



Huadong Medicine Co., Ltd.

The Annual Report 2019

April 2020

To the shareholders

Dear Fellow Shareholders,

2019 was a year where the pharmaceutical industry in China underwent significant structural changes. It was also an incredibly important year for Huadong that we accelerated our transformation and took great strides toward a new era of growth. Look back on 2019, our employees had altogether accomplished outstanding results through commitment and relentless hard work. Overall, the company continued to deliver solid overall performance and business results.

Our company's financial results again reached new high record, with consolidated net profit increased by 24.08% to RMB 2.813billion. Zhongmei Huadong achieved annual sales revenue of more than RMB 10 billion for the first time, a historical milestone. Zhongmei Huadong invested RMB1.055 billion in research and development (R&D), a 49.14% increase compared to prior year. We successfully established Zhongmei Huadong - centered a global R&D strategic collaboration ecosystem and completed R&D project evaluation and approval system. We made significant breakthroughs in research and innovation, where we saw TTP273, the world's first oral small molecular GLP-1 agonist drug receiving regulatory approval to commence Phase I clinical trial, and other key R&D projects, including Mafatinib and Liraglutide, entering Phase III clinical trials. We also entered into strategic collaborations with R2 and MediBeacon in the US and Kylene in Switzerland while obtained global commercialization rights to a number of innovative products, which enriched our product pipeline and drivers for future growth.

In June 2019, we welcomed our new board of directors and successfully completed the handover of the new and old management teams. We formulated a new growth strategy to focus on the pharmaceutical and healthcare sectors, led by the pharmaceutical industry division, while expanding in pharmaceutical distribution and aesthetics. We keep faith with our corporate philosophy of being "R&D based and patient centered" and we are dedicated to becoming a major global branded pharmaceutical company driven by research and innovation.

The boom of generic drugs in China has come to an end, but the golden age of innovative drugs has already been emerging.

Going forward, Huadong Medicine will stay primary focus on three core therapeutic areas of oncology, endocrinology and autoimmunology. We will focus on innovative products with

meaningful clinical value and significant market potential. We will conduct a comprehensive review of our existing product portfolio to reduce the number of generic drugs with low barriers of entry and low commercial value. We will continue to solidify our leading position in diabetes and transplantation immunology in China, through establishing core competencies and strategies based on innovative drugs R&D and differentiated generic drugs with high technical barriers of entry, as well as targeting break-through sciences.

We will continue to invest and expand our R&D capabilities. Our annual R&D expenditure will be at least equal up to 10% of Pharmaceutical Industry sales. Through both organic growth and in-organic transactions, establishing partnerships and collaborations horizontally and vertically across healthcare industries, we aim to rapidly expand and optimize our pipelines of innovative products in core areas of focus across various stages of R&D. We will continuously improve our R&D capabilities and effectiveness to enable Huadong Medicine to be the leading pharmaceutical company with best-in-class R&D, strong scientific marketing promotion and state-of-the-art manufacturing capabilities. We endeavor to launch new products every year from 2022 onwards and by 2025 have sales contribution of innovative products to be 30% of total Pharmaceutical Industry sales and rising.

2020 is going to be a year of transformation for Huadong. We are prepared to embrace more intensive competitive environment and challenges. Any challenge would only ensure our continued success in the future. We are well positioned to rapidly respond and adapt to any emerging situation or issue as we make further advances in the transition period. We are committed to our transformation strategy to pursue innovation as high priority. We are positioning for the longevity of the business and have great confidence that we could overcome any obstacle. We will make steady progress on course to innovation and transformation and target sustainable growth, cost saving and debt reduction, by optimizing organisational structure, attracting new talents and streamlining operating models.

We will transform from being led to leading, from generic to innovation, from domestic to global and from success to excellence! We will fully leverage our great culture of exploration as well as capital and technology we have cumulated through the past years. We have embarked on a journey to innovation and transformation with a comprehensive plan and we are dedicated to make great progress towards achieving the goal by overcoming any challenge. We envisage by 2025 Huadong Medicine will be successfully transformed from a traditional generic drug manufacturer to a leading innovative pharmaceutical company. We also envisage that going forward Huadong Medicine will become a leading global pharmaceutical company.

This year is our 20th anniversary of our initial public offering. We sincerely thank all our shareholders for your support in Huadong Medicine for the past 20 years.

We are not afraid of change and committed to stay on course and work even more diligently to deliver best results.

We will stay true to our purpose and core values and will continue to create long term and sustainable meaningful value for our shareholders!

Lyu Liang, Chairman
On behalf of Huadong Medicine
April 2020

Section I. Important Declaration, Contents and Definitions

The Board of Directors, Board of Supervisors, directors, supervisors and senior management of Huadong Medicine Co., Ltd. (hereinafter referred to as the “Company”) hereby guarantee that the information presented in this annual report is authentic, accurate and complete and free of any false records, misleading statements or material omissions, and shall undertake individual and joint legal liabilities.

Lyu Liang, the Company’s legal representative and the officer in charge of accounting, and Qiu Renbo, head of accounting department (accounting supervisor) hereby declare and guarantee that the financial statements in this annual report are authentic, accurate and complete.

All directors have attended the Board of Directors meeting to review this annual report.

The future plans, development strategies and other forward-looking statements in this annual report shall not be considered as substantial commitment of the Company to investor. Therefore, investors are kindly reminded to pay attention to possible investment risks.

The profit distribution plan reviewed and adopted by this Board of Directors meeting is as follows: on the basis of 1,749,809,548 shares, a cash dividend of 2.8 yuan (tax included) is to be distributed to all shareholders for

every 10 shares; no bonus share will be issued; and no capital reserve will be converted to increase the capital stock.

According to “Stock Listing Rules of the Shenzhen Stock Exchange”, if listed companies have both Chinese or other language version of public notice, they should ensure the content of both versions are the same. In the case of discrepancy, the original version in Chinese shall prevail.

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Definitions

Term	refers to	Definition
Huadong Medicine/the Company/our Company	refers to	Huadong Medicine Co., Ltd.
CGE	refers to	China Grand Enterprises, Inc.
Huadong Medicine Group	refers to	Hangzhou Huadong Medicine Group Co., Ltd.
Zhongmei Huadong	refers to	Hangzhou Zhongmei Huadong Pharmaceutical Co., Ltd.
Xi'an Bohua	refers to	Huadong Medicine (Xi'an) Bohua Pharmaceutical Co., Ltd.
Jiangdong Company	refers to	Hangzhou Zhongmei Huadong Pharmaceutical Jiangdong Co., Ltd.
Huadong Ningbo Company	refers to	Huadong Ningbo Medicine Co., Ltd.
Sinclair	refers to	Sinclair Pharma Limited
Chongqing Peg-Bio	refers to	Chongqing Peg-Bio Biopharm Co., Ltd.
CSRC	refers to	China Securities Regulatory Commission
RAPT	refers to	RAPT Therapeutics, Inc.
SSE	refers to	Shenzhen Stock Exchange
GMP	refers to	Good Manufacturing Practice
GSP	refers to	Good Supply Practice
BE	refers to	Bioequivalence
CDE	refers to	Center for Drug Evaluation (of National Medical Products Administration)
MAH	refers to	Marketing Authorization Holder
FDA	refers to	(U.S.) Food and Drug Administration
ANDA	refers to	(U.S.) Abbreviated New Drug Application
ICH	refers to	International Council for Harmonisation (of Technical Requirements for Pharmaceuticals for Human Use)
IND	refers to	Investigational New Drug
PK/PD	refers to	pharmacokinetics/pharmacodynamics
CMC	refers to	Chemistry, Manufacturing and Control
PMA	refers to	Premarket Application
QA	refers to	Quality Assurance (department)
prescription drugs	refers to	Drugs that can only be purchased and used according to prescriptions issued by physicians

Section II. Company Profile and Key Financial Indicators

I. Company information

Stock name (abbreviation)	Huadong Medicine	Stock code	000963
Stock listed on	Shenzhen Stock Exchange		
Company name in Chinese	华东医药股份有限公司		
Company name in Chinese (abbreviation)	华东医药		
Company name in English (if any)	Huadong Medicine Co., Ltd.		
Company name in English (abbreviation, if any)	Huadong Medicine		
Legal representative	Lyu Liang		
Registered address	Floor 7, 9 and 10, Gate No. 1, Building No. 1, 468 Yan'an Road, Hangzhou		
Zip code of the registered address	310006		
Office address	866 Moganshan Road, Hangzhou		
Zip code of the office address	310011		
Official website	www.eastchinapharm.com		
Email address	hz000963@126.com		

II. Contact persons and contact information

	Secretary of the Board of Directors	Securities affairs representative
Name	Chen Bo	Xie Lihong
Contact address	866 Moganshan Road, Hangzhou	866 Moganshan Road, Hangzhou
Tel.	0571-89903300	0571-89903300
Fax	0571-89903300	0571-89903300
Email address	hz000963@126.com	hz000963@126.com

III. Channels of disclosure and location of preparation

Media selected by the Company for information disclosure	<i>China Securities Journal, Securities Times, and Shanghai Securities News</i>
Website designated by CSRC for publication of the	http://www.cninfo.com.cn

annual report	
Location of preparation of the Company's annual report	Office of the Company's Board of Directors

IV. Registration changes

Organization code	91330000143083157E
Changes of the Company's main business since its listing (if any)	None
Previous changes of controlling shareholder (if any)	None

V. Other relevant information

The accounting firm hired by the Company

Name of the accounting firm	Pan-China Certified Public Accountants (special general partnership)
Office address of the accounting firm	Floor 15, Block B, China Resources Building, 1366 Qianjiang Road, Jianggan District, Hangzhou, Zhejiang Province
Certified public accountants (signatories)	Wang Fukang, Xu Ping

Sponsor(s) hired by the Company to fulfil the duty of continuous supervision during the reporting period

Applicable N/A

Financial consultant(s) hired by the Company to fulfil the duty of continuous supervision during the reporting period

Applicable N/A

VI. Key accounting data and financial indicators

Whether the Company needs to perform a retroactive adjustment or restatement of previous accounting data

Yes No

Reason(s) for retroactive adjustment or restatement

Other reason(s)

	2019	2018		Percentage increase/decrease from last year to this year	2017	
		Before adjustment	After adjustment		After adjustment	Before adjustment
Operating revenue (yuan)	35,445,698,216.15	30,663,374,326.27	30,663,374,326.27	15.60%	27,831,823,148.07	27,831,823,148.07
Net profit attributable to	2,813,118,702.	2,267,229,174.	2,267,229,174.	24.08%	1,779,506,061.	1,779,506,061.

shareholders of listed companies (yuan)	11	08	08		59	59
Net profit attributable to shareholders of listed companies after deducting non-recurring gains/losses (yuan)	2,574,437,417. 52	2,236,323,500. 44	2,236,323,500. 44	15.12%	1,740,064,200. 10	1,740,064,200. 10
Net cash flow from operating activities (yuan)	2,001,698,170. 67	2,039,496,083. 26	2,039,496,083. 26	-1.85%	1,661,118,663. 70	1,661,118,663. 70
Basic earnings per share (yuan/share)	1.61	1.55	1.29 (Note)	24.08%	1.83	1.02 (Note)
Diluted earnings per share (yuan/share)	1.61	1.55	1.29 (Note)	24.08%	1.83	1.02 (Note)
Weighted average return on equity (ROE)	25.29%	24.87%	24.87%	0.42%	23.02%	23.02%
	End of 2019	End of 2018		Percentage increase/decrease from the end of last year to the end of this year	End of 2017	
		Before adjustment	After adjustment		After adjustment	Before adjustment
Total assets (yuan)	21,463,974,146. .63	19,217,357,282. .33	19,217,357,282. .33	11.69%	15,987,106,537. .46	15,987,106,537. .46
Net assets attributable to shareholders of listed companies (yuan)	12,309,477,308. .00	9,938,148,996. 53	9,938,148,996. 53	23.86%	8,393,269,796. 56	8,393,269,796. 56

Note: During the reporting period, the Company implemented Profit Distribution Plan 2018 in June 2019. On the basis of 1,458,174,624 shares of the Company's capital stock, a cash dividend of 3.3 yuan (tax included) was distributed for every 10 shares, and the capital reserve was converted to increase 2 shares for every 10 shares. Data on earnings per share for 2017 and 2018 were adjusted on the basis of the latest capital stock according to relevant accounting standards.

Capital stock of the Company as of the trading day before disclosure

Capital stock of the Company as of the trading day before disclosure (share)	1,749,809,548
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Fully diluted earnings per share calculated on the basis of the latest capital stock

Dividends paid on preferred shares	0.00
Fully diluted earnings per share calculated on the basis of the latest capital stock (yuan/share)	1.6077

VII. Differences in accounting data under domestic and overseas accounting standards

1. Differences in net profit and net assets disclosed in financial statements under international and Chinese accounting standards

Applicable N/A

There are no differences in net profit and net assets disclosed in financial statements under international and Chinese accounting standards.

2. Differences in net profit and net assets disclosed in financial statements under overseas and Chinese accounting standards

Applicable N/A

There are no differences in net profit and net assets disclosed in financial statements under overseas and Chinese accounting standards.

VIII. Key financial indicators by quarter

Unit: RMB yuan

	Q1	Q2	Q3	Q4
Operating revenue	9,705,148,188.21	8,543,519,428.77	9,379,217,601.89	7,817,812,997.28
Net profit attributable to shareholders of listed companies	907,244,647.77	689,038,770.54	616,830,635.77	600,004,648.03
Net profit attributable to shareholders of listed companies after deducting non-recurring gains/losses	856,031,343.59	618,403,044.38	605,545,800.58	494,457,228.97
Net cash flow from operating activities	-433,890,841.71	1,396,919,178.57	-53,990,090.92	1,092,659,924.73

Whether the above financial indicators or their totals are significantly different from relevant financial indicators in previous quarterly and semiannual reports by the Company

Yes No

IX. Items and amounts of non-recurring gains/losses

Applicable N/A

Unit: RMB yuan

Item	2019	2018	2017	Note
Gains/losses on disposal of non-current assets (including the written-off part of the	109,574,836.97	-697,591.38	-7,395,738.16	Mainly due to the confirmation of housing demolition

accrued assets impairment reserve)				and relocation funds in the current period.
Tax refund and reduction with ultra vires examination and approval or without official approval documents	4,407,536.93	1,630,170.53	11,124,356.12	
Government grants included in current gains/losses (excluding those closely related to operating activities and measured according to unified national standards)	112,527,883.18	79,368,271.28	85,111,812.35	Mainly due to the confirmation of government grants by the Company's subsidiaries, Zhongmei Huadong and Huadong Ningbo Company, in the current period.
Gains/losses on assets entrusted to others for investment or management		16,058,460.95	2,575,905.01	
Gains/losses on debt restructuring			2,439,066.31	
Receivables subject to separate impairment test and reversal of reserve for impairment of contract assets	1,896,979.79			
Other non-operating revenue or expenditure expect above-mentioned items	77,976,120.18	-34,052,605.70	-20,536,885.66	Mainly due to the adjustment of contingent consideration payments of the rights and interests of Sinclair products in the current period.
Less: Amount affected by income tax	47,542,186.99	14,789,855.01	19,783,865.78	
Amount affected by rights and interests of minority stakeholders (after tax)	20,159,885.47	16,611,177.03	14,092,788.70	
Total	238,681,284.59	30,905,673.64	39,441,861.49	--

If the Company recognizes an item as a non-recurring gain/loss based on the "Interpretative Announcement No. 1 on Information Disclosure Criteria for Public Companies – Non-Recurring Profit/Loss" or recognizes an item satisfying the definition of non-recurring gain/loss in the announcement as a recurring gain/loss, reasons should be specified.

Applicable N/A

No such case during the reporting period.

Section III. Overview of the Company's Business

I. Main business of the Company during the reporting period

Huadong Medicine Co., Ltd. (stock code: 000963), founded in 1993 and headquartered in Hangzhou, Zhejiang Province, was listed on Shenzhen Stock Exchange in December 1999. After more than 20 years of development, the Company's business covers the whole pharmaceutical industrial chain. With the medicine industry as its core, the Company expands its medicine business and aesthetic medicine industry, and has developed into a large comprehensive listed pharmaceutical company integrating R&D, production and sales of medicine.

The pharmaceutical industry of the Company focuses on R&D, production and sales of medication for specialist departments, chronic diseases and special purposes. The Company has formed core product pipelines in such fields as chronic kidney diseases, transplantation immunity, internal secretion and digestive system, and owns a number of first-line clinical medications with market advantages in China. Meanwhile, through independent development, external introduction and project cooperation, the Company focuses on the R&D layout of innovative drugs and generic drugs with high technical barriers in the three core fields of anti-tumor, internal secretion and autoimmunity. The Company continues to carry out international product registration, international certification, consistency evaluation, etc., forming an international pharmaceutical industry system.

The Company's pharmaceutical commerce has four sections: Western Medicine & Traditional Chinese Medicine (TCM), medical equipment, ginseng & herb and health industry, covering medicine wholesale, medicine retail, third-party medicine logistics featured by cold chain, medicine e-commerce, hospital value-added services and featured big health industry, providing customers with integrated solutions.

The Company's aesthetic medicine business focuses on R&D, production and sales of the latest products and devices in facial micro-plastic surgery and skin management. Sinclair, a wholly-owned subsidiary headquartered in the United Kingdom, has production bases in France, the Netherlands and the United States, and promotes and sells long-acting microspheres for injection, hyaluronic acid, thread lift and other products in the global market. Sinclair is the Company's global

operation platform for aesthetic medicine. Huadong Ningbo Company, a partially-owned subsidiary, is a comprehensive aesthetic medicine and healthcare platform company integrating R&D, production and sales of aesthetic medicine products and customized services. It is acting as the general agent for Korean YVOIRE hyaluronic acid products in the Chinese market.

II. Significant changes in major assets

1. Significant changes in major assets

Major assets	Note on significant changes
Equity assets	The ending balance is 464.27 million yuan, an increase of 157.89% from the beginning of the period, which is mainly due to the increase of long-term equity investments and other equity instrument investment in the current period.
Fixed assets	None
Intangible assets	None
Constructions in progress	The ending balance is 1.82981 billion yuan, an increase of 196.57% from the beginning of the period, which is mainly due to the increase of Zhongmei Huadong R&D platform construction and Huadong Medicine Biomedical Science and Technology Park Project Phase II.
Advance receipts	The ending balance is 254.89 million yuan, an increase of 63.9% from the beginning of the period, which is mainly due to the increase of drug sales revenue received in advance.
Non-current liabilities due within one year	Mainly due to the transfer of bonds payable due within one year.
Long-term payables	The ending balance is 48.08 million yuan, a decrease of 82.5% from the beginning of the period, which is mainly due to the adjustment of contingent consideration payments of the rights and interests of Sinclair products in the current period.

2. Major overseas assets

√ Applicable □ N/A

Specific content of assets	Reason for formation	Assets size (ten thousand yuan)	Location	Operating mode	Control measures to ensure assets safety	Profit or loss	Proportion of overseas assets in the Company's net assets	Whether there are any significant impairment risks
Sinclair Pharma	Acquisition of equity	93,619.01	UK	Independent accounting	Control of the Board of	Profit	7.61%	None

Limited					Directors and examination & approval of major decisions; daily supervision of financial matters; entrusting external intermediaries to conduct audits			
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Note: During the reporting period, in April 2019, the Company entered into strategic cooperation with R2 Dermatology, a US company specializing in medical devices and technology development related to dark spot removal and skin whitening using freezing technology in the field of aesthetic medicine, and made equity investment in R2 and became its shareholder. As of the date of this disclosure, the Company has invested 20 million US dollars, with a shareholding ratio of 26.60%. In July 2019, the Company entered into strategic cooperation with MediBeacon, a US company dedicated to the development of contrast agents and equipment in such medical fields as renal function and gastrointestinal function assessment, and invested 30 million US dollars for equity investment. As of the date of this report, the Company has contributed 15 million US dollars, or 4.3% of its shares.

III. Analysis of core competitiveness

1. Open R&D system and continuous improvement of innovation capability

After years of development, the Company has established and improved its independent R&D system, built a global R&D strategy collaboration ecosystem centered on Zhongmei Huadong, established a global new drug R&D center, set up joint research offices in Boston and Silicon Valley in the United States, and cooperated with world-renowned colleges, research institutes, innovative biotech companies, professional technology platforms and other institutions in new drug R&D projects. The Company has continuously increased R&D investment, adjusted its existing product structure in an all-round way, resolutely cleaned up and phased out generic drugs with low barriers

and low commercial value, focused on three core areas of anti-tumor, internal secretion and autoimmunity, continued to consolidate its position as a domestic leader in the field of diabetes and autoimmune drugs, quickly completed the layout of innovative product pipelines in the core areas, and enabled the Company to effectively supplement and take the lead in innovative products in the core areas. Independent R&D, external M&A, and product license-in have rapidly enriched product pipelines in the core areas, forming a good development trend of continuous proposal and market launch of innovative products, providing new momentum for medium and long-term growth.

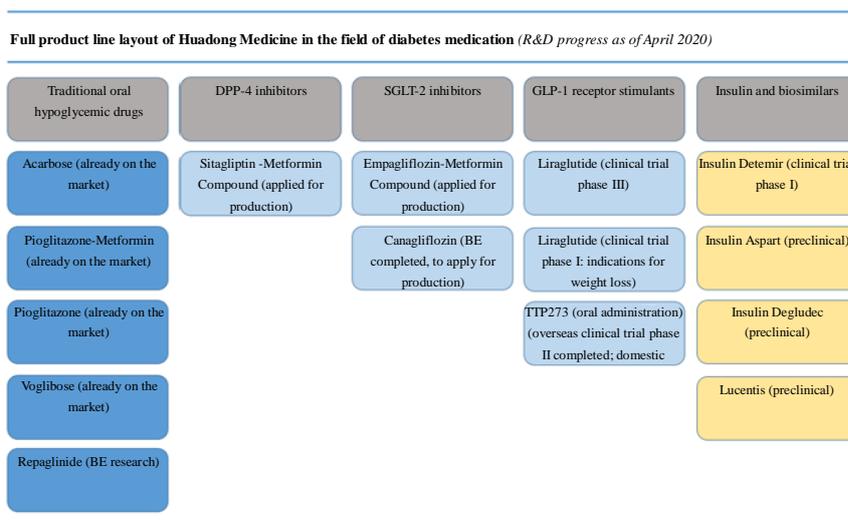
2. Comprehensive capability in international business development

The Company has actively promoted internationalization and acquired 100% shares of Sinclair, a British listed company, through international M&A, thus realizing the global layout of aesthetic medicine sales network. Its strategic cooperation with US companies R2 and MediBeacon and Kylane in Switzerland has increased its international commercial development rights and interests. The Company has accelerated the international registration of products. All its chemical raw medicine in production have been certified by FDA or in authoritative markets such as the European Union; its Pantoprazole Sodium Lyophilized Powder for Injection has been temporarily approved by FDA; and its Acarbose Tablets gained access to the Austrian market in the European Union. The Company is the first Chinese medicine enterprise to achieve these results. The production lines of all of its raw medicines and some of its preparations have been certified by FDA or in authoritative markets such as the European Union. The Company actively engages itself with international logistics and purchasing suppliers, realizes the internationalization of purchasing ability, strengthens international trade cooperation, and achieves positive results in the expansion of international raw medicine market.

3. Abundant product pipelines for specialist departments and chronic diseases and overall competitive advantage in the field of diabetes medication

Over the years, the Company has been deeply engaged in medication for specialist departments, chronic diseases and special purposes, and has built a good brand effect and solid market foundation in such fields as chronic kidney diseases, transplantation immunity, internal secretion, and digestive system. Its market share remains in the forefront of domestic similar products. An overall layout of innovative targets and differentiated generic drug product pipelines has been formed in the

important clinical medication targets of diabetes. In the field of organ transplantation, the Company's products cover all clinical first-line immunosuppressant. In the future, the Company will focus on the R&D layout of innovative products in the three core areas of anti-tumor, internal secretion and autoimmunity. At present, the Company has 22 core products on the market and 16 varieties under R&D included in the 2019 National Reimbursement Drug List and 10 core products on the market and 4 varieties under R&D included in the 2018 National Essential Drug List.



4. Leading pharmaceutical professional promotion team and market network in China

With academic promotion of clinical value as the core, the Company has promoted a multi-channel marketing mode that combines comprehensive hospitals, primary medical institutions, retail and third terminals, and Internet, and has gradually formed effective coverage through multiple channels. With the full coverage of Zhejiang Province, the Company has established business cooperation with 31 of the world's top 50 pharmaceutical multinational companies and 80 of China's top 100 pharmaceutical companies, and its cold-chain logistics and distribution business is taking the lead in China. In the field of aesthetic medicine, Ningbo Company, a partially-owned subsidiary, ranks first in the market share of domestic aesthetic medicine. The core products of Sinclair, a wholly-owned subsidiary, have been launched in more than 60 countries and regions around the world.

5. Prudent and pragmatic operation style and shareholder return

The Company values management innovation, and strives to meet the demand of market competition by improving its quality of operation. The compliant and efficient marketing services, differentiated market positioning, innovative R&D layout and perfect talent planning promote the Company's lasting and steady development. Since its listing, the Company has maintained steady growth in performance for 20 years. Since 2007, the Company has kept the return on equity (ROE) above 20% for 13 consecutive years, leading A-share listed companies and the medicine industry. Since its listing 20 years ago, the Company has paid dividends for 16 times, with a total value of 3.684 billion yuan, far exceeding the 250 million yuan raised in its IPO. The Company has brought continuous and stable returns on investment to shareholders.

Section IV. Discussion and Analysis of Operations

I. Overview

2019 is a year of great historical significance in the development of New China, and a year of profound and dramatic changes in China's medicine industry. It is also a key year for the Company to deepen its transformation, and the first year for the Company to implement the entrepreneurial spirit and enter a new period of development. Over the past year, faced with the enormous pressure brought by the national economic downturn, the serious situation in the domestic medicine market, the pressure of price reduction, regulatory compliance and market competition brought by the intensive implementation of national health reform policies such as centralized purchasing, the Company focuses on enhancing soft value, adheres to strategic enterprise transformation, emphasizes high-quality development, comprehensively and rapidly promotes the internationalization of innovation transformation, maintains balanced development of industry and business, continues to push forward in a complex and changeable policy and industry environment, and has achieved remarkable operating results. The Company's operating revenue and net profit have reached new highs, and its operating performance has maintained steady growth for 20 consecutive years. Meanwhile, its business quality has been continuously improved.

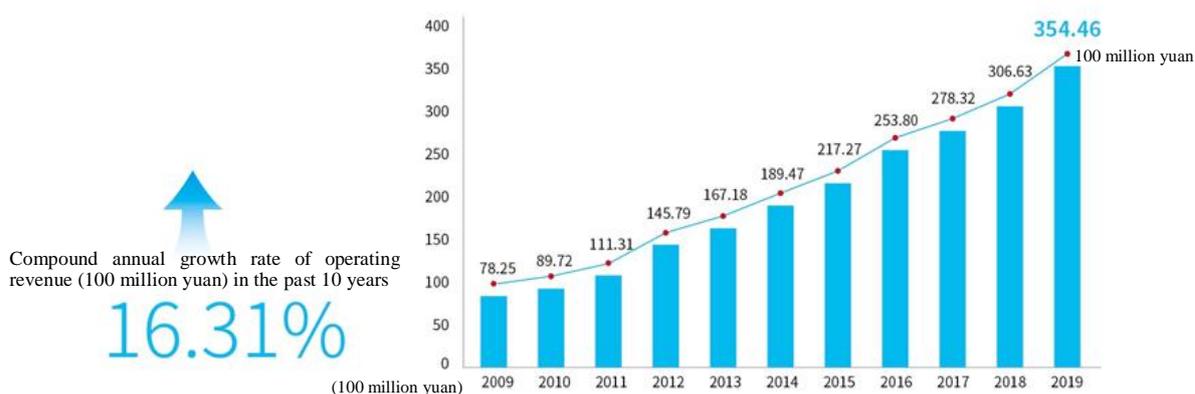
During the reporting period, the income from main business and net profit continued to increase. The annual operating revenue was 35.446 billion yuan, an increase of 15.60% over the previous year. The net profit attributable to shareholders of the parent company was 2.813 billion yuan, an increase of 24.08% over the previous year. By the end of 2019, the total assets of the Company had reached 21.464 billion yuan, and the net assets belonging to the shareholders of the parent company were 12.309 billion yuan. The liabilities to assets (L/A) ratio was 40.05%; the return on equity (ROE) was 25.29%, which remained above 20% for 13 consecutive years.

In 2019, Zhongmei Huadong, a wholly-owned subsidiary of the Company, has completed the tasks of scientific research, production and operation, continuously enhanced its market competitiveness and profitability, and continued to exploit the chronic disease market; the four product lines of chronic kidney diseases, diabetes, transplantation immunity and digestive system

all maintain growth. Its operating revenue topped 10 billion yuan for the first time, reaching 10.508 billion yuan, with a net profit of 2.198 billion yuan, with year-on-year increases of 28.02% and 18.14%, respectively. Huadong Medicine’s business sector has actively innovated and developed its business mode, continuously improved its operating efficiency, and maintained a steady growth in its business. With annual sales revenue of 25.098 billion yuan, it continued to maintain a leading position in the medicine industry in Zhejiang Province. In the aesthetic medicine industry, it continued to explore the domestic and overseas markets, with annual income exceeding 1.2 billion yuan.

