO THE HONG KONG LISTING RULES *(continued)***10. Shareholders' Rights** *(continued)***Procedure for delivering shareholders' inquiries to the Board**

Shareholders may, at any time through the Secretary to the Board (Company Secretary), forward their inquiries and matters of concern to the Board of the Company in writing. For contact details of the Secretary to the Board (Company Secretary), please refer to relevant content as set out in "CONTACT PERSONS AND CONTACT DETAILS" of Chapter II of this annual report. The Secretary to the Board (Company Secretary) will forward shareholders' inquiries and matters of concern to the Board of the Company and/or relevant committees under the Board (if appropriate), in order to respond to shareholders' queries.

Procedure for submission of shareholders' proposals to shareholders' general meetings

Pursuant to Article 78 of the Articles of Association: "The Company convenes general meeting, the Board, Supervisory Committee and shareholder(s) individually or jointly holding 3% or more of the Company's shares shall have the right to submit proposed resolutions to the Company for a shareholders' general meeting of the Company. If those proposals are within the functions and powers of the shareholders' general meeting, they are required to be added to the agenda of the general meeting.

The shareholder(s) individually or jointly holding 3% or more of the Company's shares may submit extra proposed resolutions in writing to the convener of a shareholders' general meeting in writing 10 days prior to the meeting. The convener shall issue a supplementary notice of the shareholders' general meeting and announce the contents of such extra proposed resolutions within 2 days after receipt thereof.

Except as provided by the preceding clause, the convener of a shareholders' general meeting shall not amend the proposed resolutions set out in the notice of the meeting or add any new proposed resolutions subsequent to the issue of the notice of the shareholders' general meeting.

Proposals which are not specified in the notice of the shareholders' general meeting or which do not comply with Article 77 of the Articles of Association shall not be voted and resolved at the shareholders' general meeting and become resolutions."

Investors' relations

The Company serves and visits investors to introduce the business of the Group in a timely manner. In addition, the Company will promptly answer questions raised by the public and individual shareholders through calls, interactive platform for the Shenzhen Stock Exchange, etc. Under any circumstances, the Company will adopt prudent attitude to ensure no selective disclosure of any information that affects share prices.

(VI) CORPORATE GOVERNANCE SITUATION DISCLOSED PURSUANT TO THE HONG KONG LISTING RULES *(continued)***11. Articles of Association**

During the Year, the Company amended the Articles of Association thrice.

The board has been granted mandate to handle matters related to the Restricted A Shares Incentive Scheme (including appropriate amendments to the Articles of Association) by the Company on the 2015 First Extraordinary General Meeting, the 2015 First Class Meeting of A Shareholders and the 2015 First Class Meeting of H Shareholders convened on 13 March 2015. On 11 June 2018, since there were changes in the share capital and the registered capital of the Company as a result of the repurchase and cancellation of locked restricted shares granted to the incentive participants who have resigned and not satisfying the unlocking conditions for the current period under the Restricted A Shares Incentive Scheme, the Company convened a Board meeting to consider, approve and give effect to the amendments to the terms of the Articles of Association in relation to the share capital, registered capital, details of which is available in the announcement of the Company dated 11 June 2018 and 12 June 2018 as posted on the websites of the Company and the Hong Kong Stock Exchange and Cninfo respectively.

On 22 June 2018, since there were changes in the share capital and the registered capital of the Company as a result of the repurchase and cancellation of locked Restricted Shares granted to the incentive participants who have resigned and not satisfying the unlocking conditions for the current period under the Restricted A Shares Incentive Scheme, the Company convened a Board meeting to consider, approve and give effect to the amendments to the terms of the Articles of Association in relation to the share capital, registered capital, details of which is available in the announcement of the Company dated 22 June 2018 and 23 June 2018 as posted on the websites of the Company and the Hong Kong Stock Exchange and Cninfo respectively.

On 5 September 2018, the Company convened the 2018 Third Extraordinary General Meeting to approve the increase of the registered capital of the Company (as a result of the completion of 2017 Annual Profit Distribution Plan) and the amendments to the Articles of Association of the Company. Therefore, the Company made amendments to the terms of the Articles of Association in relation to the share capital and registered capital on 5 September 2018, details of which is available in the announcement of the Company dated 5 September 2018 and 6 September 2018 as posted on the websites of the Company and the Hong Kong Stock Exchange and Cninfo respectively.

(VI) CORPORATE GOVERNANCE SITUATION DISCLOSED PURSUANT TO THE HONG KONG LISTING RULES *(continued)*

12. The Company's Profit Distribution Policy

- (1) The profit distribution of the Company shall focus on providing shareholders with reasonable investment return as well as the Company's sustainable development, and the Company shall maintain the continuity and stability of the profit distribution policy as much as possible.
- (2) The Company may distribute its profit in the form of cash, shares or a combination of cash and shares or in other ways as permitted by the laws.
- (3) The Company distributes its profit annually in principle. Nevertheless, interim profit distribution in cash may be made by the Company subject to conditions.
- (4) Subject to the condition that the Company's cash flow could satisfy normal operation and long-term development need, the Company shall implement proactively the cash dividends distribution and shall guarantee that the accumulated profit to be distributed in cash for the latest three years shall not be less than 30% of the average annual distributable profit realized in the latest three years. Particulars of the proportion of profit distributed in cash annually are proposed by the Board of Directors in accordance with relevant requirements and the Company's operation of the year, which shall be submitted to the general meeting for approval.

The Company shall, after considering various factors such as the characteristics of the industry where it operates, stage of development, business model, profitability and investment expenses, propose different cash dividend policy based on the following situation according to statutory procedures: (i) If the Company is at a mature stage of development with no significant capital expenditure arrangement at the time of profit distribution, the proportion of cash dividend in such profit distribution shall be at least 80%; (ii) If the Company is at a mature stage of development with significant capital expenditure arrangement at the time of profit distribution, the proportion of cash dividend in such profit distribution shall be at least 40%; (iii) If the Company is in a growing stage of development with significant capital expenditure arrangement at the time of profit distribution, the proportion of cash dividend in such profit distribution shall be at least 20%.

- (5) The Company may distribute cash dividend, provided that the following conditions are fulfilled: (i) Positive figures are recorded for the distributable profits of the Company (i.e. post-tax profit left after the loss recovery and accrual of the reserves) during the year; (ii) A standard unqualified audit report is issued by an auditor for the financial report of the Company during the year;
- (6) Conditions for the Company to declare script dividend: Subject to the fulfilment of the conditions for declaring cash dividend, if the operating income and net profit of the Company show rapid growth, in addition to propose a cash dividend proposal, the Board of Directors of the Company can propose a script dividend proposal if it considers the scale of the share capital and shareholding structure of the Company are reasonable.

(VII) AUDITORS' REMUNERATION

Disclosure of auditors' remuneration is set out in the "APPOINT, DISMISS CERTIFIED PUBLIC ACCOUNTANTS" in Chapter V of the annual report.

(VIII) COMPANY SECRETARY

The Company Secretary of the Company is Mr. Yang Liang. Mr. Yang Liang took no less than 15 hours of relevant professional training during the Year.

(IX) WORK OF THE SUPERVISORY COMMITTEE

The Supervisory Committee of the Company is accountable to all Shareholders, responsible for overseeing the legal compliance of financial matters of the Company as well as performance of responsibilities by Directors, the President and other senior management, and safeguarding the legal interests of the Company and shareholders. The Supervisory Committee consists of two shareholders' representatives and one employee representative of the Company. The positions of Supervisors held by shareholder, representatives are subject to election and removal at shareholders' general meetings, and the position of Supervisor held by an employee representative is subject to democratic election and removal by the employees of the Company.

Whether the Supervisory Committee of the Company discovered risks in its supervisory activities during the Year

Yes No

The Supervisory Committee has no objection of the supervisory matters during the Year.

(X) RISK MANAGEMENT AND INTERNAL CONTROL

In 2018, the Risk management and internal control of the Company mainly focus on internal environment, risk assessment, control, information and communication and internal supervision. The scope includes principal business and major events of the Company and its subsidiaries with an emphasis on risk management and internal control for high risk areas including fund management, R&D, quality control, asset management, sales, connected transactions. The name of the responsible department was changed from "Market Standards Head Office" to "Risk Management Head Office", which focuses on daily regulated operations, prevention and handling of internal and external risk in the operations.

Responsible persons of each departments of the Company and its subsidiaries have performed self-assessments and evaluation regarding the business practice and risk management and internal control to ensure compliance of control policies and review instruction and review from the management department of the Company. The management of the Company collaborated with department supervisors to assess possibilities of risks, provided solutions and oversaw progress of risk management. The management is responsible for monitoring the assessment of risk management and internal control and reported to the Audit Committee and the Board on effects in relation to the risk management and internal control system during the Year.

The Company has established the Department of Audit and Integrity which is responsible for the auditing of each department of the Company. Department of Audit and Integrity is independent of each department, it carries out audit work in accordance with the audit plan implemented by the Audit Committee of Group, performs audit on the risk management, internal control system and financial position of each department, confirms and assess the comprehensiveness and effectiveness of risk management and internal control system of each department and continue to supervise and review regularly. In accordance with the audit needs, the Company has engaged audit professional to consolidate internal audit resource of the Group, and established an audit team comprising the department of Audit and Integrity (as the lead) and professionals from joint legal action, human resources, finance and chief engineers' office to carry out a comprehensive and specialised audit work on class II enterprise of the Group, the off-office auditing and economic responsibility auditing for the management in 2018 and recommend remedies for existing problems, organised and completed internal audit correction and self-inspection of class II enterprise. Department of Audit and Integrity shall organise the preparation of comprehensive and special audit reports in accordance with specific audit contents, and supervise any remedy simultaneously, report to the management of the Group, the Management of the Group shall regularly reported to the Audit Committee and the Board on effectiveness of risk management and internal control system.

(X) RISK MANAGEMENT AND INTERNAL CONTROL *(continued)*

According to the requirement of optimising corporate governance structure and internal control system of the Company, the Company is devoted to strengthen and optimise risk management and internal control system, and internal audit work is gradually professionalised, formulated and standardised. The Company will continue to strengthen the system establishment, build internal audit system which is aligned with corporate development, established risk management procedure and guidance for various terms of reference, amend and optimise relevant audit system, code of conduct for audit personnel, auditing standards, audit business guidelines, complaints reporting management system and audit files management system.

The Board assumes its responsibilities to the risk management and internal control system and necessities of reviewing its effectiveness. The purpose of such risk management and internal control system is to manage rather than eliminate risks failing to meet the business objectives and can only provide reasonable but not absolute assurance against material misstatements or losses. The Company has obtained confirmation from the management in respect of the effectiveness of risk management and internal control by the Company.

The inside information is normally limited to circulation in relevant departments only. Necessary approval procedures from the Company and departments of subsidiaries are required in case of inside information distributed among the Company the departments of subsidiaries after approval from department supervisors. The Company shall make a record of all relevant insiders involved with reporting, circulation, compiling, review and disclosure and time for such inside information available to insiders faithfully completely for enquiry from the Company, as well as regulatory bodies.

The insiders shall be obligated to keep inside information confidential. The Directors, Supervisors, the senior management of the Company and relevant insiders shall minimize the number of insiders of inside information before public disclosure through obligatory measures. The Company shall inspect and make penalty decisions to any insider dealer or any suggestion from insiders to utilize inside information in a timely manner, and also file such penalty results to Guangdong Securities Regulatory Bureau of CSRC and Shenzhen Stock Exchange.

(XI) INTERNAL CONTROL**The material weakness discovered in internal control during the Year**

Yes No

Self-Evaluation Report on Risk Management and Internal Control

During the Year, the Board had conducted a review of effectiveness and adequacy of the risk management and internal control of the Group for the year ended 31 December 2018, including the supervision on finance, operation, and compliance, as well as an assessment on internal environment and risks. The review had shown no significant and important default that indicates inefficient internal control of the Group. The Board considers the risk management and internal control systems of the Group are effective and adequate.

The disclosure date of the text of Evaluation Report on Internal Control	28 March 2019
The index of the text of Evaluation Report on Internal Control	Please refer to the 2018 Self-Evaluation Report on Risk Management and Internal Control of Livzon Pharmaceutical Group Inc. disclosed on the website of http://www.cninfo.com.cn/ .
The proportion of unit of the total assets within the scope of evaluation of the Company's combined financial statements	99.71%
The proportion of unit of the operation income within the scope of evaluation of the operation income of the Company's combined financial statements	100%

(XI) INTERNAL CONTROL *(continued)***Self-Evaluation Report on Risk Management and Internal Control** *(continued)***Weakness identification standard**

Type	Financial statement	Non-financial statement
Qualifying standard	<ol style="list-style-type: none"> 1. Weakness with the following character shall be identified as material weakness: <ol style="list-style-type: none"> 1) ineffective control environment; 2) the management of the Company has fraud at any degree; 3) the material mistakes found by external auditor were not first found by the Company; 4) the weakness relating to the total of affected connected transactions exceeds the quota of connected transactions approved by the shareholders; 2. Significant weakness: one or more weaknesses, the severity of which is lower than material weakness, but it is severe to cause the Company not to prevent or discover the deviation of overall control target, which shall raise the attention from the management. 3. General weakness: represent other control weaknesses other than material or significant weaknesses. 	<ol style="list-style-type: none"> 1. Weakness with the following character shall be identified as material weakness: <ol style="list-style-type: none"> 1) severe violation against laws and regulations; 2) the material weaknesses of internal control already found and reported to the management are not corrected after a reasonable period of time; 3) other than losses permitted by policy, the Company's continuing operation is subject to challenges, with losses in successive years; 4) failure of merger and acquisition reorganization, or the newly expanded subsidiaries are difficult to sustain the operation; 5) the management of the Company resigned or severe brain drain of critical position, repeated negative news coverage by the media. 2. Significant weakness: one or more weaknesses, the severity of which is lower than material weakness, but it is severe to cause the Company not to prevent or discover the deviation of overall control target, which shall raise the attention from the management. 3. General weakness: represent other control weaknesses other than material or significant weaknesses.

(XI) INTERNAL CONTROL *(continued)***Self-Evaluation Report on Risk Management and Internal Control** *(continued)***Weakness identification standard**

Type	Financial statement	Non-financial statement
Quantifying standard	1. General weakness: merge misstatement < 3% of the profit before tax of combined statement; 2. Significant weakness: 3% of the profit before tax of combined statement ≤ merge misstatement < 5% of the profit before tax of combined statement; 3. Material weakness: merge misstatement ≥ 5% of the profit before tax of combined statement	1.General weakness: direct loss amount ≤ 3% of the total assets of combined statement; 2. Significant weakness: 3% of the total assets of combined statement <direct loss amount ≤ 5% of the total assets of combined statement; 3. Material weakness: direct loss amount>5% of the total assets of combined statement
Number of material weakness in financial statement		0
Number of material weakness in nonfinancial statement		0
Number of significant weakness in financial statement		0
Number of significant in non-financial statement		0

(XII) AUDITORS' REPORT ON INTERNAL CONTROL✓ Applicable Not applicable**The paragraph of auditing opinion in Auditors' Report on Internal Control**

Ruihua Certified Public Accountants (LLP) issued a standard unqualified audit report Rui Hua Shen Zi No.[2019]40020002 endorsed by Ruihua for the Company during the year of 2018, with the following auditing opinion: on 31 December 2018, Livzon Pharmaceutical Group Inc. maintained effective financial statement internal control in all material aspects pursuant to "Basic Ordinance of Corporation Internal Control" and relevant provisions.

Disclosure of the Auditors' Report on Internal Control	Disclosed
The disclosure date of the text of the Auditors' Report on Internal Control	28 March 2019
The index of the text of the Auditors' Report on Internal Control	Please refer to the Auditors' Report on Internal Control disclosed on the website of http://www.cninfo.com.cn/
Opinion type of the Auditors' Report on Internal Control	Standard unqualified opinion
Whether the non-financial statement exist material weakness	No

Whether the Certified Public Accountants issued a non-standard audit report on internal control Yes No**Whether the audit report on internal control issued by Certified Public Accountants in in line with the self-evaluation report of the Board of directors**✓ Yes No

Applicable Not applicable

There are no bonds of the Company issued publicly and listed on Stock Exchange.



瑞华会计师事务所
RUIHUA CERTIFIED PUBLIC ACCOUNTANTS

通訊地址：北京市東城區永定門西濱河路8號院7號樓中海地產廣場西塔9層
Postal Address: 9/F, West Tower of China Overseas Property Plaza, Building 7,
NO.8, Yongdingmen Xibinhe Road, Dongcheng District, Beijing
郵政編碼(Post Code)：100077
電話(Tel)：+86(10)88095588
傳真(Fax)：+86(10)88091199

AUDITORS' REPORT

Rui Hua Shen Zi No.[2019] 40020006

To the Shareholders of Livzon Pharmaceutical Group Inc:

I. AUDIT OPINIONS

We have audited the financial statements of Livzon Pharmaceutical Group Inc. (麗珠醫藥集團股份有限公司) (hereinafter referred to as the "Company"), which comprise the consolidated balance sheet and the balance sheet of the Company as at 31 December 2018 and the consolidated revenue statement, consolidated cash flow statement and consolidated statement of changes in equity and the revenue statement, cash flow statement and statement of changes in equity of the Company for the year 2018 together with the relevant notes thereto.

In our opinion, the attached financial statements are, in all material aspects, prepared in accordance with the Accounting Standards for Business Enterprises and give a fair view on the consolidation of the Company as at 31 December 2018 and the financial conditions of the Company and the consolidation for the year 2018 as well as the operation results and cash flows of the Company

II. BASIS FOR OPINION

We conducted our audit in accordance with China Standards on Auditing for Certified Public Accountants. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the Code of Ethics for Professional Accountants of the Chinese Institute of Certified Public Accountants ("CICPA Code"), and we have fulfilled our other ethical responsibilities in accordance with the CICPA Code. We believe the audit evidences obtained by us are sufficient and appropriate and provide basis for our audit opinions.

III. KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. We determine that the following are key audit matters that need to be communicated in the audit report.

(I) Revenue recognition

1. Details

Drug preparation products of the Company are mainly sold by distribution. In 2018, operating revenue of such type of products was RMB5,770.7127 million, accounting for 65.13% of total operating revenue, of which RMB5,618.4297 million are sold by distribution, accounting for 63.41% of total operating revenue.

Usually speaking, distribution model is divided into buyout and dealership. The time for revenue recognition of these two modes differs. The criteria for distinguishing between the two distribution models are based on the terms of the distribution agreement to determine the time when the major risks and rewards of the ownership of the commodities have been transferred. Under the buyout model, as the Company's control over dealers differ, whether it may hoard unreasonable inventory through the dealership, so that revenues is recognised in advance or even overstated by the Company

Under the dealership model, there is inherent risk of material misstatement in revenue recognition.

2. Application for auditing

We have tested the design and implementation of key internal controls on the revenue cycle to confirm the effectiveness of internal controls;

We have obtained the distribution agreement entered into by the Company with the dealer and verified the key terms of the contract, such as (1) delivery and acceptance; (2) payment and settlement; (3) replacement and return policy;

We confirmed whether dealers are connected with the Company by inquiring about the business information of the dealers and asking relevant personnel; and whether the goods stored at dealers are still controlled by the Company by understanding the changes of dealers, implementation of the contract by both parties, reasonable inventory of dealers and end-users sales, etc.;

We obtained the records of returns of goods in the supply chain system of the Company and checked to confirm whether there is significant abnormal returns affecting revenue recognition.

We confirmed the authenticity and integrity of current revenue in connection with other revenue audit procedures such as (1) checking information such as contracts entered into by the Company and the dealers, purchase orders, invoices, shipping documents, accounting source documents, refund documents, regular reconciliation reports; (2) seeking written confirmation of balance and current sales from dealers.

(II) Impairment of goodwill

1. Description

As described in "16. Goodwill" in Note VI to the financial statement, goodwill is tested annually for impairment, irrespective of whether there is any indication that it may be impaired. Management of the Company (hereinafter referred to as the "Management") determines each subsidiary acquired as an independent cash-generating unit, hence the goodwill generated from business combination involving an enterprise is allocated to corresponding subsidiaries for impairment test. The impairment test is based on the recoverable amount of each asset group unit to which the goodwill is allocated. The recoverable amount of each asset group is the higher of its fair value less costs of disposal and its value in use using cash flow projections based on a financial budget covering a 5-year period. We consider impairment of goodwill as a key audit matter as the impairment test process is complex and involves significant judgements and estimates.

2. Audit Strategy

To understand the measurement methods for present value of the future cash flow adopted by the Management, combining with the actual operations of asset group and analysis and projection on the market, to verify the data used in estimation of cash flow, historical data and other supporting evidences, to analyse whether it is reasonable;

To invite internal experts of evaluation to evaluate the assumptions and methods adopted by the Management;

To check the calculations of present value of the future cash flow;

To check the disclosure of impairment test of goodwill in financial statements.

IV. OTHER INFORMATION

The Management is responsible for other information, which includes the information included in 2018 Annual Report of the Company but excludes the financial statements and our auditors' report.

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

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

Based on the work we have performed, if we conclude that there is a material misstatement therein, we should report the fact. In this respect, we are not required to report other matters.

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

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

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

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

VI. AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

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

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

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

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

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

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

Ruihua Certified Public Accountants (LLP)

Ling Yunliang
Chinese Certified Public Accountants
(The engagement partner)

Beijing, the People's Republic of China

Zhang Fang
Chinese Certified Public Accountants

27 March 2019

Prepared by: Livzon Pharmaceutical Group Inc.

Amount denominated: RMB

Item	Notes	31 December 2018	1 January 2018	31 December 2017
Current assets:				
Cash at bank and on hand	VI.1	8,587,927,272.41	7,415,782,198.83	7,415,782,198.83
Financial assets held for trading	VI.2	15,934,738.20	18,598,840.91	
Financial assets at fair value through profit or loss for the current period				8,732,443.07
Derivative financial assets				
Bills receivables and accounts receivables	VI.3	2,411,077,498.72	2,508,356,328.84	2,508,356,328.84
Of which: Bills receivables		1,029,370,542.77	1,151,583,176.39	1,151,583,176.39
Accounts receivables		1,381,706,955.95	1,356,773,152.45	1,356,773,152.45
Prepayments	VI.4	169,765,301.71	126,471,958.21	126,471,958.21
Other receivables	VI.5	49,482,179.59	63,640,601.96	63,640,601.96
Of which: Interest receivables			5,945,063.41	5,945,063.41
Dividends receivables				
Inventories	VI.6	1,117,007,240.91	1,102,620,734.51	1,102,620,734.51
Contract assets				
Held-for-sale assets				
Non-current assets due within one year	VI.7	10,869,100.00		
Other current assets	VI.8	109,664,922.90	124,263,427.92	124,263,427.92
Total current assets		12,471,728,254.44	11,359,734,091.18	11,349,867,693.34
Non-current assets:				
Debt investments				
Available-for-sale financial assets				193,530,331.52
Other debt investments				
Held-to-maturity investments				
Long-term receivables	VI.9	20,299,509.76		
Long-term equity investments	VI.10	188,106,109.58	92,598,045.44	92,598,045.44
Other equity instrument investments	VI.11	407,707,119.32	183,663,933.68	
Other non-current financial assets				
Investment properties				
Fixed assets	VI.12	3,217,576,074.00	3,321,218,058.56	3,321,218,058.56
Construction in progress	VI.13	184,518,928.04	70,279,348.98	70,279,348.98
Productive biological assets				
Oil and gas assets				
Intangible assets	VI.14	244,193,325.80	263,804,161.52	263,804,161.52
Development costs	VI.15	81,146,586.57	25,328,934.25	25,328,934.25
Goodwill	VI.16	103,040,497.85	103,040,497.85	103,040,497.85
Long-term deferred expenses	VI.17	113,346,522.83	116,453,732.68	116,453,732.68
Deferred tax assets	VI.18	141,596,264.49	127,208,887.08	127,208,887.08
Other non-current assets	VI.19	264,087,667.70	234,401,026.41	234,401,026.41
Total non-current assets		4,965,618,605.94	4,537,996,626.45	4,547,863,024.29
Total assets		17,437,346,860.38	15,897,730,717.63	15,897,730,717.63

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Prepared by: Livzon Pharmaceutical Group Inc.

Amount denominated: RMB

Item	Notes	31 December 2018	1 January 2018	31 December 2017
Current liabilities:				
Short-term loans	VI.20	1,500,000,000.00		
Held-for-trading financial liabilities	VI.21	85,294.16	339,129.90	
Financial liabilities measured at fair value and changes recorded in current profit and loss				339,129.90
Derivatives financial liabilities				
Bills payables and accounts payables	VI.22	1,354,914,543.37	1,163,527,427.74	1,163,527,427.74
Receipts in advance				115,288,797.94
Contract liabilities	VI.23	115,973,464.09	115,288,797.94	
Employee benefits payables	VI.24	186,046,426.55	161,565,942.97	161,565,942.97
Taxes payables	VI.25	245,057,455.45	1,045,751,020.24	1,045,751,020.24
Other payables	VI.26	1,967,100,817.25	1,924,158,267.45	1,924,158,267.45
Of which: Interest payables				
Dividends payables		97,536,288.17	170,936,288.17	170,936,288.17
Held-for-sale liabilities				
Non-current liabilities due within one year	VI.27	400,000.00	400,000.00	400,000.00
Other current liabilities				
Total current liabilities		5,369,578,000.87	4,411,030,586.24	4,411,030,586.24
Non-current liabilities:				
Long-term loans	VI.28	700,000.00	700,000.00	700,000.00
Notes payables				
Of which: Preferred shares				
Perpetual bonds				
Long-term payables				
Long-term employee benefits payables				
Accrued liabilities				
Deferred gain	VI.29	262,712,220.34	225,844,273.75	225,844,273.75
Deferred tax liabilities	VI.18	54,479,730.16	26,532,304.04	26,532,304.04
Other non-current liabilities				
Total non-current liabilities		317,891,950.50	253,076,577.79	253,076,577.79
Total liabilities		5,687,469,951.37	4,664,107,164.03	4,664,107,164.03
Shareholders' equity:				
Share capital	VI.30	719,050,240.00	553,231,369.00	553,231,369.00
Other equity instruments				
Of which: Preferred shares				
Perpetual bonds				
Capital reserve	VI.31	1,362,250,389.67	1,715,270,973.93	1,715,270,973.93
Less: Treasury shares	VI.32	25,208.04	66,786,741.96	66,786,741.96
Other consolidated earnings	VI.33	-29,164,814.15	-52,898,929.52	-44,546,365.43
Special reserve				
Surplus reserve	VI.34	587,255,162.90	587,255,162.90	587,255,162.90
General risks provision				
Unallocated earnings	VI.35	8,012,611,700.26	8,036,667,934.28	8,028,315,370.19
Total equity attributable to shareholders of the parent company		10,651,977,470.64	10,772,739,768.63	10,772,739,768.63
Non-controlling interests		1,097,899,438.37	460,883,784.97	460,883,784.97
Total shareholders' equity		11,749,876,909.01	11,233,623,553.60	11,233,623,553.60
Total liabilities and shareholders' equity		17,437,346,860.38	15,897,730,717.63	15,897,730,717.63

Chairman of the Board and
legal representatives:
Zhu Baoguo

Executive Director and
President:
Tang Yanggang

Principal in charge of
accounting work:
Si Yanxia

Name of the accounting
firm's principal:
Zhuang Jianying

Prepared by: Livzon Pharmaceutical Group Inc.

Amount denominated: RMB

Item	Notes	For 2018	For 2017
I. Total operating income		8,860,655,670.73	8,530,968,596.54
Including: Operating income	VI.36	8,860,655,670.73	8,530,968,596.54
II. Total operating costs		7,625,852,066.94	7,490,099,890.70
Including: Operating costs	VI.36	3,359,655,064.11	3,083,081,036.71
Business taxes and surcharges	VI.37	118,454,266.51	129,030,283.24
Selling expenses	VI.38	3,267,279,529.29	3,265,169,717.13
Administrative expenses	VI.39	546,375,495.41	506,819,090.28
R&D expenses	VI.40	548,972,707.16	427,152,448.64
Financial expenses	VI.41	-251,952,496.18	-39,007,812.58
Including: Interest expenses		16,772,638.85	3,050,424.10
Interest income		236,174,743.57	78,084,383.47
Asset impairments loss	VI.42	67,768,499.83	117,855,127.28
Credit impairment loss	VI.43	-30,700,999.19	
Add: Other income	VI.44	85,097,367.17	91,964,810.95
Investment income ("—" represents losses)	VI.45	-42,445,887.41	4,297,099,345.96
Including: Income from investment in associates and joint ventures		-6,186,649.16	1,488,310.65
Gain net exposure to hedging ("—" represents losses)			
Gains from changes in fair value ("—" represents losses)	VI.46	-2,410,266.97	2,812,281.15
Gains on disposal of assets ("—" represents losses)	VI.47	-549,283.16	225,062,922.66
III. Operating profit ("—" represents losses)		1,274,495,533.42	5,657,808,066.56
Add: Non-operating income	VI.48	176,898,473.07	91,912,647.38
Less: Non-operating expenses	VI.49	34,719,651.84	24,797,925.12
IV. Total profit ("—" represents total losses)		1,416,674,354.65	5,724,922,788.82
Less: Income tax expenses	VI.50	234,959,635.62	1,237,220,405.36
V. Net profit ("—" represents net losses)		1,181,714,719.03	4,487,702,383.46
(I) By continuity of operations			
1. Net profit from continuing operations ("—" represents net losses)		1,181,714,719.03	4,487,702,383.46
2. Net profit from discontinued operations ("—" represents net losses)			
(II) By ownership			
1. Profit or loss from non-controlling interests ("—" represents net losses)		99,539,813.05	59,017,818.89
2. Net profit attributable to the shareholders of the parent company ("—" represents net losses)		1,082,174,905.98	4,428,684,564.57

Prepared by: Livzon Pharmaceutical Group Inc.

Amount denominated: RMB

Item	Notes	For 2018	For 2017
VI. Other comprehensive net income after taxation	VI.51	26,035,358.56	-45,429,961.95
Other comprehensive net income after taxation attributable to the shareholders of the parent company		23,734,115.37	-45,149,132.62
(I) Other comprehensive income subsequently not to be reclassified into profit or loss		9,849,816.91	
1. Changes caused by 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		9,849,816.91	
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		13,884,298.46	-45,149,132.62
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. Profit and loss from change of fair value of available-for-sale financial assets			8,504,114.02
4. Financial assets reclassified into other comprehensive income			
5. Held-to-maturity investment to be reclassified as available-for-sale financial asset profit and loss			
6. Credit impairment provision for other debt instruments			
7. Reserve for cash flow hedging (Portion of the gains or losses arising from cash valid flow hedges instrument)			
8. Translation differences of financial statements denominated in foreign currency		13,884,298.46	-51,433,981.64
9. Others			-2,219,265.00
Other comprehensive net income after taxation attributable to non-controlling interests		2,301,243.19	-280,829.33
VII. Total comprehensive income		1,207,750,077.59	4,442,272,421.51
Total comprehensive income attributable to the shareholders of the parent company		1,105,909,021.35	4,383,535,431.95
Total comprehensive income attributable to non-controlling interests		101,841,056.24	58,736,989.56
VIII. Earnings per share:			
(I) Basic earnings per share (RMB/share)	XVIII.2	1.51	6.22
(II) Diluted earnings per share (RMB/share)	XVIII.2	1.51	6.20

Chairman of the Board and
legal representatives:
Zhu Baoguo

Executive Director and
President:
Tang Yanggang

Principal in charge of
accounting work:
Si Yanxia

Name of the accounting
firm's principal:
Zhuang Jianying

Prepared by: Livzon Pharmaceutical Group Inc.

Amount denominated: RMB

Item	Notes	For 2018	For 2017
I. Cash flows from operating activities:			
Cash received from sale of goods and rendering of services		9,768,960,092.56	9,078,790,988.35
Refund of taxes		107,391,240.43	50,921,127.41
Cash received relating to other operating activities	VI.52	680,681,144.03	437,237,165.81
Sub-total of cash inflows from operating activities		10,557,032,477.02	9,566,949,281.57
Cash paid for purchasing goods and services		2,599,192,448.82	2,546,620,235.15
Cash paid to and for employees		880,652,150.38	662,009,765.09
Cash paid for all types of taxes		1,838,966,543.62	1,341,216,092.81
Cash paid relating to other operating activities	VI.52	3,970,600,153.16	3,701,237,720.83
Sub-total of cash outflows from operating activities		9,289,411,295.98	8,251,083,813.88
Net cash flows from operating activities		1,267,621,181.04	1,315,865,467.69
II. Cash flows from investing activities:			
Cash received from disposal of investments		33,100,525.00	657,688,484.55
Cash received from return on investments		3,906,200.68	16,644,722.54
Net cash received from disposal of fixed assets, intangible assets and other long-term assets		450,353.09	2,537,082.00
Net cash received from disposal of subsidiaries and other operating entities		24,749,467.35	4,479,932,115.41
Cash received relating to other investing activities	VI.52	1,225,000.00	
Sub-total of cash inflows from investing activities		63,431,546.12	5,156,802,404.50
Cash paid for acquisition of fixed assets, intangible assets and other long-term assets		474,472,400.55	294,151,955.40
Cash paid for investments		555,972,142.47	188,717,615.54
Net cash paid for acquisition of subsidiaries and other operating entities			
Cash paid relating to other investing activities	VI.52	53,832,171.20	1,211,700.00
Sub-total of cash outflows from investing activities		1,084,276,714.22	484,081,270.94
Net cash flows from investing activities		-1,020,845,168.10	4,672,721,133.56
III. Cash flows from financing activities:			
Cash received from investors		637,590,000.00	15,000,000.00
Including: Cash received from non-controlling shareholders of subsidiaries		637,590,000.00	15,000,000.00
Cash received from borrowings		1,800,000,000.00	
Cash received from issue of financing bills			
Cash received relating to other financing activities	VI.52	1,199,047.19	23,180,507.74
Sub-total of cash inflows from financing activities		2,438,789,047.19	38,180,507.74
Cash repayments of borrowings		300,000,000.00	350,000,000.00
Cash paid for dividends, profit distributions or interest		1,277,489,115.93	265,263,274.97
Including: Dividends and profits paid to noncontrolling shareholders of subsidiaries		156,800,000.00	49,000,000.00
Cash paid relating to other financing activities	VI.52	3,875,932.38	6,050,621.02
Sub-total of cash outflows from financing activities		1,581,365,048.31	621,313,895.99
Net cash flows from financing activities		857,423,998.88	-583,133,388.25
IV. Effect of foreign exchange rate changes on cash and cash equivalents			
		58,537,258.94	-66,402,282.70
V. Net increase in cash and cash equivalents			
		1,162,737,270.76	5,339,050,930.30
Add: Cash and cash equivalents at the Beginning of the Period		7,400,973,935.19	2,061,923,004.89
VI. Cash and cash equivalents at the End of the Period			
		8,563,711,205.95	7,400,973,935.19

Chairman of the Board and
legal representatives:
Zhu Baoguo

Executive Director and
President:
Tang Yanggang

Principal in charge of
accounting work:
Si Yanxia

Name of the accounting
firm's principal:
Zhuang Jianying

Prepared by: Livzon Pharmaceutical Group Inc.

Amount denominated: RMB

Item	For 2018										Total shareholders' equity		
	Attributable to shareholders of the Parent Company					Non-controlling interests							
	Share capital	Preferred Shares	Other Equities Perpetual Bond	Others	Capital reserve	Treasury shares	Less: Other Comprehensive Income	Special reserve	Surplus reserve	General risks provision	Retained earnings		
I. Balance at 31 December 2017	553,231,365.00				1,715,270,973.93	66,786,741.96	-44,546,365.43		587,255,162.90		8,038,715,370.19	460,883,784.97	11,233,623,553.60
Add: effects of changes in accounting policies							-8,352,564.09						
Effects of corrections on errors in previous period													
Business combination under common control													
Others													
II. Balance at 1 January 2018	553,231,365.00				1,715,270,973.93	66,786,741.96	-52,898,929.52		587,255,162.90		8,036,667,934.28	460,883,784.97	11,233,623,553.60
III. Changes in equity for the period ("-" represents decrease)	165,818,871.00				-353,020,584.26	-66,761,533.92	23,734,115.37				-24,056,234.02	637,015,653.40	516,253,353.41
(i) Total comprehensive income							23,734,115.37				1,082,174,905.98	101,841,056.24	1,207,750,077.59
(ii) Shareholders' contributions and decrease of capital	-115,799.00				-1,611,873.24	-66,761,533.92						408,529,046.19	473,562,907.87
1. Ordinary shares invested by shareholders												66,190,546.19	66,190,546.19
2. Capital contributed by holders of other equities												342,338,500.00	342,338,500.00
3. Increase in shareholders' equity resulted from share-based payments													
4. Others	-115,799.00				-1,611,873.24	-66,761,533.92					-1,106,231,140.00	-83,400,000.00	-1,189,631,140.00
(iii) Appropriation of profits													
1. Appropriation of surplus reserve													
2. Appropriation of general risks provision													
3. Distributions to shareholders													
4. Others													
(iv) Transfer of shareholders' equity internally	165,934,670.00				-165,934,670.00								
1. Capital reserve transferred to capital (or share capital)	165,934,670.00				-165,934,670.00								
2. Surplus reserve transferred to capital (or share capital)													
3. Surplus reserves transferred to retained earnings for losses incurred													
4. Retained income transferred from the change in defined benefits plan													
5. Retained income transferred from the change in other comprehensive income													
6. Others													
(v) Special reserve													
1. Appropriation of special reserve													
2. Utilisation of special reserve													
(vi) Others	719,050,240.00				-165,474,041.02	25,208.04	-29,164,814.15		587,255,162.90		8,042,611,700.26	210,045,550.97	24,571,509.95
IV. Balance at 31 December 2018	719,050,240.00				1,362,250,389.67	25,208.04	-29,164,814.15		587,255,162.90		8,042,611,700.26	1,097,899,433.37	11,749,876,909.01

Prepared by: Livzon Pharmaceutical Group Inc.

Amount denominated: RMB

Item	Attributable to shareholders of the Parent Company										Total shareholders' equity		
	Share capital	Preferred Shares	Other Equities Perpetual Bond	Others	Capital reserve	Treasury shares	Less: Other Comprehensive Income	Special reserve	Surplus reserve	General risks provision		Retained earnings	Non-controlling interests
For 2017													
I. Balance at 31 December 2017	425,730,126.00				1,820,309,052.12	140,321,805.40	602,767.19	587,235,162.90	3,812,412,101.62			599,651,099.12	7,105,638,503.55
Add: effects of changes in accounting policies													
Effects of corrections on errors in previous period													
Business combination under common control													
Others													
II. Balance at 1 January 2018	425,730,126.00				1,820,309,052.12	140,321,805.40	602,767.19	587,235,162.90	3,812,412,101.62			599,651,099.12	7,105,638,503.55
III. Changes in equity for the period ("-" represents decrease)	127,501,243.00				-105,038,078.19	-73,535,063.44	-45,149,132.62		4,215,003,268.57			-138,767,314.15	4,127,985,050.05
(I) Total comprehensive income									4,428,684,564.57			58,736,989.56	4,442,772,421.51
(II) Shareholders' contributions and decrease of capital	-167,534.00				-3,287,576.14	-73,535,063.44						15,000,000.00	85,079,953.30
1. Ordinary shares invested by shareholders												15,000,000.00	15,000,000.00
2. Capital contributed by holders of other equities													
3. Increase in shareholders' equity resulted from share-based payments													
4. Others													
(III) Appropriation of profits	-167,534.00				-3,287,576.14	-73,535,063.44							70,079,953.30
1. Appropriation of surplus reserve													
2. Appropriation of general risks provision													
3. Distributions to shareholders													
4. Others													
(IV) Transfer of shareholders' equity internally	127,668,777.00				-127,668,777.00								
1. Capital reserve transferred to capital (or share capital)													
2. Surplus reserve transferred to capital (or share capital)													
3. Surplus reserves transferred to retained earnings for losses incurred													
4. Retained income transferred from the change in defined benefits plan													
5. Retained income transferred from the change in other comprehensive income													
6. Others													
(V) Special reserve													
1. Appropriation of special reserve													
2. Utilisation of special reserve													
(VI) Others													
IV. Balance at 31 December 2018	553,231,369.00				1,715,270,973.93	66,786,741.96	-44,546,365.43	587,235,162.90	8,028,315,370.19			460,883,784.97	11,233,623,553.60

Chairman of the Board and legal representatives: Zhu Baoguo
 Executive Director and President: Tang Yanggang
 Principal in charge of accounting work: Si Yanxia
 Name of the accounting firm's principal: Zhuang Jianying

Prepared by: Livzon Pharmaceutical Group Inc.

Amount denominated: RMB

Item	Notes	31 December 2018	1 January 2018	31 December 2017
Current assets:				
Cash at bank and on hand		7,505,401,614.22	6,494,605,142.51	6,494,605,142.51
Held-for-trading financial assets		7,267,953.42	9,866,397.84	
Financial assets at fair value through profit or loss for the current period				
Derivative financial assets				
Bills receivables and accounts receivables	XVII.1	1,208,304,054.50	1,273,761,414.49	1,273,761,414.49
Of which: Bills receivables		606,560,125.42	636,582,349.82	636,582,349.82
accounts receivables		601,743,929.08	637,179,064.67	637,179,064.67
Prepayments		26,503,604.37	23,947,297.19	23,947,297.19
Other receivables	XVII.2	1,779,658,972.33	2,235,159,294.88	2,235,159,294.88
Of which: Interest receivables			5,945,063.41	5,945,063.41
Dividends receivables		599,078,865.48	566,928,924.56	566,928,924.56
Inventories		483,740,282.91	324,451,425.51	324,451,425.51
Contract assets				
Held-for-sale assets				
Non-current assets due within one year		10,869,100.00		
Other current assets		3,720.38	14,802,063.57	14,802,063.57
Total current assets		11,021,749,302.13	10,376,593,035.99	10,366,726,638.15
Non-current assets:				
Debt investments				
Available-for-sale financial assets				85,369,506.68
Other debt investments				
Held-to-maturity investments				
Long-term receivables		20,299,509.76		
Long-term equity investments	XVII.3	1,906,138,109.75	1,912,679,027.84	1,921,512,447.08
Other equity instrument investments		80,503,108.84	75,503,108.84	
Other non-current financial assets				
Investment properties				
Fixed assets		77,680,302.35	64,002,756.47	64,002,756.47
Construction in progress		1,729,987.35		
Productive biological assets				
Oil and gas assets				
Intangible assets		25,547,418.64	13,384,939.00	13,384,939.00
Development costs		4,740,370.24	15,227,566.18	15,227,566.18
Goodwill				
Long-term deferred expenses		1,643,638.99	1,900,875.67	1,900,875.67
Deferred income tax assets		30,325,432.85	34,887,407.91	34,887,407.91
Other non-current assets		90,929,898.90	84,665,592.70	84,665,592.70
Total non-current assets		2,239,537,777.67	2,202,251,274.61	2,220,951,091.69
Total assets		13,261,287,079.80	12,578,844,310.60	12,587,677,729.84

Prepared by: Livzon Pharmaceutical Group Inc.

