



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

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

Annual Report  
**2015**



\* For identification purpose only





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

The financial report of the Group and the Company for the year ended 31 December 2015, which had been prepared in accordance with China Accounting Standards for Business Enterprises, was audited by Ruihua Certified Public Accountants (LLP), and a standard unqualified audit report thereon was issued.

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

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

The Board proposes the 2015 Annual Profit Distribution Plan as follows: it is expected to distribute cash of RMB5 (including taxes) for every 10 shares held to all shareholders on 30 June 2016, based on the total share capital of the Company as at 31 December 2015 with the total amount of cash dividend as RMB198,444,773.5. If there is any change in the total issued share capital of the Company as a result of issuance of new shares, exercise of incentive share option, conversion of convertible bonds before implementing the distribution plan, specific proportion of allocation will be adjusted in accordance with the principle of "the total amount of cash distribution remains unchanged". No distribution of shares and no transfer of capital reserve into share capital will be undertaken for the year. (the "Dividend Distribution Plan for the year"). The Dividend Distribution Plan for the year is subject to approval at the 2015 annual general meeting of the Company (the "AGM").

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

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

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



\* For identification purpose only

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

"Company"	麗珠醫藥集團股份有限公司 Livzon Pharmaceutical Group Inc.*, a joint stock limited liability company incorporated in accordance with the PRC's law, whose H Shares and A Shares are listed on the Main Board of the Hong Kong Stock Exchange and the Main Board of the Shenzhen Stock Exchange respectively;
"Group"	the Company and its subsidiaries;
"Board"	the board of directors of the Company;
"Director(s)"	director(s) of the Company;
"Supervisory Committee"	the supervisory committee of the Company;
"Supervisor(s)"	supervisor(s) of the Company;
"Shareholder(s)"	shareholder(s) of the Company;
"A Share(s)"	the ordinary shares in the registered capital of the Company with a nominal value of RMB1.00 each, which are listed and traded on the Shenzhen Stock Exchange;
"B Share(s)"	domestically listed foreign shares originally issued by the Company;
"A Shareholder(s)"	holder(s) of A Shares of the Company;
"H Share(s)"	the ordinary shares in the registered capital of the Company with a nominal value of RMB1.00 each, which are listed and traded on the Hong Kong Stock Exchange;
"H Shareholder(s)"	holder(s) of H Shares of the Company;
"Year"	the twelve months from 1 January to 31 December 2015;
"Same Period Last Year" or "Last Year"	the twelve months from 1 January to 31 December 2014;
"End of Last Year" or "Beginning of the year"	31 December 2014;
"End of the year"	31 December 2015;

\* For identification purpose only



"China Accounting Standards for Business Enterprises"	Accounting Standards for Business Enterprises – Basic Standard and 38 specific accounting standards issued by the Ministry of Finance of the PRC on 15 February 2006 and the Application Guidance to Accounting Standards for Business Enterprises, Interpretations of Accounting Standards for Business Enterprises and other related requirements subsequently issued;
"CSRC"	the China Securities Regulatory Commission;
"Hong Kong Stock Exchange"	The Stock Exchange of Hong Kong Limited;
"Hong Kong Listing Rules"	Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited;
"Corporate Governance Code"	the Corporate Governance Code as set out in Appendix 14 of the Hong Kong Listing Rules;
"Model Code"	the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Hong Kong Listing Rules;
"SFO"	the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong);
"Shenzhen Stock Exchange"	深圳證券交易所 (the Shenzhen Stock Exchange);
"Shenzhen Listing Rules"	《深圳證券交易所股票上市規則》(the Stock Listing Rules of the Shenzhen Stock Exchange);
"the Company Law"	the Company Law of the People's Republic of China;
"China" or "PRC"	the People's Republic of China;
"Hong Kong"	Hong Kong Special Administrative Region of China;
"HK\$" or "HKD"	Hong Kong dollars, the lawful currency of Hong Kong;
"RMB"	Renminbi, the lawful currency of China;
"US\$"	United States dollars, the lawful currency of the United States of America;
"Joincare"	健康元藥業集團股份有限公司 Joincare Pharmaceutical Industry Group Co., Ltd.* (Shanghai Stock Exchange stock code: 600380), a joint stock company incorporated in the PRC and listed on the Shanghai Stock Exchange in 2001 and one of the Company's controlling shareholders;
"B-TO-H Share Conversion"	the domestically listed foreign shares (B Shares) of the Company to be converted into H Shares by way of introduction for listing and trading on the Main Board of the Hong Kong Stock Exchange; and
"the Restricted A Shares Incentive Scheme"	the Restricted A Shares Incentive Scheme (Revised Draft) considered and approved by the Company at the 2015 First Extraordinary General Meeting.