State of perating

Growth trend of Huadong Medicine’s operating revenue (100 million yuan) in the past 10 years

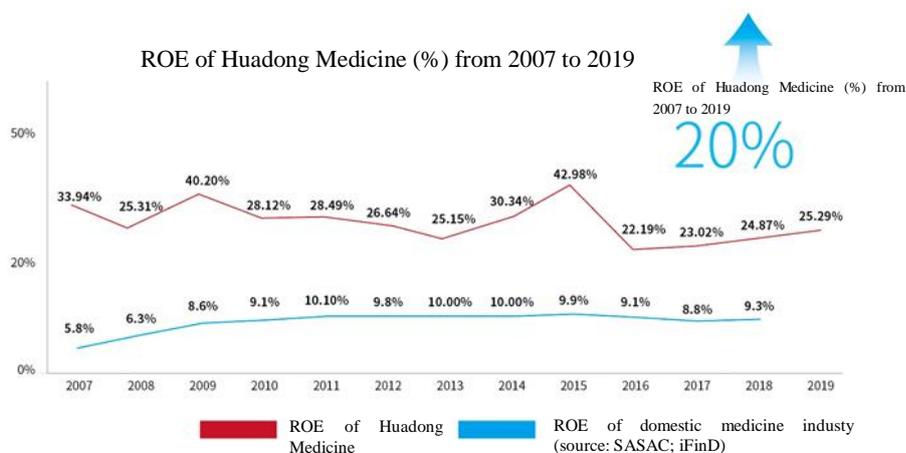


Growth trend of Huadong Medicine’s operating revenue over the past 10 years

Growth trend of Huadong Medicine’s net profit (100 million yuan) attributable to the parent company in the past 10 years

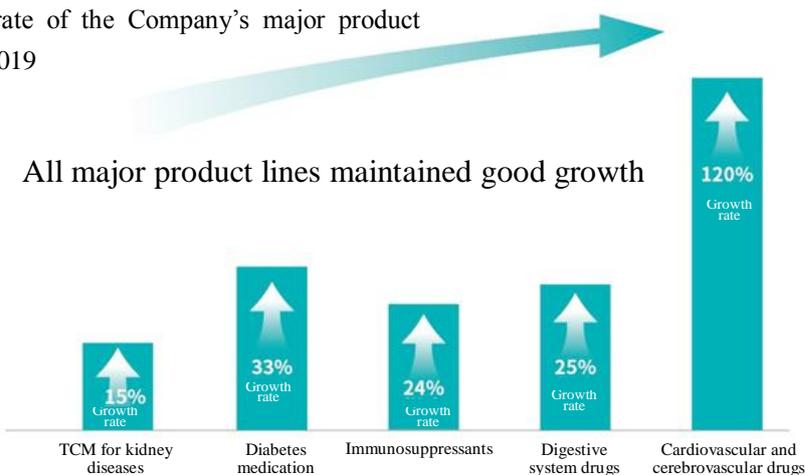


Growth trend of Huadong Medicine’s net profit attributable to the parent company in the past 10 years



ROE of Huadong Medicine (%) from 2007 to 2019

Growth rate of the Company's major product lines in 2019



Growth rate of Huadong Medicine's major product lines in 2019

1. Accelerated R&D transformation, increased R&D investment, and abundant product pipelines

In 2019, the Company continued to promote R&D transformation, with an annual R&D investment of 1.055 billion yuan, a year-on-year growth of 49.14%. Through independent development, external introduction and project cooperation, the Company has accelerated the enrichment of its product pipelines. It has set up an international new drug development center, a

R&D project decision-making committee and an expert management committee, further strengthened BD team building, and established the BD coordination mechanism and PM management mechanism. The Company has strengthened the full life cycle management of R&D projects, further improved the proposal approval and dynamic evaluation system of R&D projects, timely adjusted the R&D strategies and direction, and cleaned up and eliminated generic drugs with low barriers and low commercial value, so as to ensure the maximum utilization of its R&D resources. It has optimized the R&D incentive system and fostered a R&D atmosphere that encourages innovation and initiative by taking innovation as the orientation and the actual R&D achievement as the evaluation standard. The Company has vigorously carried out the consistency evaluation of each product, actively promoted clinical trials and sample preparation, completed the process verification of 8 varieties and the BE/pre-BE sample preparation of 11 varieties, and completed the supplementary application of products on the market and supplementary research of related new products. Aligned with international standards, the Company has actively promoted the R&D efficiency through the CMO/CDMO cooperation mode. A total of 3 clinical approvals and 1 production approval were obtained throughout the year; TTP273 obtained phase I clinical approval; R2, HDSY313, MB102, MET306, CX-01-T and other innovation projects under R&D are progressing in a planned and orderly manner; Liraglutide for Injection officially entered phase III clinical trial and clinical enrollment continued as planned. (For details about R&D investment and product pipelines under R&D, please refer to the relevant content in the R&D section)

2. Positive results in international development and major breakthroughs in international registration

International product introduction and cooperation: (1) The Company signed a strategic cooperation agreement with R2 Dermatology, made equity investment in R2 and obtained the exclusive distribution rights of medical devices F1 and F2 developed by R2 and their future improved models in 34 Asian countries and regions including China's mainland, Japan and South Korea; (2) Through strategic cooperation with MediBeacon, the Company obtained the exclusive commercialization rights of all the products (including renal function monitoring and assessment, gastrointestinal function assessment, and surgical visualization) owned by MediBeacon in 25 Asian countries and regions including China's mainland after subscribing part of the series B preferred

shares issued by MediBeacon. The signing of this project will promote the Company to gradually form a complementary and collaborative drug product line and accurate monitoring means in the field of chronic disease diagnosis and treatment, and further consolidate the Company's comprehensive competitiveness in chronic disease diagnosis and treatment; (3) The Company reached a strategic cooperation intention with Switzerland's KYLANE LABORATOIRES and formally signed an agreement in the first quarter of 2020 to obtain the commercialization rights of its Kysense series of high-end hyaluronic acid products in the global market. The products are expected to be approved for sale in the European market in 2020, further enriching the aesthetic medicine product pipelines.

International registration of preparations: The Company has continued to promote international strategic goals. Pantoprazole Sodium for Injection (40mg) was temporarily approved by FDA, filling the gap in ANDA registration of the Company's preparations. Acarbose Tablets were approved for sale in the Austrian market in the European Union; it is the first domestic oral diabetes drug approved for sale in the European Union market.

3. Innovative operating mode for an international medicine production system of Huadong

The Company has actively adapted its production system to the market. Centering on patients' unsatisfied treatment needs and the Company's product strategies, the Company has focused on the implementation of generic drugs and the approval of innovative products, continued to enhance the bulk R&D registration, production and manufacturing capabilities, further integrated the Company's superior resources, built an open manufacturing system, accelerated the transformation of production and operation from the traditional "hard assets" to the "light assets" operating mode, adjusted the product structure using the total factor layout, and piloted a new diversified operating mode of light assets (MAH).

The Company has completed the transfer for production and approval of proposal of scientific research projects to production in 2019, continuously promoted the ANDA internationalization project of products, and carried out the international registration of Daptomycin and Daptomycin for Injection, Fondaparinux Sodium and Fondaparinux Sodium Injection, Acarbose Tablets, Pioglitazone-Metformin Tablets, Everolimus Tablets, Sirolimus Tablets and other products. The

Company has made preparations for the international commercial production of Pantoprazole Sodium for Injection provisionally approved by FDA and Tacrolimus Capsules to be approved.

In the new context of centralized purchasing, the Company combines independent innovation and technology introduction to improve the technical level of its raw medicines. Focusing on the total production factors, the Company has paid close attention to fine management, vigorously carried out lean production and total cost management, improved the level of information technology and operating efficiency, optimized the production process, and promoted cost saving and reduction. The Company is devoted to improving skills in international production, making preparations for the international commercial production of products that have obtained overseas certification, and creating products that are compliant with regulations, international-oriented, high-quality and competitive in the market.

The Company has steadily promoted the construction of key projects. The Company has focused on key engineering projects such as Jiangdong Phase II and the international R&D and manufacturing center for preparations, completed work on schedule, further improved the construction of four major production parks (Hangzhou Xiangfuqiao, Jiangdong Park, Jiangsu Jiuyang and Xi'an Bohua) and two off-site workshops and the transfer of product approval numbers.

4. Strengthened talent and expert team building to promote collective and international human resources management

In 2019, the Company thoroughly implemented the working principles of “talent management innovation” and “strategic human resources management”, strengthening the introduction of scientific research and international high-end talents, and promoting the continuous expansion of its talent team through internal training and external recruitment. The Company launched the global campus recruitment and completed the first batch of on-site publicity and recruitment at renowned colleges and universities in the United States and Singapore, and achieved expected results. In 2019, 34 people were recruited for core positions, including 22 with doctoral degrees and 27 who have worked or studied overseas; a total of 123 people with postgraduate degrees were hired; 96 graduates from universities in the development plan of “world-class universities and first-class disciplines” were recruited. The structure and proportion of scientific research and technical

management personnel have been continuously improved. The Company has established an incentive mechanism guided by high efficiency, high performance and high market value, formulated a medium- and long-term incentive mechanism plan for R&D projects, implemented a comprehensive production assessment to increase the labor efficiency per capita by about 12%, promoted collective and international human resources management, and completed internal audit, personnel assignment and budget management of Sinclair.

5. Implementation of whole-process quality management and promotion of the transformation and upgrading of the quality system

The quality system follows the guideline of “compliance, implementation and acceleration”. The Company aims at the world-class quality management and promotes the construction of integrity quality culture, and strictly adheres to the quality bottom line. It has made great efforts to strengthen the quality compliance and GMP normalization management, and implemented the whole-process quality management to ensure the quality of all production links is controllable, under control and controlled. It has also improved quality management systems such as pharmacovigilance and R&D quality, promoted the transformation and upgrading of the quality system using information technologies such as LIMS system and QMS system, properly carried out pharmacy administration and MAH management, and completed the GMP certification inspection and filing.

6. Accelerated marketing structure reform & mode transformation and accelerated growth of the primary market

In 2019, Pharmaceutical Service Corporation of Zhongmei Huadong has set the goal of establishing a “pharmaceutical service management system adapted to the development of the modern medicine industry” and continued to deepen the organizational structure reform, comprehensively promoted the layout and construction of the primary market and the out-of-hospital market, enhanced the market service and management capabilities, and actively and properly carried out key tasks such as business management, bid invitation and price negotiation. The corporation has actively responded to the national policy of hierarchical diagnosis and treatment, accelerated the transformation of marketing modes and the construction of clinical pharmaceutical service teams, implemented hierarchical customer management and precision

marketing, focused on target chronic disease patients who have not received standard treatment, delivered product value and expanded incremental markets in accordance with the policy of “three equal attentions” (equal attention to primary market and central city market, equal attention to out-of-hospital market and in-hospital market, and equal attention to technology-enabled marketing and traditional marketing). It has continued to carry out clinical re-research of products for market launch. Through the construction of the academic platform for experts and all-round academic publicity, it has promoted products to enter clinical application guidelines, improved expert consensus and recognition of clinical value, and created favorable conditions for products to expand market coverage and grow rapidly. On the basis of consolidating and expanding the market of hospitals in key cities, it has accelerated penetration into county-level hospitals, community hospitals, township hospitals and out-of-hospital markets. During the reporting period, the sales of the Company’s core varieties in the primary market continued to grow rapidly, and the market share kept increasing.



Distribution of the Company’s medicine industry marketing network in China



Distribution of the Company’s medicine business marketing network in Zhejiang Province

7. In-depth exploration in Zhejiang market and strengthened network layout to maintain the leading position of medicine business in Zhejiang market

In 2019, the Company's business sector has insisted on improving performance through management, and actively responded to policies such as centralized purchasing and medical insurance payment reform by vigorously promoting business and management transformation. It has pushed forward the three key tasks of "comprehensive budget management, ERP system upgrade, and province-wide logistics system". It has simultaneously implemented the two key businesses of "province-wide sales of decoction pieces and DTP province-wide network", paid special attention to the three rates (customer coverage rate, market share, and sales growth rate) to stabilize and improve the order fulfillment rate, especially the order fulfillment rate of hospitals outside the city and primary hospitals, to ensure that it ranked first in the volume of centralized purchasing and distribution in the province. In response to the reform of county-level medical communities and hierarchical diagnosis and treatment, it has adjusted the sales organization structure, continued to consolidate the in-hospital market, actively expanded the OTC pharmacy chain market, made layout in high-quality private hospitals, and promoted the channel sinking and market sinking.

The Company has continuously optimized its product structure, with the emphasis on generic drugs with high technical barriers that have passed consistency evaluation and new innovative drugs on the market, strengthened the cooperation and introduction of key products with high growth potential and high gross profit, actively changed the cooperation mode, provided customers and hospitals with a variety of value-added services and in-depth services such as hospital access and pharmacy service upgrade, and extended the product lines to businesses such as decoction pieces, consumables and medical devices, and reached strategic cooperation with a number of multinational medicine enterprises in the primary market concerning chronic disease products, covering more than 2,400 hospitals in 10 cities of Zhejiang Province. The sales revenue of innovative business has continued to increase rapidly, consolidating the Company's leading position in Zhejiang and remaining top 10 in China.

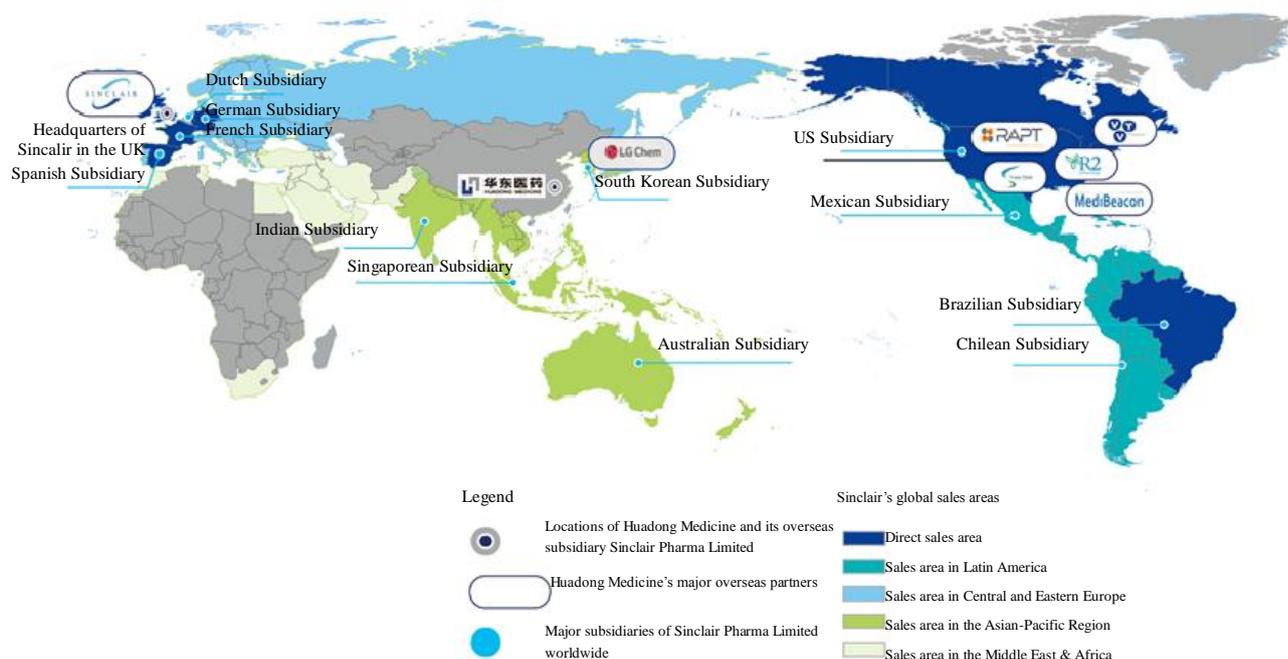
The Company has actively improved the layout network in the province, and established Huadong Medicine Taizhou Co., Ltd. and Huadong Medicine Jinhua Co., Ltd. The preparations

made for various preliminary reviews have been completed for the construction of Jinhua Supply Chain Center, which is expected to be completed and put into use in 2021. A province-wide logistics system with multiple interconnected warehouses will be formed based on the three major logistics centers in northern, central and southern Zhejiang, supplemented by branch warehouses of regional subsidiaries. It is a solid step to realize the comprehensive coverage of medical logistics network in the province.

8. Active development of global aesthetic medicine business and continuous improvement of the layout to build a new space for future development

Sinclair, the Company's international aesthetic medicine business platform, has been actively expanding its business in the global market, continuously optimizing and adjusting its product structure and introducing high-end products, and has made positive progress. During the reporting period, new product registrations have been completed in 5 countries and regions; the annual operating revenue was up 36% from the same period last year; the net profit went from a loss to a profit.

In 2019, the Company established the aesthetic medicine product management department, quickly established the initial team of aesthetic medicine product management department, and comprehensively managed and coordinated the domestic and overseas innovative business of aesthetic medicine. It has completed the domestic clinical work of Ellanse (long-acting microsphere for injection), the core product of its UK subsidiary Sinclair, and formally submitted the application for registration. The design and preparations of the clinical trials of Silhouette (a thread lift product) in China have been completed. The Company has gradually promoted domestic clinical trials of R2's F1 (dark spot removal medical device using freezing technology) and F2 (whole-body whitening medical device) imported from the United States, and improved post-investment management such as product design improvement, supporting product development and expansion of potential distributors in countries in the Asia-Pacific region.



Huadong Medicine's global business partners and international layout of aesthetic medicine business

9. Change of the Board of Directors and creation of a new team leading the Company on a new journey

In June 2019, the Company completed the change of the Board of Directors. After deliberation and approval by the general meeting of shareholders, a new management team was elected with Mr. Lyu Liang as Chairman of the Board and Mr. Li Yuedong as General Manager. Mr. Li Bangliang was appointed Honorary Chairman of the Company. The change of personnel that concerns the Company's long-term development has been successfully completed. The new management team will lead all the members of Huadong Medicine to unswervingly promote the transformation of the Company into an international and innovative medicine enterprise in the new period.

II. Analysis of main business

1. Overview

Refer to "I. Overview" in "Discussion and Analysis of Operations".

2. Income and cost

(1) Composition of operating revenue

Unit: RMB yuan

	2019		2018		Year-on-year percentage increase/decrease
	Amount	Proportion in operating revenue	Amount	Proportion in operating revenue	
Total operating revenue	35,445,698,216.15	100%	30,663,374,326.27	100%	15.60%
By sector					
Business	25,098,006,088.85	68.79%	22,853,322,427.62	72.89%	9.82%
Manufacturing	10,864,875,032.13	29.78%	8,573,439,130.79	26.86%	26.73%
International aesthetic medicine	509,190,691.24	1.43%	76,019,939.06	0.25%	569.81%
Offset (inter-sectoral offset)	-1,026,373,596.07		-839,407,171.20		
By product					
By region					
Domestic sales	34,883,617,590.88	98.41%	30,541,135,176.56	99.60%	14.22%
Overseas sales	562,080,625.27	1.59%	122,239,149.71	0.40%	359.82%

(2) Sectors, products or regions that accounts for more than 10% of the Company's operating revenue or operating profit:

√ Applicable □ N/A

Unit: RMB yuan

	Operating revenue	Operating cost	Gross profit rate	Year-on-year percentage increase/decrease in operating revenue	Year-on-year percentage increase/decrease in operating cost	Year-on-year percentage increase/decrease in gross profit rate
By sector						
Business	25,098,006,088.85	23,169,206,360.31	7.69%	9.82%	10.02%	-0.16%
Manufacturing	10,864,875,032.13	1,802,276,075.36	83.41%	26.73%	17.62%	1.28%
International aesthetic medicine	509,190,691.24	140,481,356.33	72.41%	569.81%	619.33%	-1.90%

Offset (inter-sectoral offset)	-1,026,373,596.07	-1,025,240,830.27				
By product						
By region						
Domestic sales	34,883,617,590.88	23,916,538,278.74	31.44%	14.22%	10.10%	2.56%
Overseas sales	562,080,625.27	170,184,682.99	69.72%	359.82%	224.62%	12.61%

If the statistical specifications of the Company's main business data have been adjusted during the reporting period, the Company's main business data of the most recent year should be adjusted according to the specifications at the end of the reporting period.

Applicable N/A

(3) Whether the Company's income from in-kind sales is greater than that from labor services

Yes No

(4) Performance of major sales contracts signed by the Company as of the current reporting period

Applicable N/A

(5) Composition of operating cost

By sector

Unit: RMB yuan

Sector	Item	2019		2018		Year-on-year percentage increase/decrease
		Amount	Proportion in operating cost	Amount	Proportion in operating cost	
Business	Operating cost	23,169,206,360.31	96.19%	21,059,806,073.72	96.72%	10.02%
Manufacturing	Operating cost	1,802,276,075.36	7.48%	1,532,269,288.35	7.04%	17.62%
International aesthetic medicine	Operating cost	140,481,356.33	0.58%	19,529,585.29	0.09%	619.33%
Offset (inter-sectoral offset)	Operating cost	-1,025,240,830.27		-836,899,569.25		

(6) Whether the scope of consolidation has changed during the reporting period

Yes No

For details, please refer to "VIII. Change of consolidation scope" in "Section XII. Financial Report".

(7) Significant changes or adjustments to the Company's business, products or services during the reporting period

Applicable N/A

(8) Major customers and major suppliers

The Company's major customers

Total sales amount of the top five customers (yuan)	5,566,864,329.53
Proportion of the total sales amount of the top five customers in the total annual sales amount	15.71%
Proportion of related parties' sales amount of the top five customers' sales amount in the total annual sales amount	0.00%

Note: The customers under the control of the same actual controller shall be listed together, except those under the actual control of the same state-owned assets management institution.

Information of the Company's top five customers

No.	Customer name	Sales amount (yuan)	Proportion in the total annual sales amount
1	Customer a1	2,573,910,052.06	7.26%
2	Customer a2	1,219,154,713.77	3.44%
3	Customer a3	712,849,895.81	2.01%
4	Customer a4	585,626,847.43	1.65%
5	Customer a5	475,322,820.46	1.34%
Total	--	5,566,864,329.53	15.71%

Note: The customers under the control of the same actual controller shall be listed together, except those under the actual control of the same state-owned assets management institution.

Other information of major customers

Applicable N/A

Note: The Company shall state whether the top five customers are related to the Company, and whether the Company's directors, supervisors, senior management, core technical personnel, shareholders holding more than 5% of the shares, actual controllers and other related parties have rights and interests in the major customers directly or indirectly.

Information of the Company's major suppliers

Total purchase amount of the top five suppliers (yuan)	2,786,324,393.06
Proportion of the total purchase amount of the top five suppliers in the total annual purchase amount	11.57%
Proportion of related parties' purchase amount of the top five customers' purchase amount in the total annual purchase amount	0.00%

Note: The suppliers under the control of the same actual controller shall be listed together, except those under the actual control of the same state-owned assets management institution.

Information of the Company's top five suppliers

No.	Supplier name	Purchase amount (yuan)	Proportion in the total annual purchase amount
1	Supplier b1	667,792,069.08	2.77%
2	Supplier b2	629,700,409.34	2.61%
3	Supplier b3	578,497,423.09	2.40%
4	Supplier b4	505,211,171.74	2.10%
5	Supplier b5	405,123,319.81	1.68%
Total	--	2,786,324,393.06	11.57%

Note: The suppliers under the control of the same actual controller shall be listed together, except those under the actual control of the same state-owned assets management institution.

Other information of major suppliers

Applicable N/A

3. Expenses

Unit: RMB yuan

	2019	2018	Year-on-year percentage increase/decrease	Note on changes
Sales expenses	5,797,236,883.02	4,297,355,738.06	34.90%	Mainly due to the year-on-year increase in employee benefits and travel expenses and Sinclair's incorporation in November 2018.
Administrative expenses	1,095,227,423.65	785,170,898.51	39.49%	Mainly due to the increase in employee benefits, amortization of intangible assets and Sinclair's incorporation in November 2018.
Financial expenses	2,473,146.13	86,484,247.20	-97.14%	Mainly due to the transfer of expenditure on discount interest to investment income and the write-down financial expenses caused by the discount interest adjustment of contingent consideration of Sinclair products' rights and interests rights.

R&D expenses	1,072,937,182.39	706,041,257.10	51.97%	Mainly due to the increase of R&D investment in the current period.
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4. R&D investment

√Applicable □ N/A

(1) Overall situation of R&D

Adhering to the corporate philosophy of “scientific research-based and patient-oriented”, the Company continued to increase R&D investment and enrich the layout of innovative drug R&D. During the reporting period, the Company invested 1.055 billion yuan in medicine R&D, an increase of 49.14% compared with the same period in 2018. The R&D work during the reporting period mainly involves the following aspects:

1) The Company has continued to implement the new drug R&D mode of “independent R&D + cooperative entrusted development + product license-in”, tracking the latest international research progress in drug action mechanisms & targets and clinical application, accelerating the deployment of innovative drugs and the introduction of innovative drug projects at home and abroad. It has completed the establishment of multiple potential innovative drug projects in such fields as metabolism and kidney diseases;

2) The Company has focused on clinically effective varieties and drugs for special groups, accelerated the R&D of generic drugs with high technical barriers and improved new drugs (505b(2)), and set up a number of projects focusing on immunity during the reporting period;

3) The Company has continuously improved the technology and quality level of raw medicines and preparations, reduced costs, actively developed multiple dosage forms for products on the market, and strengthened market competitiveness;

4) The Company has strengthened the comprehensive dynamic evaluation of varieties under R&D, and ensured the R&D progress of key varieties under R&D to the greatest extent by prioritizing projects under R&D and rationally allocating R&D resources.

(2) R&D of major innovative drugs and biosimilar projects

The Company on the one hand has promoted the clinical research progress of several innovative drugs and key biosimilar varieties under R&D, so as to get them approved for market launch as soon as possible. On the other hand, it has formulated a strategic plan for the development of innovative drugs up to 2025, focusing on the existing coverage of treatment fields, and defining the key directions and quantity of innovative projects to be initiated each year during the planning period. It is proposed that no less than 15 innovative varieties (including

innovative drugs, improved new drugs, innovative aesthetic medicine products and devices) should be established and stored every year during the planning period. In addition, during the reporting period, the Company has actively explored and drawn lessons from the international advanced innovative drug R&D system construction, continuously optimized and adjusted its overall R&D system structure, and improved various functional modules of innovation project R&D through the introduction of high-end R&D talents, fully ensuring the realization of the Company's strategic planning objectives for innovation projects.

In 2019, more than 15 innovative projects have been established, including HD1902, HD1903, HD1906 and other Class I innovative drug projects in the field of tumor and autoimmunity, and HD1901, HD1905, HD-IM-001 and other Class II new drugs of new indications or improved new dosage forms, which further enrich the innovative product pipelines. In addition, Chongqing Peg-Bio invested by the Company has accumulated a number of innovative Class I biological drugs and biosimilar varieties by virtue of its two core technologies of PEGylation platform and high-efficiency polypeptide tandem expression platform, and will start IND application in 2020, forming good synergy with the Company's innovative drug strategy. The clinical research progress of the Company's key innovative drug projects and biosimilar projects is as follows:

1) Mefatinib: Mefatinib for advanced non-small cell lung cancer has entered the phase III clinical trial; the phase II single arm clinical trial is for rare first- and second-line gene mutations; based on the good curative effect in the first stage, communication with CDE will be completed, so that the drug can be applied for market launch based on the phase II clinical results.

2) TTP273: GLP-1 innovative drug TTP273 for oral administration introduced from vTv in the United States has obtained the clinical trial notification in May 2019; clinical protocol confirmation and hospital ethics approval have been completed. The phase I PK bridging trial will be carried out in the first half of 2020.

3) Biosimilar varieties: The multi-center phase III clinical trial (indications for type II diabetes) for the Company's key product in the field of diabetes, Lilarutide Injection, has now been fully launched, which is expected to be completed in 2020. The multi-center phase III clinical trial (indications for weight loss) for the product has been formally launched; the phase I clinical trial has been formally launched for Insulin Detemir. Clinical application has been submitted for Lucentis; research on the relevant supplementary information is in progress.

(3) R&D of major generic drugs

During the reporting period, the Company carefully carried out dynamic evaluation and sorting of the

existing generic drugs under R&D in a scientific manner, and further clarified the key and priority varieties. The progress of key varieties is as follows:

1) The on-site check lists have been submitted for Anastrozole Tablets, Caspofungin and Lyophilized Powder for Injection. Siglitine-Metformin Compound Tablets (50/500mg) have passed technical review. The above projects will be subject to on-site inspection in 2020.

2) Supplementary information research and consistency evaluation have been completed for Omeprazole-Sodium Bicarbonate Compound Capsules; Letrozole Tablets and Empagliflozin-Metformin Compound Tablets have been applied for production. The above projects are expected to get production approval in 2020 or the first half of 2021.

3) Supplementary information studies have been basically completed for Micafungin and Lyophilized Powder for Injection; the BE trial and process verification have been completed for Linezolid Tablets, Canagliflozin and Canagliflozin Tablets, Macitentan and Macitentan Tablets and Sorafenib and Sorafenib Tablets. These products are expected to be applied for production in 2020.

The main R&D of generic drugs is shown in the table below:

Treatment field	Product	Indication	R&D progress		Progress description
			BE	ANDA	
Diabetes	*Canagliflozin and Canagliflozin Tablets	Type II diabetes			The BE trial and process verification have been completed; production application to be submitted in 2020
	*Empagliflozin-Metformin Compound Tablets	Type II diabetes			The production application has been submitted and is under review
	*Sitagliptin-Metformin Tablets	Type II diabetes			The product has passed the review and will be subject to on-site inspection
	Pioglitazone-Metformin Tablets (15/850mg)	Type II diabetes			Formulation and process optimization; pre-BE trial
	Repaglinide Tablets	Type II diabetes			Under BE study
Immunity	Sirolimus Tablets	Anti-rejection			Preparation for small-scale trial study
	Tacrolimus Ointment	Anti-rejection			Small-scale trial study
Anti-tumor	*Letrozole Tablets ^{Note 1}	Breast cancer			The production application has been submitted and is under review
	*Anastrozole Tablets ^{Note 2}	Breast cancer			The on-site check list has been submitted; production site inspection to be carried out
	*Sorafenib and Sorafenib Tablets	Liver cancer			The product has passed pre-BE trial; BE trial is in progress
Super antibiotics	*Caspofungin and Caspofungin Injection	Antifungal			The on-site check list has been submitted; production site inspection to be carried out
	*Micafungin and Micafungin Injection	Antifungal			Supplementary information research has been completed; production application to be submitted in 2020
	*Linezolid Tablets	Super-antibiotics			Production application to be submitted in the first half of 2020
Digestive system	Omeprazole-Sodium Bicarbonate Compound Capsules	Gastric ulcer			Supplementary information research and consistency evaluation have been completed; the product has been applied for production
	Vonoprazan and Vonoprazan Tablets	Gastric ulcer			The product has passed pre-BE trial; BE trial is in progress
Cardiovascular diseases	Macitentan and Macitentan Tablets	Pulmonary arterial hypertension			The product has passed pre-BE trial; BE trial is in progress
Kidney diseases	Secondary development of Bailing Keli	Tonifying lungs and kidneys			The formulation and process have been optimized; samples to be prepared

Note 1 and Note 2 refer to "7.22" clinical self-inspection varieties that have been voluntarily withdrawn, which shall be included in the priority review procedure after re-application.

Note 3: The items marked with "*" are developed by New Drug Research Institute Co., Ltd. of Hangzhou Huadong Medicine Group, entrusted by the Company. The Company or its subsidiaries shall pay for the relevant entrusted development to obtain the property rights of the corresponding item.

At the same time, the Company has adjusted the existing product structure comprehensively in combination with the market competition pattern and the R&D progress of projects. After careful discussion and research, the

Company has cleaned up and eliminated some generic drugs with low barriers and low commercial value, including Erlotinib Tablets, Imatinib Tablets and Bosutinib Tablets in the field of anti-tumor, Fidaxomicin Tablets and Dalbavancin Lyophilized Powder for Injection in the field of super-antibiotics, and (S)-Pantoprazole Lyophilized Powder for Injection in the field of digestive system.

(4) R&D cooperation

During the reporting period, the Company actively carried out cooperation and negotiations with domestic and overseas innovative drug R&D companies and research institutes on new drug projects. The details are as follows:

1) In cooperation with Shenyang Pharmaceutical University, the Company has introduced Class 1 chemical drug innovation projects for broad-spectrum anti-tumor treatment, and is currently carrying out a small-scale trial study of raw medicines and preparations as well as impurity research;

2) The Company has reached the entrusted development project of new biosimilar drugs in the field of autoimmunity (HDG1903) with the shareholding company Jiuyuan Gene, which enriched the Company's biosimilar projects;

3) The Company has deepened cooperation with the University of Minnesota in the field of integrated materials science and engineering technology for medical products, and enhanced its R&D capability in the field of high-end oral solid preparations;

4) The Company has reached cooperation with well-known domestic R&D companies or institutions such as WuXi AppTec, Pharmaron Inc., and Zhejiang University on multiple Class1 innovative drug projects.