Amount denominated: RMB

Item	Notes	31 December 2018	1 January 2018	31 December 2017
Current liabilities:				
Short-term loans		1,500,000,000.00		
Held-for-trading financial liabilities				
Financial liabilities measured at fair value and changes recorded in current profit and loss				
Derivatives financial liabilities				
Bills payables and accounts payables		393,561,234.58	1,471,949,832.42	1,471,949,832.42
Receipts in advance				39,100,755.02
Contract liabilities		40,208,856.21	39,100,755.02	
Employee benefits payables		33,347,783.68	28,957,166.37	28,957,166.37
Taxes payables		52,232,361.86	739,087,798.63	739,087,798.63
Other payables		3,851,428,656.70	2,810,769,078.20	2,810,769,078.20
Of which: Interest payables				
Dividends payables		20,174.46	20,174.46	20,174.46
Held-for-sale liabilities				
Non-current liabilities due within one year				
Other current liabilities				
Total current liabilities		5,870,778,893.03	5,089,864,630.64	5,089,864,630.64
Non-current liabilities:				
Long-term loans				
Notes payables				
Of which: Preferred shares				
Perpetual bonds				
Long-term payables				
Long-term employee benefits payables				
Accrued liabilities				
Deferred gain		77,673,338.51	54,183,338.51	54,183,338.51
Deferred tax liabilities		7,868,473.39	4,857,099.27	4,857,099.27
Other non-current liabilities				
Total non-current liabilities		85,541,811.90	59,040,437.78	59,040,437.78
Total liabilities		5,956,320,704.93	5,148,905,068.42	5,148,905,068.42
Shareholders' equity:				
Share capital		719,050,240.00	553,231,369.00	553,231,369.00
Other equity instruments of which: Preferred shares				
Perpetual bonds				
Capital reserve		1,726,897,983.73	1,836,798,282.28	1,836,798,282.28
Less: Treasury shares		25,208.04	66,786,741.96	66,786,741.96
Other comprehensive income				8,352,564.09
Special reserve				
Surplus reserve		382,292,109.32	382,292,109.32	382,292,109.32
General risks provision				
Retained earnings		4,476,751,249.86	4,724,404,223.54	4,724,885,078.69
Total shareholders' equity		7,304,966,374.87	7,429,939,242.18	7,438,772,661.42
Total liabilities and shareholders' equity		13,261,287,079.80	12,578,844,310.60	12,587,677,729.84

Chairman of the Board and
legal representatives:
Zhu Baoguo

Executive Director and
President:
Tang Yanggang

Principal in charge of
accounting work:
Si Yanxia

Name of the accounting
firm's principal:
Zhuang Jianying

Prepared by: Livzon Pharmaceutical Group Inc.

Amount denominated: RMB

Item	Notes	For 2018	For 2017
I. Operating income	XVII.4	4,630,876,965.08	4,849,700,613.45
Less: Operating costs	XVII.4	2,769,742,007.02	2,779,831,319.99
Business taxes and surcharges		27,421,306.18	39,929,241.75
Selling expenses		1,761,642,901.70	1,920,406,720.65
Administrative expenses		178,946,072.79	166,228,606.20
R&D expenses		166,084,628.20	127,773,276.59
Financial expenses		-213,483,424.99	-95,034,838.85
Including: Interest expenses		45,192,299.74	33,643,835.06
Interest income		271,983,961.62	137,455,068.12
Asset impairments loss		5,076,644.58	57,328,008.90
Credit impairment loss		-21,164,034.42	
Add: other income		20,281,040.34	20,021,912.90
Investment income ("-" represents losses)	XVII.5	750,747,652.69	4,968,268,491.77
Including: Income from investment in associates and joint ventures		-15,239,316.17	-1,014,681.56
Gain net exposure to hedging ("-" represents losses)			
Gains from changes in fair value ("-" represents losses)		-2,598,444.42	
Gains on disposal of assets ("-" represents losses)		-110,725.33	-503,672.43
II. Operating profit ("-" represents losses)		724,930,387.30	4,841,025,010.46
Add: Non-operating income		150,676,949.07	79,931,480.46
Less: Non-operating expenses		4,518,887.74	23,928,488.40
III. Total profit ("-" represents total losses)		871,088,448.63	4,897,028,002.52
Less: Income tax expenses		12,510,282.31	872,732,977.29
IV. Net profit ("-" represents net losses)		858,578,166.32	4,024,295,025.23
(I). Net profit from continuing operations ("-" represents net losses)		858,578,166.32	4,024,295,025.23
(II). Net profit from discontinued operations ("-" represents net losses)			
V. Other comprehensive net income after taxation			558,314.60
(I). Other comprehensive income items not to be reclassified as profit or loss			
1. Changes caused by 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 reclassified as profit or loss			558,314.60
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. Profit and loss from change of fair value of available-for-sale financial assets			2,777,579.60
4. Financial assets reclassified into other comprehensive income			
5. Held-to-maturity investment to be reclassified as available-for-sale financial asset profit and loss			
6. Credit impairment provision for other debt instruments			
7. Reserve for cash flow hedging (Portion of the gains or losses arising from cash valid flow hedges instrument)			
8. Translation differences of financial statements denominated in foreign currency			
9. Others			-2,219,265.00
VI. Total comprehensive income		858,578,166.32	4,024,853,339.83

Chairman of the Board and
legal representatives:
Zhu Baoguo

Executive Director and
President:
Tang Yanggang

Principal in charge of
accounting work:
Si Yanxia

Name of the accounting
firm's principal:
Zhuang Jianying

Prepared by: Livzon Pharmaceutical Group Inc.

Amount denominated: RMB

Item	Notes	For 2018	For 2017
I. Cash flows from operating activities:			
Cash received from sale of goods and rendering of services		5,418,166,916.36	5,466,433,778.87
Refund of taxes			
Cash received relating to other operating activities		429,953,587.49	196,411,777.42
Sub-total of cash inflows from operating activities		5,848,120,503.85	5,662,845,556.29
Cash paid for purchasing goods and services		3,985,184,121.08	3,036,011,217.23
Cash paid to and for employees		223,854,043.35	127,761,669.62
Cash paid for all types of taxes		911,867,255.71	502,437,752.77
Cash paid relating to other operating activities		1,886,295,099.30	2,160,227,581.80
Sub-total of cash outflows from operating activities		7,007,200,519.44	5,826,438,221.42
Net cash flows from operating activities		-1,159,080,015.59	-163,592,665.13
II. Cash flows from investing activities:			
Cash received from disposal of investments		519,100,525.00	656,732,954.55
Cash received from return on investments		740,062,804.98	1,029,900,804.75
Net cash received from disposal of fixed assets, intangible assets and other long-term assets		250,000.00	455,700.00
Net cash received from disposal of subsidiaries and other operating entities			3,740,295,323.16
Cash received relating to other investing activities			
Sub-total of cash inflows from investing activities		1,259,413,329.98	5,427,384,782.46
Cash paid for acquisition of fixed assets, intangible assets and other long-term assets		33,477,381.49	13,477,130.33
Cash paid for investments		539,372,200.00	30,000,000.00
Net cash paid for acquisition of subsidiaries and other operating entities			
Cash paid relating to other investing activities			
Sub-total of cash outflows from investing activities		572,849,581.49	43,477,130.33
Net cash flows from investing activities		686,563,748.49	5,383,907,652.13
III. Cash flows from financing activities:			
Cash received from investors			
Borrowings received from subsidiaries		1,693,288,314.03	1,422,907,591.95
Cash received from borrowings		1,500,000,000.00	
Cash received from issue of financing bills			
Cash received relating to other financing activities		1,199,047.19	23,180,507.74
Sub-total of cash inflows from financing activities		3,194,487,361.22	1,446,088,099.69
Cash repayments of borrowings			350,000,000.00
Cash paid for dividends, profit distributions or interest		1,115,487,907.64	216,263,274.97
Advances to subsidiaries			
Cash paid relating to other financing activities		595,641,148.52	1,204,594,156.80
Sub-total of cash outflows from financing activities		1,711,129,056.16	1,770,857,431.77
Net cash flows from financing activities		1,483,358,305.06	-324,769,332.08
IV. Effect of foreign exchange rate changes on cash and cash equivalents		-45,566.25	-7,426,178.26
V. Net increase in cash and cash equivalents		1,010,796,471.71	4,888,119,476.66
Add: Cash and cash equivalents at the Beginning of the Period		6,494,605,142.51	1,606,485,665.85
VI. Cash and cash equivalents at the End of the Period		7,505,401,614.22	6,494,605,142.51

Chairman of the Board and
legal representatives:
Zhu Baoguo

Executive Director and
President:
Tang Yanggang

Principal in charge of
accounting work:
Si Yanxia

Name of the accounting
firm's principal:
Zhuang Jianying

Amount denominated: RMB

Prepared by: Livzon Pharmaceutical Group Inc.

Item	For 2018							Total shareholders' equity				
	Share capital	Preferred Shares	Other Equities Perpetual Bond	Others	Capital reserve	Less: Treasury shares	Other Comprehensive Income		Special reserve	Surplus reserve	General risks provision	Retained earnings
I. Balance at 31 December 2017	553,231,369.00				1,836,798,282.28	66,766,741.96	8,352,564.09		382,292,109.32		4,724,885,078.69	7,438,772,661.42
Add: effects of changes in accounting policies											8,352,564.09	
Effects of corrections on errors in previous period												
Others												
II. Balance at 1 January 2018	553,231,369.00				1,836,798,282.28	66,766,741.96			382,292,109.32		-8,833,419.24	-8,833,419.24
III. Changes in equity for the period ("-" represents decrease)	165,818,871.00				-109,800,298.55	-66,761,533.92					4,724,404,223.54	7,429,939,242.18
(I) Total comprehensive income											-247,652,973.68	-124,972,867.31
(II) Shareholders' contributions and decrease of capital	-115,799.00				-1,611,873.24	-66,761,533.92					858,578,166.32	858,578,166.32
1. Ordinary shares invested by shareholders												
2. Capital contributed by holders of other equities												
3. Increase in shareholders' equity resulted from share-based payments												
4. Others	-115,799.00				-1,611,873.24	-66,761,533.92						
(III) Appropriation of profits												
1. Appropriation of surplus reserve												
2. Appropriation of general risks provision												
3. Distributions to shareholders												
4. Others												
(IV) Transfer of shareholders' equity internally	165,934,670.00				-165,934,670.00							65,033,861.68
1. Capital reserve transferred to capital (or share capital)					-165,934,670.00							
2. Surplus reserve transferred to capital (or share capital)	165,934,670.00											
3. Surplus reserves transferred to retained earnings for losses incurred												
4. Retained income transferred from the change in defined benefits plan												
5. Retained income transferred from the change in other comprehensive income												
6. Others												
(V) Special reserve												
1. Appropriation of special reserve												
2. Utilisation of special reserve												
(VI) Others												
IV. Balance at 31 December 2018	719,050,240.00				1,726,897,983.73	25,208.04			382,292,109.32		4,476,751,248.86	7,304,966,374.87
					57,646,244.69							57,646,244.69

Prepared by: Livzon Pharmaceutical Group Inc.

Amount denominated: RMB

Item	For 2017							Total shareholders' equity			
	Share capital	Preferred Shares	Other Equities Perpetual Bond	Others	Capital reserve	Less: Treasury shares	Other Comprehensive Income		Special reserve	Surplus reserve	General risks provision
I. Balance at 31 December 2017	425,730,126.00				1,941,836,360.47	140,321,805.40	7,794,249.49	382,292,109.32	913,371,349.46		3,530,702,389.34
Add: effects of changes in accounting policies											
Effects of corrections on errors in previous period											
Others											
II. Balance at 1 January 2018	425,730,126.00				1,941,836,360.47	140,321,805.40	7,794,249.49	382,292,109.32	913,371,349.46		3,530,702,389.34
III. Changes in equity for the period ("+" represents increase)											
(I) Total comprehensive income											
(II) Shareholders' contributions and decrease of capital											
1. Ordinary shares invested by shareholders	127,501,243.00				-105,038,078.19	-73,535,063.44	558,314.60		3,811,513,729.23		3,908,070,272.08
2. Capital contributed by holders of other equities							558,314.60		4,024,295,025.23		4,024,853,339.83
3. Increase in shareholders' equity resulted from share-based payments	-167,534.00				-3,287,576.14	-73,535,063.44					70,079,953.30
4. Others	-167,534.00				-3,287,576.14	-73,535,063.44			-212,781,296.00		70,079,953.30
(III) Appropriation of profits											
1. Appropriation of surplus reserve											
2. Appropriation of general risks provision											
3. Distributions to shareholders											
4. Others											
(IV) Transfer of shareholders' equity internally	127,668,777.00				-127,668,777.00						
1. Capital reserve transferred to capital (or share capital)											
2. Surplus reserve transferred to capital (or share capital)	127,668,777.00				-127,668,777.00						
3. Surplus reserves transferred to retained earnings for losses incurred											
4. Retained income transferred from the change in defined benefits plan											
5. Retained income transferred from the change in other comprehensive income											
6. Others											
(V) Special reserve											
1. Appropriation of special reserve											
2. Utilisation of special reserve											
(VI) Others											
IV. Balance at 31 December 2018	553,231,369.00				1,836,798,282.28	66,786,741.96	8,352,564.09	382,292,109.32	4,724,885,076.69		7,438,772,661.42
					25,918,274.95						25,918,274.95

Chairman of the Board and legal representatives: Zhu Baoguo
 Executive Director and President: Tang Yanggang
 Principal in charge of accounting work: Si Yanxia
 Name of the accounting firm's principal: Zhuang Jianying

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

I. COMPANY STATUS

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 sino-foreign fund raising company limited by shares. Funds were raised from its seven promoters 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), which converted their interests in the Company's net assets into shares, as well as 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 Shenzhen 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 interests transfer agreement with China Everbright (Group) Corporation (中國光大(集團)總公司) respectively, and transferred all shares held by them to China Everbright (Group) Corporation (中國光大(集團)總公司). Upon the 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 interests 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 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. 38,917,518 domestic legal person shares were held directly by Xi'an Dongsheng Group Co., Ltd. (西安東盛集團有限公司), which represented 12.72% of the total share capital of the Company.

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

I. COMPANY STATUS *(continued)*

1. History and development *(continued)*

On 4 February 2005, Joicare Pharmaceutical Industry Group Co., Ltd. (健康元藥業集團股份有限公司) (hereinafter referred to as the "Joicare") entered into an equity transfer agreement and an equity interests pledge agreement with Xi'an Dongsheng Group Co., Ltd. (西安東盛集團有限公司). Xi'an Dongsheng Group Co., Ltd. (西安東盛集團有限公司) directly transferred and pledged the 38,917,518 domestic legal person shares of the Company (representing 12.72% of the total share capital in the Company) to Joicare (健康元). On 3 August 2006, the procedures for the transfer of the 38,917,518 domestic legal person shares to Joicare (健康元) was completed.

As at 31 December 2012, Joicare (健康元) and its subsidiaries held a total of 140,122,590 shares of the Company through transfer agreements and direct purchase from secondary market, representing 47.3832% of the total share capital of the Company, which became the single 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 Corporation (廣州市保科力貿易公司) did not complete the procedures for the transfer to Joicare (健康元).

In the First Extraordinary Shareholders' Meeting held in 2008, the Company examined and passed the "Resolution in respect of the Repurchase of Domestically Listed Foreign Shares (B Shares) of Livzon Pharmaceutical Group Inc". As of 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 procedures in respect 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 registration procedures at the Administration of Industry and Commerce on 20 April 2010.

Pursuant to "Livzon Pharmaceutical Group Inc. Restricted Shares Incentive Scheme (Revised Draft)" and its summary considered and approved by the 2015 First Extraordinary Shareholders' Meeting of the Company and the resolution of the 8th meeting (27 March 2015) of the 8th session of the Board of directors, for this time, 458 restricted shares incentive participants exercised the options and there were 8,660,400 shares effectively exercised. Capital verification of this exercise of options was completed on 27 March 2015 with the approval registration completed by China Securities Depository and Clearing Corporation Limited (Shenzhen branch). The registered capital following the exercise of options has changed to 304,382,252. This capital injections was validated and confirmed by Capital Verification Report [2015] 40030004 Endorsed by Ruihua issued by Ruihua Certified Public Accountants. The Company completed the registration procedures at the Administration of Industry and Commerce 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, based on the Company's total share capital of 304,382,252 shares, the Company made a bonus issue of 91,314,675 shares, each RMB1 by way of capitalizing our capital reserve on the basis of 3 shares for every 10 shares held to all shareholder. After completion of issue, the registered capital of the Company has changed to RMB395,696,927. This capital injections was validated and confirmed by Capital Verification Report [2015] 40030017 Endorsed by Ruihua issued by Ruihua Certified Public Accountants. The Company completed the registration procedures at the Administration of Industry and Commerce on 21 January 2016 with the unified social credit code 914404006174883094.

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

I. COMPANY STATUS *(continued)*

1. History and development *(continued)*

Pursuant to “the Resolution on Repurchase and Cancellation of Locked Restricted Shares Granted to Incentive Participants No Longer Satisfying the Conditions for Incentive” considered and approved by the 16th Board Meeting of the 8th Session of the Board (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 Capital Verification Report [2015] 40030020.

According to “the Resolution on Granting the Reserved Restricted Shares to Incentive Participants” considered and approved by the 18th Board Meeting of the 8th Session of the Board (12 November 2015), for this time, 177 restricted shares incentive participants exercised the options and there were 1,285,700 shares effectively exercised. Capital verification of this exercise of options was completed on 18 December 2015 with the approval registration completed by China Securities Depository and Clearing Corporation Limited (Shenzhen branch). The Company’s share capital following the exercise of options has changed to RMB396,889,547. This capital injections was validated and confirmed by Capital Verification Report [2015] 40030023.

Pursuant to “the Resolution on Repurchase and Cancellation of Locked Restricted Shares Granted to Incentive Participants No Longer Satisfying the Conditions for Incentive” considered and approved by the 23th Board Meeting of the 8th Session of the Board (28 March 2016) and 26th Board Meeting of the 8th Session of the Board (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 Capital Verification Report Rui Hua Yan Zi [2016] 40030011 issued by Ruihua issued by Ruihua Certified Public Accountants.

Pursuant to the resolutions on the 17th Board Meeting of the 8th Session of the Board (2 November 2015 & 21 December 2015), the third Extraordinary General Meeting in 2015, 21st Board Meeting of the 8th Session of the Board (8 March 2016 & 25 April 2016), the second Extraordinary General Meeting in 2016, and approved by China Securities Regulatory Commission (中國證券監督管理委員會) with “Approval in Relation to the Non-public Issuance of Shares by Livzon Pharmaceutical Group Inc.” (Zheng Jian Xu Ke [2016] No. 1524) on 1 August 2016, 29,098,203 ordinary shares (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 injections was validated and confirmed by Capital Verification Report Rui Hua Yan Zi [2016] 40030019 issued by Ruihua issued by Ruihua Certified Public Accountants.

Pursuant to the “Resolution on Repurchase and Cancellation of Locked Restricted Shares Granted to Incentive Participants No Longer Satisfying the Conditions for Incentive” passed at the Thirty-second Meeting of the Eighth Session of the Board on 30 November 2016 and the Thirty-sixth Meeting of the Eighth Session of the Board on 28 March 2017, 167,534 shares were repurchased. The Company’s share capital following the repurchase has changed to RMB425,562,592. This capital reduction was validated and confirmed by Capital Verification Report Rui Hua Yan Zi [2017]40030001 and [2017]40030007 issued by Ruihua Certified Public Accountants.

Pursuant to the requirements of the Articles of Association considered and amended at 2016 general meeting, 2017 first class meeting of A Shareholders and 2017 first class meeting of H Shareholders, based on the Company’s total share capital of 425,562,592 shares, the Company made a bonus issue of 127,668,777 shares, each RMB1 by way of capitalizing our capital reserve on the basis of 3 shares for every 10 shares held to all shareholder. After completion of issue, the registered capital of the Company has changed to RMB553,231,369. This capital increase was validated and confirmed by Capital Verification Report Rui Hua Yan Zi [2017]40030010 issued by Ruihua Certified Public Accountants.

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

I. COMPANY STATUS *(continued)*

1. History and development *(continued)*

Pursuant to the “Resolution on Repurchase and Cancellation of Part of the Restricted Shares” and the “Resolution on the Repurchase and Cancellation of Locked Restricted Shares Granted to Incentive Participants No Longer Satisfying the Conditions” considered and approved at the Sixth Meeting of Ninth Session of the Board on 15 December 2017 and the Twelfth Meeting of Ninth Session of the Board on 29 March 2018, following the repurchase of 115,799 shares, the share capital of the Company changed to RMB553,115,570. The capital reduction was validated and confirmed by the capital verification reports (Rui Hua Yan Zi [2018] No. 40030006, [2018] No. 40030008) from Ruihua Certified Public Accountants.

Pursuant to the resolutions of the 2017 Annual General Meeting, 2018 Second Class Meeting of A Shareholders and 2018 Second Class Meeting of H Shareholders and the amended Articles of Association, it was agreed that the Company issued 165,934,670 bonus shares, with a nominal value of RMB1 per share, to all Shareholders on the basis of 3 shares for every 10 shares by way of capitalizing the capital reserve based on the total share capital of 553,115,570 shares. After the bonus issue, the registered capital of the Company changed to RMB719,050,240. The capital reduction was validated and confirmed by the capital verification reports (Rui Hua Yan Zi [2018] No. 40030013) from Ruihua Certified Public Accountants.

2. Industry of the Company

The Company is engaged in the industry of manufacturing pharmaceutical products.

3. Scope of business

The scope of business for the Company as approved was the production and sales of bulk medicines for traditional Chinese and western medicines, pharmaceutical intermediates, traditional Chinese herbal medicines, traditional Chinese medicine drink tablets, medical equipment, sanitary materials, healthcare products, medical cosmetics, over-the-counter drugs for traditional Chinese and western medicines biochemical reagents, as well as chemicals, food, information business, bulk medicines. pharmaceutical diagnostic equipment and reagents; research and development of new medical products, transfer of technical achievements; management service; rental of pharmaceutical diagnostic equipment; import & export of proprietary products of the Company and relevant auxiliary service; wholesale of over-the-counter traditional Chinese medicines, chemical bulk medicines and their preparations, antibiotics bulk medicines and their preparations, biological products (except for preventive biological products), biochemical drugs (where those products are administrated with quota license or special regulations, they shall be subject to the relevant national rules; for other projects that require administrative permits, the Company shall only engage in the same upon the approval being obtained).

4. Change of principal activities

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

The financial statements has been approved and published by the Board meeting on 27 March 2019.

Please refer to note. VIII “Equity in other entities” for names of subsidiaries included into the consolidation in 2018. Three more subsidiaries are added during the Period compared with the previous year while two subsidiaries are excluded, please refer to note. VII “Change to consolidation scope”.

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

II. BASIS OF PREPARATION FOR THE FINANCIAL STATEMENTS

The financial statements have been prepared by the Company on the basis of going concern, actual transactions and events. The financial statements were prepared in accordance with the Accounting Standards for Business Enterprises – Basic Standards (issued as MOF Decree No. 33, revised as MOF Decree No. 76), and another 42 specific accounting standards amended on or after 15 February 2006. The financial statements were also prepared based on the Accounting Standards for Business Enterprises – Application Guide, interpretations to the Accounting Standards for Business Enterprises and the other related provisions (together 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 (Revised in 2014) issued by the China Securities Regulatory Commission.

In accordance with the applicable provisions under the Accounting Standards for Business Enterprises, the Company uses the accrual method as its basis of accounting. Except certain financial instruments, accounting items are generally measured at historical cost in the financial statements. The held-for-sale non-fixed assets are measured at the fair value less the estimated expense or the original carrying amount existing when the sale conditions are satisfied, whichever is the lower. In case of impairment, the impairment loss shall be determined in accordance with applicable provisions.

III. STATEMENT OF COMPLIANCE ON 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 present the information on the financial conditions of the Company as at 31 December 2018 and the results and cash flow of the Company for 2018. 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 (Revised in 2014) 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. The interim accounting period is a Reporting Period shorter than a full accounting year. The accounting year of the Company is a calendar year, that is, from 1 January to 31 December in each year.

2. Operating cycle

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

3. Functional currency

Renminbi is the main currency adopted in the main economic environment where the Company and our domestic subsidiaries operate. The Company and its domestic subsidiaries adopt Renminbi as the functional currency. The Company's offshore subsidiaries determine to adopt HK dollar, Macau dollar and USD as the functional currency based on the currencies adopted in the main economic environment where the Company's offshore subsidiaries operate. The currency adopted by the Company in preparing financial statements is Renminbi.

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

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(continued)

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.

(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 are not interim. 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.

The assets and liabilities obtained are measured at the carrying amounts as recorded by the enterprise being combined 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 face value of shares issued) 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 combination shall be recognised in profit or loss for the current period as 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.

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)

For the business combinations involving enterprises not under common control, the cost arising from the business combination includes the fair value of the assets transferred, liabilities incurred or assumed, and equity securities issued by the acquirer for the acquisition of controlling interests in the acquiree at 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 stated amount of the equity securities or debt securities. The involved contingent consideration is recognised in the combination cost at its fair value on the acquisition date. Where the contingent consideration is required to be adjusted due to any new or further evidence on the circumstances existing on the acquisition date arising 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 cost arising from the business combination exceeds the fair value on the acquisition date of the acquiree's identifiable net assets, the difference is recognised as goodwill. Where the cost arising from the business combination is less than the fair value of the acquiree's identifiable net assets, the measurement on the fair value of various identifiable assets, liabilities and contingent liabilities acquired from the acquirees will be reviewed first and the difference is recognised in profit or loss for the current period in the event the cost arising from the business combination by the acquirer is still less than the fair value of the acquiree's identifiable net assets after review.

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 tax assets on the acquisition date, the relevant deferred 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, it is to determine whether such transactions are "a basket of transactions" in accordance with the 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.

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

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)*

In the separate financial statements, the initial investment 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 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 (i.e. to be transferred to investment income at 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) is transferred to investment income in the period of the acquisition date.

5. Preparation of consolidated financial statements

(1) Determination in the scope of consolidation

The scope of consolidated financial statements is determined based on control. Control means the Company has exposures or rights to variable returns from its involvement with the investee and the ability to affect those returns through power over such investee. 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) Preparation of 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 after the acquisition date and 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 Reporting Period when the subsidiary is acquired to the date of business combination 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.

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

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(continued)

5. Preparation of consolidated financial statements *(continued)*

(2) Preparation of consolidated financial statements *(continued)*

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.

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

The shareholders' equity of the subsidiaries and the share in the net profit or loss for the current period other than the Company's share are separately presented under shareholders' interests and net profits in the consolidated financial statements as the non-controlling shareholders interests and profit or loss attributable to non-controlling shareholders. The portion in the net profit or loss of the subsidiary for the current period attributable to the non-controlling shareholders interests is presented under the "profit or loss attributable to non-controlling shareholders" in the net profits of the consolidated income statement. Where the loss of the subsidiary undertaken by the non-controlling shareholders exceeds noncontrolling shareholders' share in the opening balance of shareholders' equity of the subsidiary of the period, the excess is allocated against the non-controlling interests.

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 different 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 are accounted on the same basis as the investee when control cease (i.e. except for changes due to net liabilities or net assets from such investee's re-measured defined benefits plan, the rest are reclassified as investment income during the 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.

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

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(continued)

5. Preparation of consolidated financial statements *(continued)*

(2) Preparation of consolidated financial statements *(continued)*

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 impacts 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 one transaction is not economical independently but economical together with other transactions. In case no basket of transactions is constituted, each transaction is 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" (above paragraph) as the case may be. Where such 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.

6. Cash and Cash Equivalents

Cash and cash equivalents of the Company include cash on hand, bank deposit available for payment at any time and those investments that are short-term (to be matured within three months at the time of acquisition), highly liquid, readily convertible into known amounts of cash and subject to an insignificant risk of change in value are classified as cash and cash equivalents.

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 at the initial confirmation, which is normally the median exchange rate quoted by the People's Bank of China of that day; 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 at the balance sheet date. The resulting exchange differences are treated based on the principal of capitalisation of borrowing costs except for the foreign exchange differences arising from the funds denominated in foreign currency specially borrowed for the establishment of the qualifying assets; and the available-for-sale monetary items denominated in foreign currency are recognised in the profit or loss for the currency period except for such foreign exchange differences arising from the other changes in the balance other than amortised cost that will be recognised in the other comprehensive income.

(Unless specified otherwise, all amounts 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)*

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

Non-monetary items denominated in foreign currencies that are measured at historical cost are translated to functional currency using the foreign exchange rate at the transaction date. Non-monetary items denominated in foreign currencies that are measured at fair value are translated using the foreign exchange rate at the date the fair value is determined; the resulting exchange differences are dealt with 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.

(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 is effectively constituted in relation to the net investment in the overseas operation.

The financial statements in foreign currency of the overseas operation are translated to the financial statements in RMB by the following methods: The assets and liabilities of foreign operations are translated to the functional currency at the spot exchange rates at the balance sheet date. Items under shareholders’ equity, excluding “retained earnings”, are translated to functional currency at the spot exchange rates at the transaction dates. The income and expenses of foreign operation are translated to the functional currency at the rates that approximate the spot exchange rates at the transaction dates. The non-distributed profits at the beginning of the year is the non-distributed profits at the End of the Period of the prior years upon translation; the non-distributed profit at the End of the Period is presented based on the items of translated profit appropriation; the differences between the assets and the sum of the liabilities and the shareholders’ equity 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 exchange rate in the period when the transaction takes place. 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 prior year are presented in the amounts arising upon the translation of the financial statements of the prior year.

(Unless specified otherwise, all amounts 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 *(continued)*

All the translation difference due to foreign currency exchange listed under shareholders' equity in the balance sheet and attributable to the parent company are reclassified into the profit or loss for the period, when the Company ceased control over its overseas operations when disposing of all or part of offshore shareholders' equity, or due to other reasons.

The Company takes the exchange difference from its overseas operations related foreign currency reports into Minority Interests but not in the profit or loss for the period, when it's percentage of shares decline but still remains control over the relative operations when disposing of part of the equity investment or due to other reasons. Such exchange differences are taken into the current profit or loss when the share equity is disposed of by the Company's associate or joint venture.

8. Financial instruments

A financial asset or financial liability is recognised when the Company becomes a party in the related financial instrument contract.

(1) Classification, recognition and measurement of financial assets

On the basis of the business model for managing financial assets and their contractual cash flow characteristics, 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.

Financial assets are measured at fair value at initial recognition. Transaction costs of financial assets at fair value through profit or loss are directly recorded in profit or loss. Transaction costs of other financial assets are recorded in the initial recognised amount. Notes and accounts receivable resulted from sales of products or provision of service are recognised at the consideration which is expected to have the right to collect. The consideration does not include or considered to contain significant financing components.

① Financial assets measured at amortised cost

The financial assets of the Company measured at amortised cost are held within a business model whose objective is achieved by collecting contractual cash flows and the contractual terms of the financial assets give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. Such kind of financial assets of the Company are subsequently measured at amortised cost using the effective interest method. 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 held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets and the contractual terms of the financial assets give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. The assets are measured at fair value by the Company through other comprehensive income. Movements in the carrying amount are taken through other comprehensive income, except for the recognition of impairment gains or losses, foreign exchange gains and losses and interest income which are recognised in profit or loss.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(continued)

8. Financial instruments (continued)

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

② Financial assets at fair value through other comprehensive income (continued)

In addition, the Group designates part of equity instrument investment not held for trading to financial assets measured at fair value through other comprehensive income. The dividend income of the financial assets is recognised in profit or loss for the current period, and the movements are recognised in other comprehensive income. As for equity investments measured at fair value through comprehensive income, cumulative profit or loss previously reported in other comprehensive income will be transferred to retained income instead of profit or loss for the current period upon the de-recognition of the financial assets.

③ Financial assets at fair value through profit or loss

Except for the financial assets at amortised cost and financial assets at fair value through other comprehensive income, the Company has classified the remaining financial assets as financial assets at fair value through profit or loss. Besides, the Company may designate a financial asset at fair value through profit or loss on initial recognition if this eliminates or significantly reduces on accounting mismatch. The Company subsequently measures such financial assets at fair value, and changes in fair value are recognised in profit or loss for the current period.

(2) Classification, recognition and measurement of financial liabilities

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

① Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading (including derivative financial liabilities) and those designated upon initial recognition at fair value through profit or loss for the current period.

For financial liabilities held for trading (including derivative financial liabilities), fair values are subsequently measured at fair value, except for hedge accounting, all changes in fair value are recognised in profit or loss for the current period.

For financial liabilities designated as those measured at fair value through profit or loss, changes in fair value arising from the Company's own changes in credit risks are recognised in other comprehensive income, and upon the de-recognition of such liability, the cumulative changing amount of fair value arising from the Company's own changes in credit risks shall be transferred to retained earnings. Other changes in the fair value are recognised in profit or loss for the current period. If treatment is made on effect of the changes in own credit risks by the aforesaid means which may cause or enlarge an accounting mismatch in profit or loss, the Company will recognise all gains or losses (including the affected amount arising from changes in the enterprise's own credit risk) of the financial liability into profit or loss for the period.

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

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(continued)

8. Financial instruments *(continued)*

(2) Classification, recognition and measurement of financial liabilities *(continued)*

② Other financial liabilities

Other financial liabilities, except for financial liabilities arising from transfer of financial assets which do not satisfy de-recognition criteria or continue involvement of transferred financial assets and financial guarantee contracts liability, are subsequently measured at amortised cost, with profit or loss arising from de-recognition or amortisation recognised in profit or loss for the current period.

(3) Basis for recognition and measurement 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 asset is terminated; ② The financial asset has been transferred and substantially all of the risks and rewards of ownership of the financial asset have been transferred to the transferee; ③ The financial asset has been transferred and the entity has waived the control over the financial asset although it has neither transferred nor reserved substantially all of the risks and rewards of ownership of the financial asset.

Where the entity has neither transferred nor reserved substantially all of the risks and rewards of ownership of the financial asset and not waived the control over the financial asset, to the extent of its continuous involvement in the financial asset transferred, the entity recognises the relevant financial asset and meanwhile, recognises the relevant liability accordingly. The extent of the continuous involvement is the level of risk to which the entity exposes due to changes in the value of such financial asset.

Where the conditions of de-recognition are satisfied upon overall transfer of the financial asset, the difference between the carrying amount of the transferred financial asset and the sum of the consideration received from the transfer and the accumulated changes in fair value previously recognised in other comprehensive income is recognised in the profit or loss for the current period.

Where the conditions of de-recognition are satisfied upon partial transfer of the financial asset, the carrying amount of the transferred financial asset is allocated between the derecognised and nonderecognised portion at the corresponding fair value, 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 recognised 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 derecognised; 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 whether the entity retains the control over the asset and the asset shall be accounted for in accordance with the above mentioned policies.

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

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(continued)

8. Financial instruments *(continued)*

(4) De-recognition of financial liabilities

The financial liabilities (or parts of them) will be de-recognised by the Company when the present obligations of the financial liabilities are discharged in whole (or in part). An agreement between the Company (as borrower) and a lender to replace the original financial liability with a new financial liability with substantially different terms is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. The Company makes substantial changes on contractual terms of the original financial liabilities (or parts of them), then they derecognise the original financial liabilities and confirm a new financial liability in accordance with the revised terms.

The difference between the carrying amount of financial liabilities (or parts of them) and consideration paid (including transferred non-cash assets or liabilities) is recognised in profit or loss for the current period, when the financial liabilities (or parts of them) are derecognised.

(5) Offset of financial assets and financial liabilities

The Company has statutory rights to offset recognised financial assets and financial liabilities, and currently enforces this legal right, at the same time, the Group plans to settle the financial assets on a net basis or simultaneously and liquidate the financial liabilities, financial assets and financial liabilities are presented in the balance sheet at offsetting amounts. In addition, financial assets and financial liabilities are presented separately in the balance sheet and are not offset in other situations.

(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 represents the best estimate of fair value of relevant financial assets within the band, it shall represents the appropriate estimate of fair value within the band. Where the cost may not represents the fair value of the relevant financial assets, the fair value shall be determined with valuation techniques.

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

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.

Dividends (including “dividends” arising from the instruments being classified as equity instruments) are distributed by the equity instruments of the Company during the lifetime as profit distribution.

9. Impairment of financial assets

The Company shall recognise the impairment loss of financial assets measured at amortised cost, debt instrument investment at fair value through other comprehensive income, and rental receivables, which mainly include bills receivables, accounts receivables, other receivables, debt investments, other debt investments, contract assets and long-term receivables. Besides, for contract assets and financial guarantee contracts, provision for assets impairment and recognition for credit impairment loss shall be in accordance with the accounting policies mentioned in this section.

(1) Recognition for credit impairment loss

Based on expected credit loss, the Company conducts impairment accounting treatment for and recognises impairment losses of the aforesaid items.

Credit loss refers to the difference between all contractual cash flows receivable from the contract 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, financial assets generated or purchased by the Company which have been credit-depleted shall be discounted according to the actual interest rate adjusted by the financial assets.

The Company assesses whether the credit risk of financial assets has increased significantly since the initial recognition on each balance sheet date. If the credit risk has increased significantly since the initial recognition, a provision is made for the impairment amounting to expected credit loss during the lifetime by the Company; if the credit risk has not increased significantly since the initial recognition, a provision is made for the impairment amounting to expected credit loss over the next 12 months by the Company. When measuring expected credit loss, the Company uses reasonable and supportable information, as well as forward-looking information.

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

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(continued)

9. Impairment of financial assets (continued)

(2) Basis for determination of whether the credit risk has increased significantly since the initial recognition

If the probability of default during the lifetime for a financial asset at the balance sheet date is significantly higher than that of the initial recognition, it indicates that the credit risk of the financial asset has increased significantly. Save as under special circumstances, the Company uses the changes of default risk over the next 12 months to reasonably estimate the changes of default risk during the whole lifetime, and determine whether the credit risk has increased significantly since the initial recognition.

(3) Simplification of treatment methods

For receivables and contract assets that do not contain major financial components, a provision is made for the impairment amounting to expected credit loss during the lifetime by the Company.

For receivables, contract assets and rental receivables that contain major financial components, a provision is always made for the impairment amounting to expected credit loss during the lifetime by the Company.

For financial instruments with a relatively lower credit risk at the balance sheet date, provision is made for the impairment amounting to expected credit loss over the next 12 months by the Company.

(4) Method for assessing expected credit risk based on portfolios

The Company individually assesses credit risk of financial assets with significant different credit risks, such as: amounts receivable from related parties, accounts receivable that are controversial or involve litigation or arbitration with the other party; and accounts receivable where it is probable that the borrower will not fulfil payment obligation according to obvious indications.

Other than the financial assets being assessed individually, the Company divided financial assets into different groups on the basis of shared risk characteristics, and assessed the credit risk based on portfolios. Basis for determination of different portfolios:

Item	Basis for determination of portfolio
Portfolio 1	This portfolio takes the account age of receivables as credit risk characteristics
Portfolio 2	Receivables from each company in the scope of portfolio

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

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(continued)

10. Inventories

(1) Classification of inventories

Inventories include 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 measurement

Inventories are initially measured at actual cost. Cost of inventories comprises actual costs of purchase and other expenditures 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 the exact evidence and consideration will be given to the purpose of holding the inventories and the effects of the events post balance sheet date.

On the balance sheet date, the inventories are calculated at the lower one of cost and the net realisable value. When the net realizable value is lower than the cost, the provision for diminution in value of inventories is made. Provision for diminution in the value of inventory is determined on an item-by-item basis and made in the excess of the cost of the inventory over its net realizable value. Provision for diminution in the value of inventories is normally determined on a collective group basis when inventories are numerous and with low unit price.

After the provision for diminution in the value of inventory is made, if the circumstances resulting in the write-down of inventories no longer exist and the net realizable value of the inventory is higher than its carrying amount, the amount of the provision for diminution in value of inventories that has been made is reversed. The amount of reversal is recognised in the profit or loss for the current period.

11. Assets and disposal groups held for sale

A non-current asset or disposal group will be classified under held-for-sale category where the Company recovers the carrying value of the non-current asset or disposal group mainly through the disposal of (including non-monetary assets exchange with commercial substance, the same below) them instead of the continuous use of them. The specific criterion 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 can be disposed of at its current condition; The Company has made resolution on the disposal plan and obtained definite purchase commitment from buyer; The disposal is estimated to be completed within one year. Among them, disposal group is a group of assets which are disposed of together through sale or other means as a whole in a transaction, and the liabilities transferred in the transaction which are directly associated with those assets. Where the asset group or groups to which a disposal group belongs share the goodwill acquired in the business merger according to Accounting Standards for Business Enterprises 8 – Impairment of Assets, the disposal group shall include the goodwill allocated to it.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(continued)

11. Assets and disposal groups held for sale (continued)

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 value is written down to its fair value less selling costs if its carrying value is higher than its fair value less selling costs. The reduced amount is recognised as asset impairment loss and charged to current profit or loss, 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 value of the goodwill in the disposal group first, and then by the carrying value of each of the non-current assets in the disposal group which are applicable to the measure requirements in Accounting Standards for Business Enterprises 42 – Held-For-Sale Non-current Assets, 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 of Held-For-Sale Standards after the non-current asset is classified into held-for-sale category. The reversed amount is credited to current profit or loss, and the carrying value of each noncurrent 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 value; Neither the carrying value 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 doesn’t meet the classification condition of the heldfor-sale category, the Company ceases to classify them into held-for-sale category or remove the noncurrent asset from the held-for-sale disposal group, and measures it at the lower of: (1) its carrying value before it’s 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.