\* For identification purpose only



## COMPANY INFORMATION

	A Shares	H Shares <sup>Note 1</sup>
Stock abbreviation	Livzon Group	Livzon Pharma, 麗珠H代 <sup>Note 2</sup>
Stock code	000513	01513, 299902 <sup>Note 2</sup>
Stock exchange	Shenzhen Stock Exchange	The Stock Exchange of Hong Kong Limited
Chinese name of the Company	麗珠醫藥集團股份有限公司	
English name of the Company	LIVZON PHARMACEUTICAL GROUP INC.*	
Abbreviation of Chinese name of the Company	麗珠集團	
Abbreviation of English name of the Company	LIVZON GROUP	
Legal representative of the Company	Zhu Baoguo (朱保國)	
Registered address of the Company in China	Headquarters Building, 38 Chuangye North Road, Jinwan District, Zhuhai City, Guangdong Province, China	
Postal code of the registered address of the Company	519090	
Domestic business address of the Company	Livzon Building, 132 Guihua North Road, Gongbei, Zhuhai, Guangdong Province, China	
Postal code of the domestic business address of the Company	519020	
Principal place of business in Hong Kong	Flat 02, 17/F Bayfield Building, 99-101 Hennessy Road, Wanchai, Hong Kong	
Company's website	www.livzon.com.cn	
E-mail	LIVZON_GROUP@livzon.com.cn	

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

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

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## CONTACT PERSONS AND CONTACT DETAILS

	Secretary to the Board	Representative of securities affairs
Name	Yang Liang	Wang Shuguang
Telephone	(0756)8135888	(0756)8135888
Fax	(0756)8886002	(0756)8886002
E-mail	yangliang2014@livzon.com.cn	wangshuguang2008@livzon.com.cn
Address	Livzon Building, 132 Guihua North Road, Gongbei, Zhuhai, Guangdong Province, China	

## CHANGE IN REGISTRATION DETAILS

Initial registration date	26 January 1985
Change of registration date	21 January 2016
Place of registration	Guangdong Province Zhuhai Administration for Industry and Commerce of China
Unified social credit code	914404006174883094

## INFORMATION DISCLOSURE AND PLACE WHERE COPIES OF THIS REPORT ARE AVAILABLE

Newspapers for information disclosure:	China Securities Journal, Securities Times
Website for publishing this annual report:	A Shares: <a href="http://www.cninfo.com.cn">www.cninfo.com.cn</a> H Shares: <a href="http://www.hkexnews.hk">www.hkexnews.hk</a>
Place where copies of this annual report are available:	Secretariat to the Board of the Company



## OTHER RELEVANT INFORMATION

Name and address of the accounting firm appointed	Ruihua Certified Public Accountants (LLP) 4/F, Tower 2, No. 16 Xisihuanzhong Road, Haidian District, Beijing
Name of signing accountants of the accounting firm appointed	Wang Shuyan, Li Encheng
Authorised Representatives	Tao Desheng, Yang Liang
Company Secretary, Secretary to the Board	Yang Liang
Assistant Company Secretary and Alternate to Authorised Representatives	Cheng Pik Yuk
H Share Compliance Advisor	Southwest Securities (HK) Capital Limited
H Share Registrar	Tricor Investor Services Limited Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong





## CHANGES OF SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND CORRECTION OF ACCOUNTING ERRORS

On 5 June 2015, the Company considered and approved the "Resolution related to the Change of the Company's Accounting Policy" at the 11th meeting of the eighth session of the board of Directors. The Company has changed the accounting policy related to the impairment of available-for-sale financial assets. Details of the changes are set out as follows:

Accounting policy adopted before the change:

"If there is a significant or prolonged decline in the fair value of available-for-sale financial assets based on relevant factors, the available-for-sale equity instrument investment is impaired. "Significant decline" refers to the decline of fair value by more than 20%; "prolonged decline" refers to the decline of fair value for more than 12 months consecutively."

Accounting policy adopted upon the change:

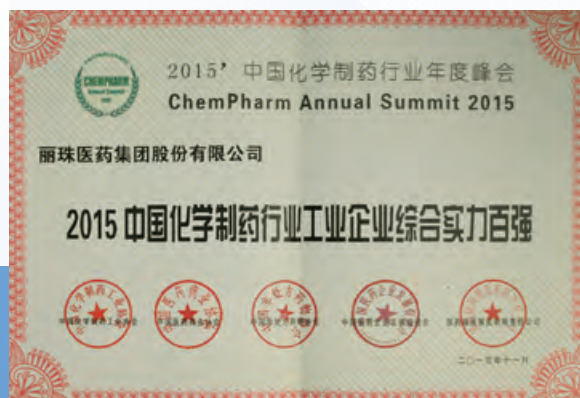
"If there is a significant or prolonged decline in the fair value of available-for-sale financial assets based on relevant factors, the available-for-sale equity instrument investment is impaired. In determining the meaning of "significant" and "prolonged", the Company shall base its judgment upon the extent and the duration to which the fair value of the investment is less than its cost, and shall take into account other factors to reach a comprehensive view."

Effective date: Effective from 1 January 2015.

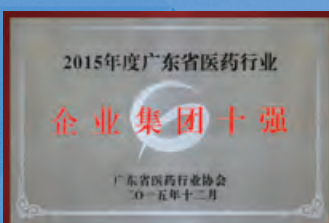
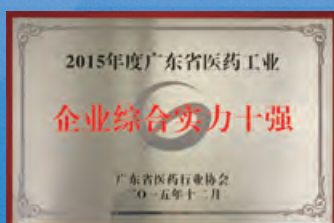
The change of accounting policy of the Company requires no retrospective adjustment to any previous annual financial report disclosed. The financial information of this reporting period is also not affected.