(5) R&D of aesthetic medicine and medical devices

During the reporting period, the Company has reached strategic cooperation with R2 and MediBeacon in the United States, and with Kylane in Switzerland, and obtained commercialization rights of several innovative products. The core products of Sinclair, a wholly-owned subsidiary, have continued to make positive progress in registration in China and other countries. The specific progress is as follows:

Company name	Company profile	Relationship with the Company	Related main products	Indications	Rights and interests of Huadong (or subsidiaries)	R&D progress (overseas)	R&D progress (China)

Sinclair	Global aesthetic medicine product business operation	Wholly-owned subsidiary	Microspheres for injection (Ellanse)	Facial subcutaneous implantation to permanently reduce wrinkles	All	Registration certification or market access has been obtained in more than 60 countries or regions	The registration clinical trial has been completed in China, and the application for market launch has been accepted
			Thread lift (Silhouette)	Suitable for mid-face lift surgery, temporarily fixing and lifting the dermis under the cheek	All	Registration certification or market access has been obtained in more than 60 countries or regions	The registration of Silhouette in China has been initiated, and the clinical registration development plan and trial protocol are in preparation
Kylane in Switzerland	A biotech company that offers innovative facial fillers	Product licensing partnership; no equity relationship	MaiLi series, a novel hyaluronic acid containing lidocaine	Facial filler	Exclusive worldwide license	CE certification application in progress	R&D plan to be determined
R2 in the United States	Development of relevant medical devices and technologies in the field of aesthetic medicine, such as dark spot removal using freezing technology and skin whitening	Shareholding company	F1	Eliminate benign pigmentation of the skin	Exclusive distribution rights in 34 Asian countries and regions including	The product has been approved by FDA for 510(k) and is expected to be available in the US by the end of 2020	Registration in China to be started
			F2	Whole body whitening	China, Japan and South Korea	Under R&D	R&D plan to be determined
MediBeacon in the United States	Committed to physiological monitoring, surgical guidance, disease	Shareholding company	Dynamic TGFR monitoring system	Renal function assessment through real-time TGFR monitoring	Rights and interests in 25 countries and regions in the Asia-Pacific	The phase III critical study is planned for 2020 in the United States; PMA application is expected in 2021	IND to be submitted in China in 2020

diagnosis, and biocompatible optical equipment development and commercialization				region	(registration of Class III medical devices)	
	Gastrointestinal monitoring system	Diagnosis of gastrointestinal diseases through gastrointestinal permeability (GIP) monitoring			The POC trial to diagnose Crohn's disease has been completed in the United States	R&D plan to be determined

(6) Progress in consistency evaluation

During the reporting period, the quality and efficacy consistency evaluation of the Company's generic drugs progressed smoothly. Cyclosporine Soft Capsules (25mg, 50mg) obtained the approval of supplementary application for consistency evaluation. Acarbose Tablets (100mg) obtained the approval of supplementary application for consistency evaluation. Pioglitazone-Metformin Tablets (15mg/500mg) obtained the acceptance notice of supplementary application for consistency evaluation. Clarithromycin Tablets (0.25g) obtained the acceptance notice of supplementary application for consistency evaluation. Cyclosporine Soft Capsules (10mg) obtained the acceptance notice of supplementary application for consistency evaluation. Pioglitazone Hydrochloride Tablets (30g) obtained the acceptance notice of supplementary application for consistency evaluation. Materials of the supplementary application for consistency evaluation have been submitted for Mycophenolate Mofetil Capsules (0.25g). Other varieties to be evaluated are in the stage of pharmaceutical research, medium-scale trial and scale-up or process verification.

(7) Patents

In recent years, the Company attaches great importance to its own intellectual property protection and achievement transformation and application, and the number of patent applications and granted patents has been steadily increasing. Over the years, the Company has applied for more than 500 patents at home and abroad, including more than 260 authorized patents for invention.

During the reporting period, the Company successfully passed the supervision and verification of the implementation of enterprise's intellectual property standards, and declared the navigation project of enterprise operation patents in Zhejiang Province concerning oral diabetes drugs. In 2019, Zhongmei Huadong submitted a

total of 18 patent applications including 12 patents for invention; a total of 14 patents for invention were authorized; it was rated as “2019 National Intellectual Property Demonstration Enterprise” by the State Intellectual Property Office. In 2019, Sinclair obtained one European patent and one Russian patent.

R&D investment of the Company

	2019	2018	Percentage change
Number of R&D personnel (person)	1,078	550	96%
Proportion of R&D personnel	11.31%	6.52%	4.79%
R&D investment amount (yuan)	1,054,842,676.50	707,286,570.76	49.14%
Proportion of R&D investment in operating revenue	10.04%	8.62%	1.42%
Capitalized R&D investment amount (yuan)	0.00	0.00	0%
Proportion of capitalized R&D investment in R&D investment	0.00%	0.00%	0%

Note: (1) The proportion of R&D personnel is: the proportion of personnel in the Company’s subsidiaries mainly engaged pharmaceutical production and manufacturing; the proportion of R&D investment in operating revenue is: the proportion of R&D investment in new drugs in the operating revenue of the Company’s pharmaceutical manufacturing.

(2) The R&D personnel of 2019 are: the total R&D personnel of the Company’s R&D system and the R&D personnel of the production system, while the R&D personnel of 2018 are the number of R&D personnel of the Company’s R&D system.

Reasons for the year-on-year significant change in the proportion of total R&D investment in operating revenue

Applicable N/A

In 2019, the total direct and indirect expenditure on R&D of the Company and its major industrial wholly- or partially-owned subsidiaries reached 1.055 billion yuan, a year-on-year growth of 49.14%, and the proportion of R&D investment in the Company’s pharmaceutical manufacturing operating revenue increased by 1.42% compared with the same period last year. The Company’s R&D investment is mainly used in the clinical research of products under R&D, process improvement of existing products, entrusted technological development, consistency evaluation, international registration and certification, etc. Most of the above R&D investment is calculated as expenses in the current period, which do not need to be amortized in the following years. It will not have a significant impact on the Company’s future business performance.

Reasons for the significant change in the capitalization rate of R&D investment and its rationality

Applicable N/A

5. Cash flows

Unit: RMB yuan

Item	2019	2018	Year-on-year change
Cash inflows from operating activities	38,801,282,424.47	34,527,594,657.56	12.38%
Cash outflows for operating activities	36,799,584,253.80	32,488,098,574.30	13.27%
Net cash flow from operating activities	2,001,698,170.67	2,039,496,083.26	-1.85%
Cash inflows from investing activities	74,637,287.55	4,662,886,992.29	-98.40%
Cash outflows for investing activities	1,657,245,184.32	6,223,628,251.72	-73.37%
Net cash flow from investing activities	-1,582,607,896.77	-1,560,741,259.43	1.40%
Cash inflows from financing activities	1,922,537,327.51	2,134,859,129.38	-9.95%
Cash outflows for financing activities	2,531,134,823.51	2,565,297,917.38	-1.33%
Net cash flow from financing activities	-608,597,496.00	-430,438,788.00	41.39%
Net increase in cash and cash equivalents	-166,937,959.56	25,889,881.24	-744.80%

Main influencing factors of significant changes in relevant data year on year

Applicable N/A

The cash inflows from investing activities in the current period are 75 million yuan, a year-on-year decrease of 4.588 billion yuan or 98.4%, mainly due to the large number of financial products redeemed in the previous period.

The cash outflows for investing activities in the current period are 1.657 billion yuan, a year-on-year decrease of 4.567 billion yuan or 73.37%, mainly due to the large number of financial products purchased in the previous period.

Reasons for the significant difference between the Company's net cash flow from operating activities and the current year's net profit during the reporting period

Applicable N/A

III. Analysis of non-main business

√ Applicable □ N/A

Unit: RMB yuan

	Amount	Proportion in total profit	Note on reasons	Sustainable or not
Non-operating revenue	118,292,148.72	3.41%	Mainly due to the adjustment of contingent consideration payments of Sinclair in the current period	No
Non-operating expenditure	45,068,060.85	1.30%	Mainly due to the donations and compensation expenditure in the current period	No
Gains on asset disposal	114,154,941.45	3.29%	Mainly due to the confirmation of housing demolition and relocation funds in the current period	No
Other gains	113,635,429.90	3.27%	Mainly due to the confirmation of government grants in the current period	No

IV. Assets and liabilities

1. Major changes in asset composition

Since 2019, the Company has implemented new financial instrument standards, new income standards or new lease standards for the first time, and adjusted and implemented items related to financial statements at the beginning of the year

√ Applicable □ N/A

Unit: RMB yuan

	End of 2019		Beginning of 2019		Change of proportion	Note on major changes
	Amount	Proportion in total assets	Amount	Proportion in total assets		
Monetary funds	2,402,730,395.39	11.19%	2,442,723,381.93	12.71%	-1.52%	Mainly due to the increase of the Company's total assets and the decrease of the proportion of monetary funds in the current period
Accounts receivable	6,092,305,184.47	28.38%	5,633,011,225.41	29.31%	-0.93%	/
Inventories	4,038,975,496.93	18.82%	3,875,647,048.31	20.17%	-1.35%	Mainly due to the increase of the Company's total assets and the decrease of the proportion of inventories
Real estate	21,701,908.75	0.10%	23,841,968.85	0.12%	-0.02%	/

properties for investment						
Long-term equity investments	222,595,018.54	1.04%	88,918,218.64	0.46%	0.58%	Mainly due to the increase of equity investments in the current period
Fixed assets	2,175,216,842.65	10.13%	2,033,587,957.65	10.58%	-0.45%	/
Constructions in progress	1,829,808,233.19	8.53%	617,004,995.98	3.21%	5.32%	Mainly due to the increase of Zhongmei Huadong R&D platform construction and Huadong Medicine Biomedical Science and Technology Park Project Phase II
Short-term borrowing	655,549,973.27	3.05%	636,693,929.73	3.31%	-0.26%	/

2. Assets and liabilities measured at fair value

Applicable N/A

3. Limitation of asset rights at the end of the reporting period

Unit: RMB yuan

Item	Book value at the end of the period	Reason for limitation
Monetary funds	170,958,848.89	Cash deposit
Bills receivable	149,235,686.25	Bill pledge
Real estate properties for investment	2,103,865.43	Mortgage guarantee for borrowing
Fixed assets	58,428,133.40	Mortgage guarantee for borrowing
Intangible assets	4,509,292.49	Mortgage guarantee for borrowing
Total	385,235,826.46	

V. Investment

1. Overview

Applicable N/A

Investment amount in the reporting period (yuan)	Investment amount in the same period of last year (yuan)	Percentage change
1,965,240,000.00	2,533,800,000.00	-22.44 %

Note: The investment amount in the reporting period refers to the total capital expenditure in the reporting period.

2. Significant equity investments acquired during the reporting period

√ Applicable □ N/A

Unit: RMB ten thousand yuan

Name of invested company	Main businesses	Way of investment	Investment amount	Shareholding ratio	Capital source	Partner	Term of investment	Product type	Progress as of the balance sheet date	Projected income	Profit or loss of investment in the current period	Involved in litigation or not	Disclosure date (if any)	Disclosure index (if any)
Chongqing Peg-Bio Biopharm Co., Ltd.	R&D of biological chemical product and technologies; R&D of fermentation process optimization technology	Capital increase and equity transfer	21,000	39.80%	Own funds	/	/	R&D	The first capital increase has been completed	/	No profit for the time being	No	N/A	N/A
R2 Dermatology, Inc.	Development of aesthetic medicine equipment	Capital increase	USD 30 million	34%	Own funds	/	/	Development of aesthetic medicine equipment	The first investment of USD 10 million has been	/	No profit for the time being	No	N/A	N/A

									completed, with a shareholding of 16.6%					
Medi Beacon Inc.	Development of contrast agents with good biocompatibility and related equipment	Capital increase	USD 30 million	8.14%	Own funds	/	/	Development of contrast agents with good biocompatibility and related equipment	The first investment of USD 15 million has been completed, with a shareholding of 4.3%	/	No profit for the time being	No	N/A	N/A

Note: 1. During the reporting period and as of the first quarter of 2020, the Company's wholly-owned subsidiary Zhongmei Huadong has invested a total of 210 million yuan in Chongqing Peg-Bio to acquire 39.80% of its equity through two capital increases, combined with acquisition of minority shares, and thus became its second largest shareholder. So far, 190 million yuan has been invested, and the remaining 20 million yuan will be paid according to the contract schedule.

2. The Company has invested USD 30 million in R2 Dermatology, Inc. By April 26, 2020, USD 20 million of equity investment has been paid, and the remaining USD 10 million will be paid according to the contract schedule.

3. The Company has invested USD 30 million in Medi Beacon Inc. By April 26, 2020, USD 15 million of equity investment has been paid, and the remaining USD 15 million will be paid according to the contract schedule.

3. Significant non-equity investments in progress during the reporting period

√ Applicable □ N/A

Unit: RMB yuan

Project name	Way of investment	Investment in fixed assets or not	Industry involved in the investment project	Investment amount during the reporting period	Cumulative actual investment amount by the end of the	Capital source	Project progress	Projected income	Cumulative income realized by the end of the reporting	Reasons for not meeting the planned schedule and projected	Disclosure date (if any)	Disclosure index (if any)

					reporting period				period	income		
Huadong Medicine Biomedical Science and Technology Park Project Phase II	Self-built project	Yes	Pharmaceutical manufacturing	895,157, 221.60	1,328,42 4,238.71	Own funds	55.00%	/	/	N/A	March 9, 2017	http://www.cninfo.com.cn
Total	--	--	--	895,157, 221.60	1,328,42 4,238.71	--	--	/	/	--	--	--

4. Investment in financial assets

(1) Securities Investment

√ Applicable □ N/A

Unit: RMB yuan

Type of stock	Stock code	Stock abbrevia tion	Initial investm ent cost	Account ing measure ment model	Book value at the beginni ng of the period	Gain/los s from fair value changes in the current period	Accumu lative fair value changes included in equity	Purchas e amount in the current period	Selling amount in the current period	Gain/los s during the reportin g period	Book value at the end of the period	Account ing item	Capital source
Dome stic and overs eas stock	RAPT	RAPT	20,20 7,400. 00	Fair value measu remen t	20,20 7,400. 00	21,80 1,854. 79	21,80 1,854. 79	20,20 7,400. 00		21,80 1,854. 79	42,00 9,254. 79	Other equity instru ment invest ment	Own funds
Other securities investments held at the end of the period				--								--	--

Total	20,20 7,400. 00	--	20,20 7,400. 00	21,80 1,854. 79	21,80 1,854. 79	20,20 7,400. 00		21,80 1,854. 79	42,00 9,254. 79	--	--
Date of announcement of the Board of Directors on securities investment approval	N/A										
Date of announcement of the Board of Shareholders on securities investment approval (if any)	N/A										

Note: During the reporting period, Huadong Medicine Investment Holding (Hong Kong) Co., Ltd., a subsidiary of the Company, invested USD 3 million to purchase 218,102 preferred shares of RAPT Therapeutics, Inc. in C-2 series. RAPT Therapeutics, Inc. (stock code: RAPT) was listed on the NASDAQ Stock Exchange on October 30, 2019. Huadong Medicine Investment Holding (Hong Kong) Co., Ltd. holds 0.91% of the total shares of RAPT Therapeutics, Inc.

(2) Derivatives investment

Applicable N/A

No such case during the reporting period.

5. Use of raised funds

Applicable N/A

No such case during the reporting period.

VI. Major assets and equity sales

1. Major assets sales

Applicable N/A

No such case during the reporting period.

2. Major equity sales

Applicable N/A

VII. Analysis of wholly-partially owned and shareholding companies

Applicable N/A

Main subsidiaries and the shareholding companies that have an impact on the Company's net profit of more than 10%

Unit: RMB yuan

Company name	Company type	Main business	Registered capital	Total assets	Net assets	Operating revenue	Operating profit	Net profit
Hangzhou Zhongmei Huadong Pharmaceutical Co., Ltd.	Subsidiary	Production and management of Traditional Chinese and Western raw medicines and preparations, and health care products	872,308,130	8,184,324,202.84	5,705,834,454.48	10,507,745,823.08	2,530,825,850.63	2,197,743,344.46
Huadong Ningbo Medicine Co., Ltd.	Subsidiary	Sales of biological products as proxy	5,000,000	1,084,256,659.62	620,882,917.22	1,666,221,690.42	260,927,747.76	191,684,987.77
Huadong Medicine Wenzhou Co., Ltd.	Subsidiary	Wholesale of TCM materials, TCM decoction pieces, chemical preparations, etc.	61,300,000	1,079,378,534.86	202,402,011.73	2,571,247,127.39	26,292,169.48	20,384,390.67
Huadong Medicine Supply Chain Management (Hangzhou) Co., Ltd.	Subsidiary	Warehousing and storage services	50,729,863	154,557,858.41	111,995,746.67	158,166,197.29	17,479,057.35	12,546,378.19
Sinclair Pharma Limited	Sub-subsidiary	R&D, production and sales of aesthetic medicine products	219,962,963.92	936,190,063.02	395,565,859.60	509,190,691.24	33,748,752.62	119,556,109.67

Acquisition and disposal of subsidiaries during the reporting period

√ Applicable □ N/A

Company name	Methods of acquisition and disposal of subsidiaries during the reporting period	Impact on the overall production, operation and performance
Huadong Medicine Jinhua Co., Ltd.	New subsidiary	Expanding the coverage of medicine business network in Zhejiang Province
Huadong Medicine (Hangzhou) Co., Ltd.	Equity acquisition	Expanding the coverage of medicine business network in Zhejiang Province
Huadong Medicine Skin Management (Hong Kong) Co., Ltd.	New subsidiary	The Company's international aesthetic medicine business investment platform
Huadong Ningbo Medicine (Hong Kong) Co., Ltd.	New subsidiary	International aesthetic medicine business development platform of the Company's subsidiaries
Sinclair Pharma Australia Pty Ltd	New subsidiary	The Company's international aesthetic medicine business development platform
Medicalio SL	Cancellation	Adjustment of Sinclair's international aesthetic medicine regional business

VIII. Structured entities controlled by the Company

Applicable N/A

IX. Prospect of the Company's future development

1. Macro-economy and the development & prospect of medicine industry

In 2019, the global economic growth slowed down, global trade protectionism continued to spread, and Sino-US trade frictions were deadlocked. In the context of increasing uncertainties in global economic development, downward pressure on economic growth has increased significantly. Represented by the Trump administration's "America First" policy and Britain's "Brexit", the risk of trade protectionism is on the rise in the US and Europe, and the global economy is weakening.

With the further opening-up of China's economy, the external environment continues to increase its impact on China's economy. The domestic economic structure is in a critical period of transformation and upgrading, and the demand for enterprise innovation and upgrading and structural adjustment is increasingly strong. Domestic manufacturing enterprises are facing fierce external competition and enormous policy pressure.

The international medicine industry is in a period of renewal. Patent drugs are expiring across

the globe, competition for generic drugs is escalating, and the global medicine market is accelerating its shift to emerging markets; the R&D cycle and market demand for innovative drugs have a greater impact on the treatment field. In the context of global economic downturn, drastic cuts in health care costs have become the trend.

Multinational medicine companies take the initiative with their abundant product pipelines, accelerating the review and launch of international innovative drugs in China. Meanwhile, competition in the domestic market for generic drugs with expired patents has become increasingly fierce, and prices have been sharply reduced in local bid invitations and national centralized purchasing. All these will bring fierce market competition and operating pressure to domestic generic drug enterprises.

The medicine industry is an important industry related to the national economy and people's livelihood, a key area of "Made in China 2025" and strategic emerging industries, and an important guarantee for promoting the construction of a Healthy China. According to IQVIA, global drug spending in 2019 was close to USD 1.3 trillion, with overall growth of 4-5%. China has become the world's second largest medicine market. According to the data of the National Bureau of Statistics, in 2019, the cumulative operating revenue and total profit of domestic industrial enterprises above a certain scale in the pharmaceutical manufacturing industry were 2390.86 billion yuan and 311.95 billion yuan, respectively, with year-on-year growth of 7.4% and 5.9%, both higher than the level of industrial enterprises above a certain scale in China in the same period. In 2019, the growth of industrial added value above a certain scale in the pharmaceutical manufacturing industry slowed down to 6.6%, down 3.1 percentage points from 2018 and 0.9 percentage points higher than that of the whole country in the same period.

2. Development trend of medicine industry

In recent years, China's medicine industry is undergoing profound changes driven by policies. Influenced by the medical insurance fee control, the centralized purchasing of generic starting at the end of 2018 is the first market-oriented reform of domestic drug purchase, which also brings a value orientation of focusing on patients to the medicine industry. This market-oriented reform has

brought about a sharp reduction in the price of domestic original drugs with expired patents and price competition among mature generic drugs, reshaping the circulation value chain of the medicine industry. Although it has brought the medicine industry into the new normal of overall growth slowdown, it has also promoted the future standardization and centralization of the medicine industry, accelerated its integration into the international market, facilitated the transformation and upgrading of pharmaceutical enterprises, and increased the development of high-end generic drugs and the investment in innovative drugs. The layout of generic drug and innovative drug business and varieties, the selection of global supply chain systems, quality and cost control, and the establishment of differentiated products will all be important considerations for the future market strategies of pharmaceutical companies.

China's medicine industry is embracing a new pattern driven by policy. The development theme of the medicine industry has gradually shifted from imitation to innovation, and pharmaceutical innovation has become the core driving force to support the future development of enterprises, as well as the inevitable choice of medicine enterprises. The revised "The Pharmaceutical Administration Law of the People's Republic of China" came into force on December 1, 2019, and its general provisions clearly stipulate that the state encourages new drug R&D. The state has strengthened policy support for innovative drugs, which is not only reflected in the reform of approval processes such as the MAH system, the clinical value orientation and the implementation of innovative review mechanism, but also in the continuous improvement of medical insurance payments. The guidance and application of pharmacoeconomics in medical insurance negotiation, and the gradual implementation of DRGs (disease diagnosis groups) have played a positive role in changing medical behavior, reducing the proportion of unreasonable drug use, and promoting the return of products to clinical value. The introduction of these policies indicates that the medical insurance assessment mechanism will focus on medical quality and safety instead of fee control, and China's medicine industry will be more strictly regulated, the medicine market will become more standardized, and the survival of the fittest will become more severe. In the future, benefited by the national policy of encouraging innovation, pharmaceutical enterprises

will be greatly promoted in their enthusiasm for R&D and innovation, the domestic chemical and pharmaceutical industry will be reshaped, and medicine enterprises will be promoted to transform and shift their focus from common generic drugs to such fields as high-quality generic drugs, improved new drugs, innovative drugs, and biological drugs.

With the further institutionalization and standardization of drug evaluation, the administrative penalties for drug-related violations have been strengthened. This requires medicine enterprises to integrate the concepts of “compliance” and “risk control” into the production, R&D, management, marketing and operation. Domestic medicine enterprises can promote their own sustainable development only when they have a deep understanding of and conform to the development trend of China’s medicine industry, embrace innovation, seize opportunities, and make improvement in such aspects as commercialization capacity, clinical value of drugs, academic promotion, clinical influence, business strategies, policy affairs and market access.

3. The Company’s development plan

The Company has formulated a brand-new development strategy based on the medicine and health industries, taking the medicine industry as the leading role and expanding medicine business and aesthetic medicine business. Adhering to the philosophy of “scientific research-based and patient-oriented”, the Company plans to become a strong international medicine enterprise driven by scientific research and innovation.

Development plan for medicine innovation:

(1) Focus on the core treatment field; shift from imitation to innovation and from following to leading. In the future scientific research and innovation, the Company will be oriented to meet the clinical needs, focus on the medium- and long-term product pipeline layout, and attach equal importance to the upgrading of generic drugs and the development of innovative drugs. The R&D of generic drugs should be high-tech, differentiated, fast and cost-effective. The R&D of innovative drugs should be international with a high starting point, a wide track and new targets. Taking innovative drugs as the basis and direction for building the core competitiveness in the future, the Company will focus on developing innovative drugs with outstanding clinical value and generic

drugs with high-tech barriers in serious and chronic disease fields such as anti-tumor, internal secretion and autoimmunity, and closely track the technological development and R&D trends in frontier fields such as biological drugs, gene therapy and antibody drugs at home and abroad. With a scientific and pragmatic attitude, combined with its own ability and risk matching degree, the Company will start from differentiated innovation and gradually move towards the breakthrough innovation mode of “number one/best of its kind”, accelerate integration into the innovation and value chains of global new drug innovation, move from “new in China” to “new in the world”, and continuously raise its innovation level.

(2) Increased R&D investment; continuous enrichment and optimization of product pipelines. Since 2020, the Company’s annual R&D expenses have accounted for more than 10% of the sales revenue of the medicine industry, providing sufficient material guarantee for innovation. With the increase of investment, the use efficiency of R&D funds should be improved. Through independent project initiation and external introduction, the Company strives to complete at least 15 innovative projects (including drugs, medical devices, etc.) each year, of which at least 3 innovative drug projects should be initiated, so that each existing product line is complemented and led by innovative products, eventually building abundant product pipelines and a good product mix, thus forming a healthy development pace with innovative products going on the market from 2022 onwards. The Company will strive to achieve the goal that the innovation business segment should account for 30% of the total industrial operating revenue by 2025.

(3) Accelerated introduction of high-level talents and building of high-level research teams. The Company will focus on the introduction of R&D leaders and high-level R&D technicians with rich working experience, strengthen the internal R&D system and technology platform construction, and actively promote the construction of domestic and overseas R&D platforms. It will also create an innovative cultural environment and atmosphere that encourages innovation and success and tolerates failure, and establish a success-oriented market-oriented performance mechanism. A pioneering and innovative scientific research team with outstanding ability, open mind, passion and courage will be built to facilitate the implementation of the Company’s innovative

internationalization strategies. The Company will establish a dynamic evaluation mechanism for R&D projects, and set up an external expert academic committee to assist the Company in the decision-making and management of R&D and product introduction, so as to ensure scientific, advanced and feasible research innovation.

(4) Deepening of all-round cooperation with overseas partners and product introduction and construction of a global R&D strategic collaboration ecosystem centered on Zhongmei Huadong. The Company will integrate and connect external advantageous resources and technologies, promote the introduction and development of high-quality innovative projects through cooperative development, authorization & licensing or acquisition, etc., and continuously enrich its product pipelines and improve the medium- and long-term layout of innovative products. It will also enhance the international operating capability of products, and properly license its superior products and advanced technologies and patents to external agencies.

Development plan for Huadong business:

With service as its core and innovation as the driving force for transformation, the Company will stick to in-depth exploration in Zhejiang, continue to enhance its brand influence and maintain its leading position in the industry in Zhejiang Province; pay equal attention to scale and benefits instead of pursuing simple scale expansion; pursue high-quality and sustainable benefits through fine management; perfect the modern medicine logistics network covering Zhejiang Province, and make every effort to build a high-end third-party medicine logistics featuring cold chain to enhance value-added service capability; drive the market network and channel resources with the help of commerce, transform and upgrade the traditional business model, actively develop new business models such as general agency, business trusteeship, BTC pharmacy, and cultivate innovative business; consolidate the in-hospital market, expand the out-of-hospital market, use the Internet platform and new technologies such as big data, artificial intelligence and the Internet-of-Things to innovate services to suppliers, extend the service supply chain, accurately connect downstream medical institutions and upstream pharmaceutical enterprises, and gradually develop value-added services for the modern medicine sector, taking the road of sustainable development.

Development plan for aesthetic medicine:

The aesthetic medicine industry has a broad prospect. The Company, with the layout of “aesthetic medicine” as an important way to implement the strategy of “big health + big consumption”, will uphold the “customer-oriented” service concept, focus on the huge consumer market of facial micro-plastic surgery and skin care, and continuously enrich its product portfolio on the basis of consolidating its leading position in the aesthetic medicine market in China. With Sinclair as the international aesthetic medicine operation platform, it will set up a professional and international talent team, actively introduce international high-end aesthetic medicine products and expand global market business, create high-end brands in the industry, and provide healthy, safe, effective and personalized overall aesthetic medicine solutions to global customers.

7. The Company’s operating plan for 2020

The year 2020 will be a year of continuous great changes in the medicine industry and great differentiation of medicine enterprises, as well as the 20th anniversary of the Company’s listing and the key year for the comprehensive implementation of strategic transformation and internationalization. It is bound to be one of the most difficult years in the Company’s history. In the transition period of accelerating R&D and product pipeline adjustment, the Company is faced with drastic changes in national policies and the medicine market; it failed to win the bid for national centralized purchasing of Acarbose Tablets, and has been affected by the COVID-19 outbreak at home and abroad. In the short term, it is faced with the severe test of weakened growth momentum and slowing growth.

In 2020, the Company will adhere to the strategy of R&D innovation and internationalization under the annual operating policy of “seeking common survival, seeking steady development, and strengthening innovation and deepening transformation”. It will fully implement various innovative measures, continue to deepen reform, adjust the organizational structure, optimize the incentive mechanism, strengthen cost and expense reduction, strive for progress, overcome difficulties, and strive to achieve the operating objective of continuous growth throughout the year.

(1) R&D: In 2020, the Company will put scientific research innovation at the top of all its

work, further strengthen and perfect the R&D system combining imitation and innovation, and complete the appointment of the Company's chief scientific officer and the continuous introduction of high-end R&D talents. Through the comprehensive diagnosis and identification of the weak links and pain points in R&D, the Company will define the reform direction, and complete the top-level design of the R&D system and the reform of the organizational structure. It will intensify the construction of innovative platforms and the integration of resources, continuously optimize the project management mechanisms (BD coordination mechanism, project PM mechanism, project committee mechanism and dynamic evaluation mechanism for products under R&D), optimize the process of project selection, project initiation and approval in all aspects, and gradually phase out the generic drug projects without market competitiveness through dynamic evaluation; focus on the R&D of innovative drugs and generic drugs with high technical barriers, supplement and improve the series of products in each product field of the Company, and achieve mutual supplement and timely upgrade and substitution of the same series of products. It will speed up the registration application for generic drug projects that have obtained clinical approval documents, complete the phase III clinical trial for Liraglutide and phase II clinical trial for Mefatinib as soon as possible. It will accelerate the progress of registration and approval, strive to establish 15 innovative products, obtain more than 4 production approvals and complete 15 patent applications in the year.

(2) Medicine industry: The Company will continue to accelerate the transformation and upgrading of the production system, continue to make use of the MAH diversified cooperation mode, and build a brand-new Huadong medicine production and operation system adapted to the new policies and market environment through strategic cooperation, entrusted production and supplier development.

The Company will properly carry out production and provide supply guarantee, deliver products in a compliant and high-quality manner, further improve the control system in such aspects as R&D, production, quality and sales, and focus on product quality improvement, cost control and R&D innovation. It will continue to carry out "three reductions", improve the technical level through technological progress and internal potential tapping, improve the operation efficiency

through lean production, continuously reduce production costs, realize the “high-quality, low-cost” operation management and production objectives, enhance its market competitiveness in terms of cost, and strengthen the safety training for all employees and raise the awareness of production safety.

The Company will promote the construction of production parks as planned, and ensure safe construction, efficient management and compliant production. It will complete the capital construction of Jiangdong Phase II, complete intensive registration and certification preparations for large-scale product transfer, complete the equipment verification of Jiangdong Phase II Project before the end of 2020, and strive to put it into use in 2021.

The Company will continue to strengthen quality compliance and GMP normalization management, speed up the construction of the talent team in the quality system, improve work efficiency, accelerate drug quality consistency evaluation and international registration, and further enrich its international product list. It will improve the collective management of the quality system mode and post-marketing pharmacovigilance to ensure the efficient operation of future multiple production forms.

(3) Zhongmei Huadong’s marketing and pharmaceutical services: In the severe market environment, it is necessary to maintain strategic focus, actively respond to the new challenges in the market after the failure to win the bid for the national centralized purchasing of Acarbose Tablets, and deepen the transformation of marketing models. It will optimize and adjust the marketing strategies, the marketing team structure and the personnel, and strengthen patient education and the promotion of the clinical value of products, build a team for clinical promotion of innovative drugs, improve the new academic promotion system of whole products with academic marketing as the core, consolidate the foundation of compliance marketing, make good promotion plans for each product under the new situation, focusing on the cultivation of potential varieties: Acarbose Chewable Tablets should be promoted in the national market so that it can enter more than 90% of Grade III hospitals in China; the sales of Pioglitazone-Metformin Tablets and Indobufen Tablets should increase by more than 100% year on year. It will properly carry out the

comprehensive development of Bailing series products as well as the sales promotion in the primary and self-paying markets.

The Company will continue to give full play to its overall marketing advantages, closely follow the trend of prescription outflows after the implementation of hierarchical diagnosis and treatment, firmly expand and continue to sink marketing channels, speed up the deployment in key markets, and vigorously expand the primary market, out-of-hospital market and OTC retail market. The number of hospitals covered by the primary market should double year on year.