12. Long-term equity investment

Long-term equity investment refers to those with which the Company exercise control over the invested entity, or has significant influence on its operation, or 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 venturers 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.

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

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(continued)

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

(1) Determination of investment cost

In case of long-term equity investment arising from business combination, the initial investment cost of a long-term equity investment acquired through a business combination involving entities under common control is the Company's share in the consolidated financial statement of the ultimate controlling party in the carrying amount of the acquiree's equity at the combination date. 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 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 of the combined party's equity in the consolidated financial statements of the ultimate controlling party on the date of combination. With the total face value of the shares issued as share capital, the difference between the initial cost of the long-term equity investment and total face 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 long-term equity investment acquired through business combination not involving enterprises under common control, the cost initially recognised is comprised of the fair value of the assets transferred, liabilities incurred or assumed, and equity securities issued by the acquirer at the acquisition date, in exchange for control of the acquiree.

The costs incurred by the acquirer due to the combination including such intermediary costs 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. 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 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 depending on the different modes of acquiring the long-term equity investment. The costs, taxes and other necessary expenses directly related to the acquisition of the long-term equity investment are also recognised in the investment cost.

(2) Subsequent measurement and recognition of profit or loss

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

If the Company is able to exert control in the investee of a long-term equity investment, the cost method will be applied to measure that investment on its 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 investment income, except those that have been declared but unpaid at the time of acquisition and therefore included in the consideration.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(continued)

12. Long-term equity investment (continued)

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

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

If the Company has common control in or significant influence on the investee of a long-term equity investment, the equity method will be applied to account for the investment. When accounted for using the equity method, the initial investment cost of the long-term equity investment is not 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; and the difference is recognised in the profit or loss for the current period and the cost of the long-term equity investment is adjusted 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.

For long-term equity investment accounted for using equity method, return on investment and other comprehensive income are recognised separately according to the share in the invested entity's net profit/or loss and its other comprehensive income, with the book value adjusted for the long-term equity investment by the Company. Book value of the long-term equity investment will be deducted according to the announced profit to be distributed by the invested entity or the share of cash dividend. Changes to shareholders' equity other than net profit/or loss, other comprehensive and profit distribution cause book value of long-term equity investment to be adjusted, and taken into capital reserve. Net profits of the invested entity are recognised after adjustment on the basis of fair value of all recognizable assets of the invested entity on acquisition. Accounting policies and accounting period of the invested entity will be adjusted according to the Company's relative regulations if that entity adopted different policies. Meanwhile return on investment and other comprehensive income are adjusted accordingly. For transactions between the Company and its associates and joint ventures not constituting business transactions by transferring or selling assets, relative unrealized profit/or loss on internal transactions attributable to the Company pro rata will be offset, and return on investment will be recognised on such basis. However if such realized loss on internal transactions are classified as loss on decline in value of asset, then the relative loss are not to be offset.

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 actually 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 the Company's share in the profits remedies the unrecognised amount of the loss to be assumed by the Company.

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.

(Unless specified otherwise, all amounts 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)*

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 corresponding to 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 done 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 invested entity while disposing relative asset or liability according to its proportion. Shareholders' equity recognised by the invested entity due to change to such item other than net profit/or loss, other comprehensive income or profit distribution, will be accounted into the current profit or loss.

For the remaining equity accounted with cost method after partial disposal, the same basis as the invested entity 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 current profit or loss 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 current profit or loss.

(3) Basis of determining common control and significant influence on the investee

Joint control is the contractually agreed sharing of control over an activity, and exists only when decisions relating to the activity require the unanimous consent of the parties sharing control. Significant influence refers to the power to participate in the financial and operational decisions 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 call options and other voting rights of the investee held by the Company in the current period.

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

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(continued)

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

(4) Impairment test and provision for impairment

The Company inspects the possibility of impairment of the long-term equity investment on each balance sheet date, and if there is evidence of such impairment, the Company estimates the recoverable amount. 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 at the time of occurrence.

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

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

Where the properties for private use or inventories are converted to investment properties or vice versa, the carrying amount prior to the conversion is recognised as the entry value after conversion.

Where the purpose of the investment properties is changed to private use, the investment properties are converted to fixed assets or intangible assets from the date of such change. Where the purpose of the properties for private use is changed to earning rental income or capital appreciation, the properties are converted from fixed assets or intangible assets to investment properties from the date of such change. In case of any conversion, if the property under the conversion is an investment property using the cost model, the carrying amount prior to the conversion is recognised as the entry value after conversion; and if the property under the conversion is an investment property using the fair value model, the fair value on the conversion date is recognised as the entry value after conversion.

Where the investment properties are disposed of or perpetually not used and it is expected that no economic benefits may arise from such disposal, the investment properties are de-recognised. When an investment property is sold, transferred, discarded, damaged or destroyed, the amount of disposal proceeds less the carrying amount of the property and relevant taxes is recognised as gain on disposal in the profit or loss for the current period.

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

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(continued)

14. Fixed Assets

(1) Recognition 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 Company;
- ② its cost can be reliably measured.

(2) Classification of fixed assets

Fixed assets include plant and building, machinery and equipment, motor vehicles, electronic devices and others.

(3) Measurement of fixed assets

Fixed assets are initially measured at cost.

- ① Where the payment for purchase of a fixed asset is postponed beyond the normal credit terms, which constitutes financing transaction in substance, the present value of the purchase price is recognised as the cost of fixed assets.
- ② The fixed assets acquired from debtor under debt restructuring are measured 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. If the exchange of non-monetary assets transaction is commercial in nature and the fair value of the assets received or transferred can be reliably measured, the fixed assets received in the exchange of non-monetary assets transaction shall normally be measured 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 transaction which 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 are recognised in the profit or loss.
- ③ The fixed assets acquired in the business combinations involving enterprises under common control are measured at the carrying amount of the fixed assets recognised by the acquiree. The fixed assets acquired in the business combinations involving enterprises not under common control are recognised at its fair value.

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

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(continued)

14. Fixed Assets (continued)

(3) Measurement of fixed assets (continued)

The present value of the initial estimate for the costs of dismantling and removing the fixed assets is recognised in the carrying amount of fixed assets.

The subsequent cost on fixed assets is recognised in the carrying amount of fixed assets provided that the economic benefits associated with fixed assets exceed those upon its initial recognition will flow to the Company, and the carrying amount does not exceed the recoverable amount of the fixed assets.

(4) Method for depreciation of fixed assets

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 estimated useful lives, residual values and annual depreciation rates 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 sell 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-fixed non-financial assets) for the impairment test and provision for impairment on fixed assets.

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

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) Conversion of construction in progress to fixed assets

All expenditures arising from construction in progress before the asset becomes ready for its intended use are recognised as the entry value of the fixed asset. If the construction in progress reaches a stage where 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 fixed asset and the depreciation are 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 their intended use until the final account of completed project is issued when the estimated cost is adjusted according to the actual cost, while the depreciation charged is not adjusted.

(3) Impairment of construction in progress

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

16. Borrowing Costs

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

- ① Expenditures for the asset are being incurred. Expenditures for the asset include payment by cash, transfer of non-cash asset, undertaking of interest-bearing liability to acquire, construct or produce qualifying assets;
- ② Borrowing costs are being incurred;
- ③ 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 is determined as follows:
- ① Where funds are borrowed specifically for the acquisition, construction or production of a qualifying asset, the amount of interest to be capitalised is the interest expense calculated using effective interest rates during the period less any interest income earned from depositing the borrowed funds or any investment income on the temporary investment of those funds before being used on the asset.
 - ② Where funds are borrowed generally and used for the acquisition, construction or production of a qualifying asset, the amount of interest to be capitalised on such borrowings is determined by applying a capitalisation rate to the weighted average of the excess amounts of cumulative expenditures on the asset over the above amounts of specific 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 real interest method and adjusted to the amount of interests in each period.
- (4) During the capitalisation period, exchange differences related to the principal and interest on a specificpurpose 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 being 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 construction or production of the qualifying assets is suspended in the course of construction or production for more than 3 consecutive months, the capitalisation of the borrowing costs is suspended until the construction or production of the qualifying assets resumes.

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

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.

A biological asset is initially recognised at cost. The cost of 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 initially recognised at the value stipulated in the investment contract or agreement with relevant taxes. If the value stipulated in the investment contract or agreement is not its fair value, the cost of biological assets is initially 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 year to determine whether there is objective evidence of impairment as a result of natural disasters, pests, invasion from animals or diseases or change in market demand. 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 diminution in value of consumable biological assets no longer exist, the impairment loss is reversed in the profit or loss for the current period.

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

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 when it meets the following conditions:

- ① It is probable that the economic benefits associated with the intangible assets will flow to the Company;
- ② The cost of the intangible asset can be reliably measured.

Intangible assets are measured initially at cost.

- ① Where the payment for acquisition of an intangible asset is postponed beyond the normal credit terms, which constitutes financing transaction in substance, the present value of the purchase price is recognised as the cost of fixed assets.
- ② The intangible assets acquired from debtor under debt restructuring are measured 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. If the exchange of non-monetary assets transaction is commercial in nature and the fair value of the assets received or transferred can be reliably measured, the intangible assets received in the exchange of non-monetary assets transaction shall be measured at the fair value of the assets transferred, unless there are objective evidences indicating that the fair value of the assets received is more reliable. For the exchange of non-monetary assets transaction that does not meet the above conditions, the cost of intangible assets received is initially recognised at the carrying amount of the assets transferred with the relevant taxes, and no gains or losses are recognised in the profit or loss.
- ③ The intangible assets acquired from business combinations involving enterprises under common control are measured at the carrying amount of the intangible assets recognised by the acquiree. The intangible assets acquired in the business combinations involving enterprises not under common control are recognised at its fair value.

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

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(continued)

18. Intangible Assets *(continued)*

(1) Intangible assets *(continued)*

The Company shall determine the useful life of intangible assets upon acquisition according to its judgment. For intangible assets with finite useful life, useful life is estimated from the length of, or number of production or similar units constituting. 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 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 and planned investigations undertaken with the prospect of gaining new scientific or technical knowledge and understanding 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 the application of research findings or other knowledge to a plan or design for the production of new or substantially improved materials, devices, products or processes before the start of commercial production or use. The development phase is the application of the result of the research phase with the entity capable to demonstrate the feasibility of creating new products or new technologies.

Expenditures on a research phase are recognised in profit or loss when incurred. Expenditures on a development phase are recognised as intangible assets if an entity can demonstrate all of the following:

- ① The technical feasibility of completing the intangible asset so that it will be available for use or for sale;
- ② The intention to complete the intangible asset and use or sell it;

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

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(continued)

18. Intangible Assets (continued)

(2) Research and development expenditures (continued)

- ③ The intangible asset will generate future economic benefits, including proving that the products produced by using the intangible assets have markets or the intangible assets have markets. If the intangible assets will be used internally, the intangible assets are proved useful;
- ④ The availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible assets;
- ⑤ The expenditures attributable to such intangible assets during its development can be reliably measured.

After obtaining relevant approval (such as “the Clinical Test Approval (臨床試驗批件)”, “the Drug Registration Approval (藥品註冊批件)” pursuant to the requirements in the Measures for the Administration of Drug Registration (藥品註冊管理辦法) by the State Food and Drug Administration) or approval by international drug administration institutions or satisfying the conditions of pilot in R&D projects through combining the R&D process of the pharmaceutical industry and the Company’s own R&D features, expenses occurred after obtaining relevant approval or commencing the pilot can be regarded as capitalized R&D expenses when such expenses satisfy conditions for development through the Company’s assessment; the remaining R&D expenses are regarded as expensed R&D expenses; and the purchase of production technology or formulation are regarded as development expenses and projects requiring further R&D follow the standards as mentioned; the remaining R&D expenses are regarded as expensed R&D expenses; and the purchase of production technology or formulation are regarded as development expenses and projects requiring further R&D follow the standards as mentioned.

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-fixed 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 (together of more than 1 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.

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

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(continued)

20. Impairment of Non-fixed Non-financial Assets

For fixed assets, construction in progress, intangible assets with limited useful life, investment properties measured using cost model, long-term equity investment in subsidiaries, joint ventures and associates and other non-fixed non-financial assets, the Company inspects the possibility of impairment of such assets 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 in each year regardless of the possibility 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 is the net amount of the fair value of the asset less the costs to sell or the present value of the estimated future cash flow expected to derive from the asset, whichever is the higher. The fair value of the asset is determined based on the price under the sale agreement in the fair transaction; or, in case of no sale agreement but an active market for the asset, the buyer's offer of the asset; or, in case of no sale agreement and no active market for the asset, the available best information. The costs to sell include the legal costs, taxes and charges, transportation costs and direct costs incurred by the asset to reach the condition ready for its intended use, which are related to the disposal of the asset. The present value of the estimated future cash flow of the asset is determined based on the estimated future cash flow expected to derive from the asset in the course of holding and use and at the time of final disposal after discounted at an appropriate discount rate. The provision for impairment on the asset is calculated and determined 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.

The accounting amount of the goodwill separately presented in the financial statements is allocated to the asset groups or the sets of asset groups expected to benefit from the synergy effect of business combination at the time of impairment test. Where the test result indicates that the recoverable amount of the asset groups or the sets of asset groups containing the allocated goodwill is lower than their carrying amount, the Company determines the corresponding impairment loss. The amount of the impairment loss is to offset the carrying amount of the goodwill allocated to the asset groups or the sets of asset groups in the first place, and then to offset the carrying amount of all the other assets in the proportion of the carrying amount of all the other assets except goodwill.

Once the above mentioned impairment loss of the asset is recognised, the recovered portion of the value will not be reversed in the subsequent periods.

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

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(continued)

21. Employee compensation

Employee compensation of the Company mainly comprises short-term employee compensation, welfare post resignation, and welfare post cancellation of the labor relationship, including:

Short-term employee compensation include wage, bonus, allowances and subsidies, employee welfare expenditures, medical insurance expenditures, maternity insurance expenditures, work injury insurance expenditures, housing accumulation fund expenditures, labor union expenditures and employee education expenses, non-monetary welfare, etc. During the accounting period that an employee's providing services to the Company, The Company recognise the relative short-term employee compensation incurred as liabilities, and will account for in the current Profit and Loss or relative cost of asset. Non-monetary welfare will be measured by fair value.

Welfare post resignation mainly comprises of defined provision plan, which include basic endowment insurance, unemployment insurance. The relative payables will be accounted for in the relative cost of asset or the current profit and loss.

The relative employee compensation liabilities due to cancellation of labor relationship are recognised and taken into the current Profit and Loss, when the Company cancels the labor relationship with any employee prior to the expiration of the relevant labor contract, or brings forward any compensation proposal for the purpose of encouraging the employee to accept a layoff, on the earlier date between the date that Company cannot withdraw the relative compensation, or date that the Company recognise reconstruction of cost involving payment of compensation for the cancellation of the labor relationship with the employee.

Internal retirement plan adopts the same principles as the above mentioned compensation for the cancellation of the labor relationship with the employee. The Company account for the wage and social insurance payables incurred from the date the relative employee cease services to the Company to his/her date of expected retirement to the internally retired employee into the current Profit and Loss (i.e. compensation for the cancellation of the labor relationship with the employee), when requirements for recognition of provision are met.

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

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 An entity 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, 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 profit and loss for the period.

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

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 profit and loss for the period 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 of the Company or the actual controller

For share-based payment transactions involving the Company and the shareholders of the Company or the actual controller, 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 issue (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.

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

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 as an asset the incremental costs of obtaining a contract with a customer if the entity expects to recover those costs. However, the Company recognises the incremental costs of obtaining a contract as an expense in profit or loss for the current period when incurred if the amortisation period of the asset is one year or less.

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 current profit or loss.

When the carrying value of the contract cost-related assets is higher than the difference between the following two items, the impairment provisions for the excess shall be made and shall be recognised as losses on assets impairment: ① The remaining consideration expected to be obtained from transfer of commodities related to the asset; ② The cost estimated to be happened for the transfer of such commodities. The Company shall recognise in profit or loss a reversal of an impairment loss previously recognised when the impairment conditions changes and the difference of 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 actually received at the time of actual receipt.

The Company defines the government grant obtained by the Company for 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 is classified as the government grant related to income and 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 changed 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 deemed as the government grant related to income.

(Unless specified otherwise, all amounts 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 is measured at its fair value. If its fair value cannot be measured reliably, it is measured at its nominal amount.

(3) Accounting treatment

A government grant related to assets is recognised initially as deferred income and amortised to profit or loss 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 Group for expenses or loss to be incurred in the subsequent periods is recognised initially as deferred income and recognised in profit or loss in 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 exceptions, deferred tax asset are recognised to the extent that it is probable that future taxable profits will be available against which deductible temporary difference can be utilised:
 - A. The transactions are not business combinations;
 - B. The transactions affect neither accounting 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 utilised.
- ③ Deferred tax assets in relation to tax loss are recognised to the extent that it is probable that future taxable profits will be available against which the tax loss can be utilised.

(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.

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

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 The transactions or events directly recognised in the shareholders' equity.

30. Other Comprehensive Income

The Company stipulates that the gains and losses not recognised in profit or loss for the current period are presented as the other comprehensive income in accordance with applicable accounting standards. The other comprehensive income is presented by the following two groups in accordance with applicable accounting standards:

- (1) The other comprehensive income items not eligible to be re-classified as profit or loss in the subsequent accounting periods mainly include the changes caused by re-measurement and redefinition of net liabilities or net assets of benefit plans and the Company's share in the other comprehensive income not eligible to be re-classified as profit or loss in the subsequent accounting periods of the investee and accounted for using the equity method;
- (2) The other comprehensive income items to be re-classified as profit or loss in the subsequent accounting periods upon the satisfaction of stipulated conditions mainly include the Company's share in the other comprehensive income to be re-classified as profit or loss in the subsequent accounting periods of the investee upon the satisfaction of stipulated conditions and accounted for using the equity method, changes in fair value of other equity investment, the amount re-classified into other comprehensive revenue from financial assets, such a portion of the gains or losses arising from cash flow hedges instrument as may be attributable to hedging activities and difference in translation of financial statements in foreign currency.

31. Leases

Finance leases are the leases that substantially transfer all the risks and rewards related to ownership of assets, under which the ownership may be or may not be finally transferred. Leases other than finance leases are operating leases.

(1) The Company books operating leases as a lessee

Rent expenditures of operating leases are recognised in cost of relevant assets or profit or loss for current period by the straight-line method in various periods within the term of lease. Initial direct costs are recognised in profit or loss for current period. Contingent rent is recognised in profit or loss for current period when actually taking place.

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

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(continued)

31. Leases *(continued)*

(2) The Company books operating leases as a lessor

Rent income of operating leases is recognised in profit or loss for current period by the straight-line method in various periods within the term of lease. Initial direct costs with large amount are capitalised when actually taking place and recognised in profit or loss for current period in different stages on the same basis as that to recognise rent income; and other initial direct costs with small amount are recognised in profit or loss for current period directly at the time of occurrence. Contingent rent is recognised in profit or loss for current period when actually taking place.

(3) The Company books finance leases as a lessee

On the commencement date of the term of lease, the fair value of the leased asset on the commencement date of the lease or the present value of the minimum lease payment, whichever is the lower, is recognised as the cost of the leased asset; the minimum lease payment is recognised as the cost of long-term receivables; and the difference is the unrecognised financing costs. In addition, the initial direct costs attributable to leases and arising in the course of lease negotiations and conclusion of lease contracts are also recognised in the value of the leased asset. The balance of the minimum lease payment less the unrecognised financing costs is presented in long-term liabilities and long-term liabilities due within one year.

Unrecognised financing costs are calculated and recognised as the financing costs for the current period by the effective interest rate method. Contingent rent is recognised in profit or loss for current period when actually taking place.

(4) The Company books finance leases as a lessor

On the commencement date of the term of lease, the sum of the minimum lease receipt on the commencement date of the lease and the initial direct costs are recognised as the cost of finance lease accounts receivables and the unsecured balance is recognised at the same time; the difference between the sum of the minimum lease receipt, the initial direct costs and the unsecured balance and the present value thereof is recognised as the unrealised finance income. The balance of the finance lease accounts receivables less the unrealised finance income is presented in long-term credits and long-term credits due within one year.

Unrealised financing income is calculated and recognised in financing income for the current period by the effective interest rate method. Contingent rent is recognised in profit or loss for current period when actually taking place.

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

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(continued)

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.

33. Change of significant accounting policies, accounting estimates and correction to accounting errors

(1) Changes of Accounting Policies

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

- ① On 31 March 2017, the Ministry of Finance of the PRC issued "Accounting Standard for Business Enterprises No. 22 – Recognition and Measurement of Financial Instrument" (Revised in 2017) (Cai Kuai [2017] No. 7), "Accounting Standard for Business Enterprises No. 23 – Transfer of Financial Assets" (Revised in 2017) (Cai Kuai [2017] No. 8), "Accounting Standard for Business Enterprises No. 24 – Hedge Accounting" (Revised in 2017) (Cai Kuai [2017] No. 9), and on 2 May 2017, issued "Accounting Standard for Business Enterprises No. 37 – Presentation and Reporting of Financial Instrument" (Revised in 2017) (Cai Kuai [2017] No. 14) (the above standards are collectively as "New Financial Instrument Standards"); and on 5 July 2017, issued the "The Revision and Issuance of 'Accounting Standards for Business Enterprises No. 14 – Revenue'" (Revised in 2017) (Cai Kuai [2017] No. 22). 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 reports shall apply the above-mentioned Standard from 1 January 2018. As resolved in the 12th meeting of the ninth session of the Board of the Company on 29 March 2018, the Company commenced the five accounting standards above at the time as required by the MOF.

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

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(continued)

33. Change of significant accounting policies, accounting estimates and correction to accounting errors (continued)

(1) Changes of Accounting Policies (continued)

Change of accounting policies due to adoption of new Accounting Standards for Business Enterprises (continued)

① (continued)

On 1 January 2018, the Company adopted the New Financial Instrument Standards in classification and measurement of financial instruments. No adjustment has been made to the figures in the comparative financial statements for prior periods. The difference between the original carrying value of financial instruments and the new carrying value as at 1 January 2018 is to be included in the retained earnings at the beginning of 2018. The major effects of changes of accounting policies on the financial statements this year as a results of the adoption of the above standards are as follows:

A. Consolidated Statement

Item	Opening Balance Before Adoption	Adoption of 4 Accounting Standards such as Accounting Standards for Enterprises No. 22 – Recognition and Measurement of Financial Instruments, and Accounting Standards for Enterprises No. 14 – Revenues	Opening Balance After Adoption
Financial assets held for trading	–	18,598,840.91	18,598,840.91
Financial assets at fair value through current profit or loss	8,732,443.07	-8,732,443.07	–
Available-for-sale financial assets	193,530,331.52	-193,530,331.52	–
Investment of other right instruments	–	183,663,933.68	183,663,933.68
Financial liabilities held for trading	–	339,129.90	339,129.90
Financial liabilities at fair value through current profit or loss	339,129.90	-339,129.90	–
Receipts in advance	115,288,797.94	-115,288,797.94	0.00
Contract liability	–	115,288,797.94	115,288,797.94
Other comprehensive income	-44,546,365.43	-8,352,564.09	-52,898,929.52
Retained earnings	8,028,315,370.19	8,352,564.09	8,036,667,934.28

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

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES*(continued)***33. Change of significant accounting policies, accounting estimates and correction to accounting errors** *(continued)***(1) Changes of Accounting Policies** *(continued)*Change of accounting policies due to adoption of new Accounting Standards for Business Enterprises *(continued)*① *(continued)*

B. Statement of Parent Company

Item	Opening Balance Before Adoption	Adoption of 4 Accounting Standards such as Accounting Standards for Enterprises No. 22 – Recognition and Measurement of Financial Instruments, and Accounting Standards for Enterprises No. 14 – Revenues	Opening Balance After Adoption
Financial assets held for trading	–	9,866,397.84	9,866,397.84
Available-for-sale financial assets	85,369,506.68	-85,369,506.68	–
Investment of other right instruments	–	75,503,108.84	75,503,108.84
Receipts in advance	39,100,755.02	-39,100,755.02	0.00
Contract liability	–	39,100,755.02	39,100,755.02
Other comprehensive income	8,352,564.09	-8,352,564.09	0.00
Retained earnings	4,724,885,078.69	8,352,564.09	4,733,237,642.78

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

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(continued)

33. Change of significant accounting policies, accounting estimates and correction to accounting errors (continued)

(1) Changes of Accounting Policies (continued)

Change of accounting policies due to adoption of new Accounting Standards for Business Enterprises (continued)

- ② In accordance with requirements of the "Notice on the Revision of the Format for Issuing 2018 General Enterprise Financial Statements" (《關於修訂印發2018年度一般財務報表格式的通知》) (Cai Kuai [2018] No.15) issued by the Ministry of finance, the primary effects on the current financial statements are as follows:

A. Consolidated statement

Item	Opening Balance Before Adoption/ Figures of Previous Period	Adoption of the Format of Financial Statements of General Enterprises (Applicable to Companies that have Implemented the New Financial Standards or the New Income Standards)	Opening Balance After Adoption/ Figures of Previous Period
Balance sheet items:			
Bills receivables	1,151,583,176.39	-1,151,583,176.39	-
Accounts receivables	1,356,773,152.45	-1,356,773,152.45	-
Bills receivables and accounts receivables	-	2,508,356,328.84	2,508,356,328.84
Interest receivables	5,945,063.41	-5,945,063.41	-
Other receivables	57,695,538.55	5,945,063.41	63,640,601.96
Bills payables	661,858,884.48	-661,858,884.48	-
Accounts payables	501,668,543.26	-501,668,543.26	-
Bills payables and account payables	-	1,163,527,427.74	1,163,527,427.74
Dividends payables	170,936,288.17	-170,936,288.17	-
Other payables	1,753,221,979.28	170,936,288.17	1,924,158,267.45
Income statement items:			
Administrative expenses	933,971,538.92	-427,152,448.64	506,819,090.28
R&D expenses	-	427,152,448.64	427,152,448.64

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

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES*(continued)***33. Change of significant accounting policies, accounting estimates and correction to accounting errors** *(continued)***(1) Changes of Accounting Policies** *(continued)*Change of accounting policies due to adoption of new Accounting Standards for Business Enterprises *(continued)*② *(continued)*

B. Statement of Parent Company

Item	Opening Balance Before Adoption/ Figures of Previous Period	Adoption of the Format of Financial Statements of General Enterprises (Applicable to Companies that have Implemented the New Financial Standards or the New Income Standards)	Opening Balance After Adoption/ Figures of Previous Period
Balance sheet items:			
Bills receivables	636,582,349.82	-636,582,349.82	-
Accounts receivables	637,179,064.67	-637,179,064.67	-
Bills receivables and accounts receivables	-	1,273,761,414.49	1,273,761,414.49
Interest receivables	5,945,063.41	-5,945,063.41	-
Dividends receivables	566,928,924.56	-566,928,924.56	-
Other receivables	1,662,285,306.91	572,873,987.97	2,235,159,294.88
Bills payables	586,471,643.46	-586,471,643.46	-
Accounts payables	885,478,188.96	-885,478,188.96	-
Bills payables and account payables	-	1,471,949,832.42	1,471,949,832.42
Dividends payables	20,174.46	-20,174.46	-
Other payables	2,810,748,903.74	20,174.46	2,810,769,078.20
Income statement items:			
Administrative expenses	294,001,882.79	-127,773,276.59	166,228,606.20
R&D expenses	-	127,773,276.59	127,773,276.59

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

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(continued)

33. Change of significant accounting policies, accounting estimates and correction to accounting errors (continued)

(2) Changes in accounting estimates

As resolved in the 12th meeting of the ninth session of the Board of the Company on 29 March 2018, changes will be made to the expected loss ratio of receivables. The changes in accounting estimates will be implemented from 1 April 2018 onwards and the detailed conditions before and after the changes are as follows:

Ageing	Before the changes		Ageing	After the changes	
	Percentage of provision for expected loss ratio of account receivables	Percentage of provision for expected loss ratio of other receivables		Percentage of provision for expected loss ratio of account receivables	Percentage of provision for expected loss ratio of other receivables
within 1 year (including 1 year)	5%	5%	within 3 months (including 3 months)	1%	1%
			4-6 months (including 6 months)	5%	5%
			7-12 months (including 12 months)	10%	10%
1 year – 2 years (including 2 years)	6%	6%	1 year – 2 years (including 2 years)	20%	20%
2 years – 3 years (including 3 years)	20%	20%	2 years – 3 years (including 3 years)	70%	70%
3 years – 4 years (including 4 years)	70%	70%	3 years – 4 years (including 4 years)	100%	100%
4 years – 5 years (including 5 years)	90%	90%	4 years – 5 years (including 5 years)	100%	100%
over 5 years	100%	100%	over 5 years	100%	100%

The company adopts prospective application in the calculation of the changes in accounting estimates. The effects of such changes in accounting estimates to the operating results for the year and the statement components are shown as follows:

Item	Sum Affected (increased "+", decreased "-")
Balance sheet items:	
Bills receivables and accounts receivables	35,368,896.38
Other receivables	-531,896.46
Deferred tax assets	-5,225,549.99
Retained earnings	29,611,449.93
Income statement items:	
Credit impairment loss	-34,836,999.92
Income tax expenses	5,225,549.99
Net profit	29,611,449.93

(3) Accounting error correction

None.

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

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 Standards for Business Enterprises 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.

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

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(continued)

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

(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.

(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 realisable 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.

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

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(continued)

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

(5) Provision for impairment of long term assets *(continued)*

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. 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.

(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 amounts are denominated in RMB.)

V. TAXATION

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

<u>Types of tax</u>	<u>Basis of taxation</u>	<u>Tax rate</u>
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: 16% (Note 1). 1%, 5%, 7%
Urban maintenance and construction tax	Turnover tax to be paid	1%, 5%, 7%
Education surcharges	Turnover tax to be paid	3%
Local education surcharges	Turnover tax to be paid	Note 2
Enterprise income tax	Taxable income	Note 3

Note 1. According to the Notice of the Ministry of Finance and the State Administration of Taxation on Adjusting Value-added Tax Rates (Caishui [2018] No. 32), from 1 May 2018 onwards, the applicable tax rate is adjusted to 16%.

Note 2. The Company and its subsidiaries that are incorporated in Zhuhai shall pay local education surcharges that is 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 its place of incorporation on the basis of turnover tax to be paid.

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

V. TAXATION (continued)

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

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.
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 Xinbeijing 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. (上海麗珠生物科技有限公司)	15%	Livzon Group Ningxia Xinbeijing Pharmaceutical Manufacturing Co., Ltd. (麗珠集團新北江製藥有限公司) and Zhuhai Livzon Diagnostic Reagents Inc. (珠海麗珠試劑股份有限公司) were recognised as high and new technology enterprises in 2016 for a valid period of three years; 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. (上海麗珠生物科技有限公司) was recognised as high and new technology enterprises in 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)	15%	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
Livzon MABPharm (US) Inc. (麗珠單抗生物技術(美國)有限公司)	21%	
Livzon International Limited, Livzon Biologics Limited	0%	A company incorporated in Cayman Islands which is not required to pay enterprise income tax
Other subsidiaries	25%	

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

V. TAXATION *(continued)*

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 Ningxia Xinbeijiang Pharmaceutical Manufacturing Co., Ltd. (麗珠集團新北江製藥有限公司) and Zhuhai Livzon Diagnostic Reagents Inc. (珠海麗珠試劑股份有限公司) have enjoyed preferential taxation policies applicable to high and new technology enterprises since 2016 for a valid period of three years; Shanghai Livzon Biotechnology Co., Ltd. (上海麗珠生物科技有限公司) has enjoyed preferential taxation policies applicable to high and new technology enterprises since 2018 for a valid period of three years; Livzon Group (Ningxia) Pharmaceutical Manufacturing Co., Ltd. (麗珠集團(寧夏)製藥有限公司) was approved to enjoy the tax preference of the Encouraged Industries in Western China during the year. Such subsidiaries were subject to an enterprise income tax rate of 15% for the year.

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

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

VI. NOTES TO THE COMPONENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS

Unless specified otherwise, "beginning of the year" refers to 1 January 2018, "End of the year" refers to 31 December 2018, "End of Last Year" refers to 31 December 2017; "Year" refers to the year 2018 and "Last Year" refers to the year 2017 in the following notes (including major notes to the financial statements of the Company):

1. Cash at bank and on hand

Item	Balance at the End of the year	Balance at the beginning of the year
Cash in hand	134,536.84	189,288.49
Bank deposits	8,562,040,609.92	7,400,750,287.84
Other cash at bank and in hand	25,752,125.65	14,842,622.50
Total	8,587,927,272.41	7,415,782,198.83
In which: total overseas deposit	605,654,125.40	592,055,577.73

- (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 is the details of the use of restricted funds:

Item	Balance at the End of the year	Balance at the beginning of the year
Guarantee	24,216,066.46	14,808,263.64
Total	24,216,066.46	14,808,263.64

2. Financial assets held for trading

(1) Classification

Item	Balance at the end of the year	Balance at the beginning of the year
Classified as financial assets measured at fair value through profit or loss	15,934,738.20	18,598,840.91
In which: Shares	14,540,413.42	17,514,974.34
Funds	869,284.66	866,066.57
Derivative financial assets	525,040.12	217,800.00

- ① The Company's shares and fund products measured at fair value, with the change in fair value included in the profit or loss for the year were listed for trading on Shenzhen Stock Exchange and Hong Kong Stock Exchange. The fair value was determined based on the closing price on the last trading date in the Reporting Period.
- ② Derivative financial assets represents foreign currency forward contracts, gain from unexpired contracts measured at fair value was recognised as financial assets at balance sheet date.

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

VI. NOTES TO THE COMPONENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**2. Financial assets held for trading** (continued)

- (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 Current Period.

3. Bills receivables and accounts receivables

Category	Balance at the end of the year	Balance at the beginning of the year
Bills receivables	1,029,370,542.77	1,151,583,176.39
Accounts receivables	1,381,706,955.95	1,356,773,152.45
Total	2,411,077,498.72	2,508,356,328.84

(1) Bills receivables

Type	Balance at the End of the year	Balance at the beginning of the year
Bank acceptance bills	1,029,370,542.77	1,151,583,176.39
Total	1,029,370,542.77	1,151,583,176.39

① Bills receivables by types

Category	Balance at the end of the year				
	Gross amount		Provision for bad debts		Carrying value
	Amount	Percentage (%)	Amount	Provision Percentage (%)	
Bills receivables that are impairment provided on an individual basis	0.00	0.00	0.00	0.00	0.00
Bills receivables assessed for impairment 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

Category	Balance at the beginning of the year				
	Gross amount		Provision for bad debts		Carrying value
	Amount	Percentage (%)	Amount	Provision Percentage (%)	
Bills receivables that are impairment provided on an individual basis	0.00	0.00	0.00	0.00	0.00
Bills receivables assessed for impairment collectively	1,151,583,176.39	100.00	0.00	0.00	1,151,583,176.39
Total	1,151,583,176.39	100.00	0.00	0.00	1,151,583,176.39

Bills receivables assessed for impairment collectively by acceptor' portfolios

Item	Balance at the end of the year		
	Bills receivables	Provision for bad debts	Provision Percentage (%)
Bank acceptance bills	1,029,370,542.77	0.00	0.00
Total	1,029,370,542.77	0.00	0.00

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

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

3. Bills receivables and accounts receivable trading *(continued)*

(1) Bills receivables *(continued)*

- ② Provision for bad debts of bills receivables

Item	Balance at the beginning of the year	Provisions for bad debts made for the Year	Recoveries or reversals during the Year	Balance at the end of the year
Bills receivables	0.00	0.00	0.00	0.00
Total	0.00	0.00	0.00	0.00

- ③ There is no actual write-off of bills receivables for the Year.

- ④ Pledged bills receivables were at the End of the year

Item	Pledged amount at the end of the year
Bank acceptance bills	335,767,075.30
Total	335,767,075.30

- ⑤ Endorsed or discounted receivable bills not yet mature by the date of balance sheet

Item	Recognised amount by the End of the year	Unrecognised amount by the End of the year
Bank acceptance bills not yet mature but already endorsed	132,021,509.40	0.00
Bank acceptance bills not yet mature but already discounted	0.00	0.00

- ⑥ There was no bills transferred into account receivables for non-performance by the issuer by the End of the year.

- ⑦ As of 31 December 2018, bills with carrying amount of RMB335,767,075.30 (31 December 2017: RMB0) were pledged and bank acceptance bills of RMB306,283,296.70 was issued.

For the year, the Company discounted RMB0.00 bank acceptance bills (RMB0.00 in the previous year). As the main risks (such as interest risks) 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 previous year).

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

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

3. Bills receivables and accounts receivable trading (continued)

(2) Accounts receivables

① Accounts receivables disclosed by types

Type	Balance at the End of the period				
	Gross amount		Provision for bad debts		Carrying Value
	Amount	Percentage(%)	Amount	Percentage(%)	
Accounts receivables that are impairment provided on an individual basis	7,921,331.66	0.55	7,921,331.66	100.00	0.00
Accounts receivables assessed for impairment 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

(continued)

Type	Balance at the beginning of the year				
	Gross amount		Provision for bad debts		Carrying Value
	Amount	Percentage(%)	Amount	Percentage(%)	
Accounts receivables that are impairment provided on an individual basis	4,209,793.24	0.29	4,209,793.24	100.00	0.00
Accounts receivables assessed for impairment collectively	1,437,927,063.76	99.71	81,153,911.31	5.64	1,356,773,152.45
Total	1,442,136,857.00	100.00	85,363,704.55	5.92	1,356,773,152.45

A. As at the End of the Period, ageing analysis of accounts receivables that are impairment provided on an individual basis

Accounts receivables description	Balance at the End of the period			
	Gross amount	Provision for bad debts	Percentage (%)	Reason for provision made
Loans	7,921,331.66	7,921,331.66	100.00%	not expected to be recoverable
Total	7,921,331.66	7,921,331.66	—	—

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

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

3. Bills receivables and accounts receivable trading *(continued)*

(2) Accounts receivables *(continued)*

① Accounts receivables disclosed by types *(continued)*

- B. 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)	1,150,225,054.04	11,502,250.58	1.00
4-6 months (including 6 months)	188,826,373.67	9,441,318.68	5.00
7-12 months			
(including 12 months)	49,051,726.11	4,905,172.61	10.00
1-2 years (including 2 years)	21,384,507.49	4,276,901.50	20.00
2-3 years (including 3 years)	7,816,460.04	5,471,522.03	70.00
Over 3 years	8,606,345.42	8,606,345.42	100.00
Total	1,425,910,466.77	44,203,510.82	

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)	1,150,263,996.77	80.22	1,206,167,251.38	83.64
4-6 months (including 6 months)	188,826,372.12	13.17	139,624,695.33	9.68
7-12 months (including 12 months)	50,207,147.98	3.50	51,616,531.58	3.58
1-2 years (including 2 years)	21,484,041.49	1.50	24,882,590.19	1.73
2-3 years (including 3 years)	8,514,549.48	0.59	7,836,274.00	0.54
Over 3 years	14,535,690.59	1.02	12,009,514.52	0.83
Total	1,433,831,798.43	100.00	1,442,136,857.00	100.00

As at 31 December 2018 and 31 December 2017, the Company had no accounts receivables that are past due but not impaired.

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

VI. NOTES TO THE COMPONENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**3. Bills receivables and accounts receivable trading** (continued)**(2) Accounts receivables** (continued)

- ③ Provision for bad debts of account receivables

Item	Balance at the beginning of the year	Provisions for bad debts made for the Year	Recoveries or reversals during the Year	Balance at the end of the year
Accounts receivables	85,363,704.55	-31,177,278.22	2,061,583.85	52,124,842.48
Total	85,363,704.55	-31,177,278.22	2,061,583.85	52,124,842.48

- ④ Actual write-off of accounts receivables for the Current Period

Item	Amount written-off
Receivables actually written off	2,061,583.85

- ⑤ The total of account receivables with five largest amount by creditors was RMB201,470,928.42, or 14.05% of the total account receivables by the period end, total provision for bad debts by the period end was RMB4,350,171.13.
- ⑥ The Company has no derecognised receivables out of transfer of financial assets.
- ⑦ The Company has no assets or liabilities formed by its continuous involvement of transferring receivables.

4. 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	166,042,685.50	97.81	118,988,396.64	94.08
1 to 2 years	2,640,114.96	1.55	3,750,068.63	2.97
2 to 3 years	251,378.75	0.15	2,570,481.33	2.03
Over 3 years	831,122.50	0.49	1,163,011.61	0.92
Total	169,765,301.71	100.00	126,471,958.21	100.00

- (2) The total of prepayments with five largest amount by receiver of prepayments was RMB73,977,573.17, or 43.58% of the prepayments by the Year end.