Project on "R&D and Commercialisation of Innovative Ilaprazole series" the National Class 1.1 innovative drug for peptic area innovated independently by the Company was awarded the second prize of the State's Science and Technological Advancement Award for Year 2015.



The Company was awarded "2015 China Chemical Pharmaceutical Industry Top 100 Industrial Enterprises in respect of comprehensive strength" and ranked 11th.





## SIGNIFICANT ACCOUNTING INFORMATION PREPARED IN ACCORDANCE WITH THE CHINA ACCOUNTING STANDARDS FOR BUSINESS ENTERPRISES

Amount denominated: RMB'000

Items	2015	2014	Year-on-year change (%)	2013	2012	2011
Operating income	6,620,516.54	5,544,233.78	19.41%	4,618,680.04	3,943,525.31	3,162,915.29
Net profit attributable to shareholders of the Company	622,641.03	515,978.43	20.67%	487,502.35	441,671.52	359,369.88
Net profit attributable to the shareholders of the Company after deducting the extraordinary gain or loss	538,364.28	463,031.47	16.27%	462,159.19	396,190.25	341,610.16
Net cash from operating activities	927,788.46	717,393.89	29.33%	439,986.53	593,964.66	708,201.34
Total profit	807,921.30	652,025.03	23.91%	628,940.45	560,312.74	463,151.23

Items	At the end of 2015	At the end of 2014	Change compared with the end of last year (%)	At the end of 2013	At the end of 2012	At the end of 2011
Total assets	8,077,537.79	7,302,605.06	10.61%	6,566,006.12	5,633,753.96	4,602,908.98
Total liabilities	3,267,641.05	3,220,183.53	1.47%	2,961,486.64	2,453,634.71	1,591,291.15
Net assets attributable to the shareholders of the Company	4,346,255.33	3,696,516.57	17.58%	3,344,648.58	3,008,015.81	2,843,169.71
Share capital	396,889.55	295,721.85	34.21%	295,721.85	295,721.85	295,721.85
Shareholders' equity per share attributable to the shareholders of the Company (RMB)	10.95	12.50	-12.40%	11.31	10.17	9.61

## PRINCIPAL FINANCIAL INDICATORS

Amount denominated: RMB

Items	2015	2014	Year-on-year change (%)	2013	2012	2011
Basic earnings per share	1.62	1.34	20.90%	1.27	1.15	0.94
Diluted earnings per share	1.60	1.34	19.40%	1.27	1.15	0.94
Basic earnings per share after deducting extraordinary gain or loss	1.40	1.20	16.67%	1.20	1.03	0.89
Weighted average return on net assets (%)	15.51%	14.66%	Up by 0.85 percentage points	15.34%	15.17%	13.41%
Return on equity attributable to shareholders of the Company (%)	14.33%	13.96%	Up by 0.37 percentage points	14.58%	14.68%	12.64%
Equity attributable to shareholders of the Company to total assets ratio (%)	53.81%	50.62%	Up by 3.19 percentage points	50.94%	53.39%	61.77%




## ITEMS AND AMOUNTS OF EXTRAORDINARY GAINS OR LOSSES

Item	2015	Amount denominated: RMB	
		2014	2013
Gains or losses from disposal of non-current assets (including offset part of the provision for impairment of assets)	-4,005,495.80	-999,029.93	180,148.18
The tax return or relief regarding ultra vires approval with or without formal approval of the file	—	—	362,000.00
Government grant recognised in current profit and loss (excluding those grants that are closely related to the Company's business and that were granted in accordance with the standard amount or volume prescribed by the State)	127,679,776.28	66,827,495.36	38,842,657.52
Gains/losses on fair value change of held-for-trading financial assets and liabilities, and investment gain from disposal of held-for-trading financial assets and liabilities and available-for-sale financial assets (excluding effective hedging instruments relating to the ordinary business of the Company)	-182,343.23	-1,497,131.42	499,437.51
Non-operating net gain or loss other than the above	-8,552,063.55	1,688,027.35	-1,001,272.08
Total extraordinary gains and losses	114,939,873.70	66,019,361.36	38,882,971.13
(Deduct): Amount of income tax	14,326,733.64	9,666,588.14	7,150,619.26
Effect on minority shareholders interest (after tax)	16,336,387.58	3,405,813.53	6,389,185.80
Total	84,276,752.48	52,946,959.69	25,343,166.07

## ASSETS AND LIABILITIES MEASURED AT FAIR VALUE

Item	At the beginning of the year	Change in fair value for the year	Accumulated change in fair value in equity	Impairment provision for the year	Amount denominated: RMB		
					Amount purchased during the year	Amount sold during the year	At the end of the year
Financial assets							
1. Financial assets at fair value through profit or loss for the current period (excluding derivative financial assets)	6,423,571.77	-182,343.23	—	—	—	—	6,589,225.34
2. Derivative financial assets	—	—	—	—	—	—	—
3. Available-for-sale financial assets	59,149,664.15	—	31,475,855.60	61,832,392.81	—	—	38,926,777.92
Sub-total for financial assets	65,573,235.92	-182,343.23	31,475,855.60	61,832,392.81	—	—	45,516,003.26
Investment properties	—	—	—	—	—	—	—
Productive biological assets	—	—	—	—	—	—	—
Others	—	—	—	—	—	—	—
Total	65,573,235.92	-182,343.23	31,475,855.60	61,832,392.81	—	—	45,516,003.26
Financial liabilities	—	—	—	—	—	—	—





*Chairman of the Board*  
**Mr. Zhu Baoguo**

Dear shareholders,

The Year of 2015 was an exceptional one for the pharmaceutical industry given the promulgation and implementation of a series of principal policies and measures concerning the reform of healthcare medical system which brought huge transformation and challenges to the pharmaceutical industry, including clinical data reviews, consistency evaluations for biosimilar drugs, normalised unannounced inspections, tender arrangements for drug price reductions, medical insurance cost controls and restrictions on the drug catalogues.