(4) Human resources: The Company will continue to raise the level of human resources management, strengthen the building of talent reserves and teams, vigorously introduce high-end and scarce talents in the field of innovative drug R&D, optimize the enterprise organization and human resources allocation, promote both incentives and efficiency, and constantly improve the efficiency of human resources. It will further strengthen the cultivation of cadres, continue to strengthen ideological education for cadres, strengthen the management of their rights and responsibilities, allocation, assessment and motivation, and establish an assessment mechanism with the goal of “abandoning mediocrity and pursuing excellence”. It will accelerate the development and practice of a mechanism for the movement of cadres, and cultivate versatile talents who are willing to take on responsibilities and explore new areas.

(5) Medicine business company: It will actively face the new challenges after the implementation of centralized purchasing in Zhejiang Province and continue to improve its comprehensive service capability, implement differentiated in-hospital and out-of-hospital market service modes, combine with “Internet medical care” and “continuous prescription for chronic diseases”, extend services to end patients, and create a closed-loop innovative service with prescription outflow, adhere to the in-depth development in the Zhejiang market, and accelerate the development of high-end third-party logistics services featuring “cold chain” and special medicine distribution supported by the logistics system covering Zhejiang Province with “order fulfillment rate” as the starting point.

The Company will promote innovative business modes, continue to expand cooperation with

multinational medicine companies and domestic innovative drug R&D enterprises, steadily promote CSO team building, strengthen e-commerce business, cooperate with Internet platforms, and continue to develop BTB and BTC business.

The Company will deepen the organizational restructuring of its business company, strengthen financial budget management, continuously improve the management and operation efficiency through the ERP information system, actively overcome the impact of the COVID-19 outbreak, ensure the completion of the three major operating assessment indicators (annual main operating revenue, net profit, and capital return rate), and strive to maintain year-on-year growth in overall income and net profit.

(6) Aesthetic medicine: The Company will improve the international operation system, actively carry out research and project introduction of high-tech new products and new technologies in the field of aesthetic medicine worldwide, continue to promote the structural adjustment of aesthetic medicine products and the development of innovative business, and complete the registration and launch of core products such as Ellanse and R2-SPA in the Chinese market in 2020 as planned. It will speed up the construction of a promotion team of new aesthetic medicine products, properly plan and implement the launch and promotion of products, actively reduce expenses and costs, carry out brand promotion and customer relationship maintenance, and strive to reduce the impact of the continued COVID-19 outbreak on the Company's aesthetic medicine business at home and abroad in 2020, laying a solid foundation for normal operation after the pandemic.

X. Risks and countermeasures

1. Industry policies and market impact

At present, China has continuously deepened reform in the field of medicine and health, and various policies have been introduced intensively. Policies such as national centralized purchasing, generic drug consistency evaluation, two-vote system, new drug approval, control of the proportion of hospital drugs, secondary price negotiation in hospitals, and close medical association will have a significant impact on the R&D, production, and circulation of drugs. At the same time, with the

implementation of medical insurance fee control, the reform of payment methods, and the further implementation of the generic drug centralized purchasing policy, some drugs will face the risk of further price reduction.

Countermeasures:

The Company will pay close attention to, analyze and grasp major national medicine policies and industry development trends, strengthen the layout of innovative varieties and R&D investment through endogenous development and outward extension, reduce production and operation risks through lean production, fully implement the international development strategy and improve the technological quality advantages of products with international standards. It will continue to tap the advantageous products and subdivisions of aesthetic medicine to create new profit points. It will vigorously expand grassroots communities and OTC markets, and increase the coverage of primary and retail terminal markets to maintain stable growth in operations.

2. New drug R&D risk

New drug R&D involves a long cycle, large investment and many uncertainties. In the R&D process, there are also risks such as shortage of high-level talents, failure to obtain registration and approval for new drug R&D due to curative effect or safety reasons. After new drugs hit the market, there are also risks such as market demand test, purchasing by bidding, medical insurance payment access, and market competition for similar products. In addition, the investment in R&D will also bring certain pressure to the realization of the Company's current operating objectives.

Countermeasures: The Company will continue to increase investment in new drug R&D, optimize the innovation mechanism, improve the scientific new drug research evaluation and decision-making system, and establish close ties with well-known R&D institutions at home and abroad, focus on the core treatment fields, continue to enrich and optimize the product pipelines through independent project establishment and external introduction, vigorously develop innovative drugs and generic drugs with high technical barriers, and gradually eliminate the backward varieties that are not competitive in the market, increase the introduction of high-level research personnel, build a research team that covers the entire development cycle of new drugs, and strengthen the training and encouragement of core technical personnel, and accelerate the construction of

high-standard medicine R&D centers and pilot test bases.

3. Price reduction risk

With the intensified competition in the medicine market and the further promotion of the national centralized purchasing policy, domestic medicine enterprises will face the pressure of policy-based price reduction for a long time. There will be more competitive manufacturers of similar products, leading to the risk of failure in bidding, which is also a negative factor affecting the Company's business performance.

Countermeasures: Focusing on scientific R&D and technological innovation, the Company will improve the technological quality advantages of its products with international standards, strengthen internal management and technological upgrading, strengthen cost competitive advantages, carry out marketing assessment and incentives and channel sinking, continue to expand the professional promotion team of county-level markets, vigorously expand primary communities and OTC markets, and increase the coverage of primary and retail terminal markets to maintain stable market growth.

XI. Activities of receptions, including research, communication and interview

1. Registration form of receptions, including research, communication and interview, undertaken during the reporting period

√ Applicable □ N/A

Date	Method	Type of visitor	Index of basic information of the research
January 16, 2019	Field research	Institution	Please refer to "Huadong Medicine: 000963 Huadong Medicine information on research activities: January 18, 2019" presented on the websites of irm.cninfo.com.cn and cninfo.com.cn for details.
February 19, 2019	Field research	Institution	Please refer to "Huadong Medicine: record of investor relations activities: February 19 and 20, 2019" presented on the websites of irm.cninfo.com.cn and cninfo.com.cn for details.
February 20, 2019	Field research	Institution	Please refer to "Huadong Medicine:

			record of investor relations activities: February 19 and 20, 2019” presented on the websites of irm.cninfo.com.cn and cninfo.com.cn for details.
April 19, 2019	Communication by phone	Institution and individual investor	Please refer to “Huadong Medicine: record of investor relations activities: April 19-24, 2019” presented on the websites of irm.cninfo.com.cn and cninfo.com.cn for details.
April 23, 2019	Communication by phone	Institution and individual investor	Please refer to “Huadong Medicine: record of investor relations activities: April 19-24, 2019” presented on the websites of irm.cninfo.com.cn and cninfo.com.cn for details.
April 24, 2019	Field research	Institution	For details, please refer to “Huadong Medicine: record of investor relations activities: April 19-24, 2019” presented on the websites of irm.cninfo.com.cn and cninfo.com.cn for details.
April 30, 2019	Communication by phone	Institution and individual investor	Please refer to “Huadong Medicine: 000963 Huadong Medicine information on research activities: January 18, 2019” presented on the websites of irm.cninfo.com.cn and cninfo.com.cn for details.
May 28, 2019	Communication by phone	Institution and individual investor	Please refer to “Huadong Medicine: record of investor relations activities: May 28-29, 2019” presented on the websites of irm.cninfo.com.cn and cninfo.com.cn for details.
May 29, 2019	Field research	Institution	Please refer to “Huadong Medicine: record of investor relations activities: May 28-29, 2019” presented on the websites of irm.cninfo.com.cn and cninfo.com.cn for details.
June 06, 2019	Shareholders’ meeting and investor reception day activities	Institution, shareholder representative and individual investor	Please refer to “Huadong Medicine: record of investor relations activities: June 6, 2019 (investor reception day activities)” presented on the websites of irm.cninfo.com.cn and cninfo.com.cn for details.
July 18, 2019	Field research	Institution	Please refer to “Huadong Medicine:

			record of investor relations activities: July 18-19, 2019” presented on the websites of irm.cninfo.com.cn and cninfo.com.cn for details.
July 19, 2019	Field research	Institution	Please refer to “Huadong Medicine: record of investor relations activities: July 18-19, 2019” presented on the websites of irm.cninfo.com.cn and cninfo.com.cn for details.
August 28, 2019	Communication by phone	Institution and individual investor	Please refer to “Huadong Medicine: record of investor relations activities: August 28, 2019” presented on the websites of irm.cninfo.com.cn and cninfo.com.cn for details.
September 23, 2019	Field research	Institution	Please refer to “Huadong Medicine: record of investor relations activities: September 23-25, 2019” presented on the websites of irm.cninfo.com.cn and cninfo.com.cn for details.
September 25, 2019	Field research	Institution	Please refer to “Huadong Medicine: record of investor relations activities: September 23-25, 2019” presented on the websites of irm.cninfo.com.cn and cninfo.com.cn for details.
October 30, 2019	Communication by phone	Institution and individual investor	Please refer to “Huadong Medicine: record of investor relations activities: October 30, 2019” presented on the websites of irm.cninfo.com.cn and cninfo.com.cn for details.
November 05, 2019	Group reception day for investors – online Q&A on quanjing.com	Institution and individual investor	Please refer to “Huadong Medicine: “Huadong Medicine - communication for development and rational co-growth - investor group reception day of listed companies in Zhejiang Province in 2019” presented on http://rs.p5w.net/ for details
Number of receptions		17	
Number of institutions received		1,500	
Number of individuals received		60	
Number of other visitors received		0	
Has any undisclosed important information been			

disclosed, revealed or divulged?	No
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Section V. Important Matters

I. The Company's profit distribution of common shares and increase of capital stock by capital reserve conversion

Formulation, implementation or adjustment of the profit distribution policy of common shares, especially the cash dividend policy, during the reporting period

√ Applicable □ N/A

During the reporting period, the Company's profit distribution policy conforms to the Articles of Association and the review procedure, and fully protects the legitimate rights and interests of small and medium investors. The independent directors have expressed their opinion, and there is a clear standard and ratio of dividends.

Special notes on cash dividend policy	
Whether it complies with the provisions of the Articles of Association or the requirements of the resolutions of shareholders' meeting:	Yes
Whether the standard and ratio of dividends are clear:	Yes
Whether the relevant decision-making procedures and mechanisms are complete:	Yes
Whether the independent directors have performed their duties and played their due roles:	Yes
Whether minority shareholders have the opportunity to fully express their opinions and demands, and whether their legitimate rights and interests are fully protected:	Yes
If the cash dividend policy is adjusted or changed, whether the conditions and procedures are compliant and transparent:	Yes

The Company's common share dividend distribution plan (preplan) and plan for capital stock increase by capital reserve conversion (preplan) in recent three years (including the current reporting period):

- (1) The Company's distribution plan for 2017: Based on the total share capital of 972,116,416 shares, 7.2 yuan (tax included) is paid as a cash dividend for every 10 shares; the total share dividend distributed is 699,923,819.52 yuan, and 5 shares are added for every 10 shares by capital reserve conversion;
- (2) The Company's distribution plan for 2018: Based on the total share capital of 1,458,174,624 shares, 3.3 yuan (tax included) is paid as a cash dividend for every 10 shares; the total share dividend distributed is 481,197,625.92 yuan, and 2 shares are added for every 10 shares by capital reserve conversion;
- (3) The Company's distribution plan for 2019: Based on the total share capital of 1,749,809,548 shares, 2.8 yuan (tax included) is paid as a cash dividend for every 10 shares; the total share dividend distributed is 489,946,673.44 yuan, and 0 shares are added for every 10 shares by capital reserve conversion.

The Company's cash dividends of common shares in recent three years (including the reporting period)

Unit: RMB yuan

Year when dividends are distributed	Cash dividends (tax included)	Net profit attributable to the common shareholders of the Company in the annual consolidated statements	Proportion of cash dividends in the net profit attributable to the common shareholders of the Company in the consolidated statements	Cash dividends by other means (such as share repurchase)	Proportion of cash dividends by other means in the net profit attributable to the common shareholders of the Company in the consolidated statements	Total cash dividends (including those by other means)	Proportion of total cash dividends (including those by other means) in the net profit attributable to the common shareholders of the Company in the consolidated statements
2019	489,946,673.44	2,813,118,702.11	17.42%	0.00	0.00%	489,946,673.44	17.42%
2018	481,197,625.92	2,267,229,174.08	21.22%	0.00	0.00%	481,197,625.92	21.22%
2017	699,923,819.52	1,779,506,061.59	39.33%	0.00	0.00%	699,923,819.52	39.33%

During the reporting period, the Company made profits and the profit available to common shareholders of the parent company was positive, but no cash dividend plan for common shares was proposed

Applicable N/A

II. Profit distribution and capital stock increase by capital reserve conversion during the current reporting period

Applicable N/A

Number of bonus shares every 10 shares (share)	0
Dividends paid every 10 shares (tax included)	2.8
Number of shares added for every 10 shares by capital reserve conversion	0
Capital stock base of the distribution plan (share)	1,749,809,548
Cash dividends (yuan) (tax included)	489,946,673.44
Cash dividends by other means (such as share repurchase) (yuan)	0.00
Total cash dividends (yuan)	489,946,673.44
Distributable profit (yuan)	3,431,594,974.14
Proportion of total cash dividends (including those	100%

by other means) in the total profit distributed
Current cash dividends
If the Company is in a mature stage of development and has a significant capital expenditure arrangement, the proportion of cash dividends in the current profit distribution should be at least 40%.
Details of the profit distribution plan or the plan for capital stock increase by capital reserve conversion
The Company's profit distribution plan for 2019: Based on the total share capital of 1,749,809,548 shares, 2.8 yuan (tax included) is paid as a cash dividend for every 10 shares; the total share dividend distributed is 489,946,673.44 yuan, and 0 shares are added for every 10 shares by capital reserve conversion.

III. Fulfillment of commitments

1. Commitments made by interested parties such as the Company's actual controller, shareholders, related parties, acquirer(s), and the Company that are fulfilled during the reporting period or unfulfilled by the end of the reporting period

√ Applicable □ N/A

Commitment	Commitment maker	Type of commitment	Details of commitment	Date of commitment	Term of commitment	Fulfilled or unfulfilled
Share reform	N/A	N/A	N/A		N/A	N/A
A commitment made in the report of acquisition or the report of change in equity	N/A	N/A	N/A		N/A	N/A
A commitment made in assets restructuring	N/A	N/A	N/A		N/A	N/A
A commitment made at the time of an initial public offering or refinancing	China Grand Enterprises, Inc.	A commitment made at the time of refinancing	China Grand Enterprises will abide by the "Administrative Measures for the Issuance of Securities by Listed Companies", "Rules for Stock Listing of Shenzhen Stock Exchange", and relevant provisions of laws, regulations and regulatory documents, and will not transfer the shares it has subscribed for within 36 months	February 05, 2016	36 months	Fulfilled

			from the date of this non-public offering of shares by Huadong Medicine.			
	Hangzhou Huadong Medicine Group Co., Ltd.	A commitment made at the time of refinancing	Huadong Group will abide by the “Administrative Measures for the Issuance of Securities by Listed Companies”, “Rules for Stock Listing of Shenzhen Stock Exchange”, and relevant provisions of laws, regulations and regulatory documents, and will not transfer the shares it has subscribed for within 36 months from the date of this non-public offering of shares by Huadong Medicine.	February 05, 2016	36 months	Fulfilled
Equity incentives	N/A	N/A	N/A		N/A	N/A
Other commitments made to the Company’s small and medium shareholders	China Grand Enterprises, Inc.	Commitments to reducing shareholdings	China Grand Enterprises undertakes that it has no plan to sell all of its shares in Huadong Medicine within 12 months from the date of the lifting of restrictions on the non-public offering of shares by Huadong Medicine in 2016.	February 11, 2019	12 months	Fulfilled (the commitment expired on February 10, 2020)
	Hangzhou Huadong Medicine Group Co., Ltd.	Commitments to reducing shareholdings	Huadong Group undertakes that it has no plan to sell all of its shares in Huadong Medicine within 12 months from the date of the lifting of restrictions on the non-public	February 11, 2019	12 months	Fulfilled (the commitment expired on February 10, 2020)

			offering of shares by Huadong Medicine in 2016.			
Whether the commitment has been fulfilled on time	Yes					
If the commitment is overdue and has not been fulfilled, the specific reasons for unfulfillment and the future work plan should be explained in detail.	N/A					

2. If there is a profit forecast for the Company's assets or projects and the reporting period is in the profit forecast period, the Company should state the assets or projects that meet the original profit forecast and the reasons for that

Applicable N/A

IV. Controlling shareholder's and related parties' occupation of non-operating funds of the listed companies

Applicable N/A

No such case during the reporting period.

V. Explanation by the Board of Directors, the Board of Supervisors and the independent directors (if any) on the "auditor's nonstandard report" of the accounting firm during the current reporting period

Applicable N/A

VI. Changes in accounting policies, estimation and accounting methods as compared with the previous financial report

Applicable N/A

Since January 1, 2019, the Company has implemented "Accounting Standard for Business Enterprises No. 22 - Recognition and Measurement of Financial Instruments", "Accounting Standard for Business Enterprises No. 23 - Transfer of Financial Assets", "Accounting Standard for Business Enterprises No. 24 - Hedging", and "Accounting Standard for Business Enterprises No. 37 - Presentation of Financial Instruments" revised by the Ministry of Finance in 2017. For details, please refer to "V (44) Changes in important accounting policies and accounting estimation" in "Section XII. Financial Report" of this report.

VII. Retrospective restatement of the correction of significant accounting errors during the reporting period

Applicable N/A

No such case during the reporting period.

VIII. Changes in the scope of consolidated statements as compared to the previous financial report

Applicable N/A

1. Increase of the consolidation scope

Company name	Method of equity acquisition	Time of equity acquisition	Amount of capital	Ratio of capital
Huadong Medicine Jinhua Co., Ltd.	New subsidiary	March 2019	80,000,000.00	100%
Huadong Medicine (Hangzhou) Co., Ltd.	Share acquisition	May 2019	50,059,838.75	100%
Huadong Medicine Skin Management (Hong Kong) Co., Ltd.	New subsidiary	April 2019	[Note 1]	100%
Huadong Ningbo Medicine (Hong Kong) Co., Ltd.	New subsidiary	July 2019	[Note 2]	100%
Sinclair Pharma Australia Pty Ltd	New subsidiary	February 2019	[Note 3]	100%

Note 1: No capital has been contributed as of December 31, 2019.

Note 2: No capital has been contributed as of December 31, 2019.

Note 3: No capital has been contributed as of December 31, 2019.

2. Reduction of the consolidation scope

Company name	Method of equity disposal	Time of equity disposal	Net assets at disposal date	Net profit from the beginning of the period to the disposal date
Medicalio SL	Cancellation	December 2019	43,121.51	

IX. Employment and dismissal of accounting firms

Accounting firm employed by the Company for now

Name of the domestic accounting firm	Pan-China Certified Public Accountants (special general partnership)
Continuous number of years of audit services provided by the	22

domestic accounting firm	
Remuneration of the domestic accounting firm (ten thousand yuan)	165
Certified public accountants of the domestic accounting firm	Wang Fukang, Xu Ping
Continuous number of years of audit services provided by certified public accountants of the domestic accounting firm	4
Name of the overseas accounting firm (if any)	None
Remuneration of the overseas accounting firm (ten thousand yuan) (if any)	0
Continuous number of years of audit services provided by the overseas accounting firm (if any)	None
Certified public accountants of the overseas accounting firm (if any)	None
Continuous number of years of audit services provided by certified public accountants of the overseas accounting firm (if any)	None

Whether the accounting firm employed was replaced in the current period

Yes No

Information about the internal control audit accounting firm, financial consultant or sponsor employed by the Company

Applicable N/A

During the reporting period, the Company employed Pan-China Certified Public Accountants (special general partnership) as the audit institution of its annual financial report and internal control audit report; the annual financial report and internal control audit report audit fee paid is 1.65 million yuan.

X. Suspension and termination of listing after annual report disclosure

Applicable N/A

XI. Bankruptcy reorganization

Applicable N/A

No such case during the reporting period.

XII. Major litigation and arbitration

Applicable N/A

No such case during the reporting period.

XIII. Punishment and rectification

Applicable N/A

No such case during the reporting period.

XIV. Integrity of the Company and its controlling shareholder and actual controller

Applicable N/A

XV. Implementation of the Company's equity incentive plan, employee stock ownership plan or other employee incentive measures

Applicable N/A

No such case during the reporting period.

XVI. Major related transactions

1. Transactions related to daily operations

Applicable N/A

Related party	Relationship	Type of related transaction	Content of related transaction	Pricing principles for related transaction	Price of related transaction	Related transaction amount (ten thousand yuan)	Proportion in the amount of similar transactions	Approved transaction amount (ten thousand yuan)	Whether it exceeds the approved amount	Settlement method of related transaction	Available market prices of similar transactions	Date of disclosure	Disclosure index
Sichuan Yuanda Shuyang Pharmaceutical Co., Ltd.	Subsidiary of the Company's controlling shareholder	Drug purchase	Drug purchase	Market price determined by the Company's related transaction decision-making process	Market price	5,236.97	0.17%	5,000	Yes	Cash, banker's acceptance bill	Market price	April 19, 2019	cninfo (http://www.cninfo.com.cn)

Beijing Grand Johamu Pharmaceutical Co., Ltd.	Subsidiary of the Company's controlling shareholder	Drug purchase	Drug purchase	Market price determined by the Company's related transaction decision-making process	Market price	4,939.7	0.16%	5,000	No	Cash, banker's acceptance bill	Market price	April 19, 2019	cninfo (http://www.cninfo.com.cn)
Grandpharma (China) Co., Ltd.	Subsidiary of the Company's controlling shareholder	Drug purchase	Drug purchase	Market price determined by the Company's related transaction decision-making process	Market price	4,325.72	0.14%	3,500	Yes	Cash, banker's acceptance bill	Market price	April 19, 2019	cninfo (http://www.cninfo.com.cn)
Hangzhou Jiuyuan Gene Engineering Co., Ltd.	Joint venture of the Company	Drug purchase	Drug purchase	Market price determined by the Company's related transaction decision-making process	Market price	2,257.09	0.07%	6,000	No	Cash, banker's acceptance bill	Market price	April 19, 2019	cninfo (http://www.cninfo.com.cn)

Yunnan Leiyunshang Lixiang Pharmaceutical Co., Ltd.	Subsidiary of the Company's controlling shareholder	Drug purchase	Drug purchase	Market price determined by the Company's related transaction decision-making process	Market price	1,527.16	0.05%	2,500	No	Cash, banker's acceptance bill	Market price	April 19, 2019	cninfo (http://www.cninfo.com.cn)
Wuhan Grand Pharmaceutical Group Sales Co., Ltd.	Subsidiary of the Company's controlling shareholder	Drug purchase	Drug purchase	Market price determined by the Company's related transaction decision-making process	Market price	884.55	0.03%	850	Yes	Cash, banker's acceptance bill	Market price	April 19, 2019	cninfo (http://www.cninfo.com.cn)
Shenyang Yaoda Leiyunshang Pharmaceutical Co., Ltd.	Subsidiary of the Company's controlling shareholder	Drug purchase	Drug purchase	Market price determined by the Company's related transaction decision-making process	Market price	719.43	0.02%	1,500	No	Cash, banker's acceptance bill	Market price	April 19, 2019	cninfo (http://www.cninfo.com.cn)

Penglai Nuokang Pharmaceutical Co. Ltd.	Subsidiary of the Company's controlling shareholder	Drug purchase	Drug purchase	Market price determined by the Company's related transaction decision-making process	Market price	531.14	0.02%	2,500	No	Cash, banker's acceptance bill	Market price	April 19, 2019	cninfo (http://www.cninfo.com.cn)
Xi'an Grandpharma Xinbeilin Pharmaceutical Co. Ltd.	Subsidiary of the Company's controlling shareholder	Drug purchase	Drug purchase	Market price determined by the Company's related transaction decision-making process	Market price	323.93	0.01%	50	Yes	Cash, banker's acceptance bill	Market price	April 19, 2019	cninfo (http://www.cninfo.com.cn)
Shanghai Xudong Haipu Pharmaceutical Co. Ltd.	Joint venture of the Subsidiary of the Company's controlling shareholder	Drug purchase	Drug purchase	Market price determined by the Company's related transaction decision-making process	Market price	332.17	0.01%	400	No	Cash, banker's acceptance bill	Market price	April 19, 2019	cninfo (http://www.cninfo.com.cn)

Leiyunshang Pharmaceutical Group Co. Ltd.	Subsidiary of the Company's controlling shareholder	Drug purchase	Drug purchase	Market price determined by the Company's related transaction decision-making process	Market price	298.16	0.01%	500	No	Cash, banker's acceptance bill	Market price	April 19, 2019	cninfo (http://www.cninfo.com.cn)
Hangzhou Grand Biologic Pharmaceutical Inc.	Subsidiary of the Company's controlling shareholder	Drug purchase	Drug purchase	Market price determined by the Company's related transaction decision-making process	Market price	207.96	0.01%	850	No	Cash, banker's acceptance bill	Market price	April 19, 2019	cninfo (http://www.cninfo.com.cn)
Changshu Leiyunshang Pharmaceutical Co., Ltd.	Subsidiary of the Company's controlling shareholder	Drug purchase	Drug purchase	Market price determined by the Company's related transaction decision-making process	Market price	210.22	0.01%	400	No	Cash, banker's acceptance bill	Market price	April 19, 2019	cninfo (http://www.cninfo.com.cn)

Guangdong Leiyunshang Pharmaceutical Co., Ltd.	Subsidiary of the Company's controlling shareholder	Drug purchase	Drug purchase	Market price determined by the Company's related transaction decision-making process	Market price	126.77	0.00%	300	No	Cash, banker's acceptance bill	Market price	April 19, 2019	cninfo (http://www.cninfo.com.cn)
Changchun Leiyunshang Pharmaceutical Co., Ltd.	Subsidiary of the Company's controlling shareholder	Drug purchase	Drug purchase	Market price determined by the Company's related transaction decision-making process	Market price	75.23	0.00%	100	No	Cash, banker's acceptance bill	Market price	April 19, 2019	cninfo (http://www.cninfo.com.cn)
Hangzhou Huadong Medicine Group Guizhou TCM Development Co., Ltd.	Subsidiary of the Company's second largest shareholder	Drug purchase	Drug purchase	Market price determined by the Company's related transaction decision-making process	Market price	49.33	0.00%	0	Yes	Cash, banker's acceptance bill	Market price	April 19, 2019	cninfo (http://www.cninfo.com.cn)

Beijing Huajin Pharmaceutical Co., Ltd.	Subsidiary of the Company's controlling shareholder	Drug purchase	Drug purchase	Market price determined by the Company's related transaction decision-making process	Market price	14.64	0.00%	80	No	Cash, banker's acceptance bill	Market price	April 19, 2019	cninfo (http://www.cninfo.com.cn)
Grandpharma Huangshi Feiyun Pharmaceutical Co., Ltd.	Subsidiary of the Company's controlling shareholder	Drug purchase	Drug purchase	Market price determined by the Company's related transaction decision-making process	Market price	1.96	0.00%	0	Yes	Cash, banker's acceptance bill	Market price	April 19, 2019	cninfo (http://www.cninfo.com.cn)
Jiangsu Grand Xianle Pharmaceutical Co., Ltd.	Subsidiary of the Company's controlling shareholder	Drug purchase	Drug purchase	Market price determined by the Company's related transaction decision-making process	Market price	0	0.00%	1,200	No	Cash, banker's acceptance bill	Market price	April 19, 2019	cninfo (http://www.cninfo.com.cn)

Xi'an Beilin Pharmaceutical Co., Ltd.	Subsidiary of the Company's controlling shareholder	Drug purchase	Drug purchase	Market price determined by the Company's related transaction decision-making process	Market price	0.94	0.00%	0	Yes	Cash, banker's acceptance bill	Market price	April 19, 2019	cninfo (http://www.cninfo.com.cn)
Hangzhou Junlan Pharmaceutical Trading Co. Ltd.	Shareholding enterprise	Drug sales	Drug sales	Market price determined by the Company's related transaction decision-making process	Market price	12,538.87	0.35%	0	Yes	Cash, banker's acceptance bill	Market price	April 19, 2019	cninfo (http://www.cninfo.com.cn)
Hangzhou Tangyangyuan TCM Outpatient Department Co., Ltd.	Subsidiary of the Company's joint venture Hangzhou Tangyangyuan Pharmaceutical Co., Ltd.	Drug sales	Drug sales	Market price determined by the Company's related transaction decision-making process	Market price	1,078.8	0.03%	1,500	No	Cash, banker's acceptance bill	Market price	April 19, 2019	cninfo (http://www.cninfo.com.cn)

Hangzhou Jiuyuan Gene Engineering Co., Ltd.	Joint venture of the Company	Drug sales	Drug sales	Market price determined by the Company's related transaction decision-making process	Market price	553.86	0.02%	1,000	No	Cash, banker's acceptance bill	Market price	April 19, 2019	cninfo (http://www.cninfo.com.cn)
Guangdong Leiyunshang Pharmaceutical Co., Ltd.	Subsidiary of the Company's controlling shareholder	Drug sales	Drug sales	Market price determined by the Company's related transaction decision-making process	Market price	459.48	0.01%	400	Yes	Cash, banker's acceptance bill	Market price	April 19, 2019	cninfo (http://www.cninfo.com.cn)
Leiyunshang Pharmaceutical Group Co. Ltd.	Subsidiary of the Company's controlling shareholder	Drug sales	Drug sales	Market price determined by the Company's related transaction decision-making process	Market price	455.68	0.01%	300	Yes	Cash, banker's acceptance bill	Market price	April 19, 2019	cninfo (http://www.cninfo.com.cn)

Yunnan Leiyunshang Lixiang Pharmaceutical Co., Ltd.	Subsidiary of the Company's controlling shareholder	Drug sales	Drug sales	Market price determined by the Company's related transaction decision-making process	Market price	197.94	0.01%	150	Yes	Cash, banker's acceptance bill	Market price	April 19, 2019	cninfo (http://www.cninfo.com.cn)
Huadong Medicine Group New Drug Research Institute Co., Ltd.	Association with the Senior management [note]	Drug sales	Drug sales	Market price determined by the Company's related transaction decision-making process	Market price	92.26	0.00%	400	No	Cash, banker's acceptance bill	Market price	April 19, 2019	cninfo (http://www.cninfo.com.cn)
Hangzhou Tangyangyuan Pharmaceutical Co., Ltd.	Joint venture of the Company	Drug sales	Drug sales	Market price determined by the Company's related transaction decision-making process	Market price	58.41	0.00%	0	Yes	Cash, banker's acceptance bill	Market price	April 19, 2019	cninfo (http://www.cninfo.com.cn)

Grand Resources Group Co., Ltd.	Subsidiary of the Company's controlling shareholder	Drug sales	Drug sales	Market price determined by the Company's related transaction decision-making process	Market price	15.82	0.00%	0	Yes	Cash, banker's acceptance bill	Market price	April 19, 2019	cninfo (http://www.cninfo.com.cn)
Hangzhou Grand Biologic Pharmaceutical Inc.	Subsidiary of the Company's controlling shareholder	Drug sales	Drug sales	Market price determined by the Company's related transaction decision-making process	Market price	15.79	0.00%	0	Yes	Cash, banker's acceptance bill	Market price	April 19, 2019	cninfo (http://www.cninfo.com.cn)
Shanxi Grand Real Estate Co., Ltd.	Subsidiary of the Company's controlling shareholder	Drug sales	Drug sales	Market price determined by the Company's related transaction decision-making process	Market price	9.02	0.00%	0	Yes	Cash, banker's acceptance bill	Market price	April 19, 2019	cninfo (http://www.cninfo.com.cn)

Changchun Leiyunshang Pharmaceutical Co., Ltd.	Subsidiary of the Company's controlling shareholder	Drug sales	Drug sales	Market price determined by the Company's related transaction decision-making process	Market price	6.12	0.00%	0	Yes	Cash, banker's acceptance bill	Market price	April 19, 2019	cninfo (http://www.cninfo.com.cn)
Ningbo Donghai Bank Co., Ltd.	Shareholding company	Drug sales	Drug sales	Market price determined by the Company's related transaction decision-making process	Market price	1.05	0.00%	0	Yes	Cash, banker's acceptance bill	Market price	April 19, 2019	cninfo (http://www.cninfo.com.cn)
Hangzhou Huadong Medicine Group Co., Ltd.	The Company's second largest shareholder	House rental; property services	House rental; property services	Market price determined by the Company's related transaction decision-making process	Market price	34.12	0.00%	110	No	Cash, banker's acceptance bill	Market price	April 19, 2019	cninfo (http://www.cninfo.com.cn)

Hangzhou Huadi Medical Technology Co., Ltd.	Subsidiary of Hangzhou Huadong Medicine Group New Drug Research Institute Co., Ltd.	House leasing	House leasing	Market price determined by the Company's related transaction decision-making process	Market price	752.38	0.02%	800	No	Cash, banker's acceptance bill	Market price	April 19, 2019	cninfo (http://www.cninfo.com.cn)
Beijing Yanhuang Real Estate Co., Ltd.	Subsidiary of the Company's controlling shareholder	House leasing	House leasing	Market price determined by the Company's related transaction decision-making process	Market price	64.63	0.00%	0	Yes	Cash, banker's acceptance bill	Market price	April 19, 2019	cninfo (http://www.cninfo.com.cn)
Total				--	--	38,397.3	--	35,390	--	--	--	--	--
Details of bulk sales returns				N/A									
Actual performance during the reporting period where the total amount of daily related transactions is estimated by category for the current period (if any)				N/A									
Reasons for the large difference between the transaction price and the market reference price (if applicable)				N/A									

2. Related transactions involving the acquisition or sale of assets and shares

Applicable N/A

3. Related transactions of joint external investment

Applicable N/A

4. Associated claim and debt transactions

Applicable N/A

5. Other major related transactions

Applicable N/A

XVII. Major contracts and their fulfilment

1. Entrustment, contracting and leasing

(1) Entrustment

Applicable N/A

No such case during the reporting period.