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

VI. NOTES TO THE COMPONENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*
5. Other receivables

Item	Balance at the End of the Period	Balance at the beginning of the year
Interest receivables	0.00	5,945,063.41
Other receivables	49,482,179.59	57,695,538.55
Total	49,482,179.59	63,640,601.96

(1) Interest receivables

Item	Balance at the end of the year	Balance at the beginning of the year
Fixed deposit	0.00	5,945,063.41
Total	0.00	5,945,063.41

(2) Other receivables

① Other receivables presented by types

Type	Balance at the End of the Period				
	Gross amount		Provision for bad debts		Carrying value
	Amount	Percentage (%)	Amount	Percentage (%)	
Other receivables that are impairment provided on an individual basis	1,522,851.91	2.49	1,522,851.91	100.00	0.00
Other receivables assessed for impairment collectively	59,657,721.82	97.51	10,175,542.23	17.06	49,482,179.59
Total	61,180,573.73	100.00	11,698,394.14	19.12	49,482,179.59

(continued)

Type	Balance at the End of the Period				
	Gross amount		Provision for bad debts		Carrying value
	Amount	Percentage (%)	Amount	Percentage (%)	
Other receivables that are impairment provided on an individual basis	2,429,365.99	3.46	2,429,365.99	100.00	0.00
Other receivables assessed for impairment collectively	67,775,228.56	96.54	10,079,690.01	14.87	57,695,538.55
Total	70,204,594.55	100.00	12,509,056.00	17.82	57,695,538.55

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

VI. NOTES TO THE COMPONENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**5. Other receivables** (continued)**(2) Other receivables** (continued)

① Other receivables presented by types (continued)

A. As at the End of the Period, ageing analysis of other receivables that are impairment provided on an individual basis

Other receivables	Balance at the End of the period			Reason for provision made
	Gross amount	Provision for bad debts	Percentage of provision (%)	
Current account	1,522,851.91	1,522,851.91	100.00%	Not expected to be recoverable
Total	1,522,851.91	1,522,851.91	-	-

B. Other receivables in the portfolio with provision for bad debts made using the ageing analysis method

Ageing	Balance at the End of the Period		
	Other receivables	Provision for bad debts	Percentage (%)
Within 3 months (including 3 months)	34,573,772.12	345,737.70	1.00
4-6 months (including 6 months)	6,760,038.18	338,001.91	5.00
7-12 months (including 12 months)	5,158,650.20	515,865.03	10.00
1-2 years (including 2 years)	4,646,532.89	929,306.58	20.00
2-3 years (including 3 years)	1,573,658.08	1,101,560.66	70.00
Over 3 years	6,945,070.35	6,945,070.35	100.00
Total	59,657,721.82	10,175,542.23	

② Provision for bad debts of other receivables

Item	Balance at the beginning of the year	Provisions for bad debts made for the Year	Recoveries or reversals during the Year	Balance at the end of the year
Other receivables	12,509,056.00	476,279.03	1,286,940.89	11,698,394.14
Total	12,509,056.00	476,279.03	1,286,940.89	11,698,394.14

③ Other receivables written off during the Current Period

Item	Amount written-off
Other receivables actually written off	1,304,400.78

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

VI. NOTES TO THE COMPONENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*
5. Other receivables *(continued)*
(2) Other receivables *(continued)*

④ Other receivables by the nature of receivables

Nature of receivables	Balance at the End of the Period	Balance at the beginning of the year
Deposits under guarantee	904,549.60	2,500,492.65
Related party balances	11,805,931.93	11,000,505.42
Related party balances	709,142.46	976,511.66
Borrowing due from external entities	5,000,000.00	5,000,000.00
Tax refunds on exports	9,590,693.23	15,421,773.75
Lease expenses and deposits	2,404,871.24	1,505,736.32
Staff advances	25,115,272.16	22,994,136.84
Others	5,650,113.11	10,805,437.91
Total	61,180,573.73	70,204,594.55

⑤ Other receivables with five largest amount by creditors by the End of the Period

Name of unit	Nature of receivables	Balance at the End of the Period	Ageing	Proportion to 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	9,590,693.23	Within 3 months RMB8,663,058.92, 4-6 months RMB435,074.24, 7-12 months RMB492,560.07	15.67	157,640.31
Guangzhou Galaxy Sunshine Biological Products Co., Ltd. (廣州銀河陽光生物製品有限公司)	Borrowing	5,000,000.00	Over 5 years	8.17	5,000,000.00
Pioneer Time Investment Limited	Deposit	1,008,108.43	2-3years	1.65	705,675.90
Guangdong Blue Treasure Pharmaceutical Co. Ltd. (廣東藍寶製藥有限公司)	Energy and power	530,858.53	Within 3 months	0.87	5,308.59
Guangdong Power Grid Corporation Shaoguan Power Supply Bureau (廣東電網公司韶關供電局)	Deposit	500,000.00	1-2years	0.82	100,000.00
Total	-	16,629,660.19	-	27.18	5,968,624.80

⑥ The Company has no derecognised other receivables out of transfer of financial assets.

⑦ The Company has no assets or liabilities formed by its continuous involvement of transferring other receivables.

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

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

6. Inventories

(1) Classification of inventories

Item	Balance at the End of the Period		
	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

Item	Balance at the beginning of the year		
	Gross amount	Provision for diminution in value	Carrying amount
Raw materials	268,950,389.63	2,671,662.29	266,278,727.34
Packaging materials	19,782,530.05	1,048,859.25	18,733,670.80
Goods in process	269,395,810.49	4,359,815.26	265,035,995.23
Finished goods	537,664,477.74	21,906,846.25	515,757,631.49
Sub-contracting materials	930,038.48	487,179.50	442,858.98
Low-value consumables	4,885,477.21	1,326.55	4,884,150.66
Goods in transit	5,567,475.26	0.00	5,567,475.26
Consumable biological assets	8,601,115.78	0.00	8,601,115.78
Proprietary semi-finished goods	17,319,108.97	0.00	17,319,108.97
Total	1,133,096,423.61	30,475,689.10	1,102,620,734.51

The consumable biological assets of the Group 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 amounts are denominated in RMB.)

VI. NOTES TO THE COMPONENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*
6. Inventories *(continued)*
(2) Provision for diminution in value of inventories

Item	Balance at the beginning of the year	Increase during the Current Period		Decrease during the Current Period		Balance at the End of the Period
		Provision	Other	Reversed	Written off	
Raw materials	2,671,662.29	5,069,101.02	0.00	1,023,049.94	1,050,086.96	5,667,626.41
Packaging materials	1,048,859.25	800,299.46	0.00	0.00	697,804.59	1,151,354.12
Work in progress	4,359,815.26	22,533,932.73	0.00	0.00	0.00	26,893,747.99
Finished goods	21,906,846.25	26,284,241.94	0.00	777,519.18	25,027,051.02	22,386,517.99
Sub-contracting materials	487,179.50	0.00	0.00	0.00	487,179.50	0.00
Low-value consumables	1,326.55	0.00	0.00	0.00	1,326.55	0.00
Tota	30,475,689.10	54,687,575.15	0.0	1,800,569.12	27,263,448.62	56,099,246.51

(3) Reason for provision and write-off for diminution in value of inventories

Item	Basis for provision for diminution in value of inventories	Reason for reversal provision for diminution in value of inventories during the Current Period	Reason for write off provision for diminution in value of inventories during the Current Period
Raw materials, packaging 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

7. Non-current assets due within one year

Item	Balance at the end of the year	Balance at the beginning of the year	Note
Long-term receivables due within one year	10,869,100.00	0.00	Please see note VI. 9
Total	10,869,100.00	0.00	

8. Other current assets

Item	Balance at the End of the Period	Balance at the beginning of the year
Input VAT pending deduction/attestation	3,283,862.23	21,115,469.80
Remaining VAT credit	10,151,915.53	18,766,340.33
Cash management	90,095,643.32	84,381,617.79
Profit or loss from assets to be processed	6,133,501.82	0.00
Total	109,664,922.90	124,263,427.92

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

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

9. Long-term receivables

(1) Long-term receivables conditions

Item	Balance at the end of the year			Balance at the beginning of the year			Range of discount rate
	Gross amount	Impairment provision	Carrying value	Gross amount	Impairment provision	Carrying value	
Receivables from equity transferred by installments	31,168,609.76	0.00	31,168,609.76	0.00	0.00	0.00	5%
Less: Parts due within one year (note VI.7)	10,869,100.00	0.00	10,869,100.00	0.00	0.00	0.00	
Total	20,299,509.76	0.00	20,299,509.76	0.00	0.00	0.00	

(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.

10. Long-term equity investments

Investee	Balance at the beginning of the year	Investment acquired	Investment disposed of	Change during the Period		
				Investment profit and loss on 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)	52,700,984.57	0.00	0.00	5,996,577.84	0.00	0.00
Minitech Medical (Jiangsu) Ltd. (江蘇尼科醫療器械有限公司)	21,429,927.63	0.00	0.00	-1,968,944.40	0.00	10,577,268.20
Shenzhen City Youbao Technology Co., Ltd. (深圳市有寶科技有限公司)	1,051,931.61	0.00	0.00	-11,117.18	0.00	0.00
AbCyte Therapeutics Inc.	17,415,201.63	0.00	0.00	-3,495,636.39	0.00	5,434,320.00
L&L Biopharma, Co. Ltd. (上海健信生物醫藥科技有限公司)	0.00	15,000,000.00	0.00	-487,783.89	0.00	188,679.24
DOSERNA INC	0.00	6,332,200.00	0.00	-331,207.25	0.00	0.00
Zhuhai Sanmed Biotech Inc.* (珠海聖美生物診斷技術有限公司) (former name: Zhuhai Livzon Cynvenio Diagnosis Ltd.* (珠海麗珠聖美醫療診斷技術有限公司))	0.00	26,893,778.48	0.00	-5,765,717.91	0.00	19,095,165.42
Aetio Biotherapy Inc	0.00	20,853,691.47	0.00	-122,819.98	-2,889.51	0.00
Total	93,798,045.44	69,079,669.95	0.00	-6,186,649.16	-2,889.51	35,295,432.86

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

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

10. Long-term equity investments (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	Impairment provision	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)	2,677,500.00	0.00	0.00	56,020,062.41	0.00
Minitech Medical (Jiangsu) Ltd (江蘇尼科醫療器械有限公司)	0.00	0.00	0.00	30,038,251.43	0.00
Yobbo (深圳市有寶科技有限公司)	0.00	0.00	0.00	1,040,814.43	0.00
AbCyte Therapeutics Inc.	0.00	0.00	0.00	19,353,885.24	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	14,700,895.35	0.00
DOSERNA INC	0.00	0.00	0.00	6,000,992.75	0.00
Zhuhai Sanmed Biotech Inc.* (珠海聖美生物診斷技術有限公司) (former name: Zhuhai Livzon Cynvenio Diagnosis Ltd.* (珠海麗珠聖美醫療診斷技術有限公司))	0.00	0.00	0.00	40,223,225.99	0.00
Aetio Biotherapy Inc	0.00	0.00	0.00	20,727,981.98	0.00
Total	2,677,500.00	0.00	0.00	189,306,109.58	1,200,000.00

11. Other equity instrument investments

Item	Balance at the end of the year	Balance at the beginning of the year	Dividend income recognised for the Year	Reason for designation	Cumulative gain or loss transferred from other comprehensive income to retained income for the Year	
					Amounts	Reason
CYNVENIO BIOSYSTEMS, INC	3,158,700.39	3,006,245.24	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	220,000.00	Non-trading purpose	0.00	-
SEEKERS FUND	103,432,480.34	104,654,579.60	0.00	Non-trading purpose	0.00	-
GLOBAL HEALTH SCIENCE	205,702,713.12	0.00	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	0.00	0.00	Non-trading purpose	0.00	-
SCC VENTURE VI 2018-B, L.P.	14,410,116.63	0.00	0.00	Non-trading purpose	0.00	-
Total	407,707,119.32	183,663,933.68	220,000.00		0.00	

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

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

12. Fixed assets

Items	Balance at the End of the Period	Balance at the beginning of the year
Fixed assets	3,192,208,026.03	3,321,218,058.56
Disposal of fixed assets	25,368,047.97	0.00
Total	3,217,576,074.00	3,321,218,058.56

(1) Fixed assets

① Status of fixed assets

Items	Plant & buildings	Machinery & equipment	Motor vehicles	Electronic devices and others	Total
I. Cost at book					
1. Balance at the beginning of the year	2,747,876,752.38	2,300,545,998.81	70,906,981.19	309,306,468.69	5,428,636,201.07
2. Additions for the Period	74,839,455.17	160,162,677.40	10,715,399.14	46,110,873.80	291,828,405.51
(1) Acquisition	27,004,996.14	94,609,711.79	10,089,310.65	35,153,221.85	166,857,240.43
(2) Construction in progress transferred	47,834,459.03	65,552,965.61	0.00	10,957,651.95	124,345,076.59
(3) Others	0.00	0.00	626,088.49	0.00	626,088.49
3. Decrease for the Period	16,921,692.12	124,684,901.86	4,832,093.35	27,629,197.61	174,067,884.94
(1) Disposal or written-off	16,921,692.12	124,684,901.86	4,832,093.35	27,629,197.61	174,067,884.94
(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	2,805,794,515.43	2,336,023,774.35	76,790,286.98	327,788,144.88	5,546,396,721.64
II. Accumulated depreciation					
1. Balance at the beginning of year	683,143,434.34	1,100,081,168.65	43,715,981.38	189,334,631.99	2,016,275,216.36
2. Additions for the Period	134,626,769.13	160,546,060.94	9,012,985.65	37,942,686.12	342,128,501.84
(1) Provision	134,626,769.13	160,546,060.94	8,471,342.94	37,942,686.12	341,586,859.13
(2) Other additions	0.00	0.00	541,642.71	0.00	541,642.71
3. Decrease for the Period	2,486,264.38	69,147,777.24	3,704,611.02	16,899,539.48	92,238,192.12
(1) Disposal or written-off	2,486,264.38	69,147,777.24	3,704,611.02	16,899,539.48	92,238,192.12
(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	815,283,939.09	1,191,479,452.35	49,024,356.01	210,377,778.63	2,266,165,526.08
III. Impairment provision					
1. Balance at the beginning of the year	21,010,653.11	69,244,533.75	72,835.46	814,903.83	91,142,926.15
2. Additions for the Period	10,728,887.16	2,945,347.95	0.00	1,207,258.69	14,881,493.80
(1) Provision	10,728,887.16	2,945,347.95	0.00	1,207,258.69	14,881,493.80
3. Decrease for the Period	778,599.69	16,865,395.37	0.00	357,255.36	18,001,250.42
(1) Disposal or written-off	778,599.69	16,865,395.37	0.00	357,255.36	18,001,250.42
(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	55,324,486.33	72,835.46	1,664,907.16	88,023,169.53
IV. Carrying amounts					
1. Carrying amount at the End of the Period	1,959,549,635.76	1,089,219,835.67	27,693,095.51	115,745,459.09	3,192,208,026.03
2. Carrying amount at the beginning of the year	2,043,722,664.93	1,131,220,296.41	27,118,164.35	119,156,932.87	3,321,218,058.56

During the year, the amount of depreciation was RMB341,586,859.13 (RMB333,266,021.37 in the Last year). During the year, construction in progress transferred to cost of fixed assets was RMB124,345,076.59 (RMB248,263,623.19 the Last year).

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

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

12. Fixed assets (continued)

(1) Fixed assets (continued)

② As at the End of the Period, temporarily idled fixed assets

Item	Cost	Accumulated depreciation	Provision for impairment	Carrying amount	Note
Plant & buildings	22,224,861.51	9,316,082.11	0.00	12,908,779.40	
Machinery & equipment	54,562,946.35	26,427,637.09	21,900,031.32	6,235,277.94	
Electronic devices and others	2,048,584.13	1,919,638.00	0.00	128,946.13	
Total	78,836,391.99	37,663,357.20	21,900,031.32	19,273,003.47	

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	1,509,770.46
Electronic devices and others	22,780,715.74
Total	24,290,486.20

⑤ Fixed assets with pending certificates for ownership at the End of the Period

Item	Carrying amount	Reason for pending certificates for ownership
Plant & buildings	533,828,313.41	Being in progress

(2) Disposal of fixed assets

Item	Balance at the end of the year	Balance at the beginning of the year
Machinery and equipment	25,368,047.97	0.00
Total	25,368,047.97	0.00

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

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

13. Construction in progress

(1) Status of construction in progress

Item	Balance at the End of the Period			Balance at the beginning of the year		
	Balance	Provision for impairment	Carrying amount	Balance	Provision for impairment	Carrying amount
Guangda New Factory Project (光大新廠項目)	5,828,320.98	0.00	5,828,320.98	5,819,684.62	0.00	5,819,684.62
Improvement Project of Workshop of Hecheng Co. (合成公司車間改造項目)	6,017,286.99	0.00	6,017,286.99	2,744,696.94	0.00	2,744,696.94
Fuxing Company second phase project	41,336,128.21	0.00	41,336,128.21	0.00	0.00	0.00
Project of Shijiao New Factory (石角新廠項目)	6,237,329.19	0.00	6,237,329.19	6,430,121.05	0.00	6,430,121.05
Transformation Project of Pharmaceutical Factory Workshop (藥廠車間改造項目)	81,710,969.79	0.00	81,710,969.79	24,917,332.06	0.00	24,917,332.06
Technological transformation project of bag infusion workshop for Livzon Group Limin Pharmaceutical Manufacturing Factory (麗珠集團利民製藥廠 袋裝輸液車間技改項目)	0.00	0.00	0.00	6,932,975.92	0.00	6,932,975.92
Microsphere Workshop Construction Project for Livzon Group Livzon Pharmaceutical Factory (麗珠集團麗珠製藥廠微球 車間建設項目)	13,307,330.35	0.00	13,307,330.35	1,310,796.47	0.00	1,310,796.47
Others	30,081,562.53	0.00	30,081,562.53	22,123,741.92	0.00	22,123,741.92
Construction supplies	0.00	0.00	0.00	0.00	0.00	0.00
Total	184,518,928.04	0.00	184,518,928.04	70,279,348.98	0.00	70,279,348.98

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

VI. NOTES TO THE COMPONENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**13. Construction in progress** (continued)**(2) Status of changes of significant construction in progress item**

Categories 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	5,819,684.62	8,636.36	0.00	0.00	5,828,320.98
Improvement Project of Workshop of Hecheng Co. (合成公司車間改造項目)	45,195,707.50	2,744,696.94	7,206,925.35	1,073,925.66	2,860,409.64	6,017,286.99
Fuxing Company second phase project	74,500,000.00	0.00	41,418,061.18	81,932.97	0.00	41,336,128.21
Project of Shijiao New Factory (石角新廠項目)	57,725,924.19	6,430,121.05	838,213.14	0.00	1,031,005.00	6,237,329.19
Transformation Project of Pharmaceutical Factory Workshop (藥廠車間改造項目)	173,756,629.44	24,917,332.06	97,041,507.29	40,247,869.56	0.00	81,710,969.79
Technological transformation project of bag infusion workshop for Livzon Group Limin Pharmaceutical Manufacturing Factory (麗珠集團利民製藥廠 袋裝輸液車間技改項目)	63,117,300.00	6,932,975.92	45,228,829.82	52,161,805.74	0.00	0.00
Microsphere Workshop Construction Project for Livzon Group Livzon Pharmaceutical Factory (麗珠集團麗珠製藥廠微球 車間建設項目)	163,933,300.00	1,310,796.47	11,996,533.88	0.00	0.00	13,307,330.35
Others	0.00	22,123,741.92	40,963,138.95	30,779,542.66	2,225,775.68	30,081,562.53
Total	944,045,361.13	70,279,348.98	244,701,845.97	124,345,076.59	6,117,190.32	184,518,928.04

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

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

13. Construction in progress (continued)

(2) Status of changes of significant construction in progress item (continued)

Categories of project	Accumulated amount of the interest capitalised as at the year end	Interest capitalised for the Period	Interest capitalised 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	1.59	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	69.59	Completion of some projects	Self-funding
Fuxing Company second phase project	0.00	0.00	0.00	55.59	Under construction	Self-funding
Project of Shijiao New Factory (石角新廠項目)	0.00	0.00	0.00	61.19	Under construction	Self-funding
Transformation Project of Pharmaceutical Factory Workshop (藥廠車間改造項目)	0.00	0.00	0.00	80.86	Completion of some projects	Self-funding
Technological transformation project of bag infusion workshop for Livzon Group Limin Pharmaceutical Manufacturing Factory (麗珠集團利民製藥廠袋裝輸液車間技改項目)	0.00	0.00	0.00	82.64	Completion	Funds raised and self-funding
Microsphere Workshop Construction Project for 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	8.12	Under construction	Funds raised Loan and self-funding
Others	34,340.46	0.00	0.00			
Total	34,340.46	0.00				

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

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

VI. NOTES TO THE COMPONENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**14. Intangible assets****(1) Status of intangible assets**

Items	Land use rights	Patent and technical know-how	Software	Trademark rights	Others	Total
I. Cost at book						
1. Balance at the beginning of the year	259,891,035.84	224,995,091.01	33,420,150.95	24,000.00	10,985,294.53	529,315,572.33
2. Additions for the						
Current Period	3,636,138.91	35,549,573.74	3,170,792.76	0.00	0.00	42,356,505.41
(1) Acquisition	3,636,138.91	20,322,007.56	3,170,792.76	0.00	0.00	27,128,939.23
(2) Transfer from research and development expenses	0.00	15,227,566.18	0.00	0.00	0.00	15,227,566.18
3. Decrease for the Current Period	0.00	48,705,812.25	0.00	0.00	0.00	48,705,812.25
(1) Disposal	0.00	48,705,812.25	0.00	0.00	0.00	48,705,812.25
4. Balance at the End of the Period	263,527,174.75	211,838,852.50	36,590,943.71	24,000.00	10,985,294.53	522,966,265.49
II. Accumulated depreciation						
1. Balance at the beginning of year	67,017,930.61	156,948,428.10	29,139,984.80	24,000.00	1,190,073.57	254,320,417.08
2. Additions for the Period	4,959,421.98	13,696,756.33	2,758,544.88	0.00	1,098,529.45	22,513,252.64
(1) Provision	4,959,421.98	13,696,756.33	2,758,544.88	0.00	1,098,529.45	22,513,252.64
3. Decrease for the Period	0.00	9,251,723.76	0.00	0.00	0.00	9,251,723.76
(1) Disposal	0.00	9,251,723.76	0.00	0.00	0.00	9,251,723.76
4. Balance at the End of the Period	71,977,352.59	161,393,460.67	31,898,529.68	24,000.00	2,288,603.02	267,581,945.96
III. Impairment provision						
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						
1. Carrying amount at the End of the Period	190,567,995.22	40,236,225.04	4,692,414.03	0.00	8,696,691.51	244,193,325.80
2. Carrying amount at the beginning of the year	191,891,278.29	57,837,496.12	4,280,166.15	0.00	9,795,220.96	263,804,161.52

Amortisation for the Current Period is RMB22,513,252.64 (RMB25,907,664.31 in the Previous Period).

The proportion of intangible assets created due to the Company's internal R&D in the balance of intangible assets at the end of current period is 6.24%.

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

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

14. 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	26,417,660.47	Being in progress

(3) Notes to intangible assets

The Company obtained the State-owned land use rights in accordance with Chinese laws in China, and there will be 50 years of grant term commencing from the date of obtaining the land use rights.

15. Development costs

Item	Balance at the beginning of the year	Additions for the Current Period	Decrease for the Current Period		Balance at the end of the Period
			Recognised in profit or loss	Recognised as intangible assets	
Expensing costs:	0.00	548,972,707.16	548,972,707.16	0.00	0.00
Capitalised expenses:	25,328,934.25	71,045,218.50	0.00	15,227,566.18	81,146,586.57
In which: western drug preparation	15,227,566.18	9,508,822.29	0.00	15,227,566.18	9,508,822.29
In which: biopharmaceutical drug	10,101,368.07	61,536,396.21	0.00	0.00	71,637,764.28
Total	25,328,934.25	620,017,925.66	548,972,707.16	15,227,566.18	81,146,586.57

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

VI. NOTES TO THE COMPONENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**16. Goodwill****(1) Total goodwill value at book**

Name of investee or the matter of goodwill arisen	Balance at the beginning of the year	Additions for the Current Period	Decrease for the Current 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	Additions 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

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

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

16. Goodwill (continued)

(3) Impairment test and provision for impairment on goodwill

Goodwill of the Company arose from its business combination involving enterprises under common control in previous years.

On the balance sheet date, the Company conducted impairment test on goodwill and adopted the asset groups related to goodwill to estimate the present value of the future cash flow when estimating the recoverable amount of the investment cost. The cash flows generated from each subsidiary acquired are independent from the Company and those of the other subsidiaries of the Company, therefore, each of these acquired subsidiaries is a separate asset group.

The present value of 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, and with discount rate of 14.12%-16.80%.

Key assumptions of discounted future cash flow for goodwill impairment test are as follows:

For future cash flow of Pharmaceutical Factory (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 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 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 believes that no impairment provision is needed during the Reporting Period.

17. Long-term deferred expenses

Item	Balance at the beginning of the year	Additions for the Current Period	Amortisation for the Current Period	Other decrease	Balance at the end of the Period	Reason for other decrease
Overhaul costs of fixed assets	3,494,118.89	6,454,366.15	2,903,039.14	0.00	7,045,445.90	
Renovation costs of offices	19,964,395.36	2,399,637.18	2,306,190.50	0.00	20,057,842.04	
Renovation costs of plants	80,864,295.03	1,745,420.80	5,917,063.39	0.00	76,692,652.44	
Share of costs for public utilities	630,138.98	0.00	630,138.98	0.00	0.00	
Resin and filler	9,639,630.17	3,234,221.96	5,325,009.34	0.00	7,548,842.79	
Others	1,861,154.25	524,815.57	384,230.16	0.00	2,001,739.66	
Total	116,453,732.68	14,358,461.66	17,465,671.51	0.00	113,346,522.83	

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

VI. NOTES TO THE COMPONENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**18. 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 tax assets	Deductible temporary difference	Deferred tax assets
Deductible temporary difference arising from provision for impairment	209,076,521.54	31,783,300.72	244,616,318.10	37,523,774.91
Deductible temporary difference arising from accrued expenses	170,124,443.74	26,586,375.47	203,403,098.95	30,489,354.50
Deductible temporary difference arising from tax losses carried forward	31,916,422.66	4,787,463.40	34,207,535.93	5,131,130.39
Deductible temporary difference arising from deferred income	243,750,004.01	36,562,500.61	175,727,981.47	26,359,197.22
Deductible temporary difference arising from gains from unrealized intracompany transactions	264,002,103.60	39,600,315.54	153,545,941.58	23,031,891.24
Deductible temporary difference arising from share incentive cost	2,810,710.50	421,608.06	23,909,083.45	4,673,538.82
Deductible temporary difference arising from change in fair value	85,294.16	12,794.12	0.00	0.00
Other deductible temporary difference	12,255,335.49	1,841,906.57	0.00	0.00
Total	934,020,835.70	141,596,264.49	835,409,959.48	127,208,887.08

(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 tax liabilities	Taxable temporary difference	Deferred tax liabilities
Taxable temporary difference arising from financial assets held for trading	8,472,426.34	1,294,246.16	933,866.57	161,859.99
Taxable temporary difference arising from other equity instrument investments	17,838,911.04	3,148,872.47	16,684,671.04	2,605,572.53
Taxable temporary difference arising from long-term equity investments under equity method	27,434,905.93	4,115,235.89	27,070,634.69	4,060,595.21
Taxable temporary difference arising from accelerated depreciation of fixed assets	248,352,965.60	37,380,375.64	130,708,014.01	19,704,276.31
Taxable temporary difference arising from unrealized profits on internal transactions	56,940,000.00	8,541,000.00	0.00	0.00
Total	359,039,208.91	54,479,730.16	175,397,186.31	26,532,304.04

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

VI. NOTES TO THE COMPONENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)***18. Deferred income tax assets/Deferred income tax liabilities** *(continued)***(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	230,740,223.37	185,120,577.37
Deductible loss	609,869,854.04	444,367,873.41
Total	text-align: right;"> 840,610,077.41	text-align: right;">629,488,450.78

(4) loss of deferred income tax assets not recognised will be due next year

Year	Balance at the End of the Period	Balance at the beginning of the year	Remarks
2018	0.00	27,827,822.05	
2019	58,730,829.81	57,516,237.66	
2020	83,358,127.84	83,820,693.24	
2021	97,337,885.51	108,055,857.34	
2022	141,810,116.50	159,484,870.14	
2023	211,237,901.76	0.00	
2027	635,203.47	0.00	
2028	8,935,708.33	0.00	
2032	1,245,859.22	1,245,859.22	
2033	6,578,221.60	0.00	
Indefinite	0.00	6,416,533.76	
Total	text-align: right;"> 609,869,854.04	text-align: right;">444,367,873.41	

19. Other non-current assets

Item	Balance at the End of the Period	Balance at the beginning of the year
Input VAT pending deduction/attestation	0.00	85,312.14
Remaining VAT credit	19,033,258.68	46,700,907.82
Prepayment for acquisition of project and equipment	138,761,846.47	125,645,846.27
Prepayment for acquisition of technical know-how	106,292,562.55	61,968,960.18
Total	text-align: right;"> 264,087,667.70	text-align: right;">234,401,026.41

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

VI. NOTES TO THE COMPONENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**20. Short-term loans****(1) Classification of short-term loans**

Items	Balance at the End of the Period	Balance at the beginning of the year
Loans on credit	1,500,000,000.00	0.00
Total	1,500,000,000.00	0.00

(2) Status of outstanding overdue short-term loans

Nil.

21. 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	85,294.16	339,129.90
In which: Derivatives financial liabilities	85,294.16	339,129.90

Derivative financial liabilities represents foreign currency forward contracts, loss from unexpired contracts measured at fair value was recognised as financial liabilities at balance sheet date.

22. Bills payables & Accounts payables

Type	Balance at the End of the Period	Balance at the beginning of the year
Bills payables	718,590,036.85	661,858,884.48
Accounts payables	636,324,506.52	501,668,543.26
Total	1,354,914,543.37	1,163,527,427.74

(1) Status of bills payables

Type	Balance at the end of the Period	Balance at the beginning of the year
Bank acceptance bills	718,590,036.85	661,858,884.48

① The amount of RMB718,590,036.85 will be due for the next accounting period.

② There are no mature but unpaid bills payables for the Company at the End of the Year.

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

VI. NOTES TO THE COMPONENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**22. Bills payables & Accounts payables** (continued)**(2) Status of bills payables**

- ① Breakdown of accounts payables (an ageing analysis is based on dates of recognition of account payables)

Item	Balance at the End of the Period	Balance at the beginning of the year
Within 3 months (including 3 months)	421,288,694.50	405,860,860.51
4 to 6 months (including 6 months)	141,627,643.20	29,269,772.96
7 to 12 months (including 12 months)	36,799,505.54	26,915,684.21
1 to 2 years (including 2 years)	14,519,847.32	13,217,832.56
Over 2 years	22,088,815.96	26,404,393.02
Total	636,324,506.52	501,668,543.26

- ② Important payables ageing over 1 year

Item	Balance at the End of the Period	Reason for non-payment or non-transfer
ABC Building Systems (China) Co., Ltd (美建建築系統(中國)有限公司)	3,361,943.32	Holdback
Guangdong Jian'an Changsheng Engineering Co., Ltd. (廣東建安昌盛工程有限公司)	2,226,324.65	Holdback
Total	5,588,267.97	

23. 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	91,651,095.70	85,837,055.50
Over 1 year	24,322,368.39	29,451,742.44
Total	115,973,464.09	115,288,797.94

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

VI. NOTES TO THE COMPONENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*
23. Contract liabilities *(continued)*
(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)	7,400,830.38	The other party has not requested delivery
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)	3,479,205.07	The other party has not requested delivery
Wenshan Merlot Junyuan Thirty-seven Planting Base Limited (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	11,880,035.45	

(3) The amount of income recognised in the current period which is included in the carrying amount of the contract liabilities at the beginning of the year is RMB71,276,297.52.

24. Employee benefits payables
(1) Presentation of salary payables

Item	Balance at the beginning of the year	Increase for the Current Period	Decrease for the Current Period	Balance at the end of the Period
I. Short-term salary	159,973,257.50	847,159,103.08	822,740,144.22	184,392,216.36
II. Post-resignation benefits designated provision	184,685.47	55,888,911.02	55,827,386.30	246,210.19
III. Dismiss benefits	1,408,000.00	332,532.40	332,532.40	1,408,000.00
IV. Other benefits due within 1 year	0.00	0.00	0.00	0.00
Total	161,565,942.97	903,380,546.50	878,900,062.92	186,046,426.55

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

VI. NOTES TO THE COMPONENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**24. Employee benefits payables** (continued)**(2) Presentation of short-term salary**

Item	Balance at the beginning of the year	Increase for the Current Period	Decrease for the Current Period	Balance at the end of the Period
1. Salaries, bonuses, allowances and subsidies	158,349,932.31	766,842,708.50	746,237,147.56	178,955,493.25
2. Employee welfare	918,358.80	27,789,585.87	23,794,699.79	4,913,244.88
3. Social insurance	74,771.29	25,287,776.79	25,341,031.47	21,516.61
Of which: Medical insurances	64,436.27	21,540,842.49	21,605,278.76	0.00
Work-related injury insurances	5,209.51	1,909,084.65	1,899,878.91	14,415.25
Maternity insurances	5,125.51	1,837,849.65	1,835,873.80	7,101.36
4. Housing funds	577,404.00	25,551,876.34	25,684,098.34	445,182.00
5. Labour union fees and employee education fees	52,791.10	1,687,155.58	1,683,167.06	56,779.62
6. Short-term compensated absence	0.00	0.00	0.00	0.00
7. Short-term profit distribution plan – Performance-linked bonuses of subsidiaries	0.00	0.00	0.00	0.00
Total	159,973,257.50	847,159,103.08	822,740,144.22	184,392,216.36

(3) Presentation of designated provision

Item	Balance at the beginning of the year	Increase for the Current Period	Decrease for the Current Period	Balance at the end of the Period
1. Basic pension insurance	171,819.22	53,434,372.99	53,374,614.13	231,578.08
2. Unemployment insurance	12,866.25	2,454,538.03	2,452,772.17	14,632.11
Total	184,685.47	55,888,911.02	55,827,386.30	246,210.19

The Company participates in basic pension insurance, unemployment insurance plan established by government in accordance with the relevant requirements. According to the plan, the Company deposits the fees in accordance with the relevant rules of the local government. 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 amounts are denominated in RMB.)

VI. NOTES TO THE COMPONENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)***25. Taxes payables**

Item	Balance at the end of the Period	Balance at the beginning of the year
Value added tax	91,051,071.74	67,164,312.63
Urban maintenance and construction tax	3,689,564.99	3,374,878.22
Enterprise income tax	127,423,429.14	952,634,566.51
Property tax	10,727,445.94	8,713,726.12
Land use tax	2,973,348.48	2,466,854.37
Individual income tax	3,942,663.25	5,680,421.06
Stamp duty	1,642,708.04	1,761,327.56
Education surcharges	3,459,973.69	3,672,792.21
Flood prevention fee	20,300.76	20,300.76
Others	126,949.42	261,840.80
Total	245,057,455.45	1,045,751,020.24

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

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

26. Other payables

Item	Balance at the end of the Period	Balance at the beginning of the year
Dividends payables	97,536,288.17	170,936,288.17
Other payables	1,869,564,529.08	1,753,221,979.28
Total	1,967,100,817.25	1,924,158,267.45

(1) Dividends payables

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	20,174.46	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	259,800.00	259,800.00	Not yet paid
Zhuhai Zhenghe Co., Ltd. (珠海正禾企業有限公司)	90,004,303.71	168,404,303.71	Not yet paid
Zheng Fusang (鄭扶桑)	5,000,000.00	0.00	
Total	97,536,288.17	170,936,288.17	

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

VI. NOTES TO THE COMPONENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**26. 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	81,524,026.34	63,450,319.76
Deposits under guarantees	37,511,839.06	30,217,935.64
Business promotion expenses	1,020,057,577.45	689,655,614.57
Obligations of repurchasing restricted shares	25,208.04	66,786,741.96
Technology transfer funds	10,168,111.97	12,089,410.31
Related party balances	5,787,078.06	6,386,047.07
Accrued expenses	686,633,258.99	840,584,530.57
Others	27,857,429.17	44,051,379.40
Total	1,869,564,529.08	1,753,221,979.28

The repurchase of the restricted shares obligation of the Directors, the senior management and their spouses amounted to RMB0.00 by the End of the Period.

- ② The breakdown of accruals included in balances was as follows:

Item	Balance at the end of the Period	Balance at the beginning of the year	Reason for outstanding
Utilities expenses	11,706,301.31	7,612,905.00	Not yet paid
Research expenses	28,044,547.23	46,866,877.63	Not yet paid
Business promotion expenses	565,056,625.35	710,442,395.63	Not yet paid
Advertising expenses	149,571.28	738,681.75	Not yet paid
Business meeting expenses	29,058,996.84	29,026,606.91	Not yet paid
Auditing and information disclosure expenses	2,493,633.59	5,686,083.60	Not yet paid
Others	50,123,583.39	40,210,980.05	Not yet paid
Total	686,633,258.99	840,584,530.57	

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

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

27. 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.28)	400,000.00	400,000.00
Total	400,000.00	400,000.00

28. Long-term loans

(1) Classification of long-term loans

Item	Balance at the end of the Period	Balance at the beginning of the year
Loans on credit	1,100,000.00	1,100,000.00
Less: Long-term loans due within one year (Note VI.27)	400,000.00	400,000.00
Total	700,000.00	700,000.00

As at the End of the Period, there was no overdue long-term loans that were unpaid.