Guided by our operating policy of “improvement in streamlining administration and delegating power, enhancement in crisis management and control”, the Company further perfected and clarified the internal relationship between “responsibility, rights and interests” and enhanced management systems, standards and procedure in personnel, financial and resources aspects in response to the intricate and ever changing market. With the efficient control on various risk factors, the Company was able to boost the spirit and initiative of all our staff. As a result, with the guidance of the Board and our management, the Company worked together with the whole team to overcome adversities and achieved continuous growth of operating results and recorded a new high in operating income of principal activities as well as net profit.

## 2015 REVIEW

During the year, the operating income of the Group was RMB6,620,520,000, representing year-on-year growth of 19.41%. The net profit was RMB659,400,000, showing year-on-year growth of 19.11%, and the net profit attributable to the shareholders of the Company was RMB622,480,000, registering year-on-year growth of 20.64%.

Based on the operating results of the Group for 2015, taking into account the overall financial position and cash flow of the Group, the Board of the Company proposed the 2015 Annual Profit Distribution Plan as follows: based on the Company's total share capital of 396,889,547 shares as at the end of 2015 to distribute a cash dividend of RMB5(tax included) for every 10 shares held to all the shareholders of the Company. The Company will pay RMB198,444,773.5 on profit distribution. The remaining undistributed profit is to be carried forward to the next year. No distribution of shares and no transfer of capital reserve into share capital will be undertaken by the Company. The 2015 Annual Profit Distribution Plan is subject to shareholders' approval at the 2015 Annual General Meeting.

2015 marks the 30th anniversary for Livzon. During the year, the Group has carried out various measures in pushing forward the following developments: firstly, the Group furthered the marketing reform and successfully accomplished the sales goals; secondly, the Group continued with the R&D efforts, whereby the clinical project of antibodies products continued to make progress, and the Ilaprazole project was awarded the second class prize in the National Technological Advancement; thirdly, the Group strengthened our product quality control and sales quality management, and has passed the new GMP improvement and certification; fourthly, the Group planned its layout in the precise pharmaceutical field through investment in the American corporation, Cynvenio. At the same time, we successfully completed the initial and reserved grant of share incentive as well as actively launched the fund-raising project through non-public issuance of shares.

## THE COMPANY MANAGEMENT TEAM



Mr. Tao Desheng  
Vice Chairman, President



Mr. Yang Daihong  
Executive Directors,  
Vice President



Mr. Fu Daotian  
Executive Directors,  
Vice President



Mr. Xu Guoxiang  
Vice President



Mr. Lu Wenqi  
Vice President



Ms. Si Yanxia  
Vice President,  
Chief Financial Officer



Mr. Yang Liang  
Company Secretary



## PROSPECTS

In 2016, Livzon will introduce innovative ideas in each area and stage including sales, R&D, manufacture and duty management guided by the operating principle of "innovation, service, integration and development". It looks to adapt to the changes through innovation and develop a new market.

2016 marks the beginning of the "13th Five-Year Plan" for the pharmaceutical industry concerning its development plan. The concept of "Healthy China" was incorporated into the national strategies for the first time and the precise pharmaceutical research has been listed in the National Major Research and Development Plan.

Livzon is always devoted to health of the public. It aims at providing leading domestic and international specialist medicines with the expectation to provide customized treatment solutions in the business areas related to "precision medicine". Based on this long-term goal of development, the Group is gradually transformed from a general pharmaceutical group into a specialist pharmaceutical enterprise integrating the R&D, manufacture and sales of specialist medicines. Meanwhile, the Group is closely following the frontier development of international biomedical and speeding up on deployment of precision medical services.

The Group will actively seek opportunities to cooperate with industries related to the long-term development of the pharmaceutical industry (such as financial, insurance, mobile internet and E-commerce) to constantly adapt to the change of domestic pharmaceutical sales model and healthcare reform.

My gratitude goes to all shareholders, members of the Board and the management, all staff members and business partners of the Group.