(2) Contracting

Applicable N/A

No such case during the reporting period.

(3) Leasing

Applicable N/A

No such case during the reporting period.

2. Important guarantees

√ Applicable □ N/A

(1) Guarantees

Unit: RMB ten thousand yuan

External guarantees of the Company and its subsidiaries (excluding guarantees for subsidiaries)								
guaranteed party	Disclosure date of the announcement related to the guarantee Cap	Guarantee Cap	Actual date of occurrence	Actual guaranteed amount	Type of guarantee	Period of guarantee	Fulfilled or not	Guarantee for a related party or not
/	/	/	/	/	/	/	/	/
Total amount of external guarantees approved during the reporting period (A1)		/		Total actual amount of external guarantees during the reporting period (A2)		/		
Total amount of approved external guarantees at the end of the reporting period (A3)		/		Total actual balance of external guarantees at the end of the reporting period (A4)		/		
The Company's guarantees for its subsidiaries								
Guaranteed party	Disclosure date of the announcement of the guarantee cap	Guarantee cap	Actual date of occurrence	Actual guarantee amount	Type of guarantee	Term of guarantee	Fulfilled or not	Related party guarantee or not
Hangzhou Zhongmei Huadong Pharmaceutical Co., Ltd.	April 19, 2019	50,000	July 18, 2019	23,629	Joint liability guarantee	Six months	No	No
Huadong Ningbo Medicine Co., Ltd.	March 30, 2018	27,000	May 24, 2019	3,500	Joint liability guarantee	One year	No	No

Huadong Ningbo Medicine Co., Ltd.	April 19, 2019	27,000	October 15, 2019	6,880	Joint liability guarantee	Four months	No	No
Huadong Ningbo Medicine Co., Ltd.	April 19, 2019	23,000	November 21, 2019	975	Joint liability guarantee	One year	No	No
Huadong Ningbo Medicine Co., Ltd.	April 19, 2019	23,000	November 21, 2019	960	Joint liability guarantee	One year	No	No
Huadong Ningbo Medicine Co., Ltd.	April 19, 2019	27,000	November 08, 2019	5,000	Joint liability guarantee	One year	No	No
Huadong Ningbo Medicine Co., Ltd.	April 19, 2019	23,000	December 19, 2019	995	Joint liability guarantee	One year	No	No
Huadong Ningbo Medicine Co., Ltd.	April 19, 2019	23,000	December 19, 2019	995	Joint liability guarantee	One year	No	No
Huadong Ningbo Medicine Co., Ltd.	April 19, 2019	23,000	December 19, 2019	995	Joint liability guarantee	One year	No	No
Huadong Ningbo Medicine Co., Ltd.	April 19, 2019	23,000	December 19, 2019	995	Joint liability guarantee	One year	No	No
Huadong Ningbo Medicine Co., Ltd.	April 19, 2019	23,000	December 19, 2019	995	Joint liability guarantee	One year	No	No
Huadong Medicine Wenzhou Co., Ltd.	March 30, 2018	24,000	May 15, 2019	3,000	Joint liability guarantee	One year	No	No
Huadong Medicine Wenzhou Co., Ltd.	April 19, 2019	24,000	September 02, 2019	2,000	Joint liability guarantee	One year	No	No

Huadong Medicine Wenzhou Co., Ltd.	April 19, 2019	24,000	November 08, 2019	1,000	Joint liability guarantee	One year	No	No
Huadong Medicine Wenzhou Co., Ltd.	April 19, 2019	24,000	August 15, 2019	2,000	Joint liability guarantee	One year	No	No
Huadong Medicine Wenzhou Co., Ltd.	April 19, 2019	24,000	August 21, 2019	500	Joint liability guarantee	One year	No	No
Huadong Medicine Wenzhou Co., Ltd.	April 19, 2019	24,000	September 23, 2019	400	Joint liability guarantee	One year	No	No
Huadong Medicine Wenzhou Co., Ltd.	April 19, 2019	24,000	September 04, 2019	1,100	Joint liability guarantee	One year	No	No
Hangzhou Zhongmei Huadong Pharmaceutical Jiangdong Co., Ltd.	April 19, 2019	7,000	July 09, 2019	4,088	Joint liability guarantee	Six months	No	No
Sinclair Pharma Limited	November 23, 2018	40,000	March 26, 2019	18,226	Joint liability guarantee	Three years	No	No
Hangzhou Huadong TCM Decoction Pieces Co., Ltd.	April 19, 2019	1,500	/	/	/	One year	/	/
Huadong Medicine (Xi'an) Bohua Pharmaceutical Co., Ltd.	April 19, 2019	5,000	/	/	/	One year	/	/
Jiangsu Joyang Laboratories Co., Ltd.	April 19, 2019	7,000	/	/	/	One year	/	/

Huadong Medicine Ningbo Sales Co., Ltd.	April 19, 2019	18,000	/	/	/	One year	/	/
Huadong Medicine Huzhou Co., Ltd.	April 19, 2019	18,000	/	/	/	One year	/	/
Huadong Medicine Shaoxing Co., Ltd.	April 19, 2019	10,000	/	/	/	One year	/	/
Huadong Medicine Supply Chain Management (Hangzhou) Co., Ltd.	April 19, 2019	6,000	/	/	/	One year	/	/
Huadong Medicine Supply Chain Management (Jinhua) Co., Ltd.	April 19, 2019	20,000	/	/	/	Ten years	/	/
Huadong Medicine Lishui Co., Ltd.	April 19, 2019	10,000	/	/	/	One year	/	/
Huadong Medicine (Hangzhou) Biological Products Co., Ltd.	April 19, 2019	2,000	/	/	/	One year	/	/
Hangzhou Zhongmei Huadong Pharmaceutical Jiangdong Co., Ltd.	March 30, 2018	180,000	/	/	/	Ten years	/	/

Huadong Medicine Taizhou Co., Ltd.	April 19, 2019	4,000	/	/	/	One year	/	/
Huadong Medicine Cunde (Zhoushan) Co., Ltd.	April 19, 2019	9,000	/	/	/	One year	/	/
Huadong Medicine Daishan Co., Ltd.	April 19, 2019	5,000	/	/	/	One year	/	/
Total guarantee cap for subsidiaries approved during the reporting period (B1)		246,500		Total actual guarantee amount for subsidiaries during the reporting period (B2)		77,238		
Total approved guarantee cap for subsidiaries at the end of the reporting period (B3)		466,500		Total actual guarantee balance for subsidiaries at the end of the reporting period (B4)		77,238		
Subsidiaries guarantee for subsidiaries								
Guaranteed party	Disclosure date of the announcement of the guarantee cap	Guarantee cap	Actual date of occurrence	Actual guarantee amount	Type of guarantee	Term of guarantee	Fulfilled or not	Related party guarantee or not
/	/	/	/	/	/	/	/	/
Total guarantee cap for subsidiaries approved during the reporting period (C1)		/		Total actual guarantee amount for subsidiaries during the reporting period (C2)		/		
Total approved guarantee cap for subsidiaries at the end of the reporting period (C3)		/		Total actual guarantee balance for subsidiaries at the end of the reporting period (C4)		/		
Total amount of the Company's guarantees (i.e. the sum of the above-mentioned 3 kinds of guarantees)								
Total guarantees cap approved during the reporting period (A1+B1+C1)		246,500		Total actual guarantee amount during the reporting period (A2+B2+C2)		77,238		

Total approved guarantee cap at the end of the reporting period (A3+B3+C3)	466,500	Total actual guarantee balance at the end of the reporting period (A4+B4+C4)	77,238
Proportion of the actual guarantee amount (i.e. A4+B4+C4) in the Company's net assets			6.27%
Including:			
Balance of guarantees for shareholders, actual controllers and their related parties (D)			/
Amount of debt guarantees provided directly or indirectly for the entities with a liability-to-asset ratio over 70% (E)			10,000
The total amount of guarantees exceeds 50% of the net assets (F)			/
Total guarantee amount of the above-mentioned three kinds of guarantees (D+E+F)			10,000
For the unexpired guarantee, a guarantee liability has occurred or there may be a joint liability for satisfaction during the reporting period (if any)			/
Note of external guarantees in violation of prescribed procedures (if any)			/

(2) External guarantees in violation of provisions

Applicable N/A

No such case during the reporting period.

3. Entrusted management of cash assets

(1) Entrusted finances

Applicable N/A

No such case during the reporting period.

(2) Entrusted loans

Applicable N/A

No such case during the reporting period.

4. Other significant contracts

Applicable N/A

No such case during the reporting period.

XVIII. Social responsibilities

1. Fulfillment of social responsibilities

2019 is a crucial year for deepening the transformation of Huadong Medicine, and the first year of a new period of development. All members of Huadong Medicine have created innovative business management ideas and empowered the Company with wisdom and hard work, ensuring the steady development of Huadong Medicine.

In the process of strategic transformation, the Company has strictly performed its social responsibilities as a corporate citizen; paid attention to the demands of shareholders, employees, customers, suppliers, communities and other stakeholders; assumed social responsibilities for environmental protection, saved energy and reduced emissions, and promoted the efficient and stable operation of the EHS system; and taken an active part in public welfare undertakings.

The Company's fulfillment of social responsibilities in 2019 can be found in "2019 Social Responsibility Report of Huadong Medicine".

2. Fulfillment of social responsibility for targeted poverty alleviation

The Company has not carried out targeted poverty alleviation in the reporting year, and there is no follow-up targeted poverty alleviation plan for the time being.

3. Environmental protection

Whether the Company and its subsidiaries are the key pollutant discharging units announced by the environmental protection authorities

Yes

Name of the company or subsidiary	Name of major pollutants	Discharge type	Number of discharge outlets	Distribution of discharge outlets	Concentration of discharge	Discharge standard of pollutants	Total discharge	Approved total discharge	Excessive discharge
Hangzhou Zhongmei Huadong Pharmaceutical Co., Ltd.	Water pollutant: PH value	Intermittent discharge	1	Front gate, 866 Moganshan Road	7.86	6-9	/	/	None
Hangzhou Zhongmei Huadong	Water pollutant: COD	Intermittent discharge	1	Front gate, 866 Moganshan	179mg/l	500mg/l	163.3 tons	475.5 tons/year	None

Pharmaceutical Co., Ltd.				Road					
Hangzhou Zhongmei Huadong Pharmaceutical Co., Ltd.	Water pollutant: ammonia nitrogen	Intermittent discharge	1	Front gate, 866 Moganshan Road	5.38mg/l	35mg/l	4.91 tons	/	None
Hangzhou Zhongmei Huadong Pharmaceutical Co., Ltd.	Solid pollutant: hazardous solid waste	Legal disposal by entrusted qualified units	2	In the factory at 866 Moganshan Road	/	/	0 ton	/	None
Hangzhou Zhongmei Huadong Pharmaceutical Co., Ltd.	Solid pollutant: general solid waste	Legal disposal by qualified units	2	In the factory at 866 Moganshan Road	/	/	0 ton	/	None
Hangzhou Zhongmei Huadong Pharmaceutical Co., Ltd.	Air pollutant: nitrogen oxide	Organized emission	1	Roof of the boiler room in Building No. 25	75.6mg/ m ³	400mg/ m ³	8.16 tons	17.7 tons/year	None
Hangzhou Zhongmei Huadong Pharmaceutical Co., Ltd.	Air pollutant: sulfur dioxide	Organized emission	1	Roof of the boiler room in Building No. 25	4mg/ m ³	100mg/ m ³	0.43 tons	/	None
Hangzhou Zhongmei Huadong Pharmaceutical Co., Ltd.	Air pollutant: dust and fume	Organized emission	1	Roof of the boiler room in Building No. 25	7.8mg/ m ³	30mg/ m ³	0.84 tons	/	None
Hangzhou Zhongmei Huadong Pharmaceutical Co., Ltd.	Air pollutant: volatile organic compound	Organized emission	1	103 refining (east), Building No. 16	12.6mg/ m ³	80mg/ m ³	/	/	None
Hangzhou Zhongmei Huadong Pharmaceutical Co., Ltd.	Air pollutant: foul smell	Organized emission	1	103 refining (east), Building No. 16	120.67	800 (dimensionless)	/	/	None

Hangzhou Zhongmei Huadong Pharmaceuti cal Co., Ltd.	Air pollutant: volatile organic compound	Organized emission	1	103 refining (west), Building No. 16	11.1 m ³	80mg/ m ³	/	/	None
Hangzhou Zhongmei Huadong Pharmaceuti cal Co., Ltd.	Air pollutant: foul smell	Organized emission	1	103 fermentatio n, Building No. 27	345	800 (dimensionl ess)	/	/	None
Hangzhou Zhongmei Huadong Pharmaceuti cal Co., Ltd.	Air pollutant: foul smell	Organized emission	1	107 fermentatio n, Building No. 33	146	800 (dimensionl ess)	/	/	None
Hangzhou Zhongmei Huadong Pharmaceuti cal Co., Ltd.	Air pollutant: foul smell	Organized emission	1	303 sewage station, Building No. 18	344	800 (dimensionl ess)	/	/	None
Huadong Medicine (Xi'an) Bohua Pharmaceuti cal Co., Ltd.	Water pollutant: PH value	Intermittent discharge	1	Along National Highway 310, Liuye River, Huayin City	7.50	6-9	/	/	None
Huadong Medicine (Xi'an) Bohua Pharmaceuti cal Co., Ltd.	Water pollutant: COD	Intermittent discharge	1	Along National Highway 310, Liuye River, Huayin City	22.81mg/l	50mg/l	0.401 tons	3 tons	None
Huadong Medicine (Xi'an) Bohua Pharmaceuti cal Co., Ltd.	Water pollutant: ammonia nitrogen	Intermittent discharge	1	Along National Highway 310, Liuye River, Huayin City	1.94mg/l	12mg/l	0.034 tons	0.72 tons	None
Huadong Medicine (Xi'an) Bohua	Water pollutant: total nitrogen	Intermittent discharge	1	Along National Highway 310, Liuye	7.18mg/l	20mg/l	0.126 tons	/	None

Pharmaceutical Co., Ltd.				River, Huayin City					
Huadong Medicine (Xi'an) Bohua Pharmaceutical Co., Ltd.	Solid pollutant: hazardous waste	Compliant disposal by entrusted qualified units	2	In the company	/	/	153.02 tons	/	None
Huadong Medicine (Xi'an) Bohua Pharmaceutical Co., Ltd.	Air pollutant: volatile organic compound	Organized emission	1	Raw medicine No.1 workshop	/	120mg/ m ³	/	/	None
Huadong Medicine (Xi'an) Bohua Pharmaceutical Co., Ltd.	Air pollutant: hydrogen chloride	Organized emission	1	Raw medicine No.1 workshop	/	100mg/ m ³	/	/	None
Huadong Medicine (Xi'an) Bohua Pharmaceutical Co., Ltd.	Air pollutant: hydrogen chloride	Organized emission	1	Raw medicine No.2 workshop	/	100mg/ m ³	/	/	None
Huadong Medicine (Xi'an) Bohua Pharmaceutical Co., Ltd.	Air pollutant: particulate matter	Organized emission	1	Raw medicine No.2 workshop	/	120mg/ m ³	/	/	None
Huadong Medicine (Xi'an) Bohua Pharmaceutical Co., Ltd.	Air pollutant: sulfuric acid mist	Organized emission	1	Raw medicine No.2 workshop	/	45mg/ m ³	/	/	None
Jiangsu Joyang Laboratories Co., Ltd.	Water pollutant: PH value	Intermittent discharge	1	Haidubei Road	8.35	6-9	/	/	None

Jiangsu Joyang Laboratories Co., Ltd.	Water pollutant: COD	Intermittent discharge	1	Haidubei Road	164mg/l	500mg/l	7.4 tons	51.4173 tons/year	None
Jiangsu Joyang Laboratories Co., Ltd.	Water pollutant: ammonia nitrogen	Intermittent discharge	1	Haidubei Road	14.47mg/l	35mg/l	0.652 tons	3.6819 tons/year	None
Jiangsu Joyang Laboratories Co., Ltd.	Water pollutant: SS	Intermittent discharge	1	Haidubei Road	62mg/l	400mg/l	2.797 tons	24.968 tons/year	None
Jiangsu Joyang Laboratories Co., Ltd.	Solid pollutant: hazardous solid waste	Legal disposal by entrusted qualified units	/	In the factory at Haidubei Road	/	/	841.581 tons	2398.5 tons/year	None
Jiangsu Joyang Laboratories Co., Ltd.	Air pollutant: particulate matter	Organized emission	5	Dosing section of workshop 101, fermentation section of workshop 101, dosing section of workshop 104 (shared by 107 and 108), fermentation section of workshop 104 (shared by 107 and 108), and drying section of workshop 104 (shared by 107 and 108)	4.2mg/ m ³	80mg/ m ³	0.236 tons/year	0.797 tons/year	None

Jiangsu Joyang Laboratories Co., Ltd.	Air pollutant: ethyl acetate	Organized emission	3	Extraction of workshop 101, Extraction of workshop 104, and workshop 303	27.8mg/ m ³	252.9mg/ m ³	0.576 tons/year	1.074 tons/year	None
Jiangsu Joyang Laboratories Co., Ltd.	Air pollutant: methanol	Organized emission	1	Extraction of workshop 101	15.3mg/ m ³	190mg/ m ³	0.023 tons/year	0.0884 tons/year	None
Jiangsu Joyang Laboratories Co., Ltd.	Air pollutant: ethanol	Organized emission	1	Workshop 106	9.2mg/ m ³	317.7mg/ m ³	0.0396 tons/year	0.3215 tons/year	None

Construction and operation of pollution prevention and control facilities

1. Construction and operation of pollution prevention and control facilities of Hangzhou Zhongmei Huadong Pharmaceutical Co., Ltd.:

(1) Waste water

Name of pollution prevention and control facilities	Treatment process	Processing capacity	Time of operation	Status of operation
Waste water treatment system of the old sewage station	Facultative + fluidized bed	Original 600 tons/day; 800 tons/day after technical transformation	November 1993; technical transformation in 2007	Normal
Waste water treatment system of the new sewage station	Anaerobic (IC tower)+ facultative +CASS+ air flotation	2,200 tons/day	December 2001; technical transformation in 2014 (IC and air flotation added)	Normal

(2) Waste gas

Name of pollution prevention and control facilities	Treatment process	Processing capacity	Time of operation	Status of operation
Waste gas treatment unit of 103 fermentation (DA001)	Condensation + level 1 alkali spray + all-in-one machine + level 1 alkali spray	15,000	2009	Normal
Waste gas treatment unit of 103 refining	Level 1 water spray	12,000	2012	Normal

(DA002)	+ level 1 alkali spray			
Waste gas treatment unit of 103 refining (DA003)	Level 1 water spray + level 1 plant oil and water spray	30,000	2014	Normal
Waste gas treatment unit of 303 sewage station (DA004)	Level 2 alkali spray + photo-oxidation + activated carbon + level 1 alkali spray	16,000 (one standby plant: 13,000)	2001	Normal
Waste gas treatment unit of 107 fermentation (DA005)	Level 3 alkali spray / condensation + level 1 alkali spray	48,000+30,000	2009	Normal
Waste gas treatment unit of 107 drying tower (DA006)	Bag dust removal + high efficiency filtration	5,000	2012	Normal
Waste gas treatment unit of 301 boiler (DA008 and DA009)	High-altitude discharge	8,000	2009	Normal

Note: Waste gas treatment process of 107 fermentation section: when the fermentation tank is not disinfected, the waste gas is discharged at high altitude after level 3 alkali spray; when the fermentation tank is disinfected, the waste gas is first condensed and then treated with level 1 alkali spray, and then discharged at high altitude.

(3) Solid waste

Name of pollution prevention and control facilities	Treatment process	Processing capacity	Time of operation	Status of operation
Hazardous waste warehouse	Standardized storage	160 tons	March 2012	Standardized storage; legal disposal by qualified units
	Standardized storage	240 tons	March 2010	
General solid waste yard	Standardized storage	7 tons	March 2010	Standardized storage; legal disposal by qualified units
	Standardized storage	30 tons	June 2004	

2. Construction and operation of pollution prevention and control facilities of Huadong Medicine (Xi'an) Bohua Pharmaceutical Co., Ltd.:

(1) Waste water

Name of pollution prevention and control facilities	Treatment process	Processing capacity	Time of operation	Status of operation
Waste water treatment system of the sewage station	Ozone oxidation + facultative + aerobic + MBR + carbon	250 tons/day	July 2012	Normal

	filtration			
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(2) Waste gas

Name of pollution prevention and control facilities	Treatment process	Time of operation	Status of operation
Waste gas treatment unit of raw medicine No. 1 workshop	Alkali spray	August 2015	Normal
Waste gas treatment unit of raw medicine No. 2 workshop	Alkali spray + UV photo-oxidation + activated carbon	November 2019	Normal

(3) Solid waste

Name of pollution prevention and control facilities	Treatment process	Storage capacity	Time of operation	Status of operation
Hazardous waste warehouse	Standardized storage	60 tons	January 2012	Standardize storage; legal disposal by entrusted qualified units

3. Construction and operation of pollution prevention and control facilities of Jiangsu Joyang Laboratories Co., Ltd.:

(1) Waste water

Name of pollution prevention and control facilities	Treatment process	Processing capacity	Time of operation	Status of operation
Waste water treatment system of the sewage station	Air floatation tank + hydrolysis acidification + IC tower + UASB pool + A/O pool + O pool + secondary sedimentation tank	250 tons/day	December 2014	Normal

(2) Waste gas

Name of pollution prevention and control facilities	Treatment process	Processing capacity CMH	Time of operation	Status of operation
Waste gas treatment unit of the extraction section of workshop 101	Level 1 water spray + moisture separator + photocatalytic oxidation + level 2 activated carbon adsorption + high-altitude discharge via 25m exhaust pipe	10,000	2014	Normal
Waste gas treatment unit of the fermentation section of workshop 101	Level 1 water spray + moisture separator + level 2 activated carbon adsorption + high-altitude	2,000	2019	Normal

	discharge via 25m exhaust pipe			
Waste gas treatment unit of the drying section of workshop 101	Level 1 water spray + moisture separator + level 2 activated carbon adsorption + high-altitude discharge via 25m exhaust pipe	22,000	2017	Normal
Waste gas treatment unit of the dosing section of workshop 101	Cyclone separator + level 1 water spray + high-altitude discharge via 15m exhaust pipe	5,000	2014	Normal
Waste gas treatment unit of the fermentation section of workshop 104	Level 1 water spray + moisture separator + level 2 activated carbon adsorption + high-altitude discharge via 25m exhaust pipe	10,000	2015	Normal
Waste gas treatment unit of the extraction section of workshop 104	Level 1 water spray + moisture separator + photocatalytic oxidation + level 2 activated carbon adsorption + high-altitude discharge via 25m exhaust pipe	10,000	2015	Normal
Waste gas treatment unit of the dosing section of workshop 104	Cyclone separator + level 1 water spray + high-altitude discharge via 15m exhaust pipe	5,000	2015	Normal
Waste gas treatment unit of the drying section of workshop 104	Level 1 water spray + moisture separator + level 2 activated carbon adsorption	20,000	2015	Normal
Waste gas treatment unit of workshop 103	Level 1 water spray + moisture separator + photocatalytic oxidation + level 2 activated carbon adsorption + high-altitude discharge via 25m exhaust pipe	10,000	/	/
Waste gas treatment unit of workshop 106	Level 1 water spray + moisture separator + photocatalytic oxidation + level 2 activated carbon adsorption + high-altitude discharge via 25m exhaust pipe	10,000	2015	Normal
Waste gas treatment unit of the extraction section of workshop 107	Level 1 water spray + moisture separator + photocatalytic oxidation + level 2 activated carbon adsorption + high-altitude	20,000	2019	Normal

	discharge via 25m exhaust pipe			
Waste gas treatment unit of the extraction section of workshop 108	Level 1 water spray + moisture separator + photocatalytic oxidation + level 2 activated carbon adsorption + high-altitude discharge via 25m exhaust pipe	40,000	2019	Normal
Workshop 109	Level 1 water spray + high-altitude discharge via 25m exhaust pipe	20,000	2019	Normal
Waste gas treatment unit of sewage station 303	Level 1 water spray + photocatalytic oxidation	10,000	2014	Normal

(3) Solid waste

Name of pollution prevention and control facilities	Treatment process	Processing capacity	Time of operation	Status of operation
Hazardous waste warehouse	Standardized storage	200 tons	December 2014	Standardized storage; legal disposal by entrusted qualified units
Domestic waste yard	Standardized storage	3 tons	March 2015	Chengdong Garbage Disposal Station

Environmental impact assessment of construction projects and other administrative permits for environmental protection

All construction projects of the above three subsidiaries of the Company have been declared, constructed and accepted in strict accordance with the requirements of “three simultaneous” for environmental protection, have passed environmental impact assessment, and met the requirements of environmental impact assessment for construction projects. The Company has obtained the pollutant discharge permit and the discharge permit of urban sewage into the drainage pipe network according to the environmental protection requirements. Huadong Medicine (Xi’an) Bohua Pharmaceutical Co., Ltd. completed the post-environmental impact assessment report in November 2019 and submitted it to Weinan Bureau of Ecology and Environment for the record, with the filing number: W. H. P. B. (2020) No. 3.

Emergency plan for environmental emergencies

The above three subsidiaries of the Company have compiled and established the mechanism of “Emergency Plan for Environmental Emergencies”, revised and improved it regularly according to the requirements, and regularly organized an emergency treatment exercise for environmental emergencies, so as to continuously improve their ability to respond to unexpected environmental pollution incidents.

Environmental self-monitoring scheme

The above three subsidiaries of the Company have all established the mechanism of “Self-monitoring Scheme for Pollution Sources” which has been put on record in the environmental protection authorities, and all the monitoring data are reported daily according to the regulations.

Other environmental information that should be made public

None

Other information related to environmental protection

None

XIX. Other major events

Applicable N/A

Main drugs (products) included, newly included and withdrawn from the National Essential Drug List and the National Reimbursement Drug List during the reporting period:

During the reporting period, the National Healthcare Security Administration and the Ministry of Human Resources and Social Security officially launched the “National Drug List for Basic Medical Insurance, Work-Related Injury Insurance and Maternity Insurance (2019)” (hereinafter referred to as the “Drug List”). The Company’s wholly-owned subsidiary Zhongmei Huadong has a new product included into the “Drug List” and Xi’an Bohua has a new product included into the “Drug List”. The two products newly included in the list are both Category B drugs of medical insurance. In addition, Acarbose Chewable Tablets produced by Zhongmei Huadong were included in Category B drugs of the “Drug List” for the first time through negotiation. The three new products included in the “Drug List” are in normal production and sales.

Currently, the Company has 22 core products on the market and 16 varieties under R&D, which have been included in the “National Drug List for Basic Medical Insurance, Work-Related Injury Insurance and Maternity Insurance (2019)”. A total of 10 varieties (including 4 under R&D) have been included in the “National Essential Drug List (2018)”.

XX. Major events of subsidiaries

Applicable N/A

Section VI. Share Change and Shareholders

I. Changes in Share Capital

1. Table of Changes in share capital

Unit: share

	Before the change		Change in the period (+/-)					After the change	
	Number of shares	Proportion	New shares	Bonus shares	Conversion of capital reserve into shares	Others	Subtotal	Number of shares	Proportion
I. Shares subject to conditional restriction	155,994,651	10.70%	0	0	0	-155,969,406	-155,969,406	25,245	0.00%
1. Shares held by the state	0	0.00%	0	0	0	0	0	0	0.00%
2. Shares held by state-owned corporations	9,201,816	0.63%	0	0	0	-9,201,816	-9,201,816	0	0.00%
3. Shares held by other domestic investors	146,792,835	10.07%	0	0	0	-146,767,590	-146,767,590	25,245	0.00%
Including: held by domestic corporations	146,792,835	10.07%	0	0	0	-146,792,835	-146,792,835	0	0.00%
held by domestic natural persons	0	0.00%	0	0	0	25,245	25,245	25,245	0.00%
4. Shares held by overseas investors	0	0.00%	0	0	0	0	0	0	0.00%
Including: held by overseas corporations	0	0.00%	0	0	0	0	0	0	0.00%
held by overseas natural persons	0	0.00%	0	0	0	0	0	0	0.00%
II. Shares without restriction	1,302,179,973	89.30%	0	0	291,634,924	155,969,406	447,604,330	1,749,784,303	100.00%
1. RMB ordinary shares	1,302,179,973	89.30%	0	0	291,634,924	155,969,406	447,604,330	1,749,784,303	100.00%
2. Domestically listed foreign shares	0	0.00%	0	0	0	0	0	0	0.00%
3. Foreign shares listed overseas	0	0.00%	0	0	0	0	0	0	0.00%
4. Others	0	0.00%	0	0	0	0	0	0	0.00%

III. Total number of shares	1,458,174,624	100.00%	0	0	291,634,924	0	291,634,924	1,749,809,548	100.00%
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Reasons for the changes in share capital

Applicable N/A

During the reporting period, the Company implemented the plan of profit distribution and share capital increase by capital reserve conversion for 2018 in June 2019: based on the capital stock of 1,458,174,624 shares, a cash dividend of 3.3 yuan (tax included) was paid to all shareholders for every 10 shares, and 2 shares were granted for every 10 shares through converting from the capital reserve. Upon completion of the above profit distribution plan, the capital stock of the Company increased from 1,458,174,624 shares to 1,749,809,548 shares. For details, please refer to the “Notice on Implementation of Rights and Interests Allocation in 2018” (No. 2019-040) issued by the Company on June 15, 2019.