(2) Long-term loans with five largest amount

Name of lender	Starting date of loans	Termination date of loans	Currency	Interest rate (%)	Balance at the End of the Period		Balance at the beginning of the year	
					Foreign amount	Local currency amount	Foreign amount	Local currency amount
Fuzhou Bureau of Finance	Indefinite	Indefinite	RMB	Interest-free	-	700,000.00	-	700,000.00
Total						700,000.00		700,000.00

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

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

29. Deferred income

Item	Balance at the beginning of the year	Increase during the Period	Decrease during the Period	Balance at the end of the Period	Reason
Government grant	225,844,273.75	88,285,225.00	51,417,278.41	262,712,220.34	

Items related to government grant:

Item	Balance at the beginning of the Period	Increase during the Period	Decrease during the Period				Balance at the end of the Period	Assets/Income
			Recognised in other incomes	non-operating income	Written down of costs	Other decrease		
R&D and commercialisation of innovative drug of Ilaprazole series (艾普拉唑系列創新藥物研發及產業化)	19,886,458.11	12,910,000.00	4,156,916.72	0.00	0.00	0.00	28,639,541.39	Related to assets
R&D and commercialisation of innovative drug of Ilaprazole series (艾普拉唑系列創新藥物研發及產業化)	4,413,014.08	0.00	748,129.80	0.00	0.00	0.00	3,664,884.28	Related to income
Subsidy for R&D of Leuprorelin (亮丙瑞林研發補助)	0.00	3,681,725.00	0.00	0.00	0.00	0.00	3,681,725.00	Related to income
Strategic Emerging Industries in 2014 (Sustained Release Microspheres) (2014年戰略性新興產業(緩釋微球))	18,700,000.00	0.00	0.00	0.00	0.00	0.00	18,700,000.00	Related to assets
Fund for Commercialisation of Long-acting Microspheres Preparation (長效微球製劑的產業化款項)	0.00	13,300,000.00	0.00	0.00	0.00	0.00	13,300,000.00	Related to assets
Pilot-scale Enlargement and Industrialization of Long-acting Injection Microsphere Products (長效注射微球產品的中試放大和產業化)	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 (2015年度創新驅動項目專項資金)	93,000.00	0.00	0.00	0.00	0.00	0.00	93,000.00	Related to assets
Project subsidy from Ministry of Industry and Information Technology (工業和信息化部項目補助款)	2,400,000.00	0.00	0.00	0.00	0.00	0.00	2,400,000.00	Related to assets
Project subsidy from Ministry of Industry and Information Technology (工業和信息化部項目補助款)	2,290,750.00	0.00	231,000.00	0.00	0.00	0.00	2,059,750.00	Related to assets
Construction of Drug Conformity Evaluation Research Center Platform (藥物一致性評價研究中心平臺建設)	0.00	1,600,000.00	79,999.98	0.00	0.00	0.00	1,520,000.02	Related to assets
Growth Factor for Injection (注射用鼠神經生長因子研發及產業化)	26,745,060.72	37,125,800.00	3,408,167.35	0.00	0.00	0.00	60,462,693.37	Related to assets
Demonstration project on the application of solar photovoltaic architecture (太陽能光電建築應用示範項目)	6,863,499.75	0.00	1,102,000.08	0.00	0.00	0.00	5,761,499.67	Related to assets

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

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

29. Deferred income (continued)

Item	Balance at the beginning of the Period	Increase during the Period	Recognised in other incomes	Decrease during the Period			Balance at the end of the Period	Assets/Income
				Recognised in non-operating income	Written down of costs	Other decrease		
Subsidy for the Tender of Technology Upgrade Project for PVC Soft Bag Supported by Provincial Finance Departments (省財政支持技改招標項目補助金PVC軟袋)	2,321,947.60	1,860,000.00	253,365.76	0.00	0.00	0.00	3,928,581.84	Related to assets
Technical transformation project of Shengqi Fuzheng Injection with flexible bag (軟袋參芪扶正注射液技改項目)	30,000,000.00	0.00	2,852,941.18	0.00	0.00	0.00	27,147,058.82	Related to assets
Provision for Technology Transformation Funds and subsequent grants (技術改造資金撥款及事後補獎)	9,977,809.16	0.00	1,129,563.36	0.00	0.00	0.00	8,848,245.80	Related to assets
Provision for Technology Transformation Funds and subsequent grants (技術改造資金撥款及事後補獎)	2,975,000.00	7,117,700.00	408,547.13	0.00	0.00	0.00	9,684,152.87	Related to assets
Traditional Chinese Medicine Standardization Project of State Administration of Traditional Chinese Medicine (國家中醫藥管理局中藥標準化項目)	700,000.00	0.00	700,000.00	0.00	0.00	0.00	0.00	Related to assets
Traditional Chinese Medicine Standardization Project of State Administration of Traditional Chinese Medicine (國家中醫藥管理局中藥標準化項目)	700,000.00	0.00	700,000.00	0.00	0.00	0.00	0.00	Related to income
Shengqi Fuzheng Injection (參芪扶正注射液)	1,029,987.68	0.00	0.00	0.00	0.00	0.00	1,029,987.68	Related to assets
Shengqi Fuzheng Injection (參芪扶正注射液)	960,523.19	0.00	0.00	0.00	0.00	0.00	960,523.19	Related to income
R&D of chemical drug liquid preparation and commercialisation of management team (化藥液體製劑研發與產業化團隊)	0.00	1,500,000.00	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 (山西澤源黃芪GAP產業化生產基地建設)	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 (吉米沙星片的研發及生產轉化)	212,527.55	0.00	0.00	0.00	0.00	0.00	212,527.55	Related to assets
Research of Technologies for the Inspection of Toxic Substances from High-Throughput Aquatic Products in Guangdong Province (廣東省水產品中有害物質高通量檢測技術研究)	80,000.00	0.00	0.00	0.00	0.00	0.00	80,000.00	Related to income

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

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

29. Deferred income (continued)

Item	Balance at the beginning of the Period	Increase during the Period	Decrease during the Period			Balance at the end of the Period	Assets/Income	
			Recognised in other incomes	Recognised in non-operating income	Written down of costs			Other decrease
Enterprise Technology Center Innovation Capacity Development (Antibody Laboratory) (企業技術中心創新能力建設(抗體藥物試驗室))	4,299,935.92	0.00	1,115,532.18	0.00	0.00	0.00	3,184,403.74	Related to assets
Enterprise Technology Center Innovation Capacity Development (Antibody Laboratory) (企業技術中心創新能力建設(抗體藥物試驗室))	502,519.08	0.00	86,916.48	0.00	0.00	0.00	415,602.60	Related to income
Technology Transfer of Blood Screening (BCI) Nucleic Acid Detection Testing (血液篩查(BCI)核酸檢測試劑成果轉化)	6,000,000.00	0.00	0.00	0.00	0.00	0.00	6,000,000.00	Related to assets
Commercialisation of Liquid Biopsy Testing Enriching, Extracting and Separating Equipment (液態活檢樣本提取富集分離設備產業化)	30,000,000.00	0.00	0.00	0.00	0.00	30,000,000.00	0.00	Related to assets
Subsidy for Rental and Property of the Investment and Promotion Center (投促中心租金及物業費補貼)	327,272.40	0.00	163,636.20	0.00	0.00	163,636.20	0.00	Related to income
Technological Upgrading and Transformation Projects of Workshop for Acarbose (Bulk Medicine of Glucosidase Inhibitor) (α-葡萄糖苷酶抑制劑類原料藥阿卡波糖生產車間工藝升級技術改造項目)	892,857.16	0.00	107,142.84	0.00	0.00	0.00	785,714.32	Related to assets
R&D and Commercialisation of Statins (降血脂他汀類藥物的研發與產業化)	150,000.00	0.00	29,999.88	0.00	0.00	0.00	120,000.12	Related to assets
Scientific Technology Incentive and Subsidy for Technological Innovative Project (科學技術獎及科技創新項目資助)	472,268.60	0.00	110,925.60	0.00	0.00	0.00	361,343.00	Related to assets
Scientific Technology Incentive and Subsidy for Technological Innovative Project (科學技術獎及科技創新項目資助)	1,636,363.64	3,000,000.00	754,545.44	0.00	0.00	0.00	3,881,818.20	Related to income
Commissioner workstation (特派員工作站)	300,000.00	0.00	35,000.00	0.00	0.00	0.00	265,000.00	Related to assets
Industrial Revitalisation Supporting Funds (產業振興扶持資金)	7,077,500.01	0.00	1,158,000.00	0.00	0.00	0.00	5,919,500.01	Related to assets
Innovative drug of Ilaprazole phase IV clinical research (創新藥物艾普拉唑IV期臨床研究)	3,270,800.00	4,940,000.00	0.00	0.00	0.00	0.00	8,210,800.00	Related to assets
Government grant for industrial transformation (工業轉型政府扶持資金)	1,108,333.38	0.00	199,999.79	0.00	0.00	0.00	908,333.59	Related to assets
New Industrialization Development Grant (新型工業化發展獎金)	2,354,166.67	0.00	350,000.17	0.00	0.00	0.00	2,004,166.50	Related to assets

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

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

29. Deferred income (continued)

Item	Balance at the beginning of the Period	Increase during the Period	Recognised in other incomes	Decrease during the Period			Balance at the end of the Period	Assets/Income
				Recognised in non-operating income	Written down of costs	Other decrease		
Policy fund for leading industrial enterprises loan Interests (工業龍頭企業貸款貼息政策資金)	1,166,666.65	0.00	200,000.04	0.00	0.00	0.00	966,666.61	Related to assets
Five Goods and One New Supporting Funds (五優一新扶持資金)	700,000.04	0.00	99,999.96	0.00	0.00	0.00	600,000.08	Related to assets
Set-up and Research Fund for Post-doc Station (博士後建站和科研補貼)	100,000.00	0.00	0.00	0.00	0.00	0.00	100,000.00	Related to assets
Set-up and Research Fund for Post-doc Station (博士後建站和科研補貼)	5,142.15	0.00	0.00	0.00	0.00	0.00	5,142.15	Related to income
New R&D Institution Subsidy (新型研發機構補助)	2,213,575.72	0.00	213,575.72	0.00	0.00	0.00	2,000,000.00	Related to assets
New R&D Institution Subsidy (新型研發機構補助)	18,292.10	0.00	18,292.10	0.00	0.00	0.00	0.00	Related to income
Capital projects of Innovation and Entrepreneurship Team Funding Program (創新創業團隊資助計劃資金項目)	366,666.67	0.00	366,666.67	0.00	0.00	0.00	0.00	Related to income
Capital projects of Innovation and Entrepreneurship Team Funding Program (創新創業團隊資助計劃資金項目)	8,500,000.00	1,250,000.00	0.00	0.00	0.00	0.00	9,750,000.00	Related to assets
Special Funds for Cooperative Innovation and Platform Environmental Construction (協同創新與平臺環境建設專項資金)	427,777.78	0.00	427,777.78	0.00	0.00	0.00	0.00	Related to assets
R&D of Innovative Traditional Chinese Medicine Qihuo Sugar (芪薺糖) Capsule for Kidney for cure for diabetes and kidney disease (治療糖尿病腎病創新中藥“芪薺糖膠囊”的研究開發)	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 (珠海市戰略性新興產業專項資金)	3,270,000.00	0.00	0.00	0.00	0.00	0.00	3,270,000.00	Related to assets
Funds for R&D and commercialisation of innovative drug of Ilaprazole series (艾普拉唑系列創新藥物研發及產業化項目資金)	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 for Injection (創新藥注射用艾普拉唑鈉劑)	2,400,000.00	0.00	0.00	0.00	0.00	0.00	2,400,000.00	Related to assets
Technological Transformation Projects of New Cefuroxime (新型頭孢粉針劑技術改造項目)	1,533,100.00	0.00	0.00	0.00	0.00	0.00	1,533,100.00	Related to assets

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

VI. NOTES TO THE COMPONENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**29. Deferred income** (continued)

Item	Balance at the beginning of the Period	Increase during the Period	Decrease during the Period				Balance at the end of the Period	Assets/Income
			Recognised in other incomes	Recognised in non-operating income	Written down of costs	Other decrease		
Subsidy for Online Monitoring Equipment for Coalfired Boilers (燃煤鍋爐在線監控設備裝置補助資金)	345,000.00	0.00	45,000.00	0.00	0.00	0.00	300,000.00	Related to assets
Funds for Joint R&D and Commercialisation of Integrated Platform for molecular diagnostics (集成一體化分子診斷平臺的合作研發及產業化資金)	2,415,100.00	0.00	0.00	0.00	0.00	0.00	2,415,100.00	Related to assets
Total	225,844,273.75	88,285,225.00	21,253,642.21	0.00	0.00	30,163,636.20	262,712,220.34	

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

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

30. Share capital

2018

Item	Balance at the beginning of the year		Changes for the Current 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	10,240,432	1.85	0.00	0.00	3,072,129	0.00	3,072,129	13,312,561	1.85
3. Other domestic shares	5,263,323	0.95	0.00	0.00	135,217	-3,930,345	-3,795,128	1,468,195	0.20
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	-3,930,345	-3,795,128	1,468,195	0.20
Funds and wealth management products	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
4. Foreign shares	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
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	-3,930,345	-722,999	14,780,756	2.05
II. Shares not subject to selling restrictions									
1. Ordinary shares denominated in Renminbi	348,458,846	62.99	0.00	0.00	105,946,694	3,814,546	109,761,240	458,220,086	63.73
2. Domestically listed foreign shares (B-share)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
3. Overseas listed foreign shares (H-share)	189,268,768	34.21	0.00	0.00	56,780,630	0.00	56,780,630	246,049,398	34.22
4. Others	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Shares not subject to selling restrictions	537,727,614	97.20	0.00	0.00	162,727,324	3,814,546	166,541,870	704,269,484	97.95
I II. Total number of shares	553,231,369	100.00	0.00	0.00	165,934,670	-115,799	165,818,871	719,050,240	100.00

On 29 March 2018 and 18 December 2018, the “Resolution on first grant of Shares to be Unlocked during the Third Unlocking Period under the Restricted Shares Incentive Scheme of the Company” and “Resolution on the Unlocking of the Third Unlock Period for the Reserved Grant Under the Restricted Shares Incentive Scheme of the Company” was passed at the Twelfth Meeting of the Ninth Session of the Board and the Twenty-second meeting of the Ninth Session of the Board, accordingly, 4,038,407 Restricted Shares first grant and 583,912 Restricted Shares reserved grant were unlocked respectively during the Third Unlocking Period. According to the authority granted to the Board at the 2015 First Extraordinary General Meeting of the Company, the Company had completed the unlock procedure and related matters for the above shares, with the listing date of such shares being 13 April 2018 and 28 December 2018 respectively, resulting in a change in the number of shares. According to the “Guidelines of the Shenzhen Stock Exchange for the Standard Operation of Companies Listed on the Main Board”, upon completion of this unlock procedure, there are 1,466,167 locked shares held by the senior management.

For the details of changes of other shares, please see the Note 1.

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

VI. NOTES TO THE COMPONENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**30. Share capital** (continued)

2017

Item	Balance at the beginning of the year		Changes for the Current 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	11,777,256	2.77	0.00	0.00	3,533,176	-5,070,000	-1,536,824	10,240,432	1.85
3. Other domestic shares	32,615,174	7.66	0.00	0.00	8,728,571	-36,080,422	-27,351,851	5,263,323	0.95
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	7,416,971	1.74	0.00	0.00	1,169,110	-3,322,758	-2,153,648	5,263,323	0.95
Funds and wealth management products	25,198,203	5.92	0.00	0.00	7,559,461	-32,757,664	-25,198,203	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	44,392,430	10.43	0.00	0.00	12,261,747	-41,150,422	-28,888,675	15,503,755	2.80
II. Shares not subject to selling restrictions									
1. Ordinary shares denominated in Renminbi	235,746,336	55.37	0.00	0.00	71,729,622	40,982,888	112,712,510	348,458,846	62.99
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)	145,591,360	34.20	0.00	0.00	43,677,408	0.00	43,677,408	189,268,768	34.21
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	381,337,696	89.57	0.00	0.00	115,407,030	40,982,888	156,389,918	537,727,614	97.20
I II. Total number of shares	425,730,126	100.00	0.00	0.00	127,668,777	-167,534	127,501,243	553,231,369	100.00

On 28 March 2017 and 15 December 2017, the "Resolution on Granting Shares to be Unlocked during the Second Unlocking Period under the Restricted Shares Incentive Scheme of the Company" and the "Resolution on Repurchase and Cancellation of Certain Restricted Shares and the Resolution on the Unlocking of the Second Unlock Period for the Reserved Grant under the Restricted Shares Incentive Scheme of the Company" was passed at the Thirty-sixth Meeting of the Eighth Session of the Board and the sixth meeting of the ninth session of the Board. 3,177,213 Restricted Shares initially granted and 461,214 Restricted Shares reserved were unlocked respectively during the Second 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 unlocking procedure and related matters for the above shares, with the listing date of such shares being 7 April 2017 and 2 January 2018 respectively, resulting in a change in the number of shares. According to the "Guidelines of the Shenzhen Stock Exchange for the Standard Operation of Companies Listed on the Main Board", upon completion of this unlocking procedure, 658,394 locked shares were held by the senior management.

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

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

31. Capital reserve

2018

Item	Balance at the beginning of the year	Increase for the Current Period	Decrease for the Current Period	Balance at the end of the Period
Capital premiums	1,670,409,484.28	48,946,395.40	410,666,828.95	1,308,689,050.73
Other capital reserve	44,861,489.65	33,080,156.18	24,380,306.89	53,561,338.94
Total	1,715,270,973.93	82,026,551.58	435,047,135.84	1,362,250,389.67

The increase in the share premium in the Year includes: ① releasing conditions of 4,622,319 Restricted Shares from the first grant and Reserved Grant have been fulfilled, and the corresponding withdrawal of share incentive expenses RMB24,380,306.89 is transferred from other capital reserve to the share premium reserve; ② upon unlocking of Restricted Shares, the difference between expenses deductible for tax purpose and the accrued expenses reduced income tax payable by RMB24,566,088.51 according to taxation requirements and capital premiums is increased accordingly. The decrease of share premium in the Period was attributable to: ① the decrease of share premium in the sum of RMB1,611,873.24 by the repurchase and cancellation of 115,799 shares Restricted Shares granted to incentive participants no longer satisfying the conditions of incentive; 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 RMB 3,047,987.69 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 reduced by totally RMB 10,307,179.78; ④ disproportionate capital increase subsidiaries, the capital premium of the difference between capital contribution and the subsidiary's net assets shares is reduced by RMB232,813,105.93.

Other capital reserve increase in the Year includes: ① withdrawal of share incentive expenses of RMB3,407,722.56; ② capital reserve increase of RMB 29,672,433.62 due to changes in disproportionate capital increase of units account for using the equity method.

2017

Item	Balance at the beginning of the year	Increase for the Current Period	Decrease for the Current Period	Balance at the end of the Period
Capital premiums	1,766,067,775.00	35,298,062.42	130,956,353.14	1,670,409,484.28
Other capital reserve	54,241,277.12	14,075,644.32	23,455,431.79	44,861,489.65
Total	1,820,309,052.12	49,373,706.74	154,411,784.93	1,715,270,973.93

The increase in the share premium in the Year includes: ① releasing conditions of 3,638,427 Restricted Shares from the first grant and from the reserved grant have been fulfilled, and the corresponding withdrawal of share incentive expenses RMB23,455,431.79 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 RMB11,842,630.63 according to taxation requirements and capital premiums is increased accordingly. The decrease of share premium in the Year was attributable to ① the decrease of share premium in the sum of RMB3,287,576.14 by the repurchase and cancellation of 167,534 shares Restricted Shares granted to incentive participants no longer satisfying the conditions of incentive; ② the decrease of share premium in the sum of RMB 127,668,777.00 by increases of shares due to transfer.

The increase in other capital reserve during the period was attributable to the provision of share incentive expenses.

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

VI. NOTES TO THE COMPONENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**32. Treasury shares****2018**

Item	Balance at the beginning of the year	Increase for the Current Period	Decrease for the Current Period	Balance at the end of the Period
Repurchase arising from the Share Incentive Scheme	66,786,741.96	0.00	66,761,533.92	25,208.04
Total	66,786,741.96	0.00	66,761,533.92	25,208.04

The decrease in our repurchase obligation during the Year represents: ① the releasing conditions of 4,622,319 Restricted Shares from the First Grant and reserved grant have been fulfilled, resulting in a corresponding decrease in our repurchase obligation of RMB64,118,796.72; ② the decrease of treasury shares of RMB915,064.96 was due to cash dividends distributed to the holders of Restricted Shares during the Period; ③ the repurchase and cancellation of 115,799 shares Restricted Shares granted to the Incentive Participants who 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.

2017

Item	Balance at the beginning of the year	Increase for the Current Period	Decrease for the Current Period	Balance at the end of the Period
Repurchase arising from the Share Incentive Scheme	140,321,805.40	0.00	73,535,063.44	66,786,741.96
Total	140,321,805.40	0.00	73,535,063.44	66,786,741.96

The decrease in our repurchase obligation during the Year represents: ① the releasing conditions of 3,638,427 Restricted Shares from the first grant and from the reserved grant have been fulfilled, resulting in a corresponding decrease in our repurchase obligation of RMB68,139,022.77; ② the decrease of treasury shares of RMB1,940,930.53 was due to cash dividends distributed to the holders of Restricted Shares during the Period; ③ the repurchase and cancellation of 167,534 shares Restricted Shares granted to the Incentive Participants who no longer satisfying the incentive conditions, resulting in a repurchase payment of RMB3,455,110.14, among which the decrease of share capital of RMB167,534 and capital reserve of RMB3,287,576.14 were attributable to the cancellation of treasury shares.

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

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

33. Other comprehensive income

2018

Item	Balance at the beginning of the year	Balance at the beginning of the year after adjustment	Amount incurred before income tax for the Current Period	For the Current Period				Balance at the end of the Period
				Less: amount recognised in other comprehensive income in Previous Period transferred to profit or loss for the Period	Less: income tax expenses	Attributable to the parent company after tax	Attributable to the non-controlling shareholders after tax	
I. Other comprehensive income items not to be re-classified as profit or loss								
Change in fair value in of other investments in equity instruments	0.00	5,726,534.42	12,225,950.51	0.00	2,017,281.83	9,849,816.91	358,851.77	15,576,351.33
II. Other comprehensive income items to be re-classified as profit or loss								
Profit and loss from change of fair value of available-for-sale financial assets (original Financial Instrument Standards)	-44,546,365.43	-58,625,463.94	15,826,689.88	0.00	0.00	13,884,298.46	1,942,391.42	-44,741,165.48
Financial assets reclassified into other comprehensive income (under the New Financial Instrument Standards)	14,079,098.51	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Translation differences of financial statements denominated in foreign currency	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Others	-58,625,463.94	-58,625,463.94	15,826,689.88	0.00	0.00	13,884,298.46	1,942,391.42	-44,741,165.48
Total of other comprehensive income	0.00	0.00	0.00	0.00	2,017,281.83	23,734,115.37	2,301,243.19	-29,164,814.15

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

VI. NOTES TO THE COMPONENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*
33. Other comprehensive income *(continued)*
2017

Item	Balance at the beginning of the year	For the Current Period					Balance at the end of the Period
		Amount incurred before income tax for the Current Period	Less: amount recognised in other comprehensive income in Previous Period transferred to profit or loss for the Current 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	0.00	0.00	0.00	0.00	0.00	0.00	0.00
(II) Other comprehensive income items subsequently to be re-classified as profit or loss	602,767.19	-41,588,945.20	2,219,265.00	1,621,751.75	-45,149,132.62	-280,829.33	-44,546,365.43
Profit and loss from change of fair value of available-for-sale financial assets	5,574,984.49	10,125,865.77	0.00	1,621,751.75	8,504,114.02	0.00	14,079,098.51
Translation differences of financial statements denominated in foreign currency	-7,191,482.30	-51,714,810.97	0.00	0.00	-51,433,981.64	-280,829.33	-58,625,463.94
Others	2,219,265.00	0.00	2,219,265.00	0.00	-2,219,265.00	0.00	0.00
Total of other comprehensive income	602,767.19	-41,588,945.20	2,219,265.00	1,621,751.75	-45,149,132.62	-280,829.33	-44,546,365.43

34. Surplus reserve
2018

Item	Balance at the beginning of the year	Increase for the Current Period	Decrease for the Current 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

2017

Item	Balance at the beginning of the year	Increase for the Current Period	Decrease for the Current 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 amounts are denominated in RMB.)

VI. NOTES TO THE COMPONENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)***35. Retained earnings****(1) Movement in retained earnings**

Item	For the period	For the previous period	Allocation or appropriation proportion
Retained earnings for the previous year before adjustment	8,028,315,370.19	3,812,412,101.62	
Add: Adjusted retained earnings at the beginning of the year	8,352,564.09	0.00	
Retained earnings at the beginning of the year after adjustment	8,036,667,934.28	3,812,412,101.62	
Add: Net earnings attributable to the shareholders of the parent company for the period	1,082,174,905.98	4,428,684,564.57	
Less: Appropriation to statutory surplus reserve	0.00	0.00	10%
Appropriation to discretionary surplus reserve	0.00	0.00	
Dividends payable to ordinary shares	1,106,231,140.00	212,781,296.00	
Dividends of ordinary shares capitalised	0.00	0.00	
Retained earnings at the period end	8,012,611,700.26	8,028,315,370.19	

Breakdown of adjustments to the retained earnings as at the Beginning of the Period:

- ① The effect of the retrospective adjustments arising from Accounting Standards for Business Enterprises and their new related requirements on the retained earnings as at the Beginning of the Period amounted to RMB8,352,564.09.
- ② The effect of changes in accounting policies on the retained earnings as at the Beginning of the Period amounted to RMB0.00.
- ③ The effect of corrections of significant accounting errors on the retained earnings as at the Beginning of the Period amounted to RMB0.00.
- ④ The effect of the change of the scope of combination under common control on the retained earnings as at the Beginning of the Period amounted to RMB0.00.
- ⑤ The effect of other adjustments on the retained earnings as at the Beginning of the Period amounted to RMB0.00.

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

VI. NOTES TO THE COMPONENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)***35. Retained earnings** *(continued)***(2) Notes to appropriation of profits**

Item	Unit: RMB'000	
	For the year	For the previous year
Dividends:		
Final dividends in respect of the year 2017 paid during the year (Note 2)	1,106,231.14	–
Final dividends in respect of the year 2016 paid during the year (Note 3)	–	212,781.30
Dividends proposed after the balance sheet date:		
Final dividends proposed for the year 2018 (Note 1)	–	–
Final dividends proposed for the year 2017 (Note 2)	–	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 is subject to the approval at the 2018 annual 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 and RMB1,106,231,140 was paid.

Note 3: On 24 March 2017, the Company held the thirty-fifth Meeting of the Eighth Session of the Board, which passed the resolution of 2016 annual profit distribution plan. Based on the Company's total share capital as at the registration date of shareholding determined by implementation of the 2016 annual profit distribution plan, a cash dividend of RMB0.5 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 at the general meeting on 23 June 2017 and RMB212,781,300 was paid.

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

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

36. Operating income and operating cost

(1) Operating income and operating cost conditions

Item	For the Current Year		For the Previous Year	
	Income	Cost	Income	Cost
Principal activities	8,822,319,939.95	3,339,247,339.90	8,487,126,968.80	3,056,374,168.85
Other activities	38,335,730.78	20,407,724.21	43,841,627.74	26,706,867.86
Total	8,860,655,670.73	3,359,655,064.11	8,530,968,596.54	3,083,081,036.71

The Company operates in a single operating segment in the PRC, i.e. the manufacture of pharmaceuticals. Accordingly, no operating segment of the Company is presented.

(2) Information of major business income

① Presented by product types

Item	For the Year		For the previous Year	
	Income	Cost	Income	Cost
Western drug preparation products	4,238,248,037.33	911,066,207.07	3,702,112,863.13	751,976,319.64
Bulk medicine and Intermediates	2,354,276,412.34	1,789,518,716.37	2,102,959,009.12	1,607,443,270.68
Chinese drug preparation products	1,532,464,641.30	364,099,728.75	2,045,244,765.20	430,235,760.29
Diagnostic products and equipment	697,330,848.98	274,562,687.71	635,721,525.53	265,741,530.66
Others	0.00	0.00	1,088,805.82	977,287.58
Total	8,822,319,939.95	3,339,247,339.90	8,487,126,968.80	3,056,374,168.85

② Presented by regions of operations

Item	For the Year		For the previous Year	
	Income	Cost	Income	Cost
Domestic	7,729,928,025.92	2,543,604,959.29	7,454,361,371.53	2,290,342,161.02
Overseas	1,092,391,914.03	795,642,380.61	1,032,765,597.27	766,032,007.83
Total	8,822,319,939.95	3,339,247,339.90	8,487,126,968.80	3,056,374,168.85

③ Presented by recognition time of income

Item	For the Year		For the previous Year	
	Income	Cost	Income	Cost
Commodities(transferred at a point in time)	8,822,319,939.95	3,339,247,339.90	8,487,126,968.80	3,056,374,168.85
Total	8,822,319,939.95	3,339,247,339.90	8,487,126,968.80	3,056,374,168.85

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

VI. NOTES TO THE COMPONENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)***37. Business taxes and surcharges**

Item	For the Year	For the Previous Year
Urban maintenance and construction tax	49,816,989.35	51,642,240.64
Education surcharges	40,061,047.53	41,945,048.54
Flood prevention fee	0.00	251,571.93
Land use tax	6,440,669.74	5,949,015.12
Property tax	15,171,506.65	19,191,680.17
Stamp duty	6,019,732.09	9,491,616.59
Vehicle and vessel usage tax	74,042.04	73,393.43
Environmental protection tax	352,705.18	0.00
Others	517,573.93	485,716.82
Total	118,454,266.51	129,030,283.24

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

38. Selling expenses

Item	For the Year	For the Previous Year
Marketing and promotional expenses	2,913,752,573.93	2,963,479,279.43
Staff salaries	175,952,344.05	128,180,140.41
Transportation costs	53,852,905.87	55,503,646.63
Travelling expenses and entertainment	41,319,734.91	35,922,079.55
Business meeting expenses	38,327,597.16	39,422,532.00
Others	44,074,373.37	42,662,039.11
Total	3,267,279,529.29	3,265,169,717.13

39. Administrative expenses

Item	For the Year	For the Previous Year
Staff salaries	212,102,039.29	177,308,865.66
Share incentive expenses	3,124,290.06	14,075,644.32
Depreciation and amortisation	66,376,753.94	55,049,291.20
Loss on suspension of operations	56,194,951.38	56,570,059.42
Auditor Remuneration	2,573,053.67	2,324,528.31
Others	206,004,407.07	201,490,701.37
Total	546,375,495.41	506,819,090.28

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

VI. NOTES TO THE COMPONENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)***40. R&D expenses**

Item	For the Year	For the Previous Year
Material costs	129,308,500.99	97,562,415.15
Staff salaries	185,721,719.91	106,765,014.32
Share option incentive expenses	283,432.50	0.00
Testing fees	134,285,004.90	149,322,946.21
Depreciation and amortisation	51,115,075.93	43,858,774.30
Others	48,258,972.93	29,643,298.66
Total	548,972,707.16	427,152,448.64

41. Financial expenses

Item	For the Year	For the Previous Year
Interest expenses	16,772,638.85	3,050,424.10
Less: Interest income	236,174,743.57	78,084,383.47
Exchange (gains)/losses	-35,634,554.22	32,416,119.72
Bank charges	3,084,162.76	3,610,027.07
Total	-251,952,496.18	-39,007,812.58

42. Impairment loss

Item	For the Year	For the Previous Year
Provision for bad debts	0.00	-5,474,214.60
Provision for diminution in value of inventories	52,887,006.03	30,163,077.25
Provision for impairment of fixed assets	14,881,493.80	37,334,764.63
Provision for impairment of available-for-sale assets	0.00	55,831,500.00
Total	67,768,499.83	117,855,127.28

43. Credit impairment loss

Item	For the Year	For the Previous Year
Bad debt loss of bills receivables and receivables	-31,177,278.22	0.00
Of which: Bad debt loss of accounts receivable	-31,177,278.22	0.00
Other Bad debt loss of accounts receivable	476,279.03	0.00
Total	-30,700,999.19	0.00

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

VI. NOTES TO THE COMPONENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*
44. Other income

Item	For the Period	For the Previous Period	Amount charged to non-recurring gains or losses during the Year
Government subsidy	85,097,367.17	91,964,810.95	82,540,103.90
Total	85,097,367.17	91,964,810.95	82,540,103.90

45. Investment income

Item	For the Year	For the Previous Period
Long-term equity investments income under equity method	-6,186,649.16	1,488,310.65
Investment income generated from disposal of long-term equity investments	16,341,464.65	4,279,239,528.22
Investment income generated from financial assets measured at fair value, with the change in fair value included in the profit or loss for the year during its holding period	352,708.44	64,025.54
Investment income generated from disposal of financial assets measured at fair value, with the change in fair value included in the profit or loss	-53,173,411.34	4,313,000.00
Interest income from debt investments	0.00	0.00
Interest income from other debt investments	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
Investment income generated from available-for-sale financial assets during its holding period	-	123,604.65
In which: investment income generated from available-for-sale financial assets measured at fair value during its holding period	-	123,604.65
Income generated from revaluation of remaining equity measured at fair value upon loss of control	0.00	0.00
Return from cash management	0.00	11,387,922.35
Others	220,000.00	482,954.55
Total	-42,445,887.41	4,297,099,345.96

46. Gains from changes in fair value

Sources of gains from changes in fair value	For the Year	For the Previous Year
(1) Reclassified as financial assets at fair value through profit or loss	-2,664,102.71	2,812,281.15
Of which: Shares	-2,974,560.92	2,898,453.50
Funds	3,218.09	35,157.55
Foreign exchange forward contracts	307,240.12	-121,329.90
(2) Held-for-trading financial assets	253,835.74	0.00
Of which: foreign exchange forward contracts	253,835.74	0.00
Total	-2,410,266.97	2,812,281.15

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

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

47. Gains on disposal of assets

Items	For the Current Period	For the Previous Period	Recognised in non-recurring profit or loss for the year
Disposal of non-current assets	-549,283.16	225,062,922.66	-549,283.16
Total	-549,283.16	225,062,922.66	-549,283.16

48. Non-operating income

Item	For the Current Period	For the Previous Period	Recognised as extraordinary gains or losses for the Current Period
Profit from destroyed and damaged non-current assets	0.00	0.00	0.00
Income from scraps	263,907.45	366,602.99	263,907.45
Government grants not relating to the ordinary activities of enterprises	175,164,788.75	69,757,065.99	175,164,788.75
Compensation income	80,654.99	20,616,194.38	80,654.99
Waiver of payables	0.00	124,863.20	0.00
Others	1,389,121.88	1,047,920.82	1,389,121.88
Total	176,898,473.07	91,912,647.38	176,898,473.07

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

VI. NOTES TO THE COMPONENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**48. Non-operating income** (continued)

Government grant recognised as profit or loss for the Current Period:

Item	For the Year			For the previous Year			Assets/Income
	Recognised in non-operating income	Recognised in other incomes	Written down of costs	Recognised in non-operating income	Recognised in other incomes	Written down of costs	
Export credit insurance subsidy (出口信保補貼)	0.00	2,750,248.42	0.00	0.00	2,996,192.40	0.00	Related to income
R&D Subsidy (研究開發費補助)	0.00	10,272,200.00	0.00	0.00	6,626,923.00	0.00	Related to income
Team for research, development and commercialisation of protein drugs (2012) under the scientific research team for introduction of innovation technologies in Guangdong Province (廣東省引進創新科研團隊(2012)蛋白質藥物研究開發及產業化團隊)	0.00	0.00	0.00	0.00	5,587,400.47	0.00	Related to assets
Guangdong Province Strategic Industry Core Technology Breakthrough Research (2011) for MAB for Class I Treatment of Necrosis Factor in Human Tumour from Human Source (廣東省戰略新興產業核心技術攻關(2011)類治療用人源化抗人腫瘤壞死因子 α 單克隆抗體新藥的研製)	0.00	8,000,000.00	0.00	0.00	9,820,000.00	0.00	Related to income
Government Subsidy for Long-acting Microspheres Major New Drug Creation (長效微球重大新藥創制政府補助)	0.00	4,565,450.00	0.00	0.00	0.00	0.00	Related to income
R&D and commercialisation of innovative drug of Ilaprazole series (艾普拉唑系列創新藥物研發及產業化)	0.00	4,156,916.72	0.00	0.00	2,134,916.71	0.00	Related to assets
R&D and commercialisation of innovative drug of Ilaprazole series (艾普拉唑系列創新藥物研發及產業化)	0.00	748,129.80	0.00	0.00	748,129.80	0.00	Related to income
Construction of Drug Conformity Evaluation Research Center Platform (藥物一致性評價研究中心平臺建設)	0.00	79,999.98	0.00	0.00	0.00	0.00	Related to assets
Fund for Innovative drug of Ilaprazole phase IV clinical research (co-investment project with the State) (創新藥物艾普拉唑IV期臨床研究(國家跟投項目)款項)	0.00	0.00	0.00	0.00	6,270,000.00	0.00	Related to income
Fiscal Subsidy and Operating Subsidy (財政補貼及經營運營補貼)	0.00	9,739,275.10	0.00	0.00	8,250,845.00	0.00	Related to income
Interest Discount Fund for Supporting Outstanding and Strong Enterprises (扶優扶強貼息資金)	0.00	0.00	0.00	2,563,900.00	0.00	0.00	Related to income
R&D and Commercialisation of Mouse Nerve Growth Factor for Injection (注射用鼠神經生長因子研發及產業化)	0.00	3,408,167.35	0.00	0.00	701,639.21	0.00	Related to assets

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

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

48. Non-operating income (continued)

Item	For the Year			For the previous Year			Assets/Income
	Recognised in non-operating income	Recognised in other incomes	Written down of costs	Recognised in non-operating income	Recognised in other incomes	Written down of costs	
Capital projects of Innovation and Entrepreneurship Team Funding Program (創新創業團隊資助計劃資金項目)	0.00	1,616,666.67	0.00	0.00	3,383,333.33	0.00	Related to income
2013 Provincial Technology Special Fund (Subsidy for Rotavirus Vaccine Pre-clinical Research) (2013年度省級科技專項資金(輪狀病毒疫苗臨床前研究補助))	0.00	0.00	0.00	0.00	420,442.09	0.00	Related to assets
GAP project of astragalus (黃芪GAP項目)	0.00	0.00	0.00	0.00	890,000.00	0.00	Related to income
Supporting Funds for Headquarter Enterprises (總部企業扶持資金)	11,813,630.07	0.00	0.00	3,399,077.76	0.00	0.00	Related to income
Interest Discount and Relevant Funds for Promoting Imports (進口貼息及配套資金)	0.00	0.00	0.00	0.00	363,840.00	0.00	Related to income
Promoting Imports of Foreign Trade Development and Port Construction Special Fund (外經貿發展與口岸建設專項資金)	0.00	0.00	0.00	0.00	189,725.00	0.00	Related to assets
Promoting Imports of Foreign Trade Development Special Fund (外經貿發展專項資金)	0.00	1,800,427.56	0.00	0.00	0.00	0.00	Related to income
Safety emergency response drill expenses(安全生產應急演練費用)	0.00	50,000.00	0.00	0.00	0.00	0.00	Related to income
Subsidy for Rental and Property of the Investment and Promotion Center (區投促中心租金及物業費補貼)	0.00	163,636.20	0.00	0.00	514,285.20	0.00	Related to income
Technological Upgrading and Transformation Projects of Workshop for Acarbose (Bulk Medicine of Glucosidase Inhibitor) (α-葡萄糖甘苷酶抑制劑類原料藥阿卡波糖生產車間工藝升級技術改造項目)	0.00	107,142.84	0.00	0.00	107,142.84	0.00	Related to assets
10KV Pharmaceutical Factory Line Relocation and Improvement Project at Tieta Road in Qingyuan City (清遠市鐵塔路10KV藥廠線路遷改項目)	0.00	4,022.18	0.00	0.00	39,460.86	0.00	Related to income
Subsidy for the Tender of Technology Upgrade Project for PVC Soft Bag Supported by Provincial Finance Departments (省財政支持技改招標項目補助金PVC軟袋)	0.00	253,365.76	0.00	0.00	259,032.46	0.00	Related to assets
Technical transformation project of Shengqi Fuzheng Injection with flexible bag (軟袋參芪扶正注射液技改項目)	0.00	2,852,941.18	0.00	0.00	0.00	0.00	Related to assets

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

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

48. Non-operating income (continued)

Item	For the Year			For the previous Year			Assets/Income
	Recognised in non-operating income	Recognised in other incomes	Written down of costs	Recognised in non-operating income	Recognised in other incomes	Written down of costs	
Financial grant for the quality control technologies of Shenqi (參芪質量控制技術財政撥款)	0.00	0.00	0.00	0.00	243,062.00	0.00	Related to assets
Research on Shenqi International Clinical Trial and Registration (參芪國際臨床試驗與註冊研究)	0.00	5,000,000.00	0.00	0.00	0.00	0.00	Related to income
Demonstration project on the application of solar photovoltaic architecture (太陽能光電建築應用示範項目)	0.00	1,102,000.08	0.00	0.00	1,102,000.08	0.00	Related to assets
Electricity Incentive Funds (用電獎勵資金)	0.00	0.00	0.00	0.00	43,000.00	0.00	Related to income
Subsidies for high and new technology enterprises and high and new technology products (高新技術企業及高新技術產品項目補貼)	0.00	533,000.00	0.00	0.00	818,000.00	0.00	Related to income
Special Funds for Cooperative Innovation and Platform Environmental Construction (協同創新平臺環境建設專項資金)	0.00	427,777.78	0.00	0.00	572,222.22	0.00	Related to assets
Local Education Surcharges and Training Subsidy from Jinqiao Management Committee (金橋管委會地方教育費附加培訓補貼)	0.00	115,000.00	0.00	0.00	214,664.00	0.00	Related to income
Market Development Fund For Small and Medium Enterprises (中小企業開拓市場項目資金)	0.00	67,287.83	0.00	0.00	2,036,500.00	0.00	Related to income
Traditional Chinese Medicine Standardization Project of State Administration of Traditional Chinese Medicine (國家中醫藥管理局中藥標準化項目)	0.00	700,000.00	0.00	0.00	0.00	0.00	Related to assets
Traditional Chinese Medicine Standardization Project of State Administration of Traditional Chinese Medicine (國家中醫藥管理局中藥標準化項目)	0.00	829,400.00	0.00	0.00	2,100,000.00	0.00	Related to income
Provision for Technology Transformation Funds and subsequent grants (技術改造資金撥款及事後補獎)	0.00	1,376,498.78	0.00	0.00	7,546,246.74	0.00	Related to income
Provision for Technology Transformation Funds and subsequent grants (技術改造資金撥款及事後補獎)	0.00	1,538,110.49	0.00	0.00	307,390.84	0.00	Related to assets
R&D and Commercialisation of Statins (降血脂他汀類藥物的研發與產業化)	0.00	29,999.88	0.00	0.00	0.00	0.00	Related to assets
Technology transformation of recycling system of Acarbose project (阿卡波糖回收系統技術改造專案)	0.00	35,000.00	0.00	0.00	0.00	0.00	Related to assets

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

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

48. Non-operating income (continued)

Item	For the Year			For the previous Year			Assets/Income
	Recognised in non-operating income	Recognised in other incomes	Written down of costs	Recognised in non-operating income	Recognised in other incomes	Written down of costs	
Special Fund and Encouraging funds for Energy Saving and Emission Reduction (節能減排專項資金及獎勵金)	0.00	233,000.00	0.00	0.00	4,999,250.00	0.00	Related to income
R&D and Commercialisation of Fermentation technology for New Resisting Parasite Doramectin (新型抗寄生蟲藥多拉菌素的發酵技術研發及產業化項目)	0.00	0.00	0.00	0.00	500,000.00	0.00	Related to income
Scientific Technology Incentive and Subsidy for Technological Innovative Project (科學技術獎及科技創新項目資助)	0.00	9,828,045.44	0.00	0.00	4,488,356.36	0.00	Related to income
Scientific Technology Incentive and Subsidy for Technological Innovative Project (科學技術獎及科技創新項目資助)	0.00	110,925.60	0.00	0.00	27,731.40	0.00	Related to assets
Set-up and Research Fund for Post-doc Station (博士後建站和科研補貼)	0.00	0.00	0.00	0.00	2,316,300.00	0.00	Related to income
Financial Support Funds (財政扶持資金)	158,373,180.00	0.00	0.00	58,585,400.00	0.00	0.00	Related to income
Supporting Funds for disaster recovery and reconstruction(災後扶持資金)	2,383,778.68	0.00	0.00	0.00	0.00	0.00	Related to income
Provincial development funds for the service and trade industry (省級服務貿易發展資金)	0.00	650,000.00	0.00	0.00	1,500,000.00	0.00	Related to income
Patent (Intellectual Property) Support Fund (專利(知識產權)資助資金)	0.00	645,800.00	0.00	0.00	467,000.00	0.00	Related to income
Recycling technology of tobramycin waste oil project(妥布黴素廢棄油的回收再生技術實施專案)	0.00	200,000.00	0.00	0.00	0.00	0.00	Related to income
Capitalisation research and application of proprietary technology of preparation of Acarbose(製備阿卡波糖的專利技術產業化研究與應用)	0.00	520,000.00	0.00	0.00	0.00	0.00	Related to income
Optimization of structural effect of sea organisms and valuation of anti-tumor activity(海洋微生物構效優化與抗腫瘤活性評價)	0.00	300,000.00	0.00	0.00	0.00	0.00	Related to income
Return of individual tax charges (退回個稅手續費)	0.00	2,557,263.27	0.00	0.00	0.00	0.00	Related to income
Policy fund for leading industrial enterprises loan interests (工業龍頭企業貸款貼息政策資金)	0.00	200,000.04	0.00	0.00	200,000.04	0.00	Related to assets
Government grant for industrial transformation (工業轉型政府扶持資金)	0.00	199,999.79	0.00	0.00	249,999.96	0.00	Related to assets

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

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

48. Non-operating income (continued)

Item	For the Year			For the previous Year			Assets/Income
	Recognised in non-operating income	Recognised in other incomes	Written down of costs	Recognised in non-operating income	Recognised in other incomes	Written down of costs	
Reward Fund for Industry Growth and Production Expansion (工業保值得增長及增產獎勵)	0.00	100,000.00	0.00	0.00	95,000.00	0.00	Related to income
New Industrialization Development Grant (新型工業化發展獎金)	0.00	350,000.17	0.00	0.00	300,000.00	0.00	Related to assets
Industrial Revitalisation Supporting Funds (產業振興扶持資金)	0.00	1,158,000.00	0.00	0.00	1,158,000.00	0.00	Related to assets
Industrial Supporting Fund (產業扶持資金)	0.00	1,400,523.99	0.00	0.00	3,603,200.00	0.00	Related to income
Five Goods and One New Supporting Funds (五優一新扶持資金)	0.00	99,999.96	0.00	0.00	99,999.96	0.00	Related to assets
Leading Enterprise Development Bonus (龍頭企業做大做強獎勵款)	0.00	0.00	0.00	180,000.00	0.00	0.00	Related to income
Employment Assurance and Re-employment and Attraction to Graduates of Tertiary Academic Institutions Subsidy (企業穩崗及再就業和吸納高校畢業生補貼款)	0.00	1,151,827.83	0.00	0.00	825,191.43	0.00	Related to income
New Scientific Research Institution Subsidy (新型科研機構補助資金)	0.00	213,575.72	0.00	0.00	346,878.69	0.00	Related to assets
New Scientific Research Institution Subsidy (新型科研機構補助資金)	0.00	18,292.10	0.00	0.00	1,981,707.90	0.00	Related to income
Enterprise Technology Center Innovation Capacity Development (Antibody Laboratory) (企業技術中心創新能力建設(抗體藥物試驗室))	0.00	1,115,532.18	0.00	0.00	1,113,034.48	0.00	Related to assets
Enterprise Technology Center Innovation Capacity Development (Antibody Laboratory) (企業技術中心創新能力建設(抗體藥物試驗室))	0.00	86,916.48	0.00	0.00	86,916.48	0.00	Related to income
Special Funds for Expanding Overseas by Enterprises in Zhuhai (珠海市「走出去」專項資金)	0.00	0.00	0.00	0.00	195,600.00	0.00	Related to income
Reward Funds for Contribution of Pillar-type Enterprise (支柱型企業經營貢獻獎)	0.00	0.00	0.00	2,253,839.00	0.00	0.00	Related to income
Special Funds for Industry and Information (工業和資訊化專項資金)	0.00	1,359,000.00	0.00	0.00	2,000,000.00	0.00	Related to income
Special Funds for Industry and Information (工業和資訊化專項資金)	0.00	231,000.00	0.00	0.00	19,250.00	0.00	Related to assets
Supporting Subsidy for "The Thousand Talents Plan" (「千人計劃」配套補貼)	0.00	0.00	0.00	0.00	1,000,000.00	0.00	Related to income

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

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

48. Non-operating income (continued)

Item	For the Year			For the previous Year			Assets/Income
	Recognised in non-operating income	Recognised in other incomes	Written down of costs	Recognised in non-operating income	Recognised in other incomes	Written down of costs	
Funds for International and Regional Brand Building and Incentive Funds for Brand (創建國際與區域品牌項目資金及名牌名標獎勵資金)	0.00	0.00	0.00	500,000.00	0.00	0.00	Related to income
Shares Refinancing Bonus (股票再融資獎勵款)	0.00	0.00	0.00	1,600,000.00	0.00	0.00	Related to income
Subsidy for Online Monitoring Equipment for Coal-fired Boilers (燃煤鍋爐在線監控設備裝置補助)	0.00	45,000.00	0.00	0.00	105,000.00	0.00	Related to assets
Others	2,594,200.00	0.00	0.00	674,849.23	0.00	0.00	Related to income
Total	175,164,788.75	85,097,367.17	0.00	69,757,065.99	91,964,810.95	0.00	

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

VI. NOTES TO THE COMPONENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**49. Non-operating expenses**

Item	For the Current Period	For the Previous Period	Recognised as extraordinary gains or losses for the Current Period
Loss from destroyed and damaged non-current assets	21,916,073.68	1,518,793.75	21,916,073.68
Charitable donation expenses	3,925,651.05	12,584,888.51	3,925,651.05
Others	8,877,927.11	10,694,242.86	8,877,927.11
Total	text-align: right;"> 34,719,651.84	text-align: right;">24,797,925.12	text-align: right;">34,719,651.84

50. Income tax expenses**(1) Breakdown of income tax expenses**

Item	For the Year	For the Previous Year
Current income tax calculated according to tax laws and relevant rules	223,416,868.75	1,206,830,991.82
Include: Income tax on domestic enterprises	222,381,205.97	1,206,807,198.41
Income tax on Hong Kong and Macau enterprises	1,035,662.78	23,793.41
Adjustment of deferred income tax	11,542,766.87	30,389,413.54
Total	text-align: right;"> 234,959,635.62	text-align: right;">1,237,220,405.36

(2) The relationships between income tax expenses and total profit are as follows

Item	For the Year	For the Previous Year
Profit before tax	1,416,674,354.65	5,724,922,788.82
Income tax calculated at statutory tax rates	354,168,588.66	1,431,230,697.21
Tax effect of different rates applicable to subsidiaries	1,254,549.98	705,965.05
Effect of tax deduction	-192,463,233.53	-264,777,248.02
Effect of non-deductible expenses	81,654.15	1,789,377.48
Credit (charge) on temporary differences on which deferred tax assets are not recognised for the year	11,200,319.63	8,523,782.75
Deductible losses of deferred tax assets that are not recognised for the year	59,579,110.71	39,578,340.97
Use of deductible losses of deferred tax assets that are not recognised in the previous year	-1,492,068.04	-474,226.91
Others	2,630,714.06	20,643,716.83
Total	text-align: right;"> 234,959,635.62	text-align: right;">1,237,220,405.36

51. Other comprehensive income details

Please refer to note VI. 33 for details.