**Zhu Baoguo**

*Chairman of the Board*

24 March 2016





## MANAGEMENT DISCUSSION AND ANALYSIS

### Operating activities

During the year, there was no change to the principal activities of the Group. The Group is primarily engaged in the research and development, production and distribution of pharmaceutical products. The products of the Group covered drug preparation products, bulk medicines and intermediates as well as diagnostic reagents and equipment. Major products included Chinese and Western drug preparation products such as Shengqi Fuzheng Injection (參芪扶正注射液), a series of Bismuth Potassium Citrate Granules (麗珠得樂(枸橼酸鉍鉀)) products, Anti-viral Granules (抗病毒顆粒), Urofollitropin for Injection (麗申寶(注射用尿促卵泡素)), Menotropins for Injection (樂寶得(注射用尿促性素)), Ilaprazole (Ilaprazole Enteric Coated Tablet) (壹麗安(艾普拉唑腸溶片)), Voriconazole itraconazole for Injection (麗福康(注射用伏立康唑)) and Cefodizime Sodium for injection (Mouse Nerve Growth Factor for Injection) 麗康樂(注射用鼠神經生長因子); bulk medicines and intermediates such as Mevastatin (美伐他汀), Colistin (硫酸粘菌素), Phenylalanine (苯丙氨酸), Ceftriaxone Sodium (頭孢曲松鈉); and diagnostic reagent products such as ELISA HIV Testing Reagent (HIV抗體診斷試劑), MYCOII Testing Reagent (肺炎支原體抗體診斷試劑(被動凝聚法)) and TPPA Testing Reagent (梅毒螺旋體抗體診斷試劑(凝聚法)).

### Business review

During the year, the Group reported an operating income of RMB6,620.52 million, representing an increase of 19.41% as compared with RMB5,544.23 million of the previous year. Net profit was RMB659.56 million, representing an increase of 19.14% over RMB553.62 million of the previous year. Net profit attributable to shareholders of the Company was RMB622.64 million, up by 20.67% as compared with RMB515.98 million of the previous year. Excluding extraordinary gains and losses, the Company's net profit attributable to its shareholders generated from principal activities in 2015 was RMB538.36 million, representing an increase of 16.27% when compared with RMB463.03 million of the previous year.

### Segmental information

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



**Ilaprazole Enteric Coated Tablets**  
*For treatment of duodenal ulcers.*



**Leuprorelin Acetate  
Microspheres for Injection**  
*Endometriosis; fibroid.*



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



## MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

### Analysis of Principal Activities

#### Operating income and costs of principal activities

Amount Denominated: RMB					
	2015		2014		Year-on-year increase/decrease (%)
	Amount	As a percentage of operating incomes (%)	Amount	As a percentage of operating incomes (%)	
<b>Total operating incomes of principal activities</b>	6,516,612,497.64	100%	5,456,211,974.12	100%	19.43%
<b>By sector</b>					
Gastrointestinal	565,563,104.27	8.68%	431,037,680.54	7.90%	31.21%
Western drug preparation	151,935,039.21	2.33%	156,759,171.09	2.87%	-3.08%
Antibiotics	362,726,418.43	5.57%	336,583,358.97	6.17%	7.77%
products	921,915,966.97	14.15%	750,123,661.00	13.75%	22.90%
Gonadotropic hormones	578,726,700.46	8.88%	450,784,204.64	8.26%	28.38%
Other	1,516,340,625.44	23.27%	1,139,189,704.02	20.88%	33.11%
Bulk medicines and Intermediates	1,944,881,787.18	29.84%	1,739,731,105.27	31.89%	11.79%
Chinese drug preparation products	468,829,234.88	7.19%	440,787,403.63	8.08%	6.36%
Diagnostic products and equipment	5,693,620.80	0.09%	11,215,684.96	0.21%	-49.24%
Other					
<b>By region</b>					
Domestic	5,881,694,954.30	90.26%	4,979,167,204.77	91.26%	18.13%
Overseas	634,917,543.34	9.74%	477,044,769.35	8.74%	33.09%
Total	6,516,612,497.64	100.00%	5,456,211,974.12	100.00%	19.43%



#### Mouse Nerve Growth Factor for Injection

For treatment of traumatic optic neuropathy.



#### Urofollitropin for Injection

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



#### Anti-viral Granules

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

**MANAGEMENT DISCUSSION AND ANALYSIS** *(continued)***Analysis of Principal Activities** *(continued)***Operating income and costs of principal activities** *(continued)*

*Amount Denominated: RMB*

	Operating Incomes	Operating Costs	Gross profit margin	Year-on-year change in operating income	Year-on-year change in operating costs	Year-on-year change in gross profit margin
<b>By sector</b>						
Western drug preparation products	2,580,867,229.34	569,349,758.14	77.94%	21.44%	9.97%	Up by 2.30 percentage points
Bulk medicines and intermediates	1,516,340,625.44	1,291,461,097.86	14.83%	33.11%	31.21%	Up by 1.23 percentage points
Chinese drug preparation products	1,944,881,787.18	394,990,894.57	79.69%	11.79%	6.02%	Up by 1.11 percentage points
Diagnostic reagents and equipment	468,829,234.88	205,479,787.14	56.17%	6.36%	6.33%	Up by 0.01 percentage points
<b>By product</b>						
Shengqi Fuzheng Injection	1,536,626,226.61	247,673,964.16	83.88%	17.20%	15.72%	Up by 0.20 percentage points
<b>By region</b>						
Domestic	5,881,694,954.30	1,924,068,733.15	67.29%	18.13%	14.34%	Up by 1.08 percentage points

Note: The table provides information about those sectors or products which contribute more than 10% of the Company's operating income or operating profit.