Approval for changes in share capital

Applicable N/A

On April 17, 2019, the 17th meeting of the 8th Board of Directors and the 12th meeting of the 8th Board of Supervisors of the Company deliberated and approved the Company’s “2018 Profit Distribution Plan”, and the independent directors gave their consents. For details, please refer to “Notice on the Resolution of the 17th Meeting of the 8th Board of Directors” (No. 2019-011), “Notice on the Resolution of the 12th Meeting of the 8th Board of Supervisors” (No. 2019-012) and “Summary of Independent Opinions from Independent Directors in the 17th Meeting of the 8th Board of Directors” (No. 2019-012) issued by the Company on April 19, 2019.

On June 6, 2019, the Company’s 2018 annual shareholders’ meeting reviewed and approved the Company’s “2018 Profit Distribution Plan”. For details, please refer to “Notice on the Resolution of the 2018 Annual Shareholders’ Meeting” (No. 2019-036) issued by the Company on June 6, 2019.

Transfer of shares

Applicable N/A

The Company has implemented the plan of profit distribution and share capital increase by capital reserve conversion for 2018 on June 21, 2019, and the new shares have been credited to the shareholders’ accounts on the same day. For details, please refer to “Notice on Implementation of Rights and Interests Allocation in 2018” (No. 2019-040) issued by the Company on June 14, 2019.

Progress of share repurchase

Applicable N/A

Progress of reducing repurchased shares through centralized bidding

Applicable N/A

Effects of changes in share capital on the basic earnings per share, diluted earnings per share for the most recent year and the most recent period, the net assets per share attributable to the Company’s shareholders of common shares and other financial indicators

Applicable N/A

(1) Basic EPS: Based on the share capital at the beginning of the period, the basic EPS of the current period is 1.9293 yuan; the basic EPS after the change of share capital in the current period is 1.6077 yuan; EPS decreased by 20% due to the increase of shares in the current period. The effect on diluted EPS is the same as that on basic EPS.

(2) Net assets per share attributable to the Company’s shareholders of common shares: Based on the share capital at the beginning of

the period, the net assets per share attributable to the Company's shareholders of common shares at the end of the period are 8.4417 yuan; After the increase of share capital, the net assets per share attributable to the Company's shareholders of common shares at the end of the period is 7.0348 yuan; due to the increase of shares in the current period, the net assets per share attributable to the Company's shareholders of common shares decreased by 20%.

Other disclosures the Company deems necessary or required by securities regulatory authorities

Applicable N/A

2. Changes in restricted shares

Applicable N/A

Unit: share

Name of shareholder	Opening restricted shares	Increased in current period	Vested in current period	Closing restricted shares	Note for restricted share	Date of unlocking
China Grand Enterprises, Inc.	146,792,835	0	146,792,835	0	A commitment made at the time of refinancing	February 4, 2019
Hangzhou Huadong Medicine Group Co., Ltd.	9,201,816	0	9,201,816	0	A commitment made at the time of refinancing	February 4, 2019
He, Rufen	0	25,245	0	25,245	Supervisor restriction	\
Total	155,994,651	25,245	155,994,651	25,245	--	--

II. Issuance and listing of securities

1. Securities (excluding preferred shares) during the reporting period

Applicable N/A

2. Explanation on changes in share capital, the structure of shareholders and the structure of assets and liabilities

Applicable N/A

During the reporting period, the Company implemented the plan of profit distribution and share capital increase by capital reserve conversion for 2018 in June 2019: based on the capital stock of 1,458,174,624 shares, a cash dividend of 3.3 yuan (tax included) was paid to all shareholders for every 10 shares, and 2 shares were granted for every 10 shares through converting from the capital reserve. After the implementation of the above profit distribution plan, the Company's capital stock increased from 1,458,174,624 shares to 1,749,809,548 shares, with no change in its shareholder structure.

3.Existent shares held by internal staff of the Company

□ Applicable ✓ N/A

III. Particulars about shareholders and the actual controller

1. Total number of shareholders and their shareholdings

Unit: share

Total number of common shareholders at the end of the reporting period	121,768	Total number of common shareholders at the end of the previous month before the disclosure of the annual report	127,673	Total number of preference shareholders with restoration of the voting rights at the end of the reporting period (if any) (see Note 8)	0	Total number of preference shareholders with restoration of the voting rights at the end of the previous month before the disclosure of the annual report (if any) (see Note 8)	0	
Particulars about shareholders with a shareholding ratio over 5% or the Top 10 shareholders								
Name of shareholder	Nature of shareholder	Share-holding ratio	Total shares held at the end of the reporting period	Changes in the reporting period	The number of common shares held with trading restriction	The number of shares held without trading restriction	Pledged or frozen	
							Status	Number
China Grand Enterprises, Inc. 中国远大集团有限责任公司	Domestic non-state-owned corporation	41.77%	730,938,157	121,823,026	0	730,938,157	Pledged	247,964,000
Hangzhou Huadong Medicine Group Co., Ltd. 杭州华东医药集团有限公司	State-owned corporation	16.46%	288,000,000	48,000,000	0	288,000,000		
Hong Kong Securities Clearing Company Ltd. 香港中央结算有限公司	Overseas corporation	2.10%	36,786,720	-10,549,539	0	36,786,720		
National Social	Other	1.33%	23,341,510	-2,731,100	0	23,341,510		

Security Fund Portfolio 106 全国 社保基金一零六 组合			36			3		
China Securities Finance Co., Ltd. 中国证券金融股 份有限公司	Other	1.27%	22,186,818	3,697,802	0	22,186,818		
Taikang Asset Management Co., Ltd. – active allocation of investment products 泰康资产 管理有限责任公 司—积极配置投 资产品	Other	1.06%	18,554,309	8,535,941	0	18,554,309		
Taikang Life Insurance Co., Ltd. – Dividend – Personal dividend – 019L—FH002 Shen 泰康人寿保 险有限责任公司 —分红—个人分 红—019L—FH002 深	Other	0.91%	15,893,208	6,289,823	0	15,893,208		
Guotai Junan Securities Asset Management – China Everbright Bank – Guotai Junan Jundeming Hybrid Collective Assets Management Plan 国泰君安证券资 管—光大银行— 国泰君安君得明 混合型集合资产 管理计划	Other	0.75%	13,199,940	13,199,940	0	13,199,940		
Taikang Life Insurance Co., Ltd.	Other	0.56%	9,866,711	3,965,591	0	9,866,711		

– Unit-linked – Proactive growth 泰康人寿保险有 限责任公司—投 连—积极成长								
Guotai Junan Securities Asset Management – China Construction Bank – Guotai Junan Jundexin Stock Collective Assets Management Plan 国泰君安证券资 管—建设银行— 国泰君安君得鑫 股票集合资产管 理计划	Other	0.43%	7,500,000	4,226,154	0	7,500,000		
Strategic investors or general corporations become the top 10 shareholders due to the placement of new shares (if any) (see Note 3)	N/A							
Explanation on associated relationships or concerted actions among the above-mentioned shareholders	The Company does not know whether the above-mentioned shareholders are related parties or whether they are acting-in-concert parties with one another.							
Particulars about the Top 10 common shareholders holding unrestricted shares								
Name of shareholder	Number of unrestricted common shares at the end of reporting period	Type of shares						
		Type	Number					
China Grand Enterprises, Inc. 中国远 大集团有限责任公司	730,938,157	RMB common shares	730,938,157					
Hangzhou Huadong Medicine Group Co., Ltd. 杭州华东医药集团有限公 司	288,000,000	RMB common shares	288,000,000					
Hong Kong Securities Clearing Company Ltd. 香港中央结算有限公 司	36,786,720	RMB common shares	36,786,720					
National Social Security Fund Portfolio 106 全国社保基金—零六组 合	23,341,513	RMB common shares	23,341,513					

China Securities Finance Co., Ltd. 中国证券金融股份有限公司	22,186,818	RMB common shares	22,186,818
Taikang Asset Management Co., Ltd. – active allocation of investment products 泰康资产管理有限责任公司—积极配置投资产品	18,554,309	RMB common shares	18,554,309
Taikang Life Insurance Co., Ltd. – Dividend – Personal dividend – 019L—FH002 Shen 泰康人寿保险有限责任公司—分红—个人分红—019L—FH002 深	15,893,208	RMB common shares	15,893,208
Guotai Junan Securities Asset Management – China Everbright Bank – Guotai Junan Jundeming Hybrid Collective Assets Management Plan 国泰君安证券资管—光大银行—国泰君安君得明混合型集合资产管理计划	13,199,940	RMB common shares	13,199,940
Taikang Life Insurance Co., Ltd. – Unit-linked – Proactive growth 泰康人寿保险有限责任公司—投连—积极成长	9,866,711	RMB common shares	9,866,711
Guotai Junan Securities Asset Management – China Construction Bank – Guotai Junan Jundexin Stock Collective Assets Management Plan 国泰君安证券资管—建设银行—国泰君安君得鑫股票集合资产管理计划	7,500,000	RMB common shares	7,500,000
Explanation on associated relationships and concerted actions among the Top 10 common shareholders without trading restriction, and between the Top 10 common shareholders without trading restriction and the Top 10 common shareholders	The Company does not know whether the above-mentioned common shareholders are related parties or whether they are acting-in-concert parties .		
Explanation on the participation of the Top 10 common shareholders in financing and securities loan business (if any) (see Note 4)	N/A		

Whether the Company's Top 10 common shareholders or the Top 10 common shareholders without trading restriction have carried out any agreement to repurchase transaction during the reporting period

Yes No

No such case during the reporting period.

2. Particulars about controlling shareholder of the Company

Nature of controlling shareholder: Natural individual holding

Type of controlling shareholder: Corporation

Name of controlling shareholder	Legal representative/person in charge	Date of establishment	Organization code	Main business
China Grand Enterprises, Inc.	Hu Kaijun	October 27, 1993	91110000101690952K	Investment management
Shares held by the controlling shareholder in other listed companies through controlling or holding during the reporting period	The other two listed companies controlled by China Grand Enterprises, Inc. are Grand Industrial Holding Co., Ltd. and China Grand Pharmaceutical and Healthcare Holdings Limited.			

Change of the controlling shareholder during the reporting period

Applicable N/A

No such case during the reporting period.

3. Particulars about the Company's actual controller & concerted parties

Nature of actual controller: Domestic natural individual holding

Type of actual controller: Natural individual

Name of actual controller	Relationship with the actual controller	Nationality	Whether the actual controller has obtained the right of abode in another country or region
Hu Kaijun	Hu Kaijun	China	Yes
Main occupation and position	Chairman of the Board and General Manager of China Grand Enterprises, Inc.; Chairman of the Board and General Manager of Beijing Yuanda Huachuang Investment Co., Ltd.		
Share held by the actual controlling shareholder in domestic or overseas listed companies in the past the years	The three listed companies controlled by actual controller are Huadong Medicine Co., Ltd., Grand Industrial Holding Co., Ltd., and China Grand Pharmaceutical and Healthcare Holdings Limited.		

Change of the actual controller during the reporting period

Applicable N/A

No such case during the reporting period.

The ownership and controlling relationship between the actual controller of the Company and the Company is detailed as follows:



The actual controller controls the Company through a trust or other way of assets management

Applicable N/A

4. Other corporate shareholders with a shareholding ratio over 10%

Applicable N/A

Name of corporate shareholders	Legal representative/person in charge	Date of establishment	Registered capital	Main business or management activities
Hangzhou Huadong Medicine Group Co., Ltd.	Jin Xuhu	December 21, 1992	60 million yuan	Operation of state-owned assets within the scope authorized by the municipal government: industrial investment, wholesale and retail; chemical raw materials and products; packaging materials, pharmaceutical intermediates, etc.

5. Reduction of restricted shares held by controlling shareholder, actual controller, restructuring parties and other commitment subjects

Applicable N/A

Section VII. Preferred Shares

Applicable N/A

No such case during the reporting period.

Section VIII. Convertible Corporate Bonds

Applicable N/A

No such case during the reporting period.

Section IX. Directors, Supervisors, Senior Managers and Employees

I. Changes in shareholding of directors, supervisors and senior managers

Name	Title	Tenure status	Gender	Age	Commencement of term of duty	Commencement of term of duty	Shares held at the beginning of the period (shares)	Shares increased during the Period (shares)	Shares decreased during the Period (shares)	Other changes (shares)	Shares held at the end of the Period (shares)
Lyu Liang	Chairman	Incumbent	Male	46	June 06, 2019	June 05, 2022	0	0	0	0	0
	Director, General Manager (CEO)	Appointment & removal	Male	46	January 6, 2016	June 05, 2019	0	0	0	0	0
	Director, Deputy General Manager	Appointment & removal	Male	46	April 26, 2010	January 05, 2016	0	0	0	0	0
Li Bangliang	Honorary Chairman	Incumbent	Male	74	June 06, 2019	June 05, 2022	0	0	0	0	0
	Chairman	Appointment & removal	Male	74	October 20, 1998	June 05, 2019	0	0	0	0	0
Li Yuedong	Director, General Manager (CEO)	Incumbent	Male	48	June 06, 2019	June 05, 2022	0	0	0	0	0
	Director, Deputy General Manager	Appointment & removal	Male	48	August 17, 2016	June 05, 2019	0	0	0	0	0
	Director	Appointment & removal	Male	48	April 28, 2014	June 05, 2022	0	0	0	0	0
Niu Zhanqi	Director	Incumbent	Male	53	June 03, 2016	June 05, 2022	0	0	0	0	0
Kang Wei	Director	Incumbent	Female	52	December 05, 2016	June 05, 2022	0	0	0	0	0

Fu Hang	Director	Leave the post	Male	57	April 28, 2014	June 05, 2019	0	0	0	0	0
Jin Xuhu	Director	Incumbent	Male	57	June 06, 2019	June 05, 2022	0	0	0	0	0
Zhu Liang	Director	Incumbent	Male	43	June 06, 2019	June 05, 2022	0	0	0	0	0
	Supervisor	Appointment & removal	Male	43	April 27, 2017	June 05, 2019	0	0	0	0	0
Zhong Xiaoming	Independent Director	Incumbent	Male	58	January 6, 2016	June 05, 2022	0	0	0	0	0
Yang Lan	Independent Director	Incumbent	Female	51	April 27, 2017	June 05, 2022	0	0	0	0	0
Yang Jun	Independent Director	Incumbent	Female	48	June 06, 2019	June 05, 2022	0	0	0	0	0
Zhang Wei	Independent Director	Leave the post	Male	49	January 6, 2016	June 05, 2019	0	0	0	0	0
Bai Xinhua	Supervisor	Incumbent	Female	54	January 20, 1998	June 05, 2022	0	0	0	0	0
Liu Chengwei	Supervisor	Incumbent	Male	47	January 6, 2016	June 05, 2022	0	0	0	0	0
Qin Yun	Supervisor	Incumbent	Female	50	May 19, 2006	June 05, 2022	0	0	0	0	0
Hu Baozhen	Supervisor	Incumbent	Female	47	June 06, 2019	June 05, 2022	0	0	0	0	0
He Rufen	Supervisor	Incumbent	Female	52	June 06, 2019	June 05, 2022	28,050	5,610	0	0	33,660
Xu Zhifeng	Supervisor	Incumbent	Male	45	June 06, 2019	June 05, 2022	0	0	0	0	0
Shao Lingmin	Supervisor	Leave the post	Female	57	March 25, 2005	June 05, 2019	0	0	0	0	0
Wu Yimei	Supervisor	Leave the post	Female	56	January 6, 2016	June 05, 2019	0	0	0	0	0
Zhou Shunhua	Deputy General Manager	Incumbent	Male	60	June 30, 2009	June 05, 2022	0	0	0	0	0
Wu Hui	Deputy General Manager	Incumbent	Male	51	June 06, 2019	June 05, 2022	0	0	0	0	0

Chen Bo	Board Secretary	Incumbent	Male	48	June 30, 2009	June 05, 2022	0	0	0	0	0
Qiu Renbo	Person in Charge of Finance	Incumbent	Male	38	November 28, 2019	June 05, 2022	0	0	0	0	0
Ma Honglan	Person in Charge of Finance	Appointment & removal	Female	50	July 19, 2010	November 27, 2019	0	0	0	0	0
Total	--	--	--	--	--	--	28,050	5,610	0	0	33,660

II. Change of directors, supervisors and senior managers of the Company

√ Applicable □ N/A

Name	Title	Type	Date	Reason
Lyu Liang	Chairman	Incumbent	June 06, 2019	Elected by the shareholders' meeting and the Board of Directors
Lyu Liang	General Manager(CEO)	Appointment & removal	June 05, 2019	Elected as the Company's chairman
Li Bangliang	Chairman	Appointment & removal	June 05, 2019	Elected as honorary chairman
Li Yuedong	General Manager(CEO)	Incumbent	June 06, 2019	Appointed by the Board of Directors
Li Yuedong	Deputy General Manager	Appointment & removal	June 05, 2019	Appointed as General Manager(CEO)
Fu Hang	Director	Leave the post	June 05, 2019	Adjustments on the Company's business management
Jin Xuhu	Director	Incumbent	June 06, 2019	Elected by the shareholders' meeting
Zhang Wei	Independent Director	Leave the post	June 05, 2019	Adjustments on the Company's business management
Yang Jun	Independent Director	Incumbent	June 06, 2019	Elected by the shareholders' meeting
Zhu Liang	Director	Incumbent	June 06, 2019	Elected by the shareholders' meeting
Zhu Liang	Supervisor	Appointment & removal	June 05, 2019	Elected Director
Shao Lingmin	Supervisor	Leave the post	June 05, 2019	Adjustments on the Company's business management
Wu Yimei	Supervisor	Leave the post	June 05, 2019	Adjustments on the Company's business management
He Rufen	Supervisor	Incumbent	June 06, 2019	Elected by the Labor Union
Xu Zhifeng	Supervisor	Incumbent	June 06, 2019	Elected by the Labor Union

Wu Hui	Deputy General Manager	Incumbent	June 06, 2019	Appointed by the Board of Directors
Qiu Renbo	Person in Charge of Finance	Incumbent	November 28, 2019	Appointed by the Board of Directors
Ma Honglan	Person in Charge of Finance	Appointment & removal	November 27, 2019	Position adjustment within the Company

III. Positions and Incumbency

Professional background, main working experiences and main responsibilities of the Company's incumbent directors, supervisors and senior managers

(1) Profile of directors

Chairman – Mr. Lyu Liang: born in 1974, holds a master's degree. He has served as Project Manager of Grand Asset Management Co., Ltd. from July 1997 to July 2001; Deputy General Manager and General Manager of Changshu Leiyunshang Pharmaceutical Co., Ltd. from July 2001 to March 2010; Director and Deputy General Manager of the Company from April 2010 to January 2016; Director and General Manager of the Company from January 6, 2016 to June 5, 2019; and Chairman of the Board of the Company since June 6, 2019.

Director and General Manager – Mr. Li Yuedong: born in 1972, holds a master's degree. He has served as clerk and section chief of Zhejiang Pharmaceutical Supply and Marketing Company and Zhejiang Int'l Medicine Co., Ltd.; General Manager of Aibang Health Care Products Company; Deputy General Manager and General Manager of Hangzhou Zhuyangxin Pharmaceutical Co., Ltd.; Deputy General Manager of Hangzhou Huadong Medicine Group Co., Ltd; Director of the Company since April 2014, and Deputy General Manager of the Company from August 17, 2016 to June 5, 2019; and Director and General Manager of the Company since June 6, 2019.

Director – Mr. Niu Zhanqi: born in 1967, Doctor of Pharmacy. He has served as technical researcher of Chengde Technical Supervision Bureau; Deputy Director of Hebei Pharmaceutical Group Research Institute; Manager of Technical Development Department of China Shijiazhuang Pharmaceutical Group; Manager of Medicine Department of CSPC Ouyi Pharmaceutical Co. Ltd.; Deputy General Manager of CSPC NBP Pharmaceutical Co., Ltd.; senior R&D director of CSPC; Vice President of Pharmaceutical Management Head Office and General Manager of R&D Management Department of China Grand Enterprises, Inc. from March 2013 to June 2016; CEO of Pharmaceutical Management Head Office of China Grand Enterprises, Inc. from June 2016 to November 2018; President of Pharmaceutical Management Head Office of China Grand Enterprises, Inc. since November 2018; and Director of the Company since June 2016.

Director – Ms. Kang Wei: born in 1968, holds a master's degree. She has served as Manager of the Trade Division, Manager of the Capital Division and Manager of Financial Management of the Financial Management Department of China Grand Enterprises, Inc.; Chief Financial Officer and Deputy General Manager of Heilongjiang Grand Shopping Center; currently Chief Financial Officer of China Grand Enterprises, Inc.; and Director of the Company since December 2016.

Director - Mr. Jin Xuhu: born in 1963, holds a bachelor's degree. He has served as Chairman and General Manager of Hangzhou Huadong Medicine Group Co., Ltd.; Party Secretary and Chairman of Hangzhou State-owned Capital Investment and Operation Co., Ltd., Executive Director & Manager of Hangzhou Huadong Medicine Group Co., Ltd., and Executive Director & Manager of Hangzhou Oxygen Plant Group Co., Ltd. since January 2019; and Director of the Company since June 2019.

Director - Mr. Zhu Liang: born in 1977, holds a bachelor's degree. He has served as Director of the Labor Union of Hangzhou Huadong Medicine Group Co., Ltd., Vice Chairman of the Labor Union of Hangzhou Huadong Medicine Group Co., Ltd., Chairman of the Labor Union of Hangzhou Huadong Medicine Group Co., Ltd. and Huadong Medicine Co., Ltd.; Supervisor of the Company from April 2017 to June 2019; and Director of the Company since June 2019.

Independent Director - Mr. Zhong Xiaoming: born in 1962, holds a master's degree. He has been Deputy Director of the New Drugs Office, professor, postgraduate student and doctoral supervisor of Zhejiang Chinese Medical University since 1985; chief scientist of Zhejiang University since 2013; and Independent Director of the Company since January 2016.

Independent Director - Ms. Yang Lan: born in 1969, holds a master's degree. She has served in Guiyang Audit Bureau, Zhuhai Lixin Certified Public Accountants, Shanghai Lixin Changjiang Certified Public Accountants Zhuhai Branch, and Guangdong Lixin Changjiang Certified Public Accountants. Senior Manager of Pan-China Certified Public Accountants Guangdong Branch; Investment Director of Guangzhou Securities Innovation Investment Co., Ltd.; Deputy Director of Guangdong Pujin Xinghua Certified Tax Agent Co., Ltd.; Deputy Director of Guangdong Lixin Jiazhou Certified Public Accountants; and Independent Director of the Company since April 27, 2017.

Independent Director - Ms. Yang Jun: born in 1972, holds a bachelor's degree, Canadian citizenship. She has served as Chief Financial Officer of Freedom Foundation of Ontario, Canada; Chief Knowledge Officer and lecturer partner of Shanghai EasyFinance Management Consulting Co., Ltd.; Chief Financial Officer of Dookbook Culture Co., Ltd.; founding partner and chief consultant of Shanghai Yuecheng Information Technology Co., Ltd. since June 2018; and Independent Director of the Company since June 2019.

(2) Profile of supervisors

The Chairman of Board of Supervisors - Ms. Bai Xinhua: born in 1966, holds a master's degree. She has served as Assistant Auditor of Beijing Municipal Bureau of Audit; Accounting Manager of the Financial Management Head Office and Audit Manager of the Supervision and Audit Department of China Grand Enterprises, Inc.; now Deputy General Manager of the Financial Management Head Office of China Grand Enterprises, Inc.; Supervisor of the Company since 2003;

Supervisor - Ms. Qin Yun: born in 1970, holds a bachelor's degree. She has served as attending physician in the Internal Medicine Department of Beijing Shougang Hospital; medical representative in the Beijing Office of Tianjin Takeda Pharmaceuticals Co., Ltd., senior medical representative in the Beijing Office of Lilly Asia; and head of product department in the sales branch of China National Pharmaceutical Foreign Trade Corporation. She worked for China Grand Enterprises, Inc. in 2002 and has served as Project Manager of Pharmaceutical Business Division, Business Director of Operation Department of Pharmaceutical Management Head Office; now Business Director of Bidding and Procurement Management Center of China Grand Enterprises, Inc.; and Supervisor of the Company since 2006;

Supervisor - Mr. Liu Chengwei: born in 1973, holds a master's degree. He has served as Financial Services Manager and Chief Financial Officer of GE Medical Systems China; Financial Manager of ECG monitoring of GE Healthcare Asia. In 2001, he joined China Grand Enterprises, Inc., where he served as Director of Supervision and Audit, Deputy General Manager of the Investment and Operation Head Office, Deputy General Manager and General Manager of the Pharmaceutical Business Division, and head of the preparatory group of CGE Life & Health Insurance Company. He served as Deputy General Manager of Grandpharma (China) Co., Ltd. from August 2016 to September 2018; Assistant President of China Grand Enterprises, Inc. since September 2018; Director of the Company from 2003 to January 2016; and Supervisor of the Company since January 2016.

Supervisor - Ms. Hu Baozhen: born in 1973, holds a bachelor's degree. She served as Chief Financial Officer and dispatched full-time supervisor of Hangzhou State-owned Assets Supervision and Administration Commission from March 2009 to March 2019; Deputy Manager of the Risk Control and Legal Department of Hangzhou State-owned Capital Investment and Operation Co., Ltd. since April 2019; Supervisor of the Company from June 2012 to April 2014; Supervisor of the Company since June 2019.

Employee Supervisor – Ms. He Rufen: born in 1968, holds a bachelor's degree, senior certified public accountant. Assistant Manager of the Financial Department of Hangzhou Zhongmei Huadong Pharmaceutical Co., Ltd. from July 1990 to March 1998; Manager of the Financial Department of the Company from April 1998 to December 1998; officer in charge of financial affairs of the Company from January 1999 to June 2010; Deputy General Manager of Business of the Company since July 2010; Employee Supervisor of the Company since June 2019.

Employee Supervisor - Mr. Xu Zhifeng: born in 1975, holds a bachelor's degree, economist. Commissioner of the Business Administration Office and Director Assistant of the General Manager Office of Hangzhou Zhongmei Huadong Pharmaceutical Co., Ltd. from August 1997 to July 2011; Manager of the Risk Management and Audit Department of the Company from August 2011 to January 2018; Director of the Risk Management and Audit Department of the Company since February 2018; Employee Supervisor of the Company since June 2019.

(3) Profile of senior managers

Deputy General Manager - Mr. Zhou Shunhua: born in 1960, holds a master's degree, economist. He worked in the Company in December 1978, and has served as Publicity Officer, Manager of the Operation Department, Director of Shanghai Office, and Shanghai Regional Manager of the Company; Deputy General Manager of Hangzhou Zhongmei Huadong Pharmaceutical Co., Ltd.; Deputy General Manager of the Company since 2009.

Deputy General Manager - Mr. Wu Hui: born in April 1969, holds a master's degree, professor-level senior engineer. He worked in the Company in July 1991, and has served as technician, workshop director and chief engineer of Hangzhou Zhongmei Huadong Pharmaceutical Co., Ltd.; Deputy General Manager of Hangzhou Zhongmei Huadong Pharmaceutical Co., Ltd. since 2015; Deputy General Manager of the Company since June 2019.

Secretary of the Board of Directors - Mr. Chen Bo: born in 1972, holds a master's degree, economist. He joined the Company in 2002, and has served as investment commissioner and Deputy Manager of the Financing Department; Secretary of the Board of Directors since June 2009.

Officer in Charge of Financial Affairs - Mr. Qiu Renbo: born in 1982, holds a master's degree. He has served as commissioner of the Financial Management Head Office and Chief of the Finance Section of the Manufacturing Branch of the Company from August 2004 to July 2010; Manager of the Financial Department of Hangzhou Zhongmei Huadong Pharmaceutical Co., Ltd. from August 2010 to April 2015; Chief Financial Officer of Hangzhou Zhongmei Huadong Pharmaceutical Co., Ltd. since May 2015; Officer in Charge of Financial Affairs of the Company since December 2019.

Positions in shareholders' entities

√ Applicable □ N/A

Name	Shareholders' entity	Position in shareholders' entities	Commencement of the term	Termination of the term	Compensation and allowance from the

					shareholders' entity
Niu Zhanqi	China Grand Enterprises, Inc.	President of the Pharmaceutical Management Head Office of China Grand Enterprises, Inc.			Yes
Kang Wei	China Grand Enterprises, Inc.	CFO of China Grand Enterprises, Inc.			Yes
Bai Xinhua	China Grand Enterprises, Inc.	Deputy General Manager of the Financial Management Head Office of China Grand Enterprises, Inc.			Yes
Liu Chengwei	China Grand Enterprises, Inc.	Assistant President of China Grand Enterprises, Inc.			Yes
Qin Yun	China Grand Enterprises, Inc.	Business Director of the Pharmaceutical Management Head Office of China Grand Enterprises, Inc.			Yes
Jin Xuhu	Hangzhou Huadong Medicine Group Co., Ltd.	Executive Director and Manager of Hangzhou Huadong Medicine Group Co., Ltd.			Yes

Position in other entities

√ Applicable □ N/A

Name	Name of other entity	Position in other entity	Commencement of the term	Termination of the term	Compensation and allowance from the shareholders' entity
Niu Zhanqi	Sichuan Yuanda Shuyang Pharmaceutical Co., Ltd. and other wholly/partially owned subsidiaries of China Grand Enterprises, Inc.	Director			No
Kang Wei	Western Securities Co., Ltd.	Supervisor			Yes
Kang Wei	Leiyunshang Pharmaceutical Co., Ltd. and other wholly/partially owned subsidiaries of China Grand Enterprises, Inc.	Director			No
Bai Xinhua	Grand Industrial Holding Co., Ltd. and other wholly/partially owned subsidiaries of	Director			No

	China Grand Enterprises, Inc.				
Qin Yun	Yunnan Leiyunshang Lixiang Pharmaceutical Co., Ltd.	Director			No
Liu Chengwei	Sichuan Yuanda Shuyang Pharmaceutical Co., Ltd. and other wholly/partially owned subsidiaries of China Grand Enterprises, Inc.	Director			No
Jin Xuhu	Hangzhou State-owned Capital Investment and Operation Co., Ltd.	Chairman			Yes
Jin Xuhu	Hangzhou Oxygen Plant Group Co., Ltd.	Executive Director			Yes

Incumbent and off-office directors, supervisors and senior management personnel during the reporting period that have been imposed administrative penalties by the SCRC during the last three years.

Applicable N/A

IV. Remuneration of directors, supervisors and senior managers

The decision-making procedure, determination basis and actual remuneration for directors, supervisors and senior managers

The remuneration plan of independent directors on the ninth Board of Directors of the Company was preliminarily approved by the Board of Directors. The final decision would be made by the general meeting of shareholders.

In 2019, the annual allowance for the independent directors of the Company was 80,000 yuan (before tax), paid in a lump sum at the end of the year. The directors and supervisor appointed by shareholders will receive allowance of 30,000yuan (before tax), paid in a lump sum at the end of the year. Other directors, supervisors and senior managers of the Company will receive benefits in accordance with the Company's current Salary System and Performance Appraisal Schemes.