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

VI. NOTES TO THE COMPONENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)***52. Notes to cash flow statement item****(1) Cash received relating to other operating activities**

Item	For the Year	For the Previous Year
Government grants	327,293,738.71	292,568,157.02
Interest income	242,119,806.98	78,084,383.47
Damages and compensation income	80,654.99	11,047,096.35
Income from scraps	263,907.45	366,602.99
Deposits under guarantees for letter of credit/bank acceptance bills	32,377,653.66	3,416,238.94
Movements of capital and others	78,545,382.24	51,754,687.04
Total	680,681,144.03	437,237,165.81

(2) Cash paid relating to other operating activities

Item	For the Year	For the Previous Year
Office expenses	48,205,017.36	57,713,064.05
Travelling expenses	52,435,572.18	31,885,506.34
Entertainment expenses	47,807,415.27	33,303,338.39
Transportation fees	76,258,185.72	68,524,326.23
Advertising expenses	286,609.35	339,858.46
Business meeting expenses	48,692,659.06	37,124,814.05
Auditing and information disclosure fees	9,735,135.94	6,953,164.78
Consultancy fees	20,709,622.80	11,896,765.51
Research and development costs	373,973,048.40	243,724,380.46
Bank charges	3,084,162.76	3,610,027.07
Business promotion expenses	3,086,567,581.23	3,100,389,665.25
Deposits under guarantees for letter of credit and bank acceptance bills	56,938,720.12	18,224,502.58
Other expenses paid and current account	145,906,422.97	87,548,307.66
Total	3,970,600,153.16	3,701,237,720.83

(3) Cash received relating to other investing activities

Item	For the Year	For the Previous Year
Deposits under guarantees	1,225,000.00	0.00
Total	1,225,000.00	0.00

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

VI. NOTES TO THE COMPONENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)***52. Notes to cash flow statement item** *(continued)***(4) Cash paid relating to other investing activities**

Item	For the Year	For the Previous Year
Deposits under guarantee	880,000.00	0.00
Foreign exchange forward contracts loss	52,952,171.20	1,211,700.00
Total	53,832,171.20	1,211,700.00

(5) Cash received relating to other financing activities

Item	For the Year	For the Previous Year
Borrowings recovered from Zhuhai Weixing Shiye Co., Ltd. (珠海維星實業有限公司)	0.00	20,942,982.72
Collection and advance payment of individual income tax	1,199,047.19	2,237,525.02
Total	1,199,047.19	23,180,507.74

(6) Cash paid relating to other financing activities

Item	For the Year	For the Previous Year
Repurchase of shares	1,727,672.24	3,455,110.14
Collection and advance payment of individual income tax	2,148,260.14	2,595,510.88
Total	3,875,932.38	6,050,621.02

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

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

53. Supplemental information to cash flow statement

(1) Information about reconciliation of net profit to cash flow from operating activities

Item	For the Year	For the Previous Year
① Reconciliation of net profit to cash flow from operating activities:		
Net profit	1,181,714,719.03	4,487,702,383.46
Add: Provision for impairment of assets	37,067,500.64	117,855,127.28
Depreciation of fixed assets, amortisation of oil and gas assets, depreciation of productive biological assets	341,586,859.13	333,266,021.37
Amortisation of intangible assets	22,513,252.64	25,907,664.31
Amortisation of long-term deferred expenses	17,465,671.51	15,332,317.28
Losses on disposal of fixed assets, intangible assets and other long-term assets ("–" represents gains)	549,283.16	-225,062,922.66
Losses on retirement of fixed assets ("–" represents gains)	21,916,073.68	1,518,793.75
Losses from changes in fair value ("–" represents gains/income)	2,410,266.97	-2,812,281.15
Financial expenses ("–" represents gains/income)	-21,627,554.40	21,997,107.58
Investments losses ("–" represents gains)	42,445,887.41	-4,297,099,345.96
Decrease in deferred tax assets ("–" represents increase)	-14,387,377.41	22,372,506.64
Increase in deferred tax liabilities ("–" represents decrease)	25,930,144.28	8,016,906.90
Decrease in inventories ("–" represents increase)	-97,145,543.46	-44,909,866.42
Decrease in trade receivables ("–" represents increase)	141,378,446.39	-606,248,042.38
Increase in trade payables ("–" represents decrease)	-427,296,991.31	1,443,953,453.37
Others	-6,899,457.22	14,075,644.32
Net cash flows from operating activities	1,267,621,181.04	1,315,865,467.69
② Significant investing and financing activities not involving cash receipts and payment:		
Liabilities converted into capital	0.00	0.00
Convertible bonds due within one year	0.00	0.00
Fixed assets acquired under finance leases	0.00	0.00
③ Net movement in cash and cash equivalents:		
Cash at the End of the year	8,563,711,205.95	7,400,973,935.19
Less: Cash at the beginning of the year	7,400,973,935.19	2,061,923,004.89
Add: Cash equivalents at the End of the year	0.00	0.00
Less: Cash equivalents at the beginning of the year	0.00	0.00
Net increase in cash and cash equivalents	1,162,737,270.76	5,339,050,930.30

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

VI. NOTES TO THE COMPONENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**53. Supplemental information to cash flow statement** (continued)**(2) Net Cash Payment for Acquisition of Subsidiaries during the Current Period**

Nil.

(3) Net Cash Amount from Disposal of Subsidiaries during the Period

Item	Amount
Cash or cash equivalent received during the Year from disposal of subsidiaries during the Year	47,800,000.00
In which: Zhuhai Sanmed Biotech Inc. * (珠海聖美生物診斷技術有限公司)	47,800,000.00
Reduced by: Cash and cash equivalents held by the Company on the date of losing the controlling interest	23,050,532.65
In which: Zhuhai Sanmed Biotech Inc. * (珠海聖美生物診斷技術有限公司)	23,050,532.65
Adding: Cash and cash equivalents received during the Year from disposal of subsidiaries during the previous period	0.00
In which: Zhuhai Sanmed Biotech Inc. * (珠海聖美生物診斷技術有限公司)	0.00
Net cash received from disposal of subsidiaries	24,749,467.35

(4) Composition of cash and cash equivalents

Item	For the Year	For the Previous Year
① Cash	8,563,711,205.95	7,400,973,935.19
Of which: Cash on hand	134,536.84	189,288.49
Bank deposits that are readily available for payment	8,562,040,609.92	7,399,630,287.84
Other cash at bank and on hand that are readily available for payment	1,536,059.19	1,154,358.86
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	8,563,711,205.95	7,400,973,935.19

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

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

VI. NOTES TO THE COMPONENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**54. Assets with restricted ownership or right of use**

Item	Carrying amount at the End of the Period	Reasons
Cash in foreign currency – Other cash at bank and on hand	24,216,066.46	Deposits under guarantees for letter of credit, bank acceptance bills and forward exchange contracts
Bills receivable	335,767,075.30	Bank notes pool, pledged bills receivable
Total	359,983,141.76	

55. Monetary items in foreign currency

Item	Amount in foreign currency by the End of the Period	Exchange rate	Amount translated into RMB by the End of the Period
Cash in foreign currency:			
In which: HKD	679,443,660.90	0.87620	595,328,535.68
Euro	28,013.47	7.8473	219,830.10
USD	22,383,295.66	6.8632	153,621,034.78
MOP	5,831,837.78	0.8523	4,970,475.34
JPY	1.00	0.061887	0.06
Total cash in foreign currency			754,139,875.96
Trade receivables:			
In which: USD	45,749,600.36	6.8632	313,988,657.19
JPY	21,729,003.66	0.061887	1,344,742.85
MOP	3,552,408.45	0.8523	3,027,717.72
Total trade receivables			318,361,117.76
Other receivables:			
In which: HKD	1,492,938.71	0.87620	1,308,112.90
USD	16,715.00	6.8632	114,718.39
MOP	839,548.00	0.8523	715,546.76
Total other receivables			2,138,378.05
Other current assets			
In which: HKD	102,825,431.77	0.87620	90,095,643.32
Total other current assets			90,095,643.32
Payables:			
In which: Euro	5,665.41	7.8473	44,458.17
USD	13,952.35	6.8632	95,757.77
MOP	4,227,519.96	0.8523	3,603,115.26
Total other receivables			3,743,331.20
Other payables:			
In which: HKD	2,957,118.79	0.87620	2,591,027.48
USD	1,215,923.22	6.8632	8,345,124.24
Total other payables			10,936,151.72

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

VI. NOTES TO THE COMPONENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*
56. Government grants
(1) Basic information of government grants

Item	Amount	Related to assets		Related to income				Received
		Deferred income	Written down of carrying amount of assets	Deferred income	Other income	Non-operating income	Written down of costs	
R&D and commercialisation of innovative drug of Ilaprazole series (艾普拉唑系列創新藥物研發及產業化)	12,910,000.00	12,910,000.00	0.00	0.00	0.00	0.00	0.00	Yes
Subsidy for R&D of Leuprorelin (亮丙瑞林研發補助)	3,681,725.00	0.00	0.00	3,681,725.00	0.00	0.00	0.00	Yes
Fund for Commercialisation of Long-acting Microspheres Preparation (長效微球製劑的產業化款項)	13,300,000.00	13,300,000.00	0.00	0.00	0.00	0.00	0.00	Yes
Construction of Drug Conformity Evaluation Research Center Platform (藥物一致性評價研究中心平臺建設)	1,600,000.00	1,600,000.00	0.00	0.00	0.00	0.00	0.00	Yes
Growth Factor for Injection (注射用鼠神經生長因子研發及產業化)	37,125,800.00	37,125,800.00	0.00	0.00	0.00	0.00	0.00	Yes
Subsidy for the Tender of Technology Upgrade Project for PVC Soft Bag Supported by Provincial Finance Departments (省財政支持技改招標項目補助金PVC軟袋)	1,860,000.00	1,860,000.00	0.00	0.00	0.00	0.00	0.00	Yes
Export credit insurance subsidy (出口信保補貼)	2,750,248.42	0.00	0.00	0.00	2,750,248.42	0.00	0.00	Yes
R&D Subsidy (研究開發費補助)	10,272,200.00	0.00	0.00	0.00	10,272,200.00	0.00	0.00	Yes
Fund for Guangdong Province Strategic Industry Core Technology Breakthrough Research (2011) for MAB for Class I Treatment of Necrosis Factor in Human Tumour from Human Source (廣東省戰略新興產業核心技術攻關(2011)類治療用人源化抗人腫瘤壞死因子α單克隆抗體新藥的研製)	8,000,000.00	0.00	0.00	0.00	8,000,000.00	0.00	0.00	Yes
Government Subsidy for Long-acting Microspheres Major New Drug Creation (長效微球重大新藥創制政府補助)	4,565,450.00	0.00	0.00	0.00	4,565,450.00	0.00	0.00	Yes

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

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

56. Government grants (continued)

(1) Basic information of government grants (continued)

Item	Amount	Related to assets		Related to income				Received
		Deferred income	Written down of carrying amount of assets	Deferred income	Other income	Non-operating income	Written down of costs	
Fiscal Subsidy (including Operating Subsidy) (財政補貼 (含經營運營補貼))	9,739,275.10	0.00	0.00	0.00	9,739,275.10	0.00	0.00	Yes
Promoting Imports of Foreign Trade Development Special Fund (外經貿發展專項資金)	1,800,427.56	0.00	0.00	0.00	1,800,427.56	0.00	0.00	Yes
Safety emergency response drill expenses(安全生產應急演練費用)	50,000.00	0.00	0.00	0.00	50,000.00	0.00	0.00	Yes
10KV Pharmaceutical Factory Line Relocation and Improvement Project at Tieta Road in Qingyuan City (清遠市鐵塔路10KV藥廠線路遷改項目)	4,022.18	0.00	0.00	0.00	4,022.18	0.00	0.00	Yes
Research on Shenqi International Clinical Trial and Registration (參芪國際臨床試驗與註冊研究)	5,000,000.00	0.00	0.00	0.00	5,000,000.00	0.00	0.00	Yes
Provision for Technology Transformation Funds and subsequent grants (技術改造資金撥款及事後補獎)	7,117,700.00	7,117,700.00	0.00	0.00	0.00	0.00	0.00	Yes
Province Technology New Strategic-R&D of chemical drug liquid preparation and commercialisation of management team (省科技創新戰略-化藥液體製劑研發與產業化團隊)	1,500,000.00	1,500,000.00	0.00	0.00	0.00	0.00	0.00	Yes
Scientific Technology Incentive and Subsidy for Technological Innovative Project (科學技術獎及科技創新項目資助)	3,000,000.00	0.00	0.00	3,000,000.00	0.00	0.00	0.00	Yes
Scientific Technology Incentive and Subsidy for Technological Innovative Project (科學技術獎及科技創新項目資助)	9,073,500.00	0.00	0.00	0.00	9,073,500.00	0.00	0.00	Yes
Innovative drug of Ilaprazole phase IV clinical research (創新藥物艾普拉唑IV期臨床研究)	4,940,000.00	4,940,000.00	0.00	0.00	0.00	0.00	0.00	Yes

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

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

56. Government grants (continued)

(1) Basic information of government grants (continued)

Item	Amount	Related to assets		Related to income				Received
		Deferred income	Written down of carrying amount of assets	Deferred income	Other income	Non-operating income	Written down of costs	
Capital projects of Innovation and Entrepreneurship Team Funding Program (創新創業團隊資助計劃資金項目)	1,250,000.00	1,250,000.00	0.00	0.00	0.00	0.00	0.00	Yes
Capital projects of Innovation and Entrepreneurship Team Funding Program (創新創業團隊資助計劃資金項目)	1,250,000.00	0.00	0.00	0.00	1,250,000.00	0.00	0.00	Yes
Subsidies for high and new technology enterprises and high and new technology products (高新技術企業及高新技術產品項目補貼)	533,000.00	0.00	0.00	0.00	533,000.00	0.00	0.00	Yes
Local Education Surcharges and Training Subsidy from Jinqiao Management Committee(Education Surcharges) (金橋管委會地方教育費附加培訓補貼(教育培訓補貼))	115,000.00	0.00	0.00	0.00	115,000.00	0.00	0.00	Yes
Market Development Fund For Small and Medium Enterprises (中小企業開拓市場項目資金)	67,287.83	0.00	0.00	0.00	67,287.83	0.00	0.00	Yes
Traditional Chinese Medicine Standardization Project of State Administration of Traditional Chinese Medicine (國家中醫藥管理局中藥標準化項目)	129,400.00	0.00	0.00	0.00	129,400.00	0.00	0.00	Yes
Provision for Technology Transformation Funds and subsequent grants (技術改造資金撥款及事後補獎)	1,376,498.78	0.00	0.00	0.00	1,376,498.78	0.00	0.00	Yes
Special Fund and Encouraging funds for Energy Saving and Emission Reduction (節能減排專項資金及獎勵金)	233,000.00	0.00	0.00	0.00	233,000.00	0.00	0.00	Yes
Provincial development funds for the service and trade industry (省級服務貿易發展資金)	650,000.00	0.00	0.00	0.00	650,000.00	0.00	0.00	Yes

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

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

56. Government grants (continued)

(1) Basic information of government grants (continued)

Item	Amount	Related to assets		Related to income				
		Deferred income	Written down of carrying amount of assets	Deferred income	Other income	Non-operating income	Written down of costs	Received
Patent (Intellectual Property)								
Support Fund (專利(知識產權)資助資金)	645,800.00	0.00	0.00	0.00	645,800.00	0.00	0.00	Yes
Recycling technology of tobramycin waste oil project(妥布霉素廢藥油的回收再生技術實施專案)	200,000.00	0.00	0.00	0.00	200,000.00	0.00	0.00	Yes
Capitalisation research and application of proprietary technology of preparation of Acarbose(製備阿卡波糖的專利技術產業化研究與應用)	520,000.00	0.00	0.00	0.00	520,000.00	0.00	0.00	Yes
Optimization of structural effect of sea organisms and valuation of anti-tumor activity(海洋微生物構效優化與抗腫瘤活性評價)	300,000.00	0.00	0.00	0.00	300,000.00	0.00	0.00	Yes
Return of individual tax charges (退回個稅手續費)	2,557,263.27	0.00	0.00	0.00	2,557,263.27	0.00	0.00	Yes
Reward Fund for Industry Growth and Production Expansion (工業保值得增長及增產獎勵)	100,000.00	0.00	0.00	0.00	100,000.00	0.00	0.00	Yes
Industrial Supporting Fund (產業扶持資金)	1,400,523.99	0.00	0.00	0.00	1,400,523.99	0.00	0.00	Yes
Employment Assurance and Re-employment and Attraction to Graduates of Tertiary Academic Institutions Subsidy (企業穩崗及再就業和吸納高校畢業生補貼款)	1,151,827.83	0.00	0.00	0.00	1,151,827.83	0.00	0.00	Yes
Special Funds for Industry and Information (工業和資訊化專項資金)	1,359,000.00	0.00	0.00	0.00	1,359,000.00	0.00	0.00	Yes
Supporting Funds for Headquarter Enterprises (總部企業扶持資金)	11,813,630.07	0.00	0.00	0.00	0.00	11,813,630.07	0.00	Yes

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

VI. NOTES TO THE COMPONENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**56. Government grants** (continued)**(1) Basic information of government grants** (continued)

Item	Amount	Related to assets		Related to income				Received
		Deferred income	Written down of carrying amount of assets	Deferred income	Other income	Non-operating income	Written down of costs	
Financial Support Funds (財政扶持資金)	158,373,180.00	0.00	0.00	0.00	0.00	158,373,180.00	0.00	Yes
Supporting Funds for disaster recovery and reconstruction(災後扶持資金)	2,383,778.68	0.00	0.00	0.00	0.00	2,383,778.68	0.00	Yes
Other	2,594,200.00	0.00	0.00	0.00	0.00	2,594,200.00	0.00	Yes
Total	-	81,603,500.00	0.00	6,681,725.00	63,843,724.96	175,164,788.75	0.00	-

(2) Return of the government grant for the Year

Nil.

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

VII. CHANGE TO CONSOLIDATION SCOPE

1. Disposal of subsidiaries

Details of once disposal for the ceased control arising from investment to subsidiaries

Name of subsidiary	Amount of disposal for equity	Disposal ratio (%)	Mode of disposal	Time of control ceases	Recognition	Differences arising from disposal amount and portion of net assets held by disposal investment for the range of consolidated financial statements
Zhuhai Sanmed Biotech Inc.* (珠海聖美生物診斷技術有限公司)	47,800,000.00	35.85%	Transfer	2018.7.23	Assets transferred	16,341,464.65
Name of subsidiary	Ratio of the remaining equity (%)	Book value of the remaining equity at the date of ceased control	Fair value of the remaining equity at the date of ceased control	Gain or loss arising from the remaining equity remeasured at fair value	Recognition and assumption for fair value	Profit or loss arising from transformation of other comprehensive income which is related to equity investment
Zhuhai Sanmed Biotech Inc.* (珠海聖美生物診斷技術有限公司)	33.15%	26,893,778.48	26,893,778.48	0.00	-	0.00

2. Change to Consolidation Scope for other reasons

Sichuan Guangda Pharmaceutical Manufacturing Co., Ltd. (四川光大製藥有限公司) set up Gongshan Livzon Yaoyuan Technology Co., Ltd. (貢山麗珠藥源科技有限公司) on 30 March 2018, accounting for 100% of its registered capital.

Zhuhai Sanmed Biotech Inc. * (珠海聖美生物診斷技術有限公司) set up Livzon San-Med Diagnostics Inc. on 8 May 2018, accounting for 100% of its registered capital.

Zhuhai Livzon Diagnostic Reagents Inc. (珠海麗珠試劑股份有限公司) set up Suzhou Lidi Biological Technology Co., Ltd. (蘇州麗迪生物科技股份有限公司) on 31 August 2018, accounting for 100% of its registered capital.

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

VIII. EQUITY IN OTHER ENTITIES

1. Equity in subsidiaries

(1) Group Structure

Name of the subsidiary	Subsidiary Type	Type of legal entity	Principal		Nature of business	Registered capital	Percentage of shareholding	Proportion of voting rights	Acquisition method
			place of business	Place of registration					
Ando Development Limited (安滔發展有限公司)	Wholly-owned	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
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	RMB45,000,000	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
Datong Livzon Qiuyan 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 (麗珠醫藥生物科技股份有限公司)	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
Livzon Group Livzon Baiameng Biological Materials Co., Ltd. (麗珠集團麗珠-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 wholly-owned subsidiary	Limited company	Zhuhai	Zhuhai	Provision of services	RMB1133,330,000	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 Sangqi 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
Name of the subsidiary 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

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

VIII. EQUITY IN OTHER ENTITIES (continued)

1. Equity in subsidiaries (continued)

(1) Group Structure (continued)

Name of the subsidiary	Subsidiary 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
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. (上海麗珠生物科技有限公司)	Subsidiary of Holding Subsidiary	Limited company	Shanghai	Shanghai	Provision of services	RMB10,000,000	38.25%	38.25%	Set-up
Zhuhai Lihe Medical Diagnostic Product Company Limited (珠海麗禾醫療診斷產品有限公司)	Subsidiary of Holding Subsidiary	Limited company	Zhuhai	Zhuhai	Manufacture of medicine	RMB15,000,000	51%	51%	Set-up
Shanghai Lihang Biotechnology Co., Limited (上海麗航生物科技有限公司)	Subsidiary of Holding Subsidiary	Limited company	Shanghai	Shanghai	Provision of services	RMB1,000,000	51%	51%	Set-up
Suzhou Lidi Biological Technology Co., Ltd. (蘇州麗迪生物科技有限公司)	Subsidiary of Holding Subsidiary	Limited company	Suzhou	Suzhou	Technology development	RMB1,000,000	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	Zhuha	Zhuha	Technology development	RMB500,000	100%	100%	Set-up
Livzon International Limited	Subsidiary of wholly-owned subsidiary	Limited company	Cayman	Cayman	Investment	USD50,000	100%	100%	Set-up
Livzon Biologics Limited	Holding	Limited company	Cayman	Cayman	Investment	USD50,000	55.13%	55.13%	Consolidated from common control
Livzon Biologics Hong Kong Limited (麗珠生物科技香港有限公司)	Subsidiary of Holding Subsidiary	Limited company	Hong Kong	Hong Kong	Investment	HKD400 +RMB600,000,000	55.13%	55.13%	Set-up
Zhuhai Livzon Biotechnology Co., Limited (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	Technology development	RMB149,000,000	100%	100%	Consolidated from noncommon 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%	Consolidated from noncommon 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%	Consolidated from noncommon 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%	Consolidated from noncommon 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%	Consolidated from noncommon control

In May 2018, Livzon Group Ningxia Fuxing Pharmaceutical Manufacturing Co., Ltd. (麗珠集團寧夏福興製藥有限公司) absorbed and merged Livzon Group Ningxia Xinbeijiang Pharmaceutical Manufacturing Co., Ltd. (麗珠集團寧夏新北江製藥有限公司), and changed its name to Livzon Group (Ningxia) Pharmaceutical Manufacturing Co., Ltd. (麗珠集團(寧夏)製藥有限公司).

(Unless specified otherwise, all amounts 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 shareholdings of non-controlling shareholders	Profit and loss attributable to non-controlling shareholders for the Year	Dividend paid to non-controlling shareholders for the Year	Equity balance for non-controlling shareholders by the End of the Year
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))	49%	127,419,861.54	83,400,000.00	239,217,735.58
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 and Suzhou Lidi Biological Technology Co., Ltd. (蘇州麗迪生物科技有限公司))	49%	46,793,749.13	0.00	108,310,912.30
珠海市麗珠單抗生物技術有限公司 (合併麗珠單抗生物技術(美國)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%	-80,555,967.93	0.00	646,894,968.44
Livzon Group Vaccine Engineering Inc. (麗珠集團疫苗工程股份有限公司)	16.15%	-175,183.39	0.00	-1,346,617.06
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%	9,854,489.26	0.00	96,277,323.43

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) consolidated by Livzon Group Xinbeijiang Pharmaceutical Manufacturing Inc. (麗珠集團新北江製藥股份有限公司), and the data for the beginning of the Year and the Same Period Last Year are disclosed on the basis of the consolidated financial statements.

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

VIII. EQUITY IN OTHER ENTITIES (continued)**1. Equity in subsidiaries** (continued)**(3) Major accounting information on important non-wholly owned subsidiaries**

Name of subsidiaries	Financial Position by the End of the Year		Financial Position by 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. (上海麗珠生物科技有限公司))	748,296,736.45	471,117,457.24	581,669,543.74	386,348,783.76
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 and Suzhou Lidi Biological Technology Co., Ltd. (蘇州麗迪生物科技有限公司))	710,114,038.75	222,344,788.35	823,364,603.30	112,179,898.64
珠海市麗珠單抗生物技術有限公司 (合併麗珠單抗生物技術(美國)有限公司) (consolidated Livzon MABPharm (US) Inc. (麗珠單抗生物技術(美國)有限公司))	769,968,912.30	705,252,257.95	339,202,402.35	271,996,678.88
Livzon Group Vaccine Engineering Inc. (麗珠集團疫苗工程股份有限公司)	14,320,136.51	-8,338,186.12	16,774,546.60	-7,253,459.25
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))	2,678,304,310.24	831,240,004.68	2,754,701,404.25	1,000,567,435.21

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

VIII. EQUITY IN OTHER ENTITIES (continued)

1. Equity in subsidiaries (continued)

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

Name of subsidiaries	Operating results for the Year			Operating results for the Previous 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. (上海麗珠生物科技股份有限公司))	997,343,938.25	244,768,673.48	244,768,673.48	756,978,408.86	157,167,557.37	157,167,557.37
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 and Suzhou Lidi Biological Technology Co., Ltd. (蘇州麗迪生物科技股份有限公司))	708,286,410.40	109,938,013.36	110,164,889.71	648,507,292.11	77,648,518.52	77,355,103.22
珠海市麗珠單抗生物技術有限公司 (合併麗珠單抗生物技術(美國)有限公司) (consolidated Livzon MABPharm (US) Inc. (麗珠單抗生物技術(美國)有限公司))	0.00	-173,714,225.59	-173,629,820.93	76,697.72	-127,833,701.27	-128,113,407.04
Livzon Group Vaccine Engineering Inc. (麗珠集團疫苗工程股份有限公司)	0.00	-1,084,726.87	-1,084,726.87	0.00	-978,033.61	-978,033.61
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))	1,605,361,856.52	138,477,617.23	138,477,617.23	1,516,887,763.43	152,632,912.38	152,632,912.38

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

VIII. EQUITY IN OTHER ENTITIES (continued)

1. Equity in subsidiaries (continued)

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

Name of subsidiaries	Cash flow for the Year					Cash flow for the Previous Year				
	cash flow for operating activities	cash flow for investment activities	cash flow for financing activities	Cash and cash equivalents by the beginning of the year	Cash and cash equivalents by the End of the Year	cash flow for operating activities	cash flow for investment activities	cash flow for financing activities	Cash and cash equivalents by the beginning of the year	Cash and cash equivalents by the End of the Year
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))	274,446,434.32	-13,961,973.47	-268,640,257.07	12,036,826.13	2,681,261.22	187,545,873.35	-21,952,947.11	-158,734,844.27	5,219,176.50	12,036,826.13
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 and Suzhou Lidi Biological Technology Co., Ltd. (蘇州麗迪生物科技有限公司))	102,991,675.00	20,708,984.29	-181,745,539.99	70,659,208.88	12,836,724.91	178,600,799.15	-41,178,948.14	-111,568,724.72	44,824,799.54	70,659,208.88
珠海市麗珠單抗生物技術有限公司 (合併麗珠單抗生物技術(美國)有限公司)(consolidated Livzon MABPharm (US) Inc. (麗珠單抗生物技術(美國)有限公司))	-159,676,983.91	-113,574,350.62	586,954,640.30	5,546,748.22	316,857,282.88	-122,452,617.56	-25,943,633.62	153,958,964.45	294,507.64	5,546,748.22
Livzon Group Vaccine Engineering Inc. (麗珠集團疫苗工程股份有限公司)	-1,403,945.65	1,399,155.21	19,687.35	25,632.42	40,529.33	-27,753.96	306,738.44	-295,560.24	42,208.18	25,632.42
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))	758,466,384.61	-259,181,351.27	-610,482,802.83	145,271,457.67	66,620,867.25	651,314,084.40	-48,702,851.02	-577,867,298.85	127,484,561.61	145,271,457.67

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

VIII. EQUITY IN OTHER ENTITIES *(continued)*

2. Equity interest transfer with changes to proportion of equity ownership for subsidiaries without losing control

(1) Explanation on changes to proportion of equity interest ownership for subsidiaries

On 23 April 2018, the “Proposal on Transfer of 15% Shares of Qingyuan New Beijiang Pharmaceutical Co., Ltd. (清遠新北江製藥股份有限公司) of Livzon Group by the Company” was passed at the Thirteenth Meeting of the Ninth Session of the Board, by which it was agreed that 15% shares (totally 20,238,780 shares) of New Beijiang Pharmaceutical Co., Ltd. (新北江製藥股份有限公司) of Livzon Group held by the Company would be transferred to Zhuhai Zhong Hui Yuan Investment Partnership (Limited Partnership) (珠海中匯源投資合夥企業(有限合夥)) at the consideration of RMB66,201,050.00. On 4 May 2018, the parties entered into the “Agreement between Livzon Pharmaceutical Group Inc. and Zhuhai Zhong Hui Yuan Investment Partnership (Limited Partnership) on Transfer of Shares of New Beijiang Pharmaceutical Co., Ltd. of Livzon Group”. As of 30 June 2018, the Company has received totally RMB33,100,525.00 as the first installment for this share transfer, and the rest of the consideration will be paid within 3 years during 2019-2021, on an annual basis. After the transfer of shares, the Company was holding 77.14% shares of New Beijiang Pharmaceutical Co., Ltd. of Livzon Group, and could exercise control over this company.

On 22 June 2018, the “Resolution in Relation to Capital Injection of Livzon Biologics Limited by Wholly-owned Subsidiary and YF Pharmab Limited” was considered and approved at the fifteen meeting of the ninth session of the Board of the Company, pursuant to which the wholly-owned subsidiary, Livzon International Limited, and YF Pharmab Limited injected capital into Livzon Biologics Limited in cash. In which, Livzon International Limited subscribed for 24,574,830 ordinary shares at a consideration of USD98,299,320; YF Pharmab Limited subscribed for 12,500,000 preferred shares at a consideration of USD50,000,000. After the capital injection, the shareholding of the Company in Livzon Biologics Limited increased from 51% to 55.13%, the shareholding of YF Pharmab Limited was 9.12%, and the shareholding of Joincare Pharmaceutical Industry Group Co., Ltd. decreased from 49% to 35.75%.

On 21 September 2018, the Company, Livzon Group Fuzhou Fuxing Pharmaceutical Co., Ltd. (“Fuzhou Fuxing”) and Xinbeijiang Pharmaceutical entered into the “Agreement of Equity Transfer in Livzon Group (Ningxia) Pharmaceutical Manufacturing Co., Ltd.”, and was considered and approved at the general meeting of Ningxia Pharmaceutical. Pursuant to which, the Company and Fuzhou Fuxing transferred 90% and 2.03% equity interests in Ningxia Pharmaceutical to Xinbeijiang Pharmaceutical respectively. After the equity transfer, Xinbeijiang Pharmaceutical held 100% equity interests in Ningxia Pharmaceutical.

On 12 December 2018, Xinbeijiang Pharmaceutical and the Company entered into the “Capital Injection Agreement in Relation to Livzon Xinbeijiang Pharmaceutical Manufacturing Inc.”, and was considered and approved at the 2018 third extraordinary general meeting of Xinbeijiang Pharmaceutical, pursuant to which, Xinbeijiang Pharmaceutical issued additional shares to the Company to acquire 75% equity interest in Fuzhou Fuxing held by the Company. As at 24 December 2018 upon completion of the transaction, the Company held 87.14% equity interests in Xinbeijiang Pharmaceutical.

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

VIII. EQUITY IN OTHER ENTITIES (continued)**2. Equity interest transfer with changes to proportion of equity ownership for subsidiaries without losing control** (continued)**(2) Effect of transfer on non-controlling shareholder's equity interests and equity interest attributable to the owners of the Company for the period**

Item	Livzon Group Xinbeijiang Pharmaceutical Manufacturing Inc.		Livzon Biologics Limited
	Equity transfer	Other Changes	
Cost of purchase/consideration for disposal			
– Cash	63,142,558.50	0.00	0.00
– Fair value of non-cash assets	0.00	0.00	0.00
Total cost of purchase/consideration for disposal	63,142,558.50	0.00	0.00
Less: net asset shares of the subsidiary calculated based on the percentage of shares acquired/disposed of	66,190,546.19	-16,867,782.90	249,680,888.83
Difference	-3,047,987.69	16,867,782.90	-249,680,888.83
In which: adjusted capital reserve	-3,047,987.69	16,867,782.90	-249,680,888.83

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 Year	Balance for the Previous Period/ For the Previous Year
Associates:		
Total nominal value of investment	188,106,109.58	92,598,045.44
Total amount calculated by percentage of shareholding		
– net profit	-6,186,649.16	1,488,310.65
– other comprehensive income	-2,889.51	0.00
– total comprehensive income	-6,189,538.67	1,488,310.65

(2) Explanation of major restriction on capacity of capital transfer from associates or joint ventures to the Company

Nil.

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

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 on the exchange rate of Renminbi, and timely adjust the extent of borrowings, so as to reduce its risks to the minimum.

Financial assets and liabilities in foreign currencies held by the Company expressed in Renminbi are stated below:

(1) 31 December 2018

Amount denominated: RMB'000

Item	HKD item	USD item	Euro item	JPY item	MOP item
Financial assets in foreign currency –					
Cash	595,328.54	153,621.03	219.83	0.00	4,970.48
Held-for-trading financial assets	7,272.46	0.00	0.00	0.00	0.00
Receivables	0.00	313,988.66	0.00	1,344.74	3,027.72
Prepayments	0.00	5,493.09	206.53	262.31	0.00
Other receivables	1,308.11	114.72	0.00	0.00	715.55
Other current assets	90,095.64	0.00	0.00	0.00	0.00
Other equity instruments investment	326,704.01	0.00	0.00	0.00	0.00
Subtotal:	1,020,708.76	473,217.50	426.36	1,607.05	8,713.75
Financial liabilities in foreign currency –					
Payables	0.00	95.76	44.46	0.00	3,603.12
Contract liabilities	0.00	4,574.00	0.00	0.00	0.00
Other payables	2,591.03	8,345.12	0.00	0.00	0.00
Subtotal:	2,591.03	13,014.88	44.46	0.00	3,603.12

(Unless specified otherwise, all amounts 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) 31 December 2017

Amount denominated: RMB'000

Item	HKD item	USD item	Euro item	JPY item	MOP item
Financial assets in foreign currency –					
Cash	585,593.46	222,476.00	2,169.17	1,295.49	1,496.21
Held-for-trading financial assets	7,648.58	0.00	0.00	0.00	0.00
Receivables	0.00	293,602.34	0.00	2,090.52	1,874.88
Prepayments	0.00	664.22	675.76	245.34	0.00
Other receivables	1,241.66	0.00	0.00	0.00	339.50
Other current assets	84,381.62	0.00	0.00	0.00	0.00
Other equity instruments investment	107,660.82	0.00	0.00	0.00	0.00
Subtotal:	786,526.14	516,742.56	2,844.93	3,631.35	3,710.59
Financial liabilities in foreign currency –					
Payables	0.00	134.32	640.65	0.00	0.00
Contract liabilities	0.00	3,637.65	0.00	0.00	0.00
Other payables	2,233.44	4,566.45	0.00	0.00	0.00
Subtotal:	2,233.44	8,338.42	640.65	0.00	0.00

As at 31 December 2018, 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 RMB74,271,000 (31 December 2017: approximately RMB65,112,150).

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 timely make 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.

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

IX. RISKS RELATED TO FINANCIAL INSTRUMENTS *(continued)*

(I) Management objectives and policies of risks *(continued)*

3. Credit risk

Credit risk is primarily attributable to cash and cash equivalents, restricted cash at bank, accounts receivables and other receivables. In respect of cash at banks, they were placed at several banks with good reputations, for which the credit risk was limited. In respect of accounts 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 opened, 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 macromonetary policies of China on indirect bank financing, which shall secure adequate funds in a flexible manner. As at the date of the balance sheet, cash flows of the financial assets and financial liabilities contracts are presented below by term of maturity:

As at the date of the balance sheet, cash flows of the financial assets and financial liabilities contracts are presented below by term of maturity:

(1) 31 December 2018

Item	Within 1 year	1-2 years	2-5 years	Over 5 years	Total
Financial assets –					
Cash	8,587,927,272.41	0.00	0.00	0.00	8,587,927,272.41
Held-for-trading financial assets	15,934,738.20	0.00	0.00	0.00	15,934,738.20
Bills receivables and accounts receivables	2,411,077,498.72	0.00	0.00	0.00	2,411,077,498.72
Prepayments	169,765,301.71	0.00	0.00	0.00	169,765,301.71
Other receivables	49,482,179.59	0.00	0.00	0.00	49,482,179.59
Non-current assets due within one year	10,869,100.00	0.00	0.00	0.00	10,869,100.00
Other current assets	90,095,643.32	0.00	0.00	0.00	90,095,643.32
Long-term receivables	0.00	10,351,302.50	9,948,207.26	0.00	20,299,509.76
Subtotal:	11,335,151,733.95	10,351,302.50	9,948,207.26	0.00	11,355,451,243.71
Financial liabilities –					
Short-term loans	1,500,000,000.00	0.00	0.00	0.00	1,500,000,000.00
Held-for-trading financial liabilities	85,294.16	0.00	0.00	0.00	85,294.16
Bills payables and accounts payables	1,354,914,543.37	0.00	0.00	0.00	1,354,914,543.37
Contract liabilities	115,973,464.09	0.00	0.00	0.00	115,973,464.09
Other payables	1,967,100,817.25	0.00	0.00	0.00	1,967,100,817.25
Non-current liabilities due within one year	400,000.00	0.00	0.00	0.00	400,000.00
Long-term loans	0.00	0.00	0.00	700,000.00	700,000.00
Subtotal:	4,938,474,118.87	0.00	0.00	700,000.00	4,939,174,118.87

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

IX. RISKS RELATED TO FINANCIAL INSTRUMENTS *(continued)***(I) Management objectives and policies of risks** *(continued)***4. Liquidity risk** *(continued)*

(2) 31 December 2017

Item	Within 1 year	1-2 years	2-5 years	Over 5 years	Total
Financial assets –					
Cash	7,415,782,198.83	0.00	0.00	0.00	7,415,782,198.83
Held-for-trading financial assets	18,598,840.91	0.00	0.00	0.00	18,598,840.91
Bills receivables and account receivables	2,508,356,328.84	0.00	0.00	0.00	2,508,356,328.84
Prepayments	126,471,958.21	0.00	0.00	0.00	126,471,958.21
Other receivables	63,640,601.96	0.00	0.00	0.00	63,640,601.96
Other current assets	84,381,617.79	0.00	0.00	0.00	84,381,617.79
Subtotal:	10,217,231,546.54	0.00	0.00	0.00	10,217,231,546.54
Financial liabilities –					
Held-for-trading financial liabilities	339,129.90	0.00	0.00	0.00	339,129.90
Bills payables and accounts payables	1,163,527,427.74	0.00	0.00	0.00	1,163,527,427.74
Contract liabilities	115,288,797.94	0.00	0.00	0.00	115,288,797.94
Other payables	1,924,158,267.45	0.00	0.00	0.00	1,924,158,267.45
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:	3,203,713,623.03	0.00	0.00	700,000.00	3,204,413,623.03

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

IX. RISKS RELATED TO FINANCIAL INSTRUMENTS *(continued)*

(II) Transfer of financial assets

1. Transferred financial assets that are not derecognised in their entirety

None.