In 2015, the Group achieved further growth of sales through continuous deepening marketing system reform as well as improving sales mode while enhancing sales team and strengthening market development and promotion. During the year, the Group's principal activities generated an operating income of RMB6,516.61 million, representing an increase of RMB1,060.40 million or 19.43% as compared with RMB5,456.21 million of the previous year. Among which, the sales growth in western drug preparation products increased by 21.44% year-on-year and sales growth in bulk medicines and intermediates increased by 33.11% year-on-year. The income and growth of key western drug preparation products are as follows: the income from sales of Ilaprazole Enteric Coated Tablets (艾普拉唑腸溶片) amounted to RMB186.87 million with a year-on-year increase of 75.19%; the income from sales of Leuporelin Acetate Microspheres (注射用醋酸亮丙瑞林微球) was RMB294.92 million, increased by 46.75% year-on-year; the income from sales of Mouse Nerve Growth Factor (注射用鼠神經生長因子) for injection amounted to RMB299.83 million with a year-on-year increase of 66.39%. The income and growth of key bulk medicines and intermediates are as follows: the income from sales of Phenylalanine (苯丙氨酸) was RMB224.17 million, increased by 69.60% year-on-year; the income from sales of Ceftriaxone Sodium (頭孢曲松) was RMB362.20 million with an increase of 20.58% year-on-year. The sales growth of products mentioned above also reflected an improving product quality of the Group and increasing competitiveness.

During the year, operating costs of the Group's principal activities amounted to RMB2,478.51 million, representing an increase of RMB394.68 million or 18.94% as compared with RMB2,083.83 million of the previous year, mainly due to sales growth.



**MANAGEMENT DISCUSSION AND ANALYSIS** *(continued)***Analysis of Principal Activities** *(continued)***Operating costs composition**

By industry	Item	2015		Amount Denominated: RMB 2014		Year-on-year change
		Amount	Proportion to operating costs	Amount	Proportion to operating costs	
Pharmaceutical industry	Material costs	1,811,564,644.44	70.35%	1,594,225,278.97	74.40%	13.63%
	Labour costs	245,726,494.69	9.54%	202,139,913.60	9.43%	21.56%
	Depreciation	181,113,661.32	7.03%	162,941,151.10	7.60%	11.15%
	Energy and power	251,849,299.04	9.78%	189,121,435.96	8.83%	33.17%
	Other	202,781,562.59	7.87%	224,818,675.12	10.49%	-9.80%
	Movement in inventories					
	beginning of the period and end of the period	-117,705,127.69	-4.57%	-230,335,432.34	-10.75%	48.90%
	Operating costs	2,575,330,534.39	100.00%	2,142,911,022.41	100.00%	20.18%

**Operating income of principal activities by regions**

Regions	Amount incurred for the year (RMB)		Amount incurred for last year (RMB)	
	Operating income	Operating cost	Operating income	Operating cost
Domestic	5,881,694,954.30	1,919,700,353.77	4,979,167,204.77	1,682,696,490.71
Overseas	634,917,543.34	558,808,193.09	477,044,769.35	401,135,142.17
Total	6,516,612,497.64	2,478,508,546.86	5,456,211,974.12	2,083,831,632.88

**Major customers and suppliers**

During the year, the sales to the five largest customers contributed to 7.26% (2014: 7.51%) of the total operating income of the Group, while the purchases from the five largest suppliers of the Group contributed to approximately 32.06% (2014: 33.84%) of the Group's total purchase of raw materials.

Major Customers of the Company for the year

Total sales amount from top five customers (RMB)	480,735,811.68
Percentage of sales amount from top five clients to total sales of the year (%)	7.26%

**MANAGEMENT DISCUSSION AND ANALYSIS** *(continued)***Analysis of Principal Activities** *(continued)***Major customers and suppliers** *(continued)*

Top Five Customers of the Company for the year

No.	Name of customers	Sales amount (RMB)	Percentage of sales amount to total sales of the year
1	First	114,443,223.81	1.73%
2	Second	103,275,677.59	1.56%
3	Third	94,839,786.65	1.43%
4	Fourth	85,891,355.11	1.30%
5	Fifth	82,285,768.52	1.24%
Total		480,735,811.68	7.26%

Major Suppliers of the Company for the year

Total purchase amount from top five suppliers (RMB)	580,798,516.33
Percentage of purchase amount from top five suppliers to annual total purchase (%)	32.06%

Top Five Suppliers of the Company for the year

No.	Name of suppliers	Purchase amount (RMB)	Percentage of purchase amount to total purchase of the year
1	First	266,408,030.77	14.71%
2	Second	131,852,618.79	7.28%
3	Third	70,657,562.94	3.90%
4	Fourth	62,696,309.30	3.46%
5	Fifth	49,183,994.53	2.71%
Total		580,798,516.33	32.06%

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

The largest supplier to the Company, Jiaozuo Joincare Pharmaceutical Industry Group Co., Ltd. (焦作健康元生物製品有限公司) ("Jiaozuo Joincare") is a wholly-owned subsidiary of Joincare (健康元), therefore Mr. Zhu Baoguo, the Chairman of the Board, is deemed to be interested in Jiaozuo Joincare (焦作健康元). For details of such interests, please refer to chapter IX "Changes in Shareholdings of Directors, Supervisors and Senior Management" of this annual report.