Remuneration of directors, supervisors and senior managers of the Company during the reporting period

Unit: RMB ten thousand yuan

Name	Title	Gender	Age	Holding of positions	Total pretax remuneration received from the Company	Receive remuneration from related parties of the Company or not
Li Bangliang	Honorary Chairman of the Board	Male	74	Incumbent	220	No
Lyu Liang	Chairman of the Board	Male	46	Incumbent	200	No
Li Yuedong	Director, General Manager	Male	48	Incumbent	120	No
Niu Zhanqi	Director	Male	53	Incumbent	3	Yes
Kang Wei	Director	Female	52	Incumbent	3	Yes
Fu Hang	Director	Male	57	off office	1.25	No
Jin Xuhu	Director	Male	57	Incumbent	1.75	Yes
Zhu Liang	Director	Male	43	Incumbent	40	No

Zhang Wei	Independent Director	Male	49	off office	3.33	No
Zhong Xiaoming	Independent Director	Male	58	Incumbent	8	No
Yang Lan	Independent Director	Female	50	Incumbent	8	No
Yang Jun	Independent Director	Female	48	Incumbent	4.67	No
Bai Xinhua	Supervisor	Female	54	Incumbent	3	Yes
Qin Yun	Supervisor	Female	50	Incumbent	3	Yes
Liu Chengwei	Supervisor	Male	47	Incumbent	3	Yes
Hu Baozhen	Supervisor	Female	47	Incumbent	1.75	Yes
He Rufen	Supervisor	Female	52	Incumbent	70	No
Xu Zhifeng	Supervisor	Male	45	Incumbent	40	No
Shao Lingmin	Supervisor	Female	57	off office	0	No
Wu Yimei	Supervisor	Female	56	off office	0	Yes
Zhou Shunhua	Deputy General Manager	Male	60	Incumbent	130	No
Wu Hui	Deputy General Manager	Male	51	Incumbent	80	No
Chen Bo	Secretary of the Board of Directors	Male	48	Incumbent	80	No
Qiu Renbo	Officer in Charge of Financial Affairs	Male	38	Incumbent	70	No
Ma Honglan	Officer in Charge of Financial Affairs	Female	50	Appointment & removal	80	No
Total	--	--	--	--	1,173.75	--

Equity incentives granted to the Company's directors and senior managers during the reporting period

Applicable N/A

V. Employees of the Company

1. Number of employees, profession composition and education level

Number of incumbent employees in the parent company (person)	979
Number of incumbent employees in major subsidiaries (person)	11,139
Total number of incumbent employees (person)	12,118
Total number of employees receiving salaries in the current period (person)	12,118
Number of retired employees requiring the parent Company and its subsidiaries to bear costs (person)	0
Professional structure	
Category	Number (person)

Production staff	1,382
Sales staff	6,060
Technical staff	2,273
Financial staff	259
Administrative staff	1,538
Storage and transportation staff	606
Total	12,118
Educational background	
Category	Number (person)
Master's degree or above	729
Bachelor's degree	5,045
Junior college (professional training)	4,896
Other	1,448
Total	12,118

Note: (1) Sales staff include those engaged in academic promotion, retail promotion, pharmaceutical service, marketing, aesthetic medicine business development, etc.

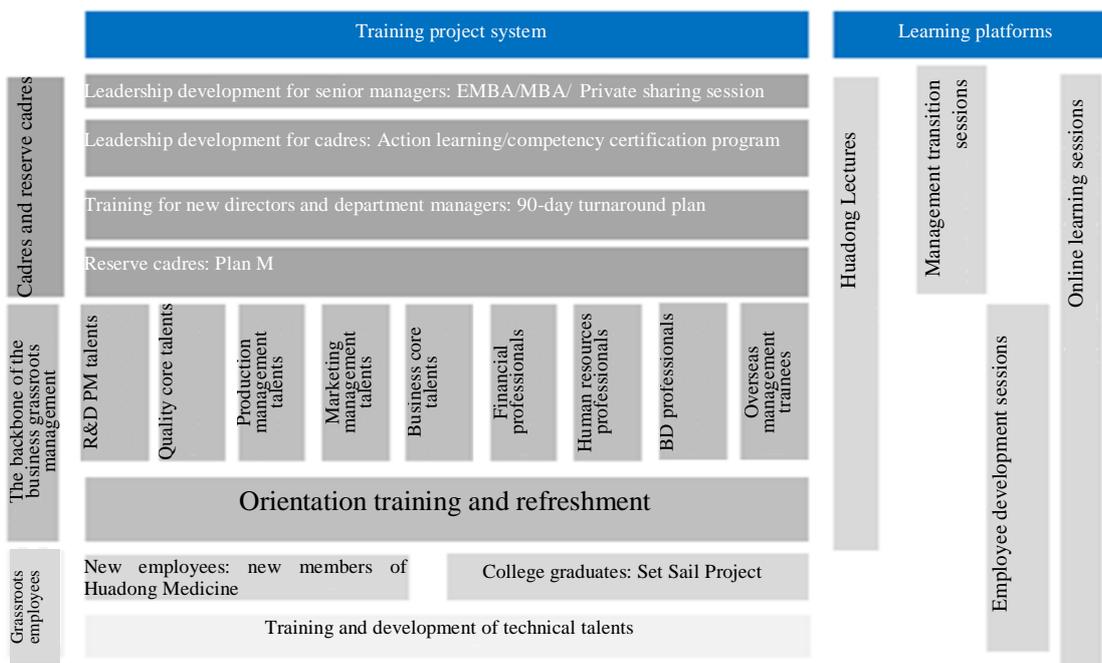
(2) Technical staff include those directly engaged in R&D and other R&D support personnel

2. Staff remuneration policy

Based on its strategic development plan, the Company strives to create a high-quality talent team with the characteristics of Huadong Medicine, and stimulates employees' innovation and creativity through flexible and diversified benefit policies.

3. Staff training plans

With the concept of "people orientation", Huadong Medicine pays attention to the development of human resources within the Company, and constructs and continuously improves the talent training system at different levels. Based on the training project system and learning platform construction, it provides targeted training to improve employees' knowledge and skills, stimulates the organizational vitality through training, cultivates talents who highly agree with the Company's values, and guides them to do their best to create value, so as to meet the requirements of the Company's sustainable development and internationalization strategy.



4. Labor outsourcing

Applicable N/A

Section X. Corporate Governance

I. Basic situation of corporate governance

During the reporting period, the Company strictly complied with the requirements of the regulatory documents on corporate governance issued by the CSRC and the Shenzhen Stock Exchange, such as “Company Law”, “Securities Law”, “Governance Guidelines for Listed Companies”, and “Rules for Stock Listing of Shenzhen Stock Exchange”. In order to realize its strategic development goals and safeguard the interests of all shareholders, the Company carried out comprehensive internal control and standardized management, strengthened system construction and internal management, standardized information disclosure and improved the corporate governance structure. There is no difference between corporate governance and the requirements of “Company Law” and the relevant provisions of the CSRC.

According to the regulatory documents on the governance of listed companies issued by the CSRC, the Company has formed a system that is legally compliant and in line with the actual operation of the Company. By the end of the reporting period, the actual corporate governance was basically consistent with the regulatory documents on corporate governance issued by the CSRC and the Shenzhen Stock Exchange, and there were no outstanding governance issues.

Whether the actual corporate governance of the Company is significantly different from the normative documents on corporate governance issued by the CSRC

Yes No

No such case during the reporting period.

II. The Company’s independence in Businesses, Management, Assets, Institutions and Finance from Controlling shareholders

During the reporting period, the Company continuously strengthened the corporate governance structure and implemented standardized operation in accordance with the requirements of regulatory authorities. The Company and its controlling shareholder realized the separation of management and independent operation in terms of personnel, assets, finance, institutions and business.

Category	Independent or not	Note
Independence in business	Yes	The Company is mainly engaged in the production and operation of pharmaceutical products, and has its own independent production and sales systems. The Company’s business activities are completely independent from its controlling shareholder. Although the subsidiaries of the Company and the controlling shareholder are engaged in pharmaceutical business, they focus on different medical fields and different customer groups. Therefore, there is no competition between the Company, controlling shareholders and related parties.
Independence in personnel	Yes	The company is completely independent in the management of labor, personnel and salaries, and has an independent human resources department

		and a sound personnel management system.
Independence in assets	Yes	The Company has various independent assets, such as independent production systems, auxiliary production systems and supporting facilities; independent purchasing and sales systems; independent industrial property rights, trademarks, non-patented technologies and other intangible assets.
Independence in institutions	Yes	The Company has established independent Board of Directors, management and other internal organizations, and each functional department is independent from controlling shareholders in duty and personnel. There is no superior-subordinate relation between functional departments of controlling shareholders and those of the Company, which would have an impact on the Company's independent operations.
Independence in finance	Yes	The Financial Management Head Office is responsible for the financial accounting and budget management of the Company, and has established independent and sound financial, accounting and budget management systems according to relevant laws and regulations.

Note: The Company is independent in Businesses, Management, Assets, Institutions and Finance from Controlling shareholders. The Company does not have peer competition or related transactions caused by partial restructuring, industry characteristics, national policies or mergers and acquisitions.

III. Horizontal competition

Applicable N/A

IV. Annual and extraordinary general meetings held during the reporting period

1. Shareholders' meetings in the reporting period

Meeting	Meeting type	Proportion of investors present	Convene date	Disclosure date	Disclosure index
2018 annual General Meeting	Annual General Meeting	63.33%	June 06, 2019	June 06, 2019	<i>China Securities Journal, Securities Times, Shanghai Securities News, and cninfo (www.cninfo.com.cn)</i>

2. Extraordinary general meetings convened at the request of preferred shareholders with resumed voting rights:

Applicable N/A

V. Performance of duties of independent directors during the reporting period

1. Attendance of independent directors at Board meetings and general meetings

Attendance of independent directors at Board meetings and general meetings							
Name of independent directors	Board meetings presence required during the reporting period	Board meetings presence on site	Board meetings presence by telecommunication	Board meetings presence through a proxy	Board meeting absence	Board meeting absence in person for two consecutive times	Presence of independent directors in general meetings
Zhang Wei	3	1	2	0	0	No	1
Zhong Xiaoming	8	2	6	0	0	No	1
Yang Lan	8	2	6	0	0	No	1
Yang Jun	5	1	4	0	0	No	0

Note on not attending board meetings in person for two consecutive times

N/A

2. Objections from independent directors on relevant issues of the Company

Whether the independent directors have raised any objection to relevant issues of the Company

Yes No

No such case during the reporting period.

3. Other details about the performance of duties by independent directors

Whether the independent directors' suggestions were adopted or not

Yes No

Note on the adoption or non-adoption of the independent directors' suggestions

N/A

VI. Performance of duties by special committees under the Board during the reporting period

1. Strategic Committee

During the reporting period, the Strategic Committee, based on the domestic and foreign conditions and the characteristics of the industry, conducted an in-depth analysis of the Company's current operating situation and made an effective guidance for the Company to respond to market changes in a timely manner. In addition, the Strategic Committee put forward valuable opinions and suggestions for the Company to ensure its sustainable and robust development.

2. Audit Committee

During the reporting period, the Audit Committee strictly abided the rules of the CSRC, Shenzhen Stock

Exchange and the Company's "Rules of Procedure for the Audit Committee of the Board of Directors". It listened to the reports of the internal audit department and deliberated on the external audit reports of the Company's 2019 financial report.

During the annually external auditing period, the Audit Committee held three regular meetings to fulfilled its obligation of fully communicating with the external auditors, carefully reviewing the external auditing plan, scrutinizing the financial statement data and effectively supervising the preparation of the annual report.

3. Remuneration and Appraisal Committee

During the reporting period, the Remuneration and Appraisal Committee carefully investigated the implementation of the Company's remuneration system in accordance to "Rules of Procedure for the Remuneration and Assessment Committee of the Board of Directors". In 2019, the Committee held one meeting to review and approve the "Independent Opinions on Allowances for Directors and Independent Directors Appointed by Shareholders on the Ninth Board of Directors", and agreed to submit it to the Board of Directors for further deliberation.

4. Nomination Committee

During the reporting period, the Nomination Committee fully performed its duties to exam and audit the criteria and procedure of selecting directors, senior managerial staff and other personnel. The Committee strickly acted in accordance with the relevant rules of the Articles of Association and "Rules of Procedure for the Nomination Committee of the Board of Directors". During the reporting period, the Committee held two meetings on which the "Proposal on the General Election of the Board of Directors" and the "Proposal on the Adjustment of the Officer in Charge of Financial Affairs" were deliberated on and approved to submit to the Board of Directors for deliberation.

VII. Performance of duties by the Board of Supervisors

Whether the Board of Supervisors found any risks of the Company in the supervision activities during the reporting period

Yes No

No such case during the reporting period.

VIII. Assessment and incentive mechanism for senior managers

During the reporting period, the Company established a market-oriented assessment and incentive mechanism for senior managers. Based on their personal abilities, annual target achievements, market and industry salary level, the Company implemented a competitive remuneration policy and set up a sound remuneration management system to retain and attract talent.

IX. Evaluation report on internal control

1. Details of major internal control deficiencies found during the reporting period

Yes No

2. Self-evaluation report on internal control

Disclosure date of the full text of self-evaluation report on internal control	April 28, 2020
Disclosure index of the full text of self-evaluation report on internal control	Cninfo (www.cninfo.com.cn)

Proportion of assets evaluated in total assets		95.00%
Proportion of revenue evaluated in total revenue per consolidated financial statement		90.00%
Recognition standard of deficiencies		
Category	Financial reporting	Non-financial reporting
Qualitative criteria	The Company stipulates that internal control deficiencies involving the following fields shall be identified as at least “important deficiencies”: anti-fraud procedure and control; internal control over unconventional or unsystematic transactions; internal control over the selection and application of accounting policies in relation to GAAP; internal control over the end-of-period financial reporting process.	The Company stipulates that internal control deficiencies involving the following fields shall be considered as “material deficiencies”: serious violation of laws and regulations; in addition to policy reasons, the Company has been losing money for years, and its continuous operation has been challenged; lack of system control or systematic failure in important business; M&A and restructuring failure; the operation of newly expanded subordinate units is unsustainable; lack of internal control construction and disorderly management in subsidiaries; middle and senior managers have left their posts, or serious staff turnover in key positions; frequent exposure of negative news in the media; internal control evaluation results, especially major or significant deficiencies have not been corrected.
Quantitative criteria	Potential misstatement of total profit; potential misstatement of total assets	Impact on total assets; significant negative impact
Number of material deficiencies in financial reporting		0
Number of material deficiencies in non-financial reporting		0
Number of important deficiencies in financial reporting		0
Number of important deficiencies in non-financial reporting		0

X. Audit report on internal control

Applicable N/A

Comments of Internal Control Audit Report	
On December 31, 2019, Huadong Medicine has maintained effective internal control over financial reporting in all major respects in accordance with the “Basic Norms for Enterprise Internal Control” and relevant regulations.	
Disclosure of internal control audit report	Disclosure
Disclosure date of the full audit report on internal control	April 28, 2020
Disclosure index of the full audit report on internal control	cninfo (www.cninfo.com.cn)
Type of opinions in the internal control audit report	Unmodified unqualified opinions
Whether there are material deficiencies in non-financial reporting	None

Whether the accounting firm has issued the auditor’s report on internal control with non-standard opinions

Yes No

Whether the auditor's report on internal control issued by the accounting firm is consistent with the self-evaluation report of the Board of Directors

Yes No

Section XI. Information about Corporate Bonds

Whether the Company have any corporate bonds that are publicly issued and listed on the stock exchange and have not expired on the approval date of the annual report or have not been fully paid upon maturity

Yes

I. Basic information about corporate bonds

Bond name	Bond abbreviation	Bond code	Issue date	Maturity day	Bond balance (ten thousand yuan)	Interest rate	Repayment of principal and interest
Huadong Medicine Co., Ltd. 2015 Corporate Bonds	15 Huadong Bonds	112247	May 19, 2015	May 19, 2020	99,877	4.70%	Interest is paid once a year, and the principal is repaid once upon maturity. The interest of the last installment is paid together with the repayment of the principal.
Trading venue for the listing or transfer of corporate bonds	Shenzhen Stock Exchange						
Investor suitability arrangement	N/A						
Interest payment of the corporate bonds during the reporting period	During the reporting period, the Company paid the fourth installment of the bond interest on May 20, 2019 (subject to postponement in case of a non-trading day).						
Where the corporate bonds are subject to special terms such as issuer or investor option terms, exchangeable terms, etc., the performance of such terms during the reporting period (if applicable)	N/A						

II. Information about the bond trustee and credit rating agency

Bond trustee:							
Name	Everbright Securities Company Limited	Office address	No. 1508, Xinzha Road, Jing'an District, Shanghai	Contacts	Sun Bei, Chu Wei	Tel.	021-22169999
Credit rating agency that tracked and rated the corporate bonds during the reporting period:							
Name	China Chengxin Securities Rating Co., Ltd.		Office address	Room 968, Building 1, No. 599 Xinye Road, Qingpu District, Shanghai			
If the bond trustee or credit rating agency hired by the Company changes during the reporting period, the reasons for the change, performance of procedures, and the impact on investors' interests, etc. (if applicable)			N/A				

III. Use of funds raised by corporate bonds

Use of funds raised by the Company's bonds and performance of procedures	After deducting the issuance costs, the 600 million yuan raised by the bonds were used to repay some bank loans and optimize the Company's debt structure. The remaining 400 million yuan was used to supplement the Company's working capital and the operating capital of the pharmaceutical business and improve the Company's fund situation. The above funds were used in accordance with the relevant regulatory requirements of listed companies in Shenzhen Stock Exchange; corresponding decision-making procedures were implemented.
Year-end balance (ten thousand yuan)	99,877
Operation of the special fund-raising account	Normal
Whether the use of the raised funds is consistent with the purpose, use plan and other agreements promised in the prospectus	Yes

IV. Corporate bond rating

During the reporting period, the main credit rating of the Company is maintained at AA+; the credit rating of the current bonds is maintained at AA+.

According to the CSRC regulations, credit rating industry practice, and the Company's rating system, from the date of issuance of the first rating report, the rating agency should pay constant attention to such factors as changes in the external operating environment, operating or financial conditions of the current bond issuer and the

debt service guarantee of the current bonds within the validity period of the credit rating of the current bonds or the duration of the current bonds, so as to continuously track the credit risks of the current bonds. Tracking ratings include regular and irregular tracking ratings.

During the reporting period, the Company entrusted China Chengxin Securities Rating Co., Ltd. to track and rate the 2015 corporate bonds (“15 Huadong Bonds”) issued by the Company on May 19, 2015 for the year 2019. The rating results were as follows: the main credit rating of Huadong Medicine is maintained at AA+, with a stable rating outlook; the credit rating of the current debt is maintained at AA+. For details of the tracking rating report, please refer to “2015 Corporate Bond Tracking Rating Report of Huadong Medicine Co., Ltd. (2019)” published by the Company on June 18, 2019 on cninfo (www.cninfo.com.cn).

V. Corporate bond credit enhancement mechanism, debt repayment plan and other debt repayment guarantee measures

During the reporting period, the Company’s corporate debt credit enhancement mechanism, debt repayment plan and other debt repayment safeguard measures did not change, and the relevant commitments in the prospectus were duly performed.

VI. Bondholders’ meetings during the reporting period

The meetings were duly held as required.

VII. Performance of duties of the bond trustee during the reporting period

The duties were duly performed as required.

VIII. Major accounting data and financial indicators of the Company in the last 2 years by the end of the reporting period

Unit: RMB ten thousand yuan

Item	2019	2018	Year-on-year percentage change
EBITDA	399,182.38	329,251.92	21.24%
Current ratio	163.59%	176.56%	-12.97%
L/A ratio	40.05%	45.75%	-5.70%
Quick ratio	111.16%	119.43%	-8.27%
EBITDA total debt ratio	46.43%	37.45%	8.98%
Interest coverage ratio	32.15	28.67	12.14%
Cash interest coverage ratio	29.76	33.04	-9.93%
EBITDA interest coverage ratio	35.88	31.73	13.08%
Loan repayment rate	100.00%	100.00%	0.00%

Interest payment rate	100.00%	100.00%	0.00%
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Main reasons for the above accounting data and financial indicators changing by more than 30% year on year

Applicable N/A

IX. Interest payments on other bonds and debt financing instruments during the reporting period

Applicable N/A

X. Bank credit, use and repayment of bank loans obtained during the reporting period

As of December 31, 2019, the Company had obtained 9.671 billion yuan of bank credit and used 876 million yuan of credit. During the reporting period, the Company repaid the bank loans on time, and there was no extension or exemption.

XI. Implementation of relevant provisions or commitments of the Company's bond prospectus during the reporting period

During the reporting period, the Company fulfilled the relevant commitments in accordance with the prospectus. The Company paid the fourth installment of the bond interest on May 20, 2019.

XII. Major events during the reporting period

None

XIII. Whether there is a guarantor for corporate bonds

Yes No

Whether the guarantor of corporate bonds is a legal person or other organization

Yes No

Whether the guarantor's financial statements for the reporting period are separately disclosed within 4 months from the end of each fiscal year, including the balance sheets, income statements, cash flow statements, statements of changes in ownership interest (shareholders' rights and interests) and notes to financial statements

Yes No

Section XII. Financial Report

I. Audit report

Audit Opinion	Unmodified unqualified audit opinion
Audit Report sign-off Date	April 26, 2020
Audit Institution Name	Pan-China Certified Public Accountants (special general partnership)
Audit Report Number	T. J. S. (2020) No. 3788
Certified Public Accounts Name	Wang Fukang, Xu Ping

Main body of the audit report

Audit Report

T. J. S. (2020) No. 3788

Shareholders of Huadong Medicine Co., Ltd.:

I. Audit opinion

We audited the financial statements of Huadong Medicine Co., Ltd. (hereinafter referred to as “Huadong Medicine”), including the consolidated and the parent company’s balance sheets as at December 31, 2019, the consolidated and the parent company’s income statements for the year 2019, the consolidated and the parent company’s cash flow statements, the consolidated and the parent company’s statements of changes in ownership interest, and the notes to relevant financial statements.

In our opinion, the attached financial statements are prepared in accordance with the accounting standards for business enterprises in all material aspects and fairly reflect the consolidated and the parent company’s financial condition of Huadong Medicine as at December 31, 2019, as well as the consolidated and the parent company’s operating results and cash flows in 2019.

II. Basis opinion

We conducted our audit in accordance with the auditing standards for certified public accountants of China. Our responsibilities under these standards are further elaborated in the section “CPA’s responsibility to audit the financial statements” of the auditor’s report. In accordance with the code of professional ethics for certified public accountants in China, we are independent of Huadong Medicine and have fulfilled other responsibilities in respect of professional ethics. We believe that the audit evidence we have obtained is sufficient and appropriate, providing a basis for auditor’s opinion.

III. Key audit matters

The key audit matters are those we consider most important to the audit of the financial statements for the current period in our professional judgment. The response to these items is based on an audit of the financial statements as a whole and the formation of auditor's opinion. We do not comment on these items separately.

(I) Revenue recognition

1. Description

The relevant information disclosure is detailed in Notes III (XXIII) and V (II) 1 to the financial statements.

The operating revenue of Huadong Medicine mainly comes from the production and sales of drugs. The operating revenue of Huadong Medicine in 2019 is RMB 35,445,698,216.15 yuan.

The recognition of revenue from domestic sales of products of Huadong Medicine shall meet the following conditions: the products have been delivered to the buyer according to the contract, and the amount of product sales revenue has been determined, the payment for goods has been recovered or the receipt certificate has been obtained, and the relevant economic benefits are likely to flow in, and the costs related to the products can be measured reliably. The recognition of revenue from overseas sales of products shall meet the following conditions: the products have been declared at the customs according to the contract, the bill of lading has been obtained, the amount of product sales revenue has been determined, the payment for goods has been recovered or the receipt certificate has been obtained, and the relevant economic benefits are likely to flow in, and the costs related to the products can be measured reliably.

As the operating revenue is one of the key performance indicators of Huadong Medicine, there may be inherent risks for the management of Huadong Medicine (hereinafter referred to as the "Management") to achieve specific goals or expectations through inappropriate revenue recognition. Therefore, we identified revenue recognition as a key audit matter.

2. Audit response

For revenue recognition, the audit procedures we implemented mainly include:

(1) Understanding the key internal controls related to revenue recognition, evaluating the design of these controls, determining whether they are implemented, and testing the operating effectiveness of relevant internal controls;

(2) Reviewing the sales contract, understanding the main contract terms or conditions, and evaluating whether the revenue recognition method is appropriate;

(3) Analyzing the operating revenue and gross profit rate by month, product, region, etc., identifying whether there are significant or abnormal fluctuations, and ascertaining the reasons for the fluctuations;

(4) For domestic sales revenue, checking the supporting documents related to revenue recognition by sampling, including sales contracts, orders, sales invoices, outbound delivery orders, shipping orders, shipping documents and payment receipts. For overseas revenue, obtaining e-port information and checking with the accounting records, and checking the sales contracts, export declaration forms, bills of lading, sales invoices and other supporting documents by sampling;

(5) In combination with accounts receivable confirmation, confirming the current sales with major customers by sampling;

(6) Carrying out a cut-off test for the operating revenue recognized before and after the balance sheet date, and evaluating whether the operating revenue is recognized within an appropriate period;

and

(7) Checking whether the information relating to operating revenue has been properly presented in the financial statements.

(II) Impairment of accounts receivable

1. Description

The relevant information disclosure is detailed in Notes III (X) and V (I) 3 to the financial statements.

As of December 31, 2019, the book balance of accounts receivable of Huadong Medicine was RMB 6,428,095,660.39 yuan, the bad debt reserve was 335,790,475.92 yuan, and the book value was 6,092,305,184.47 yuan.

Based on the credit risk characteristics of various accounts receivable and the individual account receivable or the combination of accounts receivable, the Management measured its loss reserve according to the expected credit loss equivalent to the entire duration. For the accounts receivable with expected credit loss measured based on an individual item, the Management comprehensively considered the reasonable and reliable information about the past items, current conditions and future economic conditions, estimated the expected cash flow, and determined the bad debt reserve that should be accrued. For the accounts receivable with expected credit loss measured based on the combined items, the Management divided the accounts receivable based on age, made adjustments according to historical credit loss and prospective estimates, compiled a comparison table of accounts receivable ages and expected credit loss rates, and determined the bad debt reserve that should be accrued.

Due to the significant amount of accounts receivable and significant management judgment involved in the impairment of accounts receivable, we determined the impairment of accounts receivable as a key audit matter.

2. Audit response

For the impairment of accounts receivable, the audit procedures we implemented mainly include:

(1) Understanding the key internal controls related to the impairment of accounts receivable, evaluating the design of these controls, determining whether they are implemented, and testing the operating effectiveness of relevant internal controls;

(2) Reviewing the follow-up actual write-off or reversal of accounts receivable for which the bad debt reserve has been accrued in previous years, evaluating the accuracy of the Management's past forecasts;

(3) Reviewing the relevant considerations and objective evidence of the Management's credit risk assessment of accounts receivable, and evaluating whether the Management has properly identified the credit risk characteristics of various accounts receivable;

(4) For the accounts receivable with expected credit loss measured based on an individual item, obtaining and checking the Management's forecast of the expected cash flow received, evaluating the rationality of the key assumptions used in the forecast and the accuracy of data, and checking with the external evidence obtained;

(5) For the accounts receivable with expected credit loss measured based on the combined items, evaluating the rationality of the Management's division of combinations according to the credit risk characteristics; evaluating the rationality of the comparison table of accounts receivable ages and expected credit loss rates determined by the Management based on historical credit loss

experience and prospective estimates; testing the accuracy and completeness of the Management's data (including the age of accounts receivable, historical loss rate, migration rate, etc.) and whether the calculation of bad debt reserve is accurate;

(6) Checking the subsequent collection of accounts receivable, and evaluating the reasonability of the Management's accrual of bad debt reserve for accounts receivable; and

(7) Checking whether the information relating to the impairment of accounts receivable has been properly presented in the financial statements.

(III) Goodwill impairment

1. Description

The relevant information disclosure is detailed in Notes III (V), III (XVIII) and V (I) 15 to the financial statements.

As of December 31, 2019, the original book value of goodwill of Huadong Medicine was 1,472,250,061.24 yuan, the impairment reserve was 2,632,799.14 yuan, and the book value was 1,469,617,262.10 yuan.

When there is any sign of impairment in the asset group or asset portfolio related to goodwill, and at the end of each year, the Management shall conduct a goodwill impairment test. The Management conducted the goodwill impairment test in combination with the relevant asset group or asset portfolio, and the recoverable amount of the relevant asset group or asset portfolio was determined by the present value of the expected future cash flow. The key assumptions used in the impairment test include: revenue growth rate in the detailed forecast period, growth rate in the perpetual forecast period, gross profit rate, related expenses and discount rate.

Due to the significant amount of goodwill and the significant management judgment involved in the goodwill impairment test, we determined the goodwill impairment as a key audit matter.

2. Audit response

For the goodwill impairment, the audit procedures we implemented mainly include:

(1) Reviewing the Management's forecast of the present value of future cash flows in previous years and actual operating results, and evaluating the accuracy of the Management's past forecasts;

(2) Understanding and evaluating the competence, professional quality and objectivity of external valuation experts employed by the Management;

(3) Evaluating the rationality and consistency of the Management's methods in the impairment test;

(4) Evaluating the rationality of the key assumptions adopted by the Management in the impairment test, and verifying whether the relevant assumptions are consistent with the overall economic environment, industry conditions, operating conditions, historical experience, operating plans, approved budgets, meeting minutes, and other assumptions used by the Management in relation to the financial statements;

(5) Testing the accuracy, completeness and relevance of the data used by the Management in the impairment test, and rechecking the internal consistency of the relevant information in the impairment test;

(6) Testing whether the Management's calculation of the present value of expected future cash flows is accurate;

(7) Based on the methods and assumptions used by the Management, estimating the present value range of future cash flows and evaluating whether it differs significantly from the range

estimated by the Management; and

(8) Checking whether the information relating to the goodwill impairment has been properly presented in the financial statements.

IV. Other information

The Management is responsible for other information, including information covered in the annual report, but not the financial statements and the auditor's report.

The auditor's opinion on the financial statements does not cover other information, and we do not publish any form of corroborating conclusions on other information.

In conjunction with our audit of the financial statements, it is our responsibility to read other information and, in doing so, consider whether other information is materially inconsistent with the financial statements or what we learned during the audit or appears to be materially misrepresented.

Based on the work we have performed, if we determine that other information is materially misrepresented, we should report that fact. In this connection, we have nothing to report.

V. Responsibility of the Management and Governance for the Financial Statements

The Management is responsible for preparing the financial statements in accordance with the accounting standards for business enterprises to achieve fair presentation and for designing, implementing and maintaining the necessary internal controls so that the financial statements are free from material misstatement due to fraud or error.

In preparing the financial statements, the Management is responsible for assessing Huadong Medicine's competence for continuing operations, disclosing matters relating to continuing operations (if applicable) and applying the going concern assumption, unless liquidation and termination are planned or there is no other realistic alternative.

Those charged with governance of Huadong Medicine is responsible for overseeing the Company's financial reporting process.

VI. Responsibility of Certified Public Accountants on the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit performed in accordance with the audit standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material when it is reasonably expected that misstatements, individually or collectively, may affect the economic decisions made by users based on the financial statements.

As part of the audit in accordance with the audit standards, we exercise professional judgment and maintain professional skepticism throughout the process. 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 the risk of not detecting one resulting from error, as fraud may involve collusion, forgery, omissions, misrepresentations, or the override of internal control.

(II) Understand the internal control associated with the audit to design appropriate audit procedures.

(III) Evaluate the appropriateness of accounting policies used and the rationality of accounting estimates and related disclosures made by the Management.

(IV) Conclude on the appropriateness of using the going concern assumption by the Management, and conclude, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on Huadong Medicine's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw the attention of users to relevant disclosures in the financial statements in our auditor's report; if such disclosures are inadequate, we should offer qualified 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 Huadong Medicine to cease to continue as a going concern.

(V) Evaluate the overall presentation, structure and content of the financial statements, including whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

(VI) Obtain sufficient and appropriate audit evidence on the financial information of entities or business activities of Huadong Medicine to express auditor's opinions on the financial statements. We are responsible for the guidance, supervision and implementation of group audits and take full responsibility for the auditor's opinions.