2. Financial assets transferred and ceased to be recognised but with involvement of the transferor.

On 31 December 2018, the Company's carrying amounts of bank acceptance bills undue and endorsed to suppliers for settling account payables is RMB132,021,509.40 (31 December 2017: RMB43,384,352.00), the commercial acceptance bills undue and endorsed to suppliers for settling account payables (31 December 2017: RMB0.00). On 31 December 2018, the due date is 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.

In 2018, 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 derecognised. The endorsement was incurred evenly throughout the Year.

(Unless specified otherwise, all amounts 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 Year

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	15,409.70	525.04	0.00	15,934.74
1. Financial assets measured at fair value, with the change in fair value included in the profit or loss for the period	15,409.70	525.04	0.00	15,934.74
(1) equity instrument investments	15,409.70	0.00	0.00	15,409.70
(2) derivative financial assets	0.00	525.04	0.00	525.04
2. Financial assets measured at fair value, with the change in fair value included in the profit or loss for the period	0.00	0.00	0.00	0.00
(II) Other equity instrument investments	0.00	309,135.19	98,571.93	407,707.12
Total assets continuously measured at fair value	15,409.70	309,660.23	98,571.93	423,641.86
(III) Financial liabilities held for trading				
In which: Derivative financial liabilities	0.00	85.29	0.00	85.29
Total liabilities continuously measured at fair value	0.00	85.29	0.00	85.29

2. Basis of market price for cases continuously measured at fair value level 1

Held-for-trading equity instruments and certain available-for-sale debt instrument investments are listed and traded on the Shenzhen Stock Exchange and Hong Kong Stock Exchange, their fair value is measured at the closing price on the last trading day of the Reporting Period.

3. Determination basis of item market price measured at continuous second level fair value

- (1) Part of the derivative financial instruments is foreign currency forward contracts, the 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 year.

4. Determination basis of item market price measured at continuous third level fair value

The fair value of part of the other financial instruments is best estimated by their costs.

In 2018, there were no transfers of the fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3.

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

XI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS

1. Status of 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
Joicare 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
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
Joicare 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 31 December 2018, 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 Corporation (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.

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

XI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (continued)**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.

4. Other related parties of the Company

Name of other related parties	Relationship with the Company	Organisation 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 Group 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	
CYNVENIO BIOSYSTEMS, INC.	A company at which a Director of the Company serves	
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 senior management 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	91440400MA4UY9CW9
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 senior management of the Company	91440400MA51CC4355

(Unless specified otherwise, all amounts 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 Year		For the Previous Year	
			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	1,199,464.89	0.05	1,139,096.15	0.06
Shenzhen Haibin Pharmaceutical Co., Ltd. (深圳市海濱製藥有限公司)	Raw materials	The market price	45,576,186.61	2.05	33,331,837.29	1.68
Joincare Pharmaceutical Industry Group Co., Ltd. (健康元藥業集團股份有限公司)	Finished goods	The market price	408,382.72	0.02	1,437,516.27	0.07
Shenzhen Taitai Pharmaceutical Co., Ltd. (深圳太太藥業有限公司)	Raw materials	The market price	1,672.13	0.00	0.00	0.00
Zhuhai Sanmed Biotech Inc.* (珠海聖美生物診斷技術有限公司)	Finished goods	The market price	502,381.39	0.02	0.00	0.00
CYNVENIO BICSYSTEMS, INC.	Raw materials	The market price	382,217.65	0.02	0.00	0.00
Jiaozuo Joincare Pharmaceutical Industry Group Co., Ltd. (焦作健康元生物製品有限公司)	Raw materials	The market price	344,378,058.38	15.48	335,710,283.08	16.87
Sales of goods in aggregate			392,448,363.77	17.64	371,618,732.79	18.68
Jiaozuo Joincare Pharmaceutical Industry Group Co., Ltd. (焦作健康元生物製品有限公司)	Water and power	The market price	10,279,028.82	4.31	15,882,846.41	5.91
CYNVENIO BIOSYSTEMS, INC.	Testing	Based on negotiation	0.00	0.00	23,714.63	100.00
Provision of services in aggregate			10,279,028.82	-	15,906,561.04	-

(Unless specified otherwise, all amounts 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 principles and decision making procedures of the related party transactions	For the Year		For the Previous Year	
			Amount	Proportion to the transaction amount of the same category (%)	Amount	Proportion to the transaction amount of the same category (%)
Zhuhai Joincare Pharmaceutical Co., Ltd. (珠海健康元生物醫藥有限公司)	Finished goods	The market price	0.00	0.00	9,077.66	0.00
Guangdong Blue Treasure Pharmaceutical Co. Ltd. (廣東藍寶製藥有限公司)	Finished goods	The market price	20,339,946.77	0.23	8,284,341.88	0.10
Jiaozuo Joincare Pharmaceutical Industry Group Co., Ltd. (焦作健康元生物製品有限公司)	Raw materials	The market price	57,331,039.08	0.65	5,917,685.93	0.07
Shenzhen Haibin Pharmaceutical Co., Ltd. (深圳市海濱製藥有限公司)	Finished goods	The market price	277,798.02	0.00	2,327,765.55	0.03
Shenzhen Taitai Pharmaceutical Co., Ltd. (深圳太太藥業有限公司)	Finished goods	The market price	631,529.35	0.01	461,538.46	0.01
Zhuhai Sanmed Biotech Inc.* (珠海聖美生物診斷技術有限公司)	Finished goods, raw materials	The market price	197,201.34	0.00	0.00	0.00
Xinxiang Haibin Pharmaceutical Co., Ltd. (新鄉海濱藥業有限公司)	Raw materials	The market price	73,103.45	0.00	0.00	0.00
Sales of goods in aggregate			78,850,618.01	0.89	17,000,409.48	0.21
Guangdong Blue Treasure Pharmaceutical Co. Ltd. (廣東藍寶製藥有限公司)	Water and power	The market price	4,112,149.53	93.42	7,295,698.89	55.30
Zhuhai Joincare Pharmaceutical Co., Ltd. (珠海健康元生物醫藥有限公司)	Water and power	The market price	194,495.79	4.42	728,607.68	5.52
Provision of services in aggregate			4,306,645.32	97.84	8,024,306.57	60.82
Shenzhen Haibin Pharmaceutical Co., Ltd. (深圳市海濱製藥有限公司)	Processing fee and testing	Based on negotiation	3,000.00	2.89	888,386.27	32.41
Zhuhai Sanmed Biotech Inc.* (珠海聖美生物診斷技術有限公司)	Other service	Based on negotiation	2,900.00	0.02	0.00	0.00
Provision of services in aggregate			5,900.00	-	888,386.27	32.41

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

XI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (continued)**5. Related party transactions** (continued)**(3) Related party leases**

① The Company as lessor

Name of lessee	Type of leased assets	Lease income recognised for the Year	Lease income recognised for the Previous Year
Zhuhai Joincare Pharmaceutical Co., Ltd. (珠海健康元生物醫藥有限公司)	Plant & buildings, equipment	37,705.46	173,985.09
Health Pharmaceutical (China) Co., Ltd. (健康藥業(中國)有限公司)	Plant & buildings	90,588.96	90,043.24
Zhuhai Sanmed Biotech Inc.* (珠海聖美生物診斷技術有限公司)	Plant & buildings	1,063,242.67	0.00

② The Company as lessee

Name of lessor	Type of leased assets	Lease expenses recognised for the Year	Lease expenses recognised for the Previous Year
Joincare Pharmaceutical Industry Group Co., Ltd. (健康元藥業集團股份有限公司)	Plant & buildings	772,346.94	733,102.70
Jiaozuo Joincare Pharmaceutical Industry Group Co., Ltd. (焦作健康元生物製品有限公司)	Plant & buildings, equipment	501,192.96	0.00

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

XI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS *(continued)***5. Related party transactions** *(continued)***(4) Related party asset transfers and debt restructuring**

Related party	Description of related party transaction	For the Year	For the Previous Year
Zhuhai Sanmed Biotech Inc.* (珠海聖美生物診斷技術有限公司)	Procurement of equipment	5,456,389.12	0.00
Jiaozuo Joincare Pharmaceutical Industry Group Co., Ltd. (焦作健康元生物製品有限公司)	Sales of equipment	0.00	578,139.08
Jiaozuo Joincare Pharmaceutical Industry Group Co., Ltd. (焦作健康元生物製品有限公司)	Procurement of equipment	1,083,645.67	1,174,610.16
Zhuhai Joincare Pharmaceutical Co., Ltd. (珠海健康元生物醫藥有限公司)	Procurement of equipment	9,971,615.14	0.00
CYNVENIO BIOSYSTEMS, INC.	Procurement of equipment	799,570.58	13,442,815.87
CYNVENIO BIOSYSTEMS, INC.	Acquisition of technical know-how	0.00	3,006,245.24
CYNVENIO BIOSYSTEMS, INC.	Acquisition of technical know-how	6,583,554.46	0.00
L&L Biopharma, Co. Ltd. (上海健信生物醫藥科技有限公司)	Acquisition of technical know-how	3,886,792.40	0.00
AbCyte Therapeutics Inc.	Acquisition of technical know-how	13,585,800.00	0.00

(Unless specified otherwise, all amounts 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 follow:

A. Bank Loans Guaranteed

Unit: RMB'000

Name of guaranteed party	Actual date of event (Signing date of the Agreement)	Balance at the end of the Year	Actual guaranteed amount	Guaranteed amount	Description and type of guarantee	Period of guarantee
Livzon Group Livzon Pharmaceutical Factory (麗珠集團麗珠製藥廠)	2016.11.30	1,054.32	1,054.32	17,000.00	Opening the letter of credit, joint liability	2016.11.30-2019.11.30 (Bank of Communication, Zhuhai Branch) (交通銀行珠海分行)
Livzon Group Livzon Pharmaceutical Factory (麗珠集團麗珠製藥廠)	2018.05.07	562.74	562.74	15,000.00	Opening bank acceptance bills, joint liability	2018.4.8-2020.4.8 (Industrial and Commercial Bank of China, Zhuhai Branch) (工商銀行珠海分行)
Livzon Group Livzon Pharmaceutical Factory (麗珠集團麗珠製藥廠)	2018.03.28	635.57	635.57	10,000.00	Opening bank acceptance bills, joint liability	2018.3.28-2022.9.28 (China Merchants Bank, Zhuhai Branch) (招商銀行珠海分行)
Livzon Group Livzon Pharmaceutical Factory (麗珠集團麗珠製藥廠)	2018.03.23	3,771.10	3,771.10	10,000.00	Opening bank acceptance bills, joint liability	2018.3.23-2019.3.23 (Industrial Bank, Zhuhai Branch) (興業銀行珠海分行)
Zhuhai Livzon Diagnostic Reagents Inc. (珠海麗珠試劑股份有限公司)	2017.10.09	5,276.21	5,276.21	10,000.00	Opening the letter of credit and bank acceptance bills, joint liability guarantee	2017.08.22-2022.08.21 (Standard Chartered Bank (China), Zhuhai Branch) (渣打中國珠海分行)
Livzon MABPharm Inc. (珠海市麗珠單抗生物技術有限公司)	2016.06.22	800.90	800.90	5,000.00	Opening bank acceptance bills, joint liability	2016.6.22-2019.6.22 (Bank of Communication, Zhuhai Branch) (交通銀行珠海分行)
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	5,491.23	5,491.23	20,000.00	Opening the letter of credit and bank acceptance bills, joint liability guarantee	2016.12.26-2019.12.26 (Bank of Communication, Zhuhai Branch) (交通銀行珠海分行)
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	6,386.31	6,386.31	10,000.00	Opening bank acceptance bills, joint liability	2017.08.22-2022.08.21 (Standard Chartered Bank (China), Zhuhai Branch) (渣打中國珠海分行)

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

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 follow (RMB'0,000): *(continued)*

A. Bank Loans Guaranteed *(continued)*

Name of guaranteed party	Actual date of event (Signing date of the Agreement)	Balance at the end of the Year	Actual guaranteed amount	Guaranteed amount	Description and type of guarantee	Period of guarantee
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	84.85	84.85	23,000.00	Opening bank acceptance bills, joint liability	2018.4.24-2019.4.23 (China Guangfa Bank, Zhuhai Branch) (廣發銀行珠海分行)
Livzon Group Fuzhou Fuxing Pharmaceutical Co., Ltd. (麗珠集團福州福興醫藥有限公司)	2018.8.7	5,464.27	5,464.27	10,000.00	Opening bank acceptance bills, joint liability	2018.7.20-2023.7.19 (Standard Chartered Bank, Zhuhai Branch) (渣打銀行珠海分行)
Sichuan Guangda Pharmaceutical Manufacturing Co., Ltd. (四川光大製藥有限公司)	2018.03.15	1,499.31	1,499.31	8,000.00	Opening bank acceptance bills, joint liability	2018.3.15-2019.3.15 Industrial Bank, Zhuhai Branch (興業銀行珠海分行)
Livzon Group Limin Pharmaceutical Manufacturing Factory (麗珠集團利民製藥廠)	2018.02.02	672.36	672.36	1,500.00	Opening bank acceptance bills, joint liability	2016.12.26-2019.12.26 (Bank of Communication, Zhuhai Branch) (交通銀行珠海分行)
Livzon Group (Ningxia) Xinbeijiang Pharmaceutical Manufacturing Co., Ltd. (麗珠集團(寧夏)製藥有限公司)	2018.8.7	8,449.93	8,449.93	15,000.00	Opening bank acceptance bills, joint liability	2018.7.20-2023.7.19 (Standard Chartered Bank, Zhuhai Branch) (渣打銀行珠海分行)
Jiaozuo Livzon Hecheng Pharmaceutical Manufacturing Co., Ltd. (焦作麗珠合成製藥有限公司)	2018.8.7	2,409.14	2,409.14	5,000.00	Opening bank acceptance bills, joint liability	2018.7.20-2023.7.19 (Standard Chartered Bank, Zhuhai Branch) (渣打銀行珠海分行)
Total actual amount guaranteed for subsidiaries during the Reporting Period			144,164.67			
Total balance of actual amount guaranteed for subsidiaries at the end of the Reporting Period			42,558.24			

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

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 follow (RMB'0,000): (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 31 December 2018, the bill pledges guaranteed are as follows:

Guarantor	Pledgee	Bill pledge amount receivable	Name of guaranteed party	Description of guarantee	Guaranteed amount	Period of guarantee
			Livzon Group Xinbeijiang Pharmaceutical Manufacturing Inc. (麗珠集團新北江製藥股份有限公司)	Opening bank acceptance bills, joint liability guarantee	34,351,920.00	Till 28 May 2019
			Livzon Group Limin Pharmaceutical Manufacturing Co., Ltd. (麗珠集團利民製藥廠)	Opening bank acceptance bills, joint liability guarantee	4,365,676.00	Till 19 March 2019
	Industrial and Commercial Bank of China, Zhuhai Branch (工商銀行珠海分行)	138,982,341.15	Livzon Group Livzon Pharmaceutical Factory (麗珠集團麗珠製藥廠)	Opening bank acceptance bills, joint liability guarantee	82,139,528.39	Till 18 June 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	5,884,515.00	Till 15 May 2019
The Company			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	40,137,496.00	Till 20 September 2019
			Livzon Group Livzon Pharmaceutical Factory (麗珠集團麗珠製藥廠)	Opening bank acceptance bills, joint liability guarantee	57,981,887.05	Till 21 June 2019
	China Merchants Bank Zhuhai Branch (招商銀行珠海分行)	196,784,734.15	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	75,786,879.92	Till 14 June 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	3,609,680.40	Till 27 June 2019
			Sichuan Guangda Pharmaceutical Manufacturing Co., Ltd. (四川光大製藥有限公司)	Opening bank acceptance bills, joint liability guarantee	2,025,713.94	Till 26 June 2019
Total balance of actual amount guaranteed for subsidiaries at the end of the Reporting Period					306,283,296.70	

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 party

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 49% 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 counter guarantee for 49% of the abovementioned guarantee credit for 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 credit.

(Unless specified otherwise, all amounts 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 disclosed as follows

2018

Unit: RMB'0,000

	Fees of Director/ Supervisor	Salaries and allowances	Social insurance	Housing provident fund	Bonus	Signing bonus	Compensation for loss of office	Others	Total
Directors:									
Zhu Baoguo (朱保國)	9.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	9.00
Tao Desheng (陶德勝)	7.20	110.77	4.82	1.16	203.38	0.00	0.00	40.37	367.70
Fu Daotian (傅道田)	7.20	72.84	2.39	0.00	43.65	0.00	0.00	0.00	126.08
Xu Guoxiang (徐國祥)	7.20	92.30	4.57	1.16	213.85	0.00	0.00	16.31	335.39
Qiu Qingfeng (邱慶豐)	7.20	0.00	0.00	0.00	0.00	0.00	0.00	0.00	7.20
Independent Directors:									
Xu Yanjun (徐焱軍)	9.60	0.00	0.00	0.00	0.00	0.00	0.00	0.00	9.60
Guo Guoqing (郭國慶)	9.60	0.00	0.00	0.00	0.00	0.00	0.00	0.00	9.60
Wang Xiaojun (王小軍)	9.60	0.00	0.00	0.00	0.00	0.00	0.00	0.00	9.60
Zheng Zhihua (鄭志華)	9.60	0.00	0.00	0.00	0.00	0.00	0.00	0.00	9.60
Xie Yun (謝耘)	9.60	0.00	0.00	0.00	0.00	0.00	0.00	0.00	9.60
Supervisors:									
Wang Maolin (汪卯林)	4.20	50.77	4.65	1.16	77.92	0.00	0.00	13.31	152.01
Tang Yin (湯胤)	3.60	0.00	0.00	0.00	0.00	0.00	0.00	0.00	3.60
Huang Huamin (黃華敏)	3.60	0.00	0.00	0.00	0.00	0.00	0.00	0.00	3.60
Other senior management:									
Tang Yanggang (唐陽剛)	0.00	79.97	2.71	2.38	163.36	0.00	0.00	17.97	266.39
Yang Daihong (楊代宏)	0.00	83.08	4.74	1.16	114.63	0.00	0.00	31.88	235.49
Lu Wenqi (陸文歧)	0.00	47.38	0.00	0.66	100.44	0.00	0.00	16.28	164.76
Si Yanxia (司燕霞)	0.00	73.85	4.71	1.16	141.35	0.00	0.00	29.50	250.57
Zhou Peng (周鵬)	0.00	67.31	4.69	1.16	222.27	0.00	0.00	30.75	326.18
Huang Yuxuan (黃瑜璿)	0.00	50.73	1.55	2.50	127.32	0.00	0.00	7.10	189.20
Yang Liang (楊亮)	0.00	55.85	4.66	1.16	111.62	0.00	0.00	18.38	191.67
Total	97.20	784.85	39.49	13.66	1,519.79	0.00	0.00	221.85	2,676.84

Mr. Tang Yanggang (唐陽剛) was appointed in July 2018; Mr. Lu Wenqi (陸文歧) has resigned in July 2018; Ms. Huang Yuxuan (黃瑜璿) was appointed in September 2018.

(Unless specified otherwise, all amounts 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 disclosed as follows (continued)

2017

Unit: RMB'0,000

	Fees of Director/ Supervisor	Salaries and allowances	Social insurance	Housing provident fund	Bonus	Signing bonus	Compensation for loss of office	Others	Total
Directors:									
Zhu Baoguo (朱保國)	9.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	9.00
Tao Desheng (陶德勝)	7.20	80.75	4.56	1.07	182.67	0.00	0.00	11.95	288.20
Yang Daihong (楊代宏)	3.60	69.44	4.54	1.07	125.23	0.00	0.00	1.28	205.16
Fu Daotian (傅道田)	7.20	73.53	2.48	0.00	35.00	0.00	0.00	0.00	118.21
Xu Guoxiang (徐國祥)	3.60	73.83	4.46	1.07	200.80	0.00	0.00	7.72	291.48
Qiu Qingfeng (邱慶豐)	7.20	0.00	0.00	0.00	0.00	0.00	0.00	0.00	7.20
Zhong Shan (鍾山)	4.80	0.00	0.00	0.00	0.00	0.00	0.00	0.00	4.80
Independent Directors:									
Xu Yanjun (徐焱軍)	9.60	0.00	0.00	0.00	0.00	0.00	0.00	0.00	9.60
Guo Guoqing (郭國慶)	9.60	0.00	0.00	0.00	0.00	0.00	0.00	0.00	9.60
Wang Xiaojun (王小軍)	9.60	0.00	0.00	0.00	0.00	0.00	0.00	0.00	9.60
Zheng Zhihua (鄭志華)	9.60	0.00	0.00	0.00	0.00	0.00	0.00	0.00	9.60
Xie Yun (謝耘)	9.60	0.00	0.00	0.00	0.00	0.00	0.00	0.00	9.60
Supervisors:									
Wang Maolin (汪卯林)	4.20	39.76	4.39	1.07	68.13	0.00	0.00	1.88	119.43
Tang Yin (湯胤)	3.60	0.00	0.00	0.00	0.00	0.00	0.00	0.00	3.60
Huang Huamin (黃華敏)	3.60	0.00	0.00	0.00	0.00	0.00	0.00	0.00	3.60
Other senior management:									
Lu Wenqi (陸文岐)	0.00	62.29	0.00	1.07	128.64	0.00	0.00	1.34	193.34
Si Yanxia (司燕霞)	0.00	54.71	4.45	1.07	109.27	0.00	0.00	4.30	173.80
Zhou Peng (周鵬)	0.00	53.42	4.46	1.07	82.87	0.00	0.00	1.19	143.01
Yang Liang (楊亮)	0.00	36.83	4.37	1.07	78.46	0.00	0.00	7.85	128.58
Total	102.00	544.56	33.71	8.56	1,011.07	0.00	0.00	37.51	1,737.41

Mr. Xu Guoxiang (徐國祥) was appointed on 30 June 2017; Mr. Yang Daihong (楊代宏) has retired on change of Board session on 30 June 2017; Mr. Zhong Shan (鍾山) has resigned on 1 September 2017.

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

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 three and two of the five highest paid individuals were directors of the Company for 2017 and 2018, respectively. The rest were senior management of the Company (two and three for 2017 and 2018, 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:

Items	2018	2017
Number of individuals within the band of \$0-\$1,000,000	–	–
Number of individuals within the band of \$1,000,001-\$1,500,000	–	–
Number of individuals within the band of \$1,500,001-\$2,000,000	–	2
Number of individuals within the band of \$2,000,001-\$2,500,000	–	1
Number of individuals within the band of \$2,500,001-\$3,000,000	2	2
Number of individuals within the band of \$3,000,001-\$3,500,000	2	–
Number of individuals within the band of \$3,500,001-\$4,000,000	1	–

③ Emoluments band of senior management

Items	2018	2017
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	4	2
Number of individuals within the band of \$2,000,001-\$2,500,000	1	1
Number of individuals within the band of \$2,500,001-\$3,000,000	2	2
Number of individuals within the band of \$3,000,001-\$3,500,000	2	–
Number of individuals within the band of \$3,500,001-\$4,000,000	1	–

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

XI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS *(continued)*

5. Related party transactions *(continued)*

(7) Other affiliated transactions

Capital increase and equity interest subscription

“Resolution on the change in shareholding structure and connected transactions of Livzon MABPharm Inc., a subsidiary controlled by the Company” was considered and approved at the 2018 First Extraordinary General Meeting of the Company. Pursuant to which, Livzon International Limited, a wholly-owned subsidiary of the Company, and a wholly-owned subsidiary of Joincare Pharmaceutical Industry Group Co., Ltd. (健康元藥業集團股份有限公司) increased capital in Livzon Biologics Limited of RMB600,000,000 on the basis of their respective 51% and 49% shareholding; at the same time, the Company and Joincare Pharmaceutical Industry Group Co., Ltd. (健康元藥業集團股份有限公司) entered into the “Agreement in relation to the transfer of equity in Livzon MABPharm Inc.” with Livzon Biologics Hong Kong Limited (麗珠生物科技香港有限公司) respectively, pursuant to which, the Company and Joincare Pharmaceutical Industry Group Co., Ltd. (健康元藥業集團股份有限公司) transferred 100% equity interests held in Livzon MABPharm Inc. (珠海市麗珠單抗生物技術有限公司) to Livzon Biologics Hong Kong Limited. Upon the completion of the transaction, the Company and Joincare Pharmaceutical Industry Group Co., Ltd. (健康元藥業集團股份有限公司) indirectly held through overseas wholly owned subsidiaries instead of directly holding equity interests of Livzon MABPharm Inc. (珠海市麗珠單抗生物技術有限公司), and the final shareholding percentage of the Company and Joincare Pharmaceutical Industry Group Co., Ltd. (健康元藥業集團股份有限公司) in Livzon MABPharm Inc. (珠海市麗珠單抗生物技術有限公司) remained unchanged at 51% and 49% respectively.

(Unless specified otherwise, all amounts 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

Name of item	Related parties	Balance at the End of the Year		Balance at the beginning of the year	
		Gross amount	Provision for bad debts	Gross amount	Provision for bad debts
Accounts receivables	Guangdong Blue Treasure Pharmaceutical Co. Ltd. (廣東藍寶製藥有限公司)	0.00	0.00	9,690,000.00	484,500.00
Accounts receivables	Jiaozuo Joicare Pharmaceutical Industry Group Co., Ltd. (焦作健康元生物製品有限公司)	0.00	0.00	2,726,413.16	136,320.66
Accounts receivables	Shenzhen Taitai Pharmaceutical Co., Ltd. (深圳太太藥業有限公司)	250,727.88	2,507.28	540,000.00	27,000.00
Accounts receivables	Zhuhai Sanmed Biotech Inc. (珠海聖美生物診斷技術有限公司)	43,093.37	1,568.85	0.00	0.00
Sub-total		293,821.25	4,076.13	12,956,413.16	647,820.66
Prepayments	Joicare Pharmaceutical Industry Group Co., Ltd. (健康元藥業集團股份有限公司)	25,983.80	0.00	71,133.80	0.00
Prepayments	CYNVENIO BIOSYSTEMS, INC.	0.00	0.00	110,313.80	0.00
Sub-total		25,983.80	0.00	181,447.60	0.00
Other receivables	Joicare Pharmaceutical Industry Group Co., Ltd. (健康元藥業集團股份有限公司)	240.00	24.00	0.00	0.00
Other receivables	Guangdong Blue Treasure Pharmaceutical Co., Ltd. (廣東藍寶製藥有限公司)	530,858.53	5,308.59	976,511.66	48,825.58
Other receivables	Zhuhai Sanmed Biotech Inc. (珠海聖美生物診斷技術有限公司)	178,043.93	1,780.44	0.00	0.00
Sub-total		709,142.46	7,113.03	976,511.66	48,825.58
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))	10,869,100.00	0.00	0.00	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))	20,299,509.76	0.00	0.00	0.00
Sub-total		31,168,609.76	0.00	0.00	0.00
Other non-current assets	AbCyte Therapeutics Inc.	13,585,800.00	0.00	0.00	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)	1,886,792.40	0.00	0.00	0.00
Other non-current assets	Zhuhai Sanmed Biotech Inc. (珠海聖美生物診斷技術有限公司)	1,353,430.06	0.00	0.00	0.00
Other non-current assets	CYNVENIO BIOSYSTEMS, INC.	1,053,767.89	0.00	0.00	0.00
Sub-total		17,879,790.35	0.00	0.00	0.00

(Unless specified otherwise, all amounts 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**

Name of item	Related parties	Balance at the End of the Year	Balance at the beginning of the year
Bills payables	iaozuo Joincare Pharmaceutical Industry Group Co., Ltd. (焦作健康元生物製品有限公司)	51,931,079.39	25,050,000.00
Bills payables	Shenzhen Haibin Pharmaceutical Co., Ltd. (深圳市海濱製藥有限公司)	9,701,962.00	0.00
Bills payables	Guangdong Blue Treasure Pharmaceutical Co. Ltd. (廣東藍寶製藥有限公司)	597,080.00	0.00
Sub-total		62,230,121.39	25,050,000.00
Payables	Guangdong Blue Treasure Pharmaceutical Co. Ltd. (廣東藍寶製藥有限公司)	0.00	11,800.00
Payables	Shenzhen Haibin Pharmaceutical Co., Ltd. (深圳市海濱製藥有限公司)	0.00	23,691,089.77
Payables	Joincare Pharmaceutical Industry Group Co., Ltd. (健康元藥業集團股份有限公司)	12,960.00	12,960.00
Payables	Jiaozuo Joincare Pharmaceutical Industry Group Co., Ltd. (焦作健康元生物製品有限公司)	198,530,203.10	119,898,340.20
Payables	Zhuhai Sanmed Biotech Inc. (珠海聖美生物診斷技術有限公司)	6,113,884.26	
Sub-total		204,657,047.36	143,614,189.97
Dividends payables	Zhuhai Zhenghe Co., Ltd. (珠海正禾企業有限公司)	90,004,303.71	168,404,303.71
Sub-total		90,004,303.71	168,404,303.71
Other payables	Jiaozuo Joincare Pharmaceutical Industry Group Co., Ltd. (焦作健康元生物製品有限公司)	5,787,078.06	6,386,047.07
Sub-total		5,787,078.06	6,386,047.07

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)	17,475,500.00
Total equity instruments exercised during the Current Period by the Company (Share)	4,622,319
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 2

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

XII. SHARE-BASED PAYMENT *(continued)*

1. General information about share-based payments *(continued)*

Note 1: Share Option

On 9 May 2018, the “Resolution on 2018 Share Options Incentive Scheme (Revised Draft) and its summary”, the “Resolution on Administrative Measures for Appraisal System of the 2017 Share Options Incentive Scheme of Livzon Pharmaceutical Group Inc.*” and the “Resolution on the general meeting for granting mandate to the board of directors to deal with matters regarding the 2017 Share Options Incentive Scheme” were considered and approved at the 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 nineteenth meeting of the ninth session of the Board of the Company, 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 with the exercise price of RMB47.01 per A Share.

The exercise periods for the granted Share Options and schedule for each exercise period are as follows:

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

Performance target at the Company level: An individual granted with Share Options under the Incentive Scheme will be assessed annually and the exercising of Share Options shall be conducted annually for the three accounting years during the Exercise period, subject to the Incentive Participant achieving the performance target as the condition of the exercising of the Share Options. For the Share Options granted under the First Grant, the performance targets are as follows:

Exercise period	Performance target
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 “the compound growth rate of net profit” are calculated based on the net profit attributable to the shareholders of the listed company (net of non-recurring profit or loss), and excluding the net profit affected by the expenses incurred on the share-based payment under the Share Option Incentive Scheme. If the Company could not meet the above performance target, the Share Options of all Incentive Participants exercisable in the current year shall not be exercised and shall be cancelled by the Company.

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

XII. SHARE-BASED PAYMENT *(continued)*

1. General information about share-based payments *(continued)*

Note 1: Share Option *(continued)*

The assessment of the Incentive Participants at individual level shall be conducted according to the Company's current requirements for remuneration and assessment, and the comprehensive appraisal results of the Incentive Participants for each assessment year will be graded as follows:

Appraisal results	Excellent	Good	Qualified	Fail
Exercise percentage	100%		80.00%	0.00%

If the performance target at the Company level for a year is attained, the actual personal Exercise amount of an Incentive Participant for the year = Exercise percentage × the scheduled personal Exercise amount of the Incentive Participant for the year. If an Incentive Participant fails the assessment for a year, the Company shall cancel the Share Options concerned granted to the Incentive Participant which cannot be exercised any more.

Note 2: Restricted Shares

Pursuant to "Livzon Pharmaceutical Group Inc. Restricted Shares Incentive Scheme (Revised Draft)" and its summary considered and approved by the 2015 First Extraordinary Shareholders' Meeting of the Company and the resolution of the eighth meeting (27 March 2015) of the eighth session of the Board of directors, the Company first granted 8,660,400 Restricted Shares to 458 Incentive Participants at the price of RMB25.20 per share with 27 March 2015 as the date of grant. The lock-up period is 12 months from the date of the granting of the Restricted Shares and the unlock-up period is 36 months thereafter. During the unlock-up period, participants may, subject to unlocking conditions of the scheme being satisfied, apply for unlocking the subject shares in 3 tranches, representing 40%, 30% and 30% of the total number of granted Restricted Shares for the Current Period of 12 months to 24 months from the date of granting (the First unlock-up period), 24 months to 36 months from the date of granting (the Second unlock-up period) and 36 months to 48 months from the date of granting (the Third unlock-up period), respectively. Unlocking conditions are as follows:

Unlock-up period	Target level of performance assessment
The First Unlock-up period	Net profit attributable to the shareholders of the listed companies and net profit attributable to the shareholders of the listed companies (net of non-recurring profit or loss) should be no less than the average of the three latest accounting years before the date of granting and cannot be negative. Based on the net profit of 2014, the growth rate of net profit for 2015 is no less than 15%;
The Second Unlock-up period	Based on the net profit of 2014, the growth rate of net profit for 2016 is no less than 38%;
The Third Unlock-up period	Based on the net profit of 2014, the growth rate of net profit for 2017 is no less than 73%.

Pursuant to the 18th meeting of the 8th session of the board of directors of the Company which considered and passed the "Proposal on Matters Related to Granting Reserved Restricted Shares to Incentive Participants" on 12 November 2015, the Company granted 1,285,700 Restricted Shares to 177 Incentive Participants at the price of RMB24.61 per share with 12 November 2015 as the date of grant. The lock-up period for the Restricted Shares under this grant was 12 months since the date of granting and its unlock-up period was 36 months from the locking. During the unlock-up period, participants may, subject to unlocking conditions stipulated by the scheme being satisfied, apply for unlocking the subject shares in 3 tranches, representing 40%, 30% and 30% of the total number of granted Restricted Shares since 12 months to 24 months from the date of granting (the First unlock-up period), 24 months to 36 months from the date of granting (the Second unlock-up period) and 36 months to 48 months from the date of granting (the Third unlock-up period), respectively. Unlocking conditions are as follows:

Unlock-up period	Target level of performance assessment
The First Unlock-up period	Based on the net profit of 2014, the growth rate of net profit for 2015 is no less than 15%;
The Second Unlock-up period	Based on the net profit of 2014, the growth rate of net profit for 2016 is no less than 38%;
The Third Unlock-up period	Based on the net profit of 2014, the growth rate of net profit for 2017 is no less than 73%.

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

XII. SHARE-BASED PAYMENT *(continued)*

1. General information about share-based payments *(continued)*

Note 2: Restricted Shares *(continued)*

On 14 August 2015, the Company completed the 2014 Equity Distribution. According to the Incentive Scheme, adjustments were made to the number of Restricted Shares under the initial grant and repurchase price according to the adjustment methods of the number of shares granted and the price upon the transfer of capital reserves into the share capital, bonus issues and share sub-divisions. The number of the Restricted Shares of the first grant after the adjustments was 11,258,520 and the repurchase price of the first grant after the adjustments was RMB19.308 per share. On 27 October 2015, the 16th Board Meeting of the 8th Session of the Board, considered and approved "the Resolution on Repurchase and Cancellation of Locked Restricted Shares Granted to Incentive Participants No Longer Satisfying the Conditions for Incentive". It was agreed to repurchase and cancel 93,080 Restricted Shares granted but not yet unlocked at RMB19.308 per share from 7 incentive participants in the initial grant of Restricted Shares who no longer satisfying the incentive conditions. Upon completion of the repurchase, the number of incentive participants of the initial grant of Restricted Shares was adjusted from 458 to 451.

On 28 March 2016, the Twenty-third Meeting of the Eighth Session of the Board considered and passed the "Resolution on Granting Shares to be Unlocked during the First Unlock-up period under the Restricted Shares Incentive Scheme of the Company" and the "Resolution on Repurchase and Cancellation of the Restricted Shares Granted but Not Yet Unlocked to Incentive Participants Who Are No Longer Qualified". It was agreed to repurchase and cancel 32,500 Restricted Shares granted but not yet unlocked at RMB19.308 per share from 1 incentive participant in the initial grant of Restricted Shares who no longer satisfying the incentive conditions. The remaining 450 incentive participants in the initial grant of Restricted Shares have satisfied the unlocking conditions with 4,453,176 Restricted Shares unlocked and listed in the first tranche in the initial grant.

On 16 May 2016, the 26th Board Meeting of the 8th Session of the Board, considered and passed "the Resolution on Repurchase and Cancellation of Locked Restricted Shares Granted to Incentive Participants No Longer Satisfying the Conditions for Incentive". It was agreed to repurchase and cancel 215,124 Restricted Shares granted but not yet unlocked at RMB19.308 per share from 13 incentive participants in the initial grant of Shares who no longer satisfying the conditions for incentive, and repurchase and cancel 10,000 Restricted Shares granted but not yet unlocked at RMB24.61 per share from 1 incentive participant from the reserved grant of Shares who no longer satisfying the incentive conditions, totaling 225,124 shares repurchased. Upon completion of the repurchase, the number of incentive participants of the initial grant of Restricted Shares and the reserved grant of incentive shares were adjusted from 450 to 437 and 177 to 176, respectively.

On 30 November 2016, the 32nd Board Meeting of the 8th Session of the Board, considered and passed "Resolution on Reserved Grant to be Unlocked during the First Unlocking Period under the Restricted Shares Incentive Scheme of the Company" and "the Resolution on Repurchase and Cancellation of Locked Restricted Shares Granted to Incentive Participants No Longer Satisfying the Conditions for Incentive". It was agreed to repurchase and cancel 103,974 Restricted Shares granted but not yet unlocked at RMB18.81 per share from 9 incentive participants in the initial grant of Shares who no longer satisfying the conditions for incentive, and repurchase and cancel 29,300 Restricted Shares granted but not yet unlocked at RMB24.11 per share from 5 incentive participants from the reserved grant of Shares who no longer satisfying the incentive conditions, totaling 133,274 shares repurchased. Upon completion of the repurchase, the number of incentive participants of the initial grant of Restricted Shares and the reserved grant of incentive shares were adjusted from 437 to 428 and 176 to 171, respectively. The remaining 171 incentive participants from the reserved grant have satisfied the unlocking conditions with 498,560 Restricted Shares unlocked and listed in the first tranche from the reserved grant.

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

XII. SHARE-BASED PAYMENT *(continued)*

1. General information about share-based payments *(continued)*

Note 2: Restricted Shares *(continued)*

On 28 March 2017, the Company convened the 36th meeting of the eighth session of the Board to consider and approve the "Resolution on Granting Shares to be Unlocked during the Second Unlocking Period of the first grant under the Restricted Shares Incentive Scheme of the Company" and the "Resolution on Repurchase and Cancellation of Locked Restricted Shares Granted to Incentive Participants No Longer Qualified for Incentive". Pursuant to which, it was agreed that the Company repurchase and cancel 6,240 Restricted shares granted but not yet unlocked at RMB18.81 per share from 1 incentive participants in the initial grant of Shares who no longer satisfying the conditions for incentive, and repurchase and cancel 28,020 Restricted Shares granted but not yet unlocked at RMB24.11 per share from 5 incentive participant from the reserved grant of Shares who no longer satisfying the incentive conditions, totaling 34,260 shares repurchased. Upon completion of the repurchase, the number of incentive participants of the initial grant of Restricted Shares and the reserved grant of incentive shares were adjusted from 428 to 427 and 171 to 166, respectively. The remaining 427 incentive participants in the initial grant of Restricted shares have satisfied the unlocking conditions with 3,177,213 Restricted Shares unlocked and listed in the second tranche from the initial grant.

On 15 December 2017, the Company convened the sixth meeting of the ninth session of the Board to consider and approve the "Resolution on Granting Shares to be Unlocked during the Second Unlocking Period of the Reserve Grant under the Restricted Shares Incentive Scheme of the Company" and the "Resolution on Repurchase and Cancellation of Locked Restricted Shares Granted". Pursuant to which, it was agreed that the Company repurchase and cancel 77,774 Restricted Shares granted but not yet unlocked at RMB14.08 per share from 13 incentive participants in the initial grant of Shares who no longer satisfying the conditions for incentive, and repurchase and cancel 11,310 Restricted Shares granted but not yet unlocked from 3 incentive participants from the reserved grant of Shares who no longer satisfying the incentive conditions, and 1,014 Restricted Shares granted to 1 incentive participant under the reserved grant which no longer satisfy the unlock conditions, at RMB18.16 per share, totaling 90,098 shares repurchased. Upon completion of the repurchase and cancellation, the number of incentive participants of the initial grant of Restricted Shares and the reserved grant of incentive shares were adjusted from 427 to 414 and 166 to 163, respectively. The 162 incentive participants under the reserved grant have satisfied the unlocking conditions with 461,214 Restricted Shares unlocked and listed in the second tranche from the reserved grant.