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



## MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

### Analysis of Principal Activities *(continued)*

#### Expenses

During the year, the Group's three major expense items (selling expenses, administrative expenses and financial expenses) amounted to RMB3,175.18 million, representing a year-on-year increase of RMB481.81 million or 17.89%. Details are as follows:

Items	2015	2014	Amount denominated: RMB
			Year-on-year changes (%)
Selling expenses	<b>2,541,675,092.56</b>	2,208,218,745.28	15.10%
Administrative expenses	<b>606,301,968.07</b>	464,522,751.34	30.52%
Financial expenses	<b>27,203,995.64</b>	20,631,590.86	31.86%

- (1) Selling expenses rose by 15.10% year-on-year, mainly due to sales growth and subsequent increase in marketing and promotion expenses;
- (2) Administrative expenses rose by 30.52% year-on-year, mainly due to increase in investment in research and development and allocated expenses as a result of adoption of the Restricted A Shares Incentive Scheme;
- (3) Financial expenses rose by 31.86% year-on-year, mainly due to a decrease in capitalised interests and an increase in cost interests as a result of constructions in process gradually converted into fixed assets.

During the year, the total income tax expenses were RMB148.36 million, representing a year-on-year increase of RMB49.96 million or 50.77%, mainly due to the profit growth and unrecognised deferred income tax assets of the loss-making business.

#### Marketing and sales management

The Company further strengthened the marketing reform concerning sales of preparation products while focusing on the innovation and improvement of and the adjustments to sales modes of various fields, including prescription drugs, OTC, generic drugs and the third terminals. The building of sales team of various fields was enhanced through the detailed management in processes, including sales target assessments, commercial delivery, market barriers and academic promotion activities. The Company also strengthened our market development by taking an active role in implementing pharmacoconomics evaluations, enriching medical bases and holding academic events for various products. Thanks to the endeavour of the frontline sales team, the Group achieved the sales goals successfully.

In 2015, the growth of the Company's key product Shenqi Fuzheng Injection (參芪扶正注射液) far exceeded our expectation with an increase of 17.20% in sales from last year to RMB1.537 billion. Key products in the including of assisted reproduction including Urofollitropin (尿促卵泡素) and Leuprorelin Acetate Microspheres (醋酸亮丙瑞林微球) which maintained rapid growth and recorded sales of RMB432 million and RMB295 million respectively, representing a year-on-year increase of 16.01% and 46.75%. Potential products, including gastrointestinal drug Ilaprazole Enteric Coated Tablets (艾普拉唑腸溶片) and neurological drug Mouse Nerve Growth Factor (精神神經領域鼠神經生長因子), also delivered rapid growth and recorded sales of RMB187 million and RMB300 million respectively, representing a year-on-year increase of 75.19% and 66.39%.

## MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

### Analysis of Principal Activities *(continued)*

#### Marketing and sales management *(continued)*

The Company recorded overseas sales of preparation products of over RMB13.50 million with the focus on registering the reproduction drugs, gastrointestinal drugs and neurological drugs in the Philippines, Pakistan, the CIS countries and Central American countries or regions. Registration certificates of a variety of products were obtained in the Philippines in 2015.

#### Research and development expenditure

During the year, the Group's expenditures related to research and development amounted to approximately RMB375.70 million (2014: RMB290.02 million), representing a year-on-year increase of 29.54%. The amount accounted for approximately 8.64% of net assets attributable to shareholders of the Company and approximately 5.67% of the Group's total operating income for the year.

As at the end of the year, the analysis of overall progress of the Group's research and development by field is as follows: in respect of chemical drug and Chinese drug preparation products, a total of 29 projects have been registered and have begun preclinical studies, 6 projects have been reported to the competent authorities for preclinical studies, 4 projects are undergoing clinical studies and 9 projects have been reported to the competent authorities for production; in respect of biomedicine, a total of 8 new drug projects are being researched, among which, 1 project is undergoing clinical studies, 3 projects have been reported to the competent authorities for clinical studies, 4 projects have been registered and have begun preclinical studies; in respect of diagnostic reagent, 14 projects have completed the laboratory research and development works, of which 5 projects had completed trial production and have been submitted for size test and clinical trial, and 2 projects have obtained the respective registration certificates.

The progress of major research and development projects during the year is as follows: (1) for chemical and Chinese drug preparation: the Ilaprazole Sodium Injection project (注射用艾普拉唑鈉) has completed the clinical studies, and the production application has been filed to the Guangdong Food and Drug Administration; the clinical studies of Leuprorelin Acetate Microspheres Sustained Release for Injection (注射用醋酸曲普瑞林緩釋微球) was reported to the State Food and Drug Administration; Ticagrelor Tablets (替格瑞洛片), Proxetine Hydrochloride enteric-coated sustained-release tablet (鹽酸帕羅西汀腸溶緩釋片) have completed their production application. (2) for the biopharmaceutical drug preparation products: phase Ib/IIa clinical trial of Recombinant Humanised Anti-tumor Necrosis Factor  $\alpha$  Monoclonal Antibody for Injection (注射用重組人源化抗人腫瘤壞死因子 $\alpha$ 單克隆抗體) were completed, the results of which are consistent with our expectations; the recombinant biosimilar human chorionic gonadotropin (rhCG) for injection (注射用重組人絨促性素(rhCG)) and Recombinant Humanised Anti-tumor Necrosis Factor  $\alpha$  Monoclonal Antibody for Injection (重組人鼠嵌合抗CD20單克隆抗體注射液) has successfully applied for clinical studies, and is undergoing technological magnification research and clinical drug production; the Recombinant Anti-HER2 Humanized Monoclonal Antibody for Injection project (重組人源化抗HER2單克隆抗體注射液項目) has successfully applied for clinical studies, and has passed the on-site inspection by the State Food and Drug Administration; new antibody drugs including Recombinant Anti-IL-6R Humanized Monoclonal Antibody (重組抗IL-6R人源化單克隆抗體), Recombinant Anti-RANKL Monoclonal Antibody (重組全人抗RANKL單克隆抗體), Recombinant Humanized Anti-PD-1 Monoclonal Antibody (重組人源化抗PD-1單克隆抗體) and Recombinant Anti-PD-L1 Monoclonal Antibody (重組全人抗PD-L1單克隆抗體) are under pre-clinical technical development and partial animal testing; (3) for the diagnostic reagents: adenovirus gold standard rapid reagent (腺病毒金標快速試劑) has obtained its registration certificates, and is ready for commercial production; HBV nucleic acid quantitative kit (HBV核酸定量試劑盒), HCV nucleic acid quantitative kit (HCV核酸定量試劑盒) have completed research and development work, and is preparing to be submitted for size tests and clinical tests.



## MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

### Analysis of Principal Activities *(continued)*

#### Research and development expenditure *(continued)*

The major technical prizes awarded during the year are as follows: the Innovative Ilaprazole project of the Group was awarded the second class prize in the National Technological Advancement following the award of the first class prize in Zhuhai City Technology Advancement and the first class prize in Guangdong Province Technology Advancement in 2014; the project of “Major commonalities, key technology research and industrialization in the upgrades on Chinese traditional medicine injection products” passed the defending test and was awarded first prize in the Guangdong Province Technological Advancement in late 2015; the patent “One Kind of Ilaprazole enteric-coated tablets and its production method” was awarded the Excellence Award in Guangdong Province Patent Gold Award as well as the Excellence Award of China Patent Award, representing the major achievements of the Company’s Innovation; the national “Long-term Microsphere National and Local Joint Research Center” was established in the Company, which is another national development platform established following the “National Chinese Traditional Medicine Modern Engineering Research Center” and the “National Certified Enterprise Technology Center”;

The major government subsidies received by the Group during the year are as follows: subsidies amounted to RMB8 million were granted to the joint project “Critical Technologies for production and Commercialization of Hypothermia and Low Solvent Long-term Microspheres for injection” by the Company and Sun Yat-sen University; the Ilaprazole project applied for Guangdong Province Special Project Funding for Practical Science and Technology and has received subsidies amounting to RMB8 million; a subsidiary of the Livzon Group Livzon Medical Research Centre, the subsidiary of the Company, was evaluated as the new-generation research and development institutions in Zhuhai and received a subsidiary amounting to RMB2 million; RMB22 million was granted to the 2014 Strategic Emerging Industries for the Province – Regional Agglomeration Development Pilot Project (AT132) and around RMB11.3 million was granted to The First Domestic Solid Preparations Workshop under LHoest Concept (Interest Discount Fund for Supporting Outstanding and Strong Enterprises) .

#### Investment in R&D

	2015	<i>Amount denominated: RMB</i>	
		2014	Change
Number of R&D staff (person)	<b>373</b>	312	19.55%
Proportion of R&D staff to total employees	<b>6.31%</b>	5.63%	0.68%
Amount of investment in R&D (RMB)	<b>375,704,450.61</b>	290,024,129.32	29.54%
Proportion of investment in R&D to operating revenue	<b>5.67%</b>	5.23%	Up by 0.44 percentage points
Amount of capitalized investment in R&D(RMB)	<b>13,252,992.01</b>	–	
Proportion of capitalized investment in R&D to the total investment in R&D	<b>3.53%</b>	0.00%	

**MANAGEMENT DISCUSSION AND ANALYSIS** *(continued)***Analysis of Financial Conditions****Material changes in assets***Amount denominated: RMB*

	<b>At the end of 2015</b>	At the end of 2014	Year-on-year change
	<b>Amount</b>	Amount	(%)
Long-term equity investment	<b>68,908,511.07</b>	37,771,892.70	82.43%
Construction in progress	<b>347,248,914.85</b>	561,716,329.53	-38.18%
Development expenditure	<b>13,252,992.01</b>	—	—
Long-term deferred expenses	<b>40,023,456.83</b>	25,569,660.19	56.53%
Deferred income tax assets	<b>104,338,481.98</b>	65,254,992.11	59.89%
Other non-current assets	<b>59,906,523.64</b>	—	—

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

- (1) Long-term equity investment increased by 82.43% year-on-year, which was mainly due to the increased investment in associated companies;
- (2) Construction in progress decreased by 38.18% year-on-year, which was mainly due to that the project under construction was transferred to fixed assets when it was ready for intended use;
- (3) The development expenditure for the reporting period amounted to RMB13,252,992.01, which was mainly due to the increase in expenditure during the development phase of the research projects;
- (4) Long-term deferred expenses increased by 56.53% year-on-year, which was mainly due to the increase of expenses on renovation of the Company's new office, plants;
- (5) Deferred income tax assets increased by 59.89% year-on-year, which was mainly due to the investment into the Company's subsidiaries with its capital during the reporting period and increase of deductible time difference from increased valuation; and
- (6) Other