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 the professional ethical requirements associated with our independence, and communicate to those charged with governance all relationships and other matters that may reasonably be deemed to affect our independence, as well as relevant precautions (if applicable).

From the matters communicated to those charged with governance, we determine which matters are most important to the current financial statement audit and thus constitute key audit matters. We describe these matters in our auditor's report, unless laws and regulations prohibit their public disclosure or, in rare cases, if it is reasonably expected that the negative consequences of communicating a matter in the auditor's report outweigh the benefits in the public interest, we determine that the matter should not be communicated in the auditor's report.

Pan-China Certified Public Accountants
(special general partnership)

Chinese Certified Public Accountant: Wang Fukang
(Project partner)

Hangzhou, China

Chinese Certified Public Accountant: Xu Ping

April 26, 2020

II. Financial statements

The unit of statements in the financial notes is: RMB yuan.

1. Consolidated balance sheet

Prepared by: Huadong Medicine Co., Ltd.

December 31, 2019

Unit: RMB yuan

Item	December 31, 2019	December 31, 2018
Current assets:		
Cash and bank balances	2,402,730,395.39	2,442,723,381.93
Settlement reserve		
Lending to other banks and other financial institutions		
Financial assets for trade		
Financial assets that are measured at fair value and whose changes are included in current gains/losses		
Derivative financial assets		
Notes receivable		639,854,829.69
Accounts receivable	6,092,305,184.47	5,633,011,225.41
Accounts receivable for financing	683,884,625.14	
Prepayments	363,246,612.94	351,676,102.16
Premiums receivable		
Reinsurance accounts receivable		
Reinsurance contract reserve receivable		
Other receivables	92,201,271.22	82,878,867.32
Including: Interests receivable		
Dividends receivable	815,965.44	779,957.18
Financial assets purchased for resale		
Inventories	4,038,975,496.93	3,875,647,048.31
Contract assets		
Assets held for sale		
Non-current assets due within one		

year		
Other current assets	62,526,471.96	38,097,580.91
Total current assets	13,735,870,058.05	13,063,889,035.73
Non-current assets:		
Loans and prepayments issuance		
Debt investments		
Financial assets available for sale		91,111,431.20
Other debt investments		
Held-to-maturity investments		
Long-term receivables		
Long-term equity investments	222,595,018.54	88,918,218.64
Other equity instrument investments	241,675,712.05	
Other non-current financial assets		
Real estate properties for investment	21,701,908.75	23,841,968.85
Fixed assets	2,175,216,842.65	2,033,587,957.65
Constructions in progress	1,829,808,233.19	617,004,995.98
Biological assets for production		
Oil & gas assets		
Right-of-use assets		
Intangible assets	1,454,900,160.45	1,507,864,929.72
Development expenditures		
Goodwill	1,469,617,262.10	1,458,322,456.39
Long-term unamortized expenses	12,289,677.31	12,487,374.06
Deferred tax assets	116,157,614.47	96,924,790.85
Other non-current assets	184,141,659.07	223,404,123.26
Total non-current assets	7,728,104,088.58	6,153,468,246.60
Total assets	21,463,974,146.63	19,217,357,282.33
Current liabilities:		
Short-term borrowing	655,549,973.27	625,731,594.90
Borrowing from the central bank		
Borrowing from other banks and other financial institutions		
Financial liabilities for trade		

Financial liabilities that are measured at fair value and whose changes are included in current gains/losses		
Derivative financial liabilities		
Notes payable	613,374,356.61	566,955,074.64
Accounts payable	3,789,054,234.58	3,905,462,438.68
Receipts in Advance	254,888,911.30	155,516,265.85
Contract liabilities		
Financial assets sold for repurchase		
Absorbing deposits and due from banks		
Receipts for buying and selling securities as proxy		
Receipts for underwriting securities as proxy		
Payroll payable	132,584,982.71	115,269,567.11
Taxes payable	532,802,157.61	591,738,858.25
Other payables	1,365,152,290.99	1,397,399,947.38
Including: Interests payable		40,192,471.83
Dividends payable	224,219.60	224,219.60
Handling fees and commissions payable		
Reinsurance accounts payable		
Liabilities held for sale		
Non-current liabilities due within one year	1,053,231,727.73	40,904,660.77
Other current liabilities		
Total current liabilities	8,396,638,634.80	7,398,978,407.58
Non-current liabilities:		
Insurance policy reserve		
Long-term borrowing		
Bonds payable		995,545,627.39
Including: Preferred shares		
Perpetual bonds		

Lease liabilities		
Long-term payables	48,080,030.00	274,759,833.53
Long-term employee benefits payable		
Provisions	52,066,643.01	34,746,434.39
Deferred income	60,960,255.68	68,138,547.84
Deferred tax liabilities	39,604,343.27	19,659,864.09
Other non-current liabilities		
Total non-current liabilities	200,711,271.96	1,392,850,307.24
Total liabilities	8,597,349,906.76	8,791,828,714.82
Owners' Equity:		
Share capital	1,749,809,548.00	1,458,174,624.00
Other equity instruments		
Including: Preferred shares		
Perpetual bonds		
Capital reserves	2,158,080,661.07	2,455,526,993.18
Less: Treasury shares		
Other comprehensive income	22,792,488.80	-22,426,154.59
Special reserve		
Surplus reserves	710,359,967.51	592,903,007.98
General risk reserve		
Retained earnings	7,668,434,642.62	5,453,970,525.96
Total owners' equity attributable to owner of the Company	12,309,477,308.00	9,938,148,996.53
Minority interest	557,146,931.87	487,379,570.98
Total owners' equity	12,866,624,239.87	10,425,528,567.51
Total liabilities & owners' equity	21,463,974,146.63	19,217,357,282.33

Legal representative: Lyu Liang

Person in charge of accounting work: Lyu Liang

Person in charge of the Accounting Department: Qiu Renbo

2. Balance sheet of the parent company

Unit: RMB yuan

Item	December 31, 2019	December 31, 2018
Current assets:		
Cash and bank balances	893,939,724.56	1,385,023,943.20
Financial assets for trade		
Financial assets measured at fair value and whose changes are included in current gains/losses		
Derivative financial assets		
Notes receivable		240,692,611.41
Accounts receivable	3,601,796,850.84	3,169,895,951.84
Accounts receivable for financing	102,285,661.94	
Prepayments	183,776,687.98	190,099,922.21
Other receivables	857,127,207.17	671,375,825.45
Including: Interests receivable		
Dividends receivable		
Inventories	1,726,815,773.41	1,699,409,254.34
Contract assets		
Assets held for sale		
Non-current assets due within one year		
Other current assets	4,529,331.87	501,622.85
Total current assets	7,370,271,237.77	7,356,999,131.30
Non-current assets:		
Debt investments		
Financial assets available for sale		91,111,431.20
Other debt investments		
Held-to-maturity investments		
Long-term receivables		
Long-term equity investments	4,809,521,228.65	4,324,003,989.90
Other equity instrument investments	92,108,957.26	
Other non-current financial assets		
Real estate properties for investment	8,591,809.18	9,058,041.82
Fixed assets	144,102,366.02	76,599,082.48

Constructions in progress	15,728,406.26	46,137,210.35
Biological assets for production		
Oil & gas assets		
Right-of-use assets		
Intangible assets	45,226,361.12	46,549,160.16
Development expenditures		
Goodwill		
Long-term unamortized expenses	975,689.14	1,341,804.52
Deferred tax assets	48,849,165.52	44,071,892.75
Other non-current assets	8,076,419.28	
Total non-current assets	5,173,180,402.43	4,638,872,613.18
Total assets	12,543,451,640.20	11,995,871,744.48
Current liabilities:		
Short-term borrowing	55,000,000.80	20,000,000.00
Financial liabilities for trade		
Financial liabilities that are measured at fair value and whose changes are included in current gains/losses		
Derivative financial liabilities		
Notes payable	81,036,745.94	262,559,098.87
Accounts payable	2,469,675,798.54	2,571,660,073.04
Receipts in advance	52,914,932.34	25,072,721.43
Contract liabilities		
Payroll payable	3,203,215.95	2,828,750.56
Taxes payable	32,881,935.68	68,310,184.18
Other payables	638,551,969.04	559,364,820.54
Including: Interests payable		29,256,720.34
Dividends payable	224,219.60	224,219.60
Liabilities held for sale		
Non-current liabilities due within one year	1,028,002,952.88	
Other current liabilities		
Total current liabilities	4,361,267,551.17	3,509,795,648.62
Non-current liabilities:		

Long-term borrowing		
Bonds payable		995,545,627.39
Including: Preferred shares		
Perpetual bonds		
Lease liabilities		
Long-term payables		
Long-term employee benefits payable		
Provision		
Deferred income	43,264,785.87	45,830,660.79
Deferred tax liabilities		
Other non-current liabilities		
Total non-current liabilities	43,264,785.87	1,041,376,288.18
Total liabilities	4,404,532,337.04	4,551,171,936.80
Owners' Equity:		
Share capital	1,749,809,548.00	1,458,174,624.00
Other equity instruments		
Including: Preferred shares		
Perpetual bonds		
Capital reserves	2,168,451,528.01	2,460,086,452.01
Less: Treasury shares		
Other comprehensive income	847,526.06	
Special reserve		
Surplus reserves	788,215,726.95	670,758,767.42
Retained earnings	3,431,594,974.14	2,855,679,964.25
Total owners' equity	8,138,919,303.16	7,444,699,807.68
Total liabilities & owners' equity	12,543,451,640.20	11,995,871,744.48

3. Consolidated income statement

Unit: RMB yuan

Item	2019	2018
I. Total operating income	35,445,698,216.15	30,663,374,326.27
Including: Operating revenue	35,445,698,216.15	30,663,374,326.27
Interests received		

Premiums earned		
Handling fees and commissions received		
II. Total operating cost	32,236,584,319.28	27,820,710,587.36
Including: Operating cost	24,086,722,961.73	21,774,705,378.11
Interests paid		
Handling fees and commissions paid		
Surrender value		
Net payment of insurance claims		
Net appropriation of policy reserve		
Policy dividends paid		
Reinsurance expenses		
Business taxes and surcharges	181,986,722.36	170,953,068.38
Selling expenses	5,797,236,883.02	4,297,355,738.06
Administrative expenses	1,095,227,423.65	785,170,898.51
Research and Development(R&D) expenses	1,072,937,182.39	706,041,257.10
Financial expenses	2,473,146.13	86,484,247.20
Including: Interests expenses	107,193,977.78	102,777,144.97
Interests income	30,593,316.38	35,313,124.90
Add: Other income	113,635,429.90	80,998,441.81
Investment income (Losses are indicated by “-”)	-15,006,715.14	34,761,671.07
Including: Investment gains (losses) in associated enterprise and joint-venture enterprise	11,058,408.16	18,703,210.12
Gains on the derecognition of financial assets measured at amortized cost		
Gains on exchange (Losses are indicated by “-”)		
Gains on net exposure hedging		

(Losses are indicated by “-”)		
Gains on changes in fair value (Losses are indicated by “-”)		
Credit impairment losses (Losses are indicated by “-”)	-28,581,461.03	
Impairment losses of assets (Losses are indicated by “-”)	3,726,044.53	-51,018,817.28
Gains on assets disposal (Losses are indicated by “-”)	114,154,941.45	2,165,646.31
III. Operating profit (Losses are indicated by “-”)	3,397,042,136.58	2,909,570,680.82
Add: Non-operating income	118,292,148.72	1,575,573.21
Less: Non-operating expenses	45,068,060.85	38,601,994.56
IV. Total profit (Total losses are indicated by “-”)	3,470,266,224.45	2,872,544,259.47
Less: Income tax expenses	544,863,569.56	477,374,647.49
V. Net profit (Net losses are indicated by “-”)	2,925,402,654.89	2,395,169,611.98
(I) Classification by continuous operations		
1. Net profit from continued operations (Net losses are indicated by “-”)	2,925,402,654.89	2,395,169,611.98
2. Net profit from terminational operations (Net losses are indicated by “-”)		
(II) Classification by attribution of ownership		
1. Net profit attributable to owners of the parent company	2,813,118,702.11	2,267,229,174.08
2. Profit or loss attributable to minority shareholders	112,283,952.78	127,940,437.90
VI. Other comprehensive income, net of income tax	45,218,643.39	-22,426,154.59
Other comprehensive income attributable to owners of the parent company, net of tax	45,218,643.39	-22,426,154.59
(I) Other comprehensive income that cannot be reclassified into gains/losses	22,649,380.85	

1.Changes in remeasurement on the defined benefit plan		
2. Other comprehensive income that cannot be reclassified into gains/losses under equity method		
3. Changes in fair value of other equity instrument investments	22,649,380.85	
4. Changes in fair value of credit risk of the enterprise		
5. Others		
(II) Other comprehensive income to be reclassified into gains/losses	22,569,262.54	-22,426,154.59
1. Other comprehensive income that can be reclassified into gains/losses under equity method		
2. Changes in fair value of other debt investments		
3. Gains/losses on changes in fair value of financial assets available for sale		
4. Amount of financial assets reclassified into other comprehensive income		
5. Gains/losses on held-to-maturity investments reclassified as financial assets available for sale		
6. Credit impairment reserve of other debt investments		
7. Cash flow hedging reserve		
8. Exchange differences arising on conversion of financial statements denominated in foreign currencies	22,569,262.54	-22,426,154.59
9. Others		
Net amount after tax of other comprehensive income attributable to minority shareholders		
VII. Total comprehensive income	2,970,621,298.28	2,372,743,457.39

Total comprehensive income attributable to owners of the parent company	2,858,337,345.50	2,244,803,019.49
Total comprehensive income attributable to minority shareholders	112,283,952.78	127,940,437.90
VIII. Earnings per share (EPS):		
(I) Basic EPS	1.61	1.29
(II) Diluted EPS	1.61	1.29

As for enterprise merger under the same control in the current period, the net profit generated by the merged party before the merger is 0.00 yuan, and that generated during the previous period is 0.00 yuan.

Legal representative: Lyu Liang

Person in charge of accounting work: Lyu Liang

Person in charge of the Accounting Department: Qiu Renbo

4. Income statement of the parent company

Unit: RMB yuan

Item	2019	2018
I. Total operating income	18,615,152,475.02	16,949,200,953.03
Less: Total operating cost	17,632,559,302.99	16,058,479,264.34
Business taxes and surcharges	18,316,448.01	10,188,442.34
Selling expenses	405,018,833.52	378,254,696.38
Administrative expenses	144,525,622.55	163,148,284.02
Research and Development (R&D) expenses	7,744,972.45	
Financial expenses	61,561,281.10	11,095,804.17
Including: Interests expenses	74,457,880.50	67,604,518.13
Interests income	17,378,641.11	63,903,204.54
Add: Other income	6,736,329.43	8,030,137.28
Investment income (Losses are indicated by “-”)	884,134,498.88	795,547,331.48
Including: Investment gains (losses) in associated enterprise and joint-venture enterprise		

Gains on the derecognition of financial assets measured at amortized cost (Losses are indicated by “-”)		
Gains on net exposure hedging (Losses are indicated by “-”)		
Gains from changes in fair values (Losses are indicated by “-”)		
Credit impairment losses (Losses are indicated by “-”)	-51,632,880.16	
Impairment gains (losses) of assets (Losses are indicated by “-”)		-32,906,965.18
Asset disposal income (Losses are indicated by “-”)	114,473,031.50	-48,893.42
II. Operating profit (Losses are indicated by “-”)	1,299,136,994.05	1,098,656,071.94
Add: Non-operating income	1,634,235.90	93,443.66
Less: Non-operating expenses	1,291,907.34	5,046,377.09
III. Total profit (Total losses are indicated by “-”)	1,299,479,322.61	1,093,703,138.51
Less: Income tax expenses	124,909,727.27	87,220,803.86
IV. Net profit (Net losses are indicated by “-”)	1,174,569,595.34	1,006,482,334.65
(I) Net profit from continuous operations (Net losses are indicated by “-”)	1,174,569,595.34	1,006,482,334.65
(II) Net profit from discontinued operations (Net losses are indicated by “-”)		
V. Other comprehensive income, net of income tax	847,526.06	
(I) Other comprehensive income that cannot be reclassified into gains/losses	847,526.06	
1. Changes in remeasurement on the defined benefit plan		
2. Other comprehensive income that cannot be reclassified into		

gains/losses under equity method		
3. Changes in fair value of other equity instrument investments	847,526.06	
4. Changes in fair value of credit risk of the enterprise		
5. Others		
(II) Other comprehensive income to be reclassified into gains/losses		
1. Other comprehensive income that can be reclassified into gains/losses under equity method		
2. Changes in fair value of other debt investments		
3. Gains/losses on changes in fair value of financial assets available for sale		
4. Amount of financial assets reclassified into other comprehensive income		
5. Gains/losses on held-to-maturity investments reclassified as financial assets available for sale		
6. Credit impairment reserve of other debt investments		
7. Cash flow hedging reserve		
8. Exchange differences from translation of foreign currency financial statements		
9. Others		
VI. Total comprehensive income	1,175,417,121.40	1,006,482,334.65
VII. Earnings per share (EPS):		
(I) Basic EPS		
(II) Diluted EPS		

5. Consolidated cash flow statement

Unit: RMB yuan

Item	2019	2018
I. Cash flows from operating activities:		
Cash received from sale of goods or rendering of services	37,765,481,069.45	33,882,351,330.58
Net increase in customer deposits and due from banks		
Net increase in borrowing from the central bank		
Net increase in borrowing from other financial institutions		
Cash from the premium of the original insurance policy		
Net cash from reinsurance		
Net increase in deposits and investment of the insured		
Cash from interests, handling fees and commissions		
Net increase in borrowing from other banks and other financial institutions		
Net increase in funds for repurchase		
Net cash received for buying and selling securities as proxy		
Receipts of tax refunds	36,489,238.81	8,721,685.64
Other cash receipts to operating activities	999,312,116.21	636,521,641.34
Sub-total of Cash inflows from operating activities	38,801,282,424.47	34,527,594,657.56
Cash payments for goods purchased and services received	26,049,853,576.88	24,017,233,502.68
Net increase in customer loans and prepayments		
Net increase in deposits of central bank and due from banks		
Cash payments for original insurance claims		
Net increase in lending to other		

banks and other financial institutions		
Cash payments for interests, handling fees and commissions		
Cash payments for policy dividends		
Cash payments to and on behalf of employees	2,290,705,739.73	1,680,688,095.87
Payments of various types of taxes	2,151,909,142.04	1,975,348,921.21
Other cash payments in relation to operating activities	6,307,115,795.15	4,814,828,054.54
Sub-total of cash outflows for operating activities	36,799,584,253.80	32,488,098,574.30
Net cash flow from operating activities	2,001,698,170.67	2,039,496,083.26
II. Cash flows from investing activities		
Cash receipts from recovery of investments		
Cash receipts from investment income	6,375,600.00	21,379,953.63
Net cash from disposal of fixed assets, intangible assets and other long-term assets	57,931,687.55	4,990,389.66
Net cash from disposal of subsidiaries and other business units		
Other cash receipts in relation to investing activities	10,330,000.00	4,636,516,649.00
Sub-total of cash inflows from investing activities	74,637,287.55	4,662,886,992.29
Cash payments for purchase and construction of fixed assets, intangible assets and other long-term assets	1,353,444,334.16	876,462,903.54
Cash payments for investment	256,944,900.00	
Net increase in pledge loans		
Net cash paid for acquisition of subsidiaries and other business units	11,199,793.01	1,457,165,348.18
Other cash payments in relation to investing activities	35,656,157.15	3,890,000,000.00
Sub-total of cash outflows for investing activities	1,657,245,184.32	6,223,628,251.72

Net cash flow from investing activities	-1,582,607,896.77	-1,560,741,259.43
III. Cash flows from financing activities:		
Cash receipts from capital contributions	9,800,000.00	24,100,000.00
Including: Cash receipts from capital contributions from minority owners of subsidiaries	9,800,000.00	24,100,000.00
Cash from borrowing	1,908,287,327.51	1,750,759,129.38
Other cash receipts in relation to financing activities	4,450,000.00	360,000,000.00
Sub-total of cash inflows from financing activities	1,922,537,327.51	2,134,859,129.38
Cash repayment of borrowings	1,880,308,079.71	1,679,729,129.38
Cash payments for distribution of dividends or profits or settlement of interest expenses	621,755,092.32	861,183,572.54
Including: Dividends and profits paid by subsidiaries to minority shareholders	51,128,000.00	92,009,391.18
Other cash payments in relation to financing activities	29,071,651.48	24,385,215.46
Sub-total of cash outflows from financing activities	2,531,134,823.51	2,565,297,917.38
Net cash flows from financing activities	-608,597,496.00	-430,438,788.00
IV. Effect of foreign exchange rate changes on Cash and Cash Equivalents	22,569,262.54	-22,426,154.59
V. Net increase in cash and cash equivalents	-166,937,959.56	25,889,881.24
Add: Opening balance of cash and cash equivalents	2,398,709,506.06	2,372,819,624.82
VI. Closing balance of cash and cash equivalents	2,231,771,546.50	2,398,709,506.06

6. Cash flow statement of the parent company

Unit: RMB yuan

Item	2019	2018
I. Cash flows from operating activities:		

Cash receipts from the sale of goods and the rendering of services	19,888,765,400.12	18,857,466,027.75
Receipts of tax refund		29,098.10
Other cash receipts in relation to operating activities	72,672,145.56	46,134,037.65
Sub-total of cash inflows from operating activities	19,961,437,545.68	18,903,629,163.50
Cash payments for goods acquired and services received	19,392,421,016.77	17,767,939,467.84
Cash payments to and on behalf of employees	215,213,920.34	191,359,631.29
Payments of various types of taxes	304,160,143.98	185,877,507.84
Other cash payments in relation to operating activities	293,133,338.39	377,260,475.00
Sub-total of cash outflows for operating activities	20,204,928,419.48	18,522,437,081.97
Net cash flow from operating activities	-243,490,873.80	381,192,081.53
II. Cash flows from investing activities		
Cash receipts from recovery of investments		
Cash receipts from investment income	854,192,000.00	809,693,024.16
Net cash receipts from disposal of fixed assets, intangible assets and other long-term assets	56,648,621.75	138,500.94
Net cash from disposal of subsidiaries and other business units		
Other cash receipts in relation to investing activities	719,862,834.59	4,373,146,305.84
Sub-total of cash inflows from investing activities	1,630,703,456.34	5,182,977,830.94
Cash payments for purchase and construction of fixed assets, intangible assets and other long-term assets	76,886,709.15	54,271,219.89
Cash payments for investment	292,607,400.00	1,555,288,914.76
Net cash paid for acquisition of subsidiaries and other business units	45,000,000.00	

Other cash payments in relation to investing activities	1,025,893,964.54	3,816,741,206.87
Sub-total of cash outflows for investing activities	1,440,388,073.69	5,426,301,341.52
Net cash flows from investing activities	190,315,382.65	-243,323,510.58
III. Cash flows from financing activities:		
Cash receipts from absorbing investments		
Cash receipts from borrowing	804,466,686.17	891,309,129.38
Other cash receipts in relation to financing activities	352,692,483.11	1,172,333,703.84
Sub-total of cash inflows from financing activities	1,157,159,169.28	2,063,642,833.22
Cash repayments of borrowings	769,466,685.37	871,309,129.38
Cash payments for distribution of dividends or profits or settlement of interest expenses	536,573,346.34	748,075,092.93
Other cash payments in relation to financing activities	288,574,038.04	788,573,175.53
Sub-total of cash outflows from financing activities	1,594,614,069.75	2,407,957,397.84
Net cash flow from financing activities	-437,454,900.47	-344,314,564.62
IV. Effect of foreign exchange rate changes on Cash and Cash Equivalents		
V. Net increase in cash and cash equivalents	-490,630,391.62	-206,445,993.67
Add: Opening balance of cash and cash equivalents	1,384,560,116.18	1,591,006,109.85
VI. Closing balance of cash and cash equivalents	893,929,724.56	1,384,560,116.18

7. Consolidated statement of changes in owners' Equity

Amount in the current period

Unit: RMB yuan

Item	2019		
	Ownership interest attributable to the parent company	Minority	Total

	Share capital	Other equity instruments			Capital reserve	Less: Treasury shares	Other comprehensive income	Special reserve	Surplus reserve	General risk reserve	Undistributed profit	Others	Total	Minority interest	Owners' interest
		Preferred shares	Perpetual bonds	Others											
I. Balance at the end of the period of the prior year	1,458,174,624.00				2,455,526.993.18	-22,426,154.59		592,903,007.98			5,453,970.525.96		9,938,148.996.53	487,379,570.98	10,425,528.567.51
Add: changes in accounting policies															
Error correction in the prior periods															
Merger of enterprises under the same control															
Others															
II. Balance at the beginning of the period of the current year	1,458,174,624.00				2,455,526.993.18	-22,426,154.59		592,903,007.98			5,453,970.525.96		9,938,148.996.53	487,379,570.98	10,425,528.567.51
III. Amount of change in the current period (Decreases are indicated by "-")	291,634,924.00				-297,446,332.11	45,218,643.39		117,456,959.53			2,214,464,116.66		2,371,328,311.47	69,767,360.89	2,441,095,672.36
(I) Total comprehensive income						45,218,643.39					2,813,118,702.11		2,858,337,345.50	112,283,952.78	2,970,621,298.28
(II) Capital contributed by owners and capital														9,800,000.00	9,800,000.00

decreases															
1. Common shares invested by owners														9,800,000.00	9,800,000.00
2. Capital invested by holders of other equity instruments															
3. Amount of share-based payment included in ownership interest															
4. Others															
(III) Profit distribution								117,456,959.53		-598,654,585.45		-481,197,625.92		-51,128,000.00	-532,325,625.92
1. Withdrawal of surplus reserve								117,456,959.53		-117,456,959.53					
2. Withdrawal of general risk reserve															
3. Distribution to owners (or shareholders)										-481,197,625.92		-481,197,625.92		-51,128,000.00	-532,325,625.92
4. Others															
(IV) Internal conversion of ownership interest	291,634,924.00														
1. Capital (or share capital) increase from capital reserve conversion	291,634,924.00														
2. Capital (or share capital) increase from															

I. Balance at the end of the period of the prior year	972,164,16.00				2,941,585,201.18				492,254,774.51			3,987,313,404.87			8,393,269,796.56	415,593,124.26	8,808,862,920.82
Add: Changes in accounting policies																	
Error correction in the prior periods																	
Merger of enterprises under the same control																	
Others																	
II. Balance at the beginning of the period of the current year	972,164,16.00				2,941,585,201.18				492,254,774.51			3,987,313,404.87			8,393,269,796.56	415,593,124.26	8,808,862,920.82
III. Amount of change in the current period (Decreases are indicated by “-”)	486,058,208.00				-486,058,208.00		-22,426,154.59		100,648,233.47			1,466,657,121.09			1,544,879,199.97	71,786,446.72	1,616,665,646.69
(I) Total comprehensive income							-22,426,154.59					2,267,229,174.08			2,244,803,019.49	127,940,437.90	2,372,743,457.39
(II) Capital contributed by owners and capital decreases																24,100,000.00	24,100,000.00
1. Common shares invested by owners																24,100,000.00	24,100,000.00
2. Capital																	

invested by holders of other equity instruments																
3. Amount of share-based payment included in ownership interest																
4. Others																
(III) Profit distribution								100,648,233.47		-800,572,052.99		-699,923,819.52		-80,253,991.18		-780,177,810.70
1. Withdrawal of surplus reserve								100,648,233.47		-100,648,233.47						
2. Withdrawal of general risk reserve																
3. Distribution to owners (or shareholders)										-699,923,819.52		-699,923,819.52		-80,253,991.18		-780,177,810.70
4. Others																
(IV) Internal conversion of ownership interest	486,058,208.00															
1. Capital (or share capital) increase from capital reserve conversion	486,058,208.00															
2. Capital (or share capital) increase from surplus reserve conversion																
3. Recovery of losses by surplus reserve																

Changes in accounting policies												
Error correction in the prior periods												
Others												
II. Balance at the beginning of the period of the current year	1,458,174,624.00				2,460,086,452.01				670,758,767.42	2,855,679,964.25		7,444,699,807.68
III. Amount of change in the current period (Decreases are indicated by “-”)	291,634,924.00				-291,634,924.00		847,526.06		117,456,959.53	575,915,009.89		694,219,495.48
(I) Total comprehensive income							847,526.06			1,174,569,595.34		1,175,417,121.40
(II) Capital contributed by owners and capital decreases												
1. Common shares invested by owners												
2. Capital invested by holders of other equity instruments												
3. Amount of share-based payment included in ownership interest												
4. Others												
(III) Profit distribution									117,456,959.53	-598,654,585.45		-481,197,625.92

1. Withdrawal of surplus reserve									117,456,959.53	-117,456,959.53		
2. Distribution to owners (or shareholders)										-481,197,625.92		
3. Others												
(IV) Internal conversion of ownership interest	291,634,924.00				-291,634,924.00							
1. Capital (or share capital) increase from capital reserve conversion	291,634,924.00				-291,634,924.00							
2. Capital (or share capital) increase from surplus reserve conversion												
3. Recovery of losses by surplus reserve												
4. Retained earnings from transfer of changes in the defined benefit plan												
5. Retained earnings from transfer of other comprehensive income												
6. Others												
(V) Special reserve												
1. Withdrawal in the current period												

2. Use in the current period												
(VI) Others												
IV. Balance at the end of the current period	1,749,809,548.00				2,168,451,528.01		847,526.06		788,215,726.95	3,431,594,974.14		8,138,919,303.16

Amount in the prior period

Unit: RMB yuan

Item	2018											
	Share capital	Other equity instruments			Capital reserve	Less: Treasury shares	Other comprehensive income	Special reserve	Surplus reserve	Undistributed profit	Others	Total ownership interest
		Preferr ed shares	Perpet ual bonds	Others								
I. Balance at the end of the period of the prior year	972,116,416.00				2,946,144,660.01				570,110,533.95	2,649,769,682.59		7,138,141,292.55
Add: Changes in accounting policies												
Error correction in the prior periods												
Others												
II. Balance at the beginning of the period of the current year	972,116,416.00				2,946,144,660.01				570,110,533.95	2,649,769,682.59		7,138,141,292.55
III. Amount of change in the current period (Decreases are indicated by "-")	486,058,208.00				-486,058,208.00				100,648,233.47	205,910,281.66		306,558,515.13
(I) Total comprehensive										1,006,482,334.65		1,006,482,334.65

income												
(II) Capital contributed by owners and capital decreases												
1. Common shares invested by owners												
2. Capital invested by holders of other equity instruments												
3. Amount of share-based payment included in ownership interest												
4. Others												
(III) Profit distribution								100,648,233.47	-800,572,052.99			-699,923,819.52
1. Withdrawal of surplus reserve								100,648,233.47	-100,648,233.47			
2. Distribution to owners (or shareholders)									-699,923,819.52			-699,923,819.52
3. Others												
(IV) Internal conversion of ownership interest	486,058,208.00											-486,058,208.00
1. Capital (or share capital) increase from capital reserve conversion	486,058,208.00											-486,058,208.00
2. Capital (or share capital)												

increase from surplus reserve conversion												
3. Recovery of losses by surplus reserve												
4. Retained earnings from transfer of changes in the defined benefit plan												
5. Retained earnings from transfer of other comprehensive income												
6. Others												
(V) Special reserve												
1. Withdrawal in the current period												
2. Use in the current period												
(VI) Others												
IV. Balance at the end of the current period	1,458,174.624.00				2,460,086.452.01				670,758,767.42	2,855,679,964.25		7,444,699,807.68

Huadong Medicine Co., Ltd.

Chairman of the Board: Lyu Liang

April 28, 2020