On 29 March 2018, the Company convened the twelfth meeting of the ninth session of the Board to consider and approve the "Resolution on the Repurchase and Cancellation of Locked Restricted Shares Granted to Incentive Participants No Longer Satisfying the Conditions for Incentive" and the "Resolution on Granting Shares to be Unlocked during the Third Unlocking Period of the First Grant under the Restricted Shares Incentive Scheme of the Company". Pursuant to which, it was agreed that the Company repurchase and cancel 14,196 Restricted Shares granted but not yet unlocked at RMB14.08 per share from 2 incentive participants in the initial grant of Shares who no longer satisfying the conditions for incentive, and repurchase and cancel 11,505 Restricted Shares granted but not yet unlocked from 4 incentive participants from the reserved grant of Shares who no longer satisfying the incentive conditions at RMB18.16 per share, totaling 25,701 shares repurchased. The remaining 413 incentive participants under the first grant have satisfied the unlocking conditions with 4,038,407 Restricted Shares unlocked and listed in the third tranche from the reserved grant.

On 18 December, the Company convened the twenty-second meeting of the ninth session of the Board to consider and approve the "Resolution on Repurchase and Cancellation of Certain Restricted Shares" and the "Resolution on the Unlocking of the Third Unlock Period for the Reserved Grant under the Restricted Shares Incentive Scheme of the Company". Pursuant to which, it was agreed that the Company shall repurchase and cancel 2,028 Restricted Shares granted but not yet unlocked from 1 incentive participant from the reserved grant of Shares who no longer satisfied the incentive conditions at RMB12.43 per share. The remaining 158 incentive participants under the reserved grant have satisfied the unlocking conditions with 583,912 Restricted Shares unlocked and listed in the third tranche from the reserved grant.

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

XII. SHARE-BASED PAYMENT *(continued)*

2. Equity settled share-based payments

<u>Item</u>	<u>Relevant Content</u>
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 Year and Previous Year	Nil
Accumulated Amount of Shares Settled in Equity Included in Capital Reserve	83,971,237.80
Total Expense Recognised for Equity Settled Share-Based Payments for this Year	3,407,722.56

3. Cash settled share-based payments

Nil.

XIII. COMMITMENTS AND CONTINGENCIES

1. Significant commitments

(1) Capital commitments

<u>Item</u>	<u>Balance at the End of the Year</u>	Balance at the beginning of the year
Contracted but not recognised in the financial statements		
– Commitments in relation to acquisition of long-term assets	52,554,161.77	43,824,827.39
Total	52,554,161.77	43,824,827.39

(2) Operating lease commitments

As at the balance sheet date, the Company signed the non-cancellable operating leases as follows:

<u>Item</u>	<u>Balance at the End of the Year</u>	Balance at the beginning of the year
Minimum lease payments under non-cancellable operating leases payable:		
Within 1 year	4,365,858.28	3,959,645.55
1 to 2 years	3,099,433.60	1,613,516.00
2 to 3 years	521,590.80	2,117,643.75
Over 3 years	630,213.00	167,097.00
Total	8,617,095.68	7,857,902.30

(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 2017 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

1. Appropriation of profits

On 27 March 2019, the Company held the 25th Meeting of the 9th Board and passed the resolution of 2018 annual profit distribution plan, under which the parent's undistributed profit available for distribution to shareholders in 2018 was RMB4,476,751,249.86 with reference to the net profit of RMB858,578,166.32 realised by the parent in 2018, plus the opening undistributed profit of RMB4,724,404,223.54 and further minus the dividends of RMB1,106,231,140.00 paid under 2017 annual profit distribution plan.

Considering the capital demands due to its operations, the Board proposed the 2018 profit distribution plan for the Company: 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 RMB12 per 10 shares (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.

The above mentioned profit distribution plan shall be submitted to the annual general meeting of 2018 for examination and approval.

2. Effect of the adoption of new Accounting Standards since 1 January 2019

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 reports shall apply the above-mentioned Standard from 1 January 2018. 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, and change the accounting policies according to the requirements under the above-mentioned Standard.

The followings are the details of the changes in accounting policies:

The New Lease Standard defines leases as "the contract for a lessor to assign the right to use the leased assets to the lessee within a period of time for obtaining consideration", and further explains if one party under the contract transfers the right to use of one or more recognised assets within a period of time for obtaining consideration, the contract shall be considered as lease or include lease. At the same time, the New Lease Standard also includes accounting treatment requirements for unbundling contracts including leases and non-lease components, and consolidating multiple contracts into one lease contract.

Under the New Lease Standard, the lessee no longer distinguishes leasing as operating leases or financial leases, but to adopt an united accounting treatment model, which recognises all leases (except for short-term leases and low value asset leases) as right-of-use assets and lease liabilities, and provides for depreciation and dividend expenses.

The New Lease Standard stipulates clearly the major events and changes within the controllable scope of the lessee, and if they affect the lessee's reasonable assurance of corresponding options will be exercised, the lessee shall re-assess his or her reasonable assurance of exercising renewal and purchase options or not to exercise an option to terminate the lease. Change in leases refers to the changes in leased area, lease consideration and term under the original contract, enterprises shall consider it as a single lease for accounting treatment or re-calculate as lease liability.

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

XIV. POST BALANCE SHEET DATE EVENTS *(continued)*

3. Other significant non-adjusting events after balance sheet date

On 6 March 2019, the Company and the People's Government of Pengzhou Chengdu, Sichuan province entered into the "Investment Agreement in Relation to the Project of the Relocation of Sichuan Guangda Pharmaceutical Manufacturing Co., Ltd." and the "Supplementary Agreement", pursuant to which, the Company will invest RMB64,600,000 in the project of the relocation of Sichuan Guangda Pharmaceutical Manufacturing Co., Ltd. This external investment has been considered and approved at the twenty-fourth meeting of the Nine Session of the Board of the Company.

The project is carried out by the wholly-owned subsidiary of the Company, Sichuan Guangda Pharmaceutical Manufacturing Co., Ltd.. The project site has been acquired through statutory procedure, which is located in Sichuan Pengzhou Industrial Research and Development Area, with a total site area of 190 mus.

As at the date of the Report, the Company has no other non-adjustment events that needed to be disclosed after the balance sheet date.

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

XV. OTHER SIGNIFICANT MATTERS

1. Adjustments to the amount of proceeds of projects invested with proceeds

On 21 May 2018, the Company's 2017 Annual General Meeting, the 2018 Second Class Meeting of Shareholders and the 2018 Second Class Meeting of H Shareholders have considered and approved the "Resolution on the Adjustments to the Amount of Proceeds used in Non-public Issuance of Fund-raising Investment Projects", and it was agreed that the amount of proceeds used in non-public issuance of fund-raising investment projects shall be adjusted. The details are as follows:

(1) Adjustments to the amount of proceeds used in "The project financed by funds raised of R&D and Industrialization Upgrade of Innovative Product of Ilaprazole Series" (艾普拉唑系列創新產品深度開發及產業化升級項目)

The executor of the project was the Company and subsidiary 子公司麗珠集團麗珠製藥廠, mainly for R&D and Industrialization Upgrade of Innovative Product of Ilaprazole Series, specifically Ilaprazole Tablet, Ilaprazole Sodium for Injection, Ilaprazole optical isomer preparation and Ilaprazole compound preparation, with total investment of RMB450,000,000.

Amount of proceeds of various investments are as follows:

Unit: RMB0'000

Name of item	R&D equipment	Preclinical studies	R&D		Clinical studies after listing	Industrialization Upgrade (Construction and equipment)
			Clinical studies	Industrialization development & technology upgrade		
Ilaprazole Tablet	3,000	-	300	600	6,800	4,100
Ilaprazole Sodium for Injection		-	2,500	500	6,800	4,900
Ilaprazole optical isomer preparation		650	3,300	400	3,400	-
Ilaprazole compound preparation		650	3,300	400	3,400	-
Total	3,000	1,300	9,400	1,900	20,400	9,000

Note: Construction period of industrialization upgrade is 3 years.

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

XV. OTHER SIGNIFICANT MATTERS *(continued)*

1. Adjustments to the amount of proceeds of projects invested with proceeds *(continued)*

(1) Adjustments to the amount of proceeds used in “The project financed by funds raised of R&D and Industrialization Upgrade of Innovative Product of Ilaprazole Series” (艾普拉唑系列創新產品深度開發及產業化升級項目) *(continued)*

Due to the introduction of regulations in centralized assessment and clinical verification etc., the progress of obtaining approval of new indications of Ilaprazole Sodium for Injection and Ilaprazole Tablet did not meet the expectation, and the industrialization upgrade of the project will be carried out in phrases and postponed. The Company has adjusted the amount of proceeds of the projects invested with proceeds and details of the amount of proceeds of the projects after adjustment is as follows (by year):

Unit: RMB0'000

Year	R&D equipment	Preclinical studies	Clinical studies	Industrialization development & technology upgrade	Clinical studies after listing	Industrialization Upgrade	Total
2018	700.00	800.00	320.00	-	900.00	1,300.00	4,020.00
2019	700.00	800.00	840.00	-	1,800.00	750.00	4,890.00
2020	700.00	500.00	1,100.00	100.00	1,800.00	500.00	4,700.00
2021	500.00	200.00	1,640.00	300.00	2,000.00	750.00	5,390.00
2022	500.00	-	2,980.00	500.00	2,000.00	1,300.00	7,280.00
2023	400.00	-	4,180.00	-	1,500.00	700.00	6,780.00
2024	300.00	-	3,480.00	-	-	750.00	4,530.00
2025	300.00	-	1,280.00	200.00	1,000.00	517.00	3,297.00
Total	4,100.00	2,300.00	15,820.00	1,100.00	11,000.00	6,567.00	40,887.00

Note: Industrialization upgrade needs to be implemented step by step, and all investment is completed in approximately 7 years.

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

XV. OTHER SIGNIFICANT MATTERS *(continued)*

1. Adjustments to the amount of proceeds of projects invested with proceeds *(continued)*

(2) Adjustments to the amount of proceeds used in "Livzon Group Xinbeijiang Pharmaceutical Manufacturing Inc (phase I)" (麗珠集團新北江製藥股份有限公司搬遷擴建項目(一期))

The project was executed by Livzon Group Xinbeijiang Pharmaceutical Manufacturing Inc. (麗珠集團新北江製藥股份有限公司) mainly for: office complex, R&D centres, power workshops, dangerous goods store, tank area and pump area, guard room, sewage treatment station (New pool, equipment area, sludge dewatering area, dangerous waste room, auxiliary room), fermentation workshop 1, fermentation workshop 2, fermentation workshop 3, refining workshop 1, refining workshop 2, synthesis workshop 1, synthesis workshop 2, synthesis workshop 3, synthesis workshop 4, synthesis workshop 5, integrated warehouse etc.

The construction period of the project was 2.5 years and the total investment amount was RMB143,289,400. Details of construction investment as follows:

Unit: RMB0'000

No.	Title of fees	Total investment
1	Costs of construction	1,936.66
2	Other fees of fixed assets	11,392.28
2.1	Construction fees of R&D centre	2,636.30
2.2	Investment in purchase of equipment	5,056.98
2.3	Investment in plants and infrastructure	3,699.00
3	Initial working capital	1,000.00
Total		14,328.94

As at 31 December 2017, due to the progress of the environmental assessment, the relocation and expansion project has not yet been officially launched. The Company has adjusted the amount of proceeds in the projects invested with proceeds and details of the amount of proceeds of the projects after adjustment is as follows (by year):

Unit: RMB0'000

Year	Costs of construction	Other fees of fixed assets	Initial working capital	Total amount
2018	992.54	3,688.30	1,000.00	5,680.84
2019	337.04	5,396.38	–	5,733.42
2020	607.08	2,307.60	–	2,914.68
Total	1,936.66	11,392.28	1,000.00	14,328.94

This adjustment was made by the Company in view of the actual progress of the projects invested with proceeds. There were only adjustments to the amount of proceeds used in each of the subsequent years of the projects, without changing the use of the proceeds.

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

XV. OTHER SIGNIFICANT MATTERS *(continued)*

2. Subsidiary Share Option Scheme

On 5 September 2018, the “Stock option plan and related matters of subsidiaries” and the “Proposal to grant stock options of subsidiaries under the stock option plan of subsidiaries to Mr. Fu Daotian” were considered and approved at the 2018 Third Extraordinary General Meeting, 2018 Third Class Meeting of A Shareholders and 2018 Third Class Meeting of H Shareholders of the Company.

(1) Details of Subsidiary Share Option Scheme

The qualified participants of this stock option plan are LivzonBiologics Limited (or including persons such as directors, employees, consultants and professional consultants of any of its subsidiaries) which has contributed or will contribute to Livzon Biologics Limited and any of its subsidiaries.

Maximum number of ordinary shares of LivzonBiologics Limited involved in the Stock options of subsidiaries which may be granted does not exceed 11,111,111 shares. In the 12 months from the day of granting options to any qualified participants, the maximum quota of ordinary shares which can be granted, have been granted or have cancelled under the options granted to the qualified participant must not exceed 1% of ordinary shares issued by LivzonBiologics Limited. In case of exceeding 1%, it must be submitted to the general meeting of the Company for consideration and approval.

Vesting period and exercise period: Unless otherwise specified by grantees in the offer document, the stock options of the subsidiaries of grantees will be 25% of the total number of ordinary shares of LivzonBiologics Limited involved in the stock options vested to its subsidiaries on the first anniversary day of the starting date of the stock options of the subsidiaries, and 50%, 75% and 100% of the total number vested on the second, third and fourth anniversary day respectively. Only the proportion of stock options of subsidiaries which have been granted can be exercised by the respective grantees in the stock options of subsidiaries. Options of grantees do not carry the rights to exercise any stock options of any subsidiaries before the first public offering date of Livzon Biologics Limited.

Performance targets: The board of directors of Livzon Biologics may in its absolute discretion impose any performance targets which must be achieved before a Subsidiary Share Option can be exercised as it may think fit.

Exercise price: The exercise price of each Share Option shall be determined by the board of directors of Livzon Biologics in its absolute discretion.

Term of validity of the Subsidiary Share Option Scheme: The Subsidiary Share Option Scheme shall be effective and valid for the period commencing on the date of adoption of the Subsidiary Share Option and ending during the date before the Livzon Biologics Listing Date of its initial public offering (both dates inclusive) or 10 years from the date of adoption of the Subsidiary Share Option Scheme (both dates inclusive), whichever is earlier.

Termination of the Subsidiary Share Option Scheme: Livzon Biologics by resolution in general meeting or the board of directors of Livzon Biologics may at any time resolve to terminate the operation of the Subsidiary Share Option Scheme and in such event no further Subsidiary Share Options shall be offered but the provisions of the Subsidiary Share Option Scheme shall remain in force to the extent necessary to give effect to the exercise of any Subsidiary Share Option granted prior to the termination or otherwise as may be required in accordance with the provisions of the Subsidiary Share Option Scheme and Subsidiary Share Options granted prior to such termination shall continue to be valid and exercisable in accordance with the Subsidiary Share Option Scheme.

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

XV. OTHER SIGNIFICANT MATTERS *(continued)*

2. Subsidiary Share Option Scheme *(continued)*

(2) Grant of Subsidiary Share Options under the Subsidiary Share Option Scheme to Mr. Fu Daotian

To grant 1,666,666 subsidiary share options under the Subsidiary Share Option Scheme to Mr. Fu Daotian (Director and General Manager of Livzon MABPharm Inc. (珠海市麗珠單抗生物技術有限公司) (an indirectly owned subsidiary of Livzon Biologics Limited), and Director and Vice President of the Company) to subscribe for 1,666,666 ordinary shares in Livzon Biologics Limited.

As at the date of the balance sheet, the Company has no other major events that need to be disclosed.

XVI. NET CURRENT ASSETS AND TOTAL ASSETS LESS CURRENT LIABILITIES

1. Net current assets

Item	Balance at the End of the year	Balance at the beginning of the year
Current assets	12,471,728,254.44	11,359,734,091.18
Less: Current liabilities	5,369,578,000.87	4,411,030,586.24
Net current assets	7,102,150,253.57	6,948,703,504.94

2. Total assets less current liabilities

Item	Balance at the End of the year	Balance at the beginning of the year
Total assets	17,437,346,860.38	15,897,730,717.63
Less: Current liabilities	5,369,578,000.87	4,411,030,586.24
Total assets less current liabilities	12,067,768,859.51	11,486,700,131.39

XVII. NOTES TO THE KEY COMPONENTS OF PARENT COMPANY FINANCIAL STATEMENTS

1. Bills receivables and accounts receivables

Type	Balance at the end of the year	Balance at the beginning of the year
Bills receivables	606,560,125.42	636,582,349.82
Accounts receivables	601,743,929.08	637,179,064.67
Total	1,208,304,054.50	1,273,761,414.49

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

XVII. NOTES TO THE KEY COMPONENTS OF PARENT COMPANY FINANCIAL STATEMENTS (continued)

1. Bills receivables and accounts receivables (continued)

(1) Bills receivables

Type	Balance at the End of the year	Balance at the beginning of the year
Bank acceptance bills	606,560,125.42	636,582,349.82
Total	606,560,125.42	636,582,349.82

① Bills receivables by types

Category	Balance at the end of the year				
	Gross amount		Provision for bad debts		Carrying value
	Amount	Percentage (%)	Amount	Provision Percentage (%)	
Bills receivables that are impairment provided on an individual basis	0.00	0.00	0.00	0.00	0.00
Bills receivables assessed for impairment collectively	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

(continued)

Category	Balance at the beginning of the year				
	Gross amount		Provision for bad debts		Carrying value
	Amount	Percentage (%)	Amount	Provision Percentage (%)	
Bills receivables that are impairment provided on an individual basis	0.00	0.00	0.00	0.00	0.00
Bills receivables assessed for impairment collectively	636,582,349.82	100.00	0.00	0.00	636,582,349.82
Total	636,582,349.82	100.00	0.00	0.00	636,582,349.82

Bills receivables assessed for impairment collectively by acceptor' portfolios

Item	Balance at the end of the year		
	Bills receivables	Provision for bad debts	Provision Percentage (%)
Bank acceptance bills	606,560,125.42	0.00	0.00
Total	606,560,125.42	0.00	0.00

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

XVII. NOTES TO THE KEY COMPONENTS OF PARENT COMPANY FINANCIAL STATEMENTS *(continued)*

1. Bills receivables and accounts receivables *(continued)*

(1) Bills receivables *(continued)*

- ② Provision for bad debts of bills receivables

Item	Balance at the beginning of the year	Provisions for bad debts made for the Year	Recoveries or reversals during the Year	Balance at the end of the year
Bills receivables	0.00	0.00	0.00	0.00
Total	0.00	0.00	0.00	0.00

- ③ There is no actual write-off of bills receivables for the Year.

- ④ Pledged bills receivables were at the End of the year

Item	Pledged amount at the end of the year
Bank acceptance bills	335,767,075.30
Total	335,767,075.30

- ⑤ Endorsed or discounted receivable bills not yet mature by the date of balance sheet

Item	Recognised amount by the End of the year	Unrecognised amount by the End of the year
Bank acceptance bills not yet mature but already endorsed	1,886,000.00	0.00
Bank acceptance bills not yet mature but already discounted	0.00	0.00

- ⑥ There was no bills transferred into account receivables for non-performance by the issuer by the End of the year.

- ⑦ As of 31 December 2018, bills with carrying amount of RMB335,767,075.30 (31 December 2017: RMB0) were pledged and bank acceptance bills of RMB306,283,296.70 was issued.

For the year, the Company discounted RMB0.00 bank acceptance bills (RMB0.00 in the previous year). As the main risks (such as interest risks) related to these bank acceptance bills were transferred to the bank, the Company derecognized the undue bank acceptance bills that had been discounted. The discounted fee was RMB0.00 (RMB0.00 in the previous year).

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

XVII. NOTES TO THE KEY COMPONENTS OF PARENT COMPANY FINANCIAL STATEMENTS (continued)**1. Bills receivables and accounts receivables** (continued)**(2) Accounts receivables**

① Accounts receivables disclosed by types

Type	Balance at the End of the year				
	Gross amount		Provision for bad debts		Carrying Value
	Amount	Percentage(%)	Amount	Percentage(%)	
Accounts receivables that are impairment provided on an individual basis	5,198,757.18	0.84	5,198,757.18	100.00	0.00
Accounts receivables assessed for impairment collectively	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

Type	Balance at the beginning of the year				
	Gross amount		Provision for bad debts		Carrying Value
	Amount	Percentage(%)	Amount	Percentage(%)	
Accounts receivables that are impairment provided on an individual basis	2,497,535.08	0.37	2,497,535.08	100.00	0.00
Accounts receivables assessed for impairment collectively	673,570,782.74	99.63	36,391,718.07	5.40	637,179,064.67
Total	676,068,317.82	100.00	38,889,253.15	5.75	637,179,064.67

A. As at the End of the Period, ageing analysis of accounts receivables that are impairment provided on an individual basis

Accounts receivables description	Balance at the End of the year			
	Gross amount	Provision for bad debts	Percentage (%)	Reason for provision made
Loans	5,198,757.18	5,198,757.18	100.00%	not expected to be recoverable
Total	5,198,757.18	5,198,757.18	-	-

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

XVII. NOTES TO THE KEY COMPONENTS OF PARENT COMPANY FINANCIAL STATEMENTS (continued)**1. Bills receivables and accounts receivables** (continued)**(2) Accounts receivables** (continued)

① Accounts receivables disclosed by types (continued)

B. Accounts receivables in the portfolio with provision for bad debts made using the ageing analysis method

Ageing	Balance at the End of the year		
	Account receivables	Provision for bad debts	Percentage (%)
Within 3 months (including 3 months)	540,992,964.81	5,409,929.65	1.00
4-6 months (including 6 months)	47,382,576.96	2,369,128.85	5.00
7-12 months (including 12 months)	17,740,922.93	1,774,092.29	10.00
1-2 years (including 2 years)	6,025,712.53	1,205,142.51	20.00
2-3 years (including 3 years)	1,200,150.50	840,105.35	70.00
Over 3 years	21,206.99	21,206.99	100.00
Total	613,363,534.72	11,619,605.64	

② Provision for bad debts of account receivables

Item	Balance at the beginning of the year	Provisions for bad debts made for the Year	Recoveries or reversals during the Year	Balance at the end of the year
Accounts receivables	38,889,253.15	-21,138,248.67	932,641.66	16,818,362.82
Total	38,889,253.15	-21,138,248.67	932,641.66	16,818,362.82

③ Actual write-off of accounts receivables for the Current Period

Item	Amount written-off
Receivables actually written off	932,641.66

④ The total of account receivables with five largest amount by creditors was RMB68,417,061,41, or 11.06% of the total account receivables by the period end, total provision for bad debts by the period end was RMB676,279.83.

⑤ The Company has no derecognized receivables out of transfer of financial assets.

⑥ The Company has no assets or liabilities formed by its continuous involvement of transferring receivables.

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

XVII. NOTES TO THE KEY COMPONENTS OF PARENT COMPANY FINANCIAL STATEMENTS (continued)**2. Other receivables**

Item	Balance at the End of the Year	Balance at the beginning of the Year
Interest receivables	0.00	5,945,063.41
Dividends receivables	599,078,865.48	566,928,924.56
Other receivables	1,180,580,106.85	1,662,285,306.91
Total	1,779,658,972.33	2,235,159,294.88

(1) Interest receivables

Item	Balance at the End of the Year	Balance at the beginning of the Year
Fixed deposit	0.00	5,945,063.41
Total	0.00	5,945,063.41

(2) Dividends receivables

Item	Balance at the End of the Year	Balance at the beginning of the Year
Livzon Group Limin Pharmaceutical Manufacturing Factory (麗珠集團利民製藥廠)	391,650,975.80	391,650,975.80
Zhuhai Livzon Diagnostic Reagents Inc. (珠海麗珠試劑股份有限公司)	93,677,948.76	175,277,948.76
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	0.00
Total	599,078,865.48	566,928,924.56

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

XVII. NOTES TO THE KEY COMPONENTS OF PARENT COMPANY FINANCIAL STATEMENTS (continued)**2. Other receivables** (continued)**(3) Other receivables**

① Other receivables presented by types

Type	Balance at the End of the year				
	Gross amount		Provision for bad debts		Carrying value
	Amount	Percentage (%)	Amount	Percentage (%)	
Other receivables that are impairment provided on an individual basis	237,459.44	0.02	237,459.44	100.00	0.00
Other receivables assessed for impairment collectively	1,186,422,066.75	99.98	5,841,959.90	0.49	1,180,580,106.85
Total	1,186,659,526.19	100.00	6,079,419.34	0.51	1,180,580,106.85

(continued)

Type	Balance at the End of the year				
	Gross amount		Provision for bad debts		Carrying value
	Amount	Percentage (%)	Amount	Percentage (%)	
Other receivables that are impairment provided on an individual basis	1,541,860.22	0.09	1,541,860.22	100.00	0.00
Other receivables assessed for impairment collectively	1,668,153,052.56	99.91	5,867,745.65	0.35	1,662,285,306.91
Total	1,669,694,912.78	100.00	7,409,605.87	0.44	1,662,285,306.91

A. As at the End of the year, ageing analysis of other receivables that are impairment provided on an individual basis

Other receivables	Balance at the End of the year			
	Gross amount	Provision for bad debts	Percentage of provision (%)	Reason for provision made
Current account	237,459.44	237,459.44	100.00	Not expected to be recoverable
Total	237,459.44	237,459.44	-	-

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

XVII. NOTES TO THE KEY COMPONENTS OF PARENT COMPANY FINANCIAL STATEMENTS *(continued)*
2. Other receivables *(continued)*
(3) Other receivables *(continued)*

 ① Other receivables presented by types *(continued)*

B. Other receivables in the portfolio with provision for bad debts made using the ageing analysis method

Ageing	Balance at the End of the year		
	Other receivables	Provision for bad debts	Percentage (%)
Within 3 months (including 3 months)	7,108,043.66	71,080.43	1.00
4-6 months (including 6 months)	1,915,870.00	95,793.50	5.00
7-12 months (including 12 months)	543,413.88	54,341.39	10.00
1-2 years (including 2 years)	1,211,719.00	242,343.80	20.00
2-3 years (including 3 years)	0.00	0.00	70.00
Over 3 years	5,378,400.78	5,378,400.78	100.00
Total	16,157,447.32	5,841,959.90	

C. Receivables from each company in the scope of portfolio

Item	Balance at the End of the Year		
	Other receivables	Provision for bad debts	Percentage (%)
Current account	1,170,264,619.43	0.00	0.00
Total	1,170,264,619.43	0.00	0.00

② Provision for bad debts of other receivables

Item	Balance at the beginning of the Year	Provisions for bad debts made for the Year	Recoveries or reversals during the Year	Balance at the end of the Year
Other receivables	7,409,605.87	-25,785.75	1,304,400.78	6,079,419.34
Total	7,409,605.87	-25,785.75	1,304,400.78	6,079,419.34

③ Other receivables written off during the Year

Item	Written off amount
Other receivables written off	1,304,400.78

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

XVII. NOTES TO THE KEY COMPONENTS OF PARENT COMPANY FINANCIAL STATEMENTS (continued)**2. Other receivables** (continued)**(3) Other receivables** (continued)

④ Other receivables by nature of items

Nature or description	Balance at the End of the year	Balance at the beginning of the year
Reserve fund	8,275,477.20	6,860,047.01
Receivables from each company in the scope of combination	1,170,264,619.43	1,654,479,365.05
Borrowing due from external entities	5,000,000.00	5,000,000.00
Others	3,119,429.56	3,355,500.72
Total	1,186,659,526.19	1,669,694,912.78

⑤ Status of other receivables due from top five customers as at the End of the year

Name of unit	Nature of receivables	Balance at the end of the year	Ageing	Proportion to receivables at the End of the year (%)	Provision for bad debts at the End of the year
Livzon Group (Ningxia) Pharmaceutical Co., Ltd (麗珠集團(寧夏)製藥 有限公司)	Current account	998,953,075.69	Within 1 year	84.18	0.00
Ando Development Limited (安滔發展有限公司)	Current account	123,819,856.93	Within 1 year	10.43	0.00
Livzon Group Vaccine Engineering Inc. (麗珠集團疫 苗工程股份有限公司)	Current account	21,032,084.65	Within 1 year	1.77	0.00
Zhuhai FTZ Livzon Hecheng Pharmaceutical Manufacturing Co., Ltd. (珠海保稅區麗珠合成 製藥有限公司)	Current account	12,545,741.15	Within 1 year	1.06	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	0.76	0.00
合計	-	1,165,308,222.23	-	98.20	0.00

⑥ The Company has no derecognized other receivables out of transfer of financial assets.

⑦ The Company has no assets or liabilities formed by its continuous involvement of transferring other receivables.

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

XVII. NOTES TO THE KEY COMPONENTS OF PARENT COMPANY FINANCIAL STATEMENTS (continued)

3. 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	1,833,673,491.59	17,287,569.18	1,816,385,922.41	1,905,790,564.98	18,471,307.03	1,887,319,257.95
Investments in associates and joint ventures	90,952,187.34	1,200,000.00	89,752,187.34	35,393,189.13	1,200,000.00	34,193,189.13
Total	1,924,625,678.93	18,487,569.18	1,906,138,109.75	1,941,183,754.11	19,671,307.03	1,921,512,447.08

(2) Investments in subsidiaries

Investee	Balance at the beginning of the year	Increase during the year	Decrease during the year	Balance at the End of the year	Provision for impairment for the year	Balance of provision for impairment at the End of the year
Zhuhai Livzon 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)	64,770,100.01	343,840,000.00	0.00	408,610,100.01	0.00	0.00
Lian (Hong Kong) Co., Ltd. (麗安香港有限公司)	0.00	140,000,000.00	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)	116,446,982.80	280,769,410.50	18,957,073.39	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. (麗珠集團麗珠醫藥行銷有限公司)	12,008,000.00	0.00	0.00	12,008,000.00	0.00	0.00
Livzon Group Limin Pharmaceutical Manufacturing Factory (麗珠集團利民製藥廠)	184,301,219.52	0.00	0.00	184,301,219.52	0.00	0.00
Zhuhai Livzon Pharmaceutical Trading Co., Ltd. (珠海市麗珠醫藥貿易有限公司)	40,020,000.00	0.00	0.00	40,020,000.00	0.00	0.00
Livzon Group Fuzhou Fuxing Pharmaceutical Co., Ltd. (麗珠集團福州福興醫藥有限公司)	280,769,410.50	0.00	280,769,410.50	0.00	0.00	0.00
Livzon MABPharm Inc. (珠海市麗珠單抗生物技術有限公司)	357,000,000.00	0.00	357,000,000.00	0.00	0.00	0.00
Livzon Group Vaccine Engineering Inc. (麗珠集團疫苗工程股份有限公司)	54,500,000.00	0.00	0.00	54,500,000.00	0.00	0.00
Livzon Group (Ningxia) Xinbeijiang Pharmaceutical Manufacturing Co., Ltd. (麗珠集團(寧夏)製藥有限公司)	180,000,000.00	0.00	180,000,000.00	0.00	0.00	0.00
Wenshan Livzon Sanqi Plantation Co., Ltd. (文山麗珠三七種植有限公司)	4,694,000.00	0.00	0.00	4,694,000.00	0.00	0.00
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	1,905,790,564.98	764,609,410.50	836,726,483.89	1,833,673,491.59	0.00	17,287,569.18

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

XVII. NOTES TO THE KEY COMPONENTS OF PARENT COMPANY FINANCIAL STATEMENTS (continued)

3. Long-term equity investments

(3) Investments in associates and joint ventures

Investee	Balance at the beginning of the year	Change during the Current year				Other equity changes
		Investment acquired	Investment disposed of	Investment profit and loss on the equity method	Adjustment in other comprehensive income	
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	11,711,329.89	0.00	0.00	1,332,572.85	0.00	0.00
Jiangsu Nike Medical Equipment Co., Ltd. (江蘇尼科醫療器械有限公司)	21,429,927.63	0.00	0.00	-1,968,944.40	0.00	10,577,268.20
Shenzhen City Youbao Technology Co., Ltd. (深圳市有寶科技有限公司)	1,051,931.61	0.00	0.00	-11,117.18	0.00	0.00
DOSERNA INC	0.00	6,332,200.00	0.00	-331,207.25	0.00	0.00
Zhuhai Sanmed Biotech Inc. (珠海聖美生物診斷技術有限公司)	0.00	35,388,680.76	0.00	-14,260,620.19	0.00	19,095,165.42
Total	35,393,189.13	41,720,880.76	0.00	-15,239,316.17	0.00	29,672,433.62

Investee	Change during the Current year			Balance at the End of the year	Balance of provision for impairment at the End of the year
	Cash dividend or profit distribution announced	Impairment provision	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)	595,000.00	0.00	0.00	12,448,902.74	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	30,038,251.43	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	1,040,814.43	0.00
D OSERNA INC	0.00	0.00	0.00	6,000,992.75	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	40,223,225.99	0.00
Total	595,000.00	0.00	0.00	90,952,187.34	1,200,000.00

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

XVII. NOTES TO THE KEY COMPONENTS OF PARENT COMPANY FINANCIAL STATEMENTS (continued)**4. Operating income and operating cost****(1) Operating income and operating cost conditions**

Item	For the Current year		For the Previous year	
	Income	Cost	Income	Cost
Principal activities	4,624,369,399.18	2,769,742,007.02	4,842,037,295.49	2,779,816,319.99
Other activities	6,507,565.90	0.00	7,663,317.96	15,000.00
Total	4,630,876,965.08	2,769,742,007.02	4,849,700,613.45	2,779,831,319.99

(2) Information of major business income

① Presented by product types

Item	For the Year		For the previous Year	
	Income	Cost	Income	Cost
Western drug preparation products	3,343,455,920.01	2,022,121,888.20	3,018,574,223.17	1,807,652,789.03
Chinese drug preparation products	1,280,913,479.17	747,620,118.82	1,823,463,072.32	972,163,530.96
Total	4,624,369,399.18	2,769,742,007.02	4,842,037,295.49	2,779,816,319.99

② Presented by regions of operations

Item	For the Year		For the previous Year	
	Income	Cost	Income	Cost
Domestic	4,624,369,399.18	2,769,742,007.02	4,842,037,295.49	2,779,816,319.99
Total	4,624,369,399.18	2,769,742,007.02	4,842,037,295.49	2,779,816,319.99

③ Presented by recognition time of income

Item	For the Year		For the previous Year	
	Income	Cost	Income	Cost
Commodities (transferred at a point in time)	4,624,369,399.18	2,769,742,007.02	4,842,037,295.49	2,779,816,319.99
Total	4,624,369,399.18	2,769,742,007.02	4,842,037,295.49	2,779,816,319.99

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

XVII. NOTES TO THE KEY COMPONENTS OF PARENT COMPANY FINANCIAL STATEMENTS *(continued)*

5. Investment Income

Item	For the year	For the year
Long-term equity investment income under cost method	771,485,900.94	1,401,654,274.00
Long-term equity investments income under equity method	-15,239,316.17	-1,014,681.56
Investment income generated from disposal of long-term equity investments	-5,630,777.04	3,550,631,997.78
Investment income generated from financial assets measured at fair value, with the change in fair value included in the profit or loss for the year during its holding period	131,844.96	0.00
Investment income generated from disposal of financial assets measured at fair value, with the change in fair value included in the profit or loss	0.00	5,002,420.00
Interest income of debt investment during its holding period	0.00	0.00
Interest income of other debt investment during its holding period	0.00	0.00
Disposal income of debt investment	0.00	0.00
Disposal income of other debt investment	0.00	0.00
Investment income generated from available-for-sale financial assets during its holding period	-	123,604.65
In which: investment income generated from available-for-sale financial assets measured at fair value during its holding period	-	123,604.65
Income generated from revaluation of remaining equity measured at fair value upon loss of control	0.00	0.00
Return from cash management	0.00	11,387,922.35
Others	0.00	482,954.55
Total	750,747,652.69	4,968,268,491.77

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

XVII. NOTES TO THE KEY COMPONENTS OF PARENT COMPANY FINANCIAL STATEMENTS *(continued)***6. Supplemental information to cash flow statement**

Item	For the Current Period	For the Previous Period
(1) Reconciliation of net profit to cash flow from operating activities:		
Net profit	858,578,166.32	4,024,295,025.23
Add: Provision for impairment of assets	-16,087,389.84	57,328,008.90
Depreciation of fixed assets, amortisation of oil and gas assets, depreciation of productive biological assets	13,750,051.53	10,510,718.66
Amortisation of intangible assets	5,264,489.14	10,811,338.86
Amortisation of long-term deferred expenses	257,236.68	191,491.00
Losses on disposal of fixed assets, intangible assets other long-term assets ("—" represents gains/income)	110,725.33	503,672.43
Losses on retirement of fixed assets ("—" represents gains/income) 1,582.88	12,338.62	0.00
Losses from changes in fair value ("—" represents gains/income)	2,598,444.42	0.00
Financial expenses ("—" represents gains/income)	-13,922,511.36	-21,660,380.08
Investments losses ("—" represents gains/income)	-750,747,652.69	-4,968,268,491.77
Decrease in deferred tax assets ("—" represents increase)	4,561,975.06	-15,217,396.20
Increase in deferred tax liabilities ("—" represents decrease)	3,011,374.12	732,148.02
Decrease in inventories ("—" represents increase)	-164,365,501.98	214,233,019.34
Decrease in trade receivables ("—" represents increase)	586,513,693.89	-252,127,361.78
Increase in trade payables ("—" represents decrease)	-1,690,734,714.83	760,999,897.94
Others	2,119,260.00	14,075,644.32
Net cash flows from operating activities	-1,159,080,015.59	-163,592,665.13
(2) Significant investing and financing activities not involving cash receipts and payment:		
Liabilities converted into capital	0.00	0.00
Convertible corporate bonds due within one year	0.00	0.00
Fixed assets acquired under finance leases	0.00	0.00
(3) Net movement in cash and cash equivalents:		
Cash at the End of the year	7,505,401,614.22	6,494,605,142.51
Less: Cash at the beginning of the year	6,494,605,142.51	1,606,485,665.85
Add: Cash equivalents at the End of the year	0.00	0.00
Less: Cash equivalents at the beginning of the year	0.00	0.00
Net increase in cash and cash equivalents	1,010,796,471.71	4,888,119,476.66

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

XVIII. SUPPLEMENTAL INFORMATION

1. Breakdown of extraordinary gains or losses

Item	For the Current year	For the Previous year
Gains or losses from the disposal of non-current assets	15,792,181.49	4,504,302,450.88
Ultra vires or without official approval documents, or incidental tax rebate or relief	0.00	0.00
Government grants included in the profit or loss for the period, save for those government grants closely associated to the normal operation of the Group, complying with the policies and regulations of China, being entitled at a certain standard amount or certain level	257,704,892.65	161,721,876.94
Funds utilisation fees collected from non-financial enterprises included in the profit or loss for the period	0.00	0.00
The gain from the excess of the fair value of identifiable net assets attributable to the investee at acquisition over the investment costs of the Group for its subsidiaries, associates and joint ventures	0.00	0.00
Gains or losses from the exchange of non-monetary assets	0.00	0.00
Gains or losses from investments on trust or asset management	0.00	11,387,922.35
Provision for impairment as a result of force majeure factors, such as natural disasters	0.00	0.00
Gains or losses from debt restructuring	0.00	0.00
Corporate reorganisation expenses, such as expenditures for staff dormitory, and business combination expenses	0.00	0.00
Gains or losses from transaction with transaction price not at fair value over the part at fair value	0.00	0.00
Net gains or losses of subsidiaries for the period arising from business combination under common control from the beginning of the year to the date of combination	0.00	0.00
Gains or losses arising from contingent matters not related to the normal operation of the Company	0.00	0.00
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 hedging activities of the normal operation of the Company)	-55,583,678.31	7,608,235.70
Reversal of provision for impairment of receivables that are individually tested for impairment	0.00	0.00
Gains or losses from external entrusted loans	0.00	0.00
Gains or losses from changes in fair value of investment properties subsequently measured under the fair value model	0.00	0.00
Effect of one-off adjustment made according to the laws and regulations regarding taxation and accounting to profit or loss for the period	0.00	0.00
Custodian fee income from entrusted operation	0.00	0.00
Other non-operating income and expenditures apart from the above	-32,985,967.52	-2,642,343.73
Items of gains or losses meeting the definition of extraordinary gains or losses	0.00	0.00
Sub-total	184,927,428.31	4,682,378,142.14
Effect of income tax	27,784,750.10	1,056,999,539.60
Effect of non-controlling interests (after tax)	22,184,077.88	16,716,594.06
Total	134,958,600.33	3,608,662,008.48

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

XVIII. SUPPLEMENTAL INFORMATION *(continued)*

1. Breakdown of extraordinary gains or losses *(continued)*

Note: Figure “+” in the items of extraordinary gains or losses represents revenue and income, while figure “-” represents loss or expense.

Items of extraordinary gains or losses are recognized by the Company in accordance with “Notice on Explanation of Information Disclosure of Companies Publicly Issuing Securities No. 1 – Extraordinary Gains or Losses” (CSRC Notice [2008] No. 43).

2. Rate of return on net assets and earnings per share

2018

Profit for the Reporting Period	Weighted average rate of return on net assets	Earnings per share (RMB/share)	
		Basic earnings per share	Diluted earnings per share
Net profit attributable to shareholders of ordinary shares of the Company	10.15%	1.51	1.51
Net profit attributable to shareholders of ordinary shares of after deducting extraordinary gains or losses	8.89%	1.32	1.32

2017

Profit for the Reporting Period	Weighted average rate of return on net assets	Earnings per share (RMB/share)	
		Basic earnings per share	Diluted earnings per share
Net profit attributable to shareholders of ordinary shares of the Company	51.17%	6.22	6.20
Net profit attributable to shareholders of ordinary shares after deducting extraordinary gains or losses	9.48%	1.15	1.15

376 XII. DOCUMENTS AVAILABLE FOR INSPECTION

- (1) They include the audited financial reports of the Company for the twelve months ended 31 December 2018, which has been signed and sealed by the legal representative, person-in-charge of the accounting affairs (head of accounting affairs) and head of the accounting department, and which was prepared in accordance with the China Accounting Standards for Business Enterprises.
- (2) They include the original copy of the auditors' report which is sealed by the accounting firm and signed and sealed by the certified public accountant.
- (3) They include the original copies of the documents and announcements of the Company which have been disclosed in the designated newspaper as approved by CSRC during the Year.
- (4) 2018 Annual Report of the Company both in English and Chinese versions published at the website of Hong Kong Exchanges and Clearing Limited.

Livzon Pharmaceutical Group Inc.
Zhu Baoguo
Chairman

27 March 2019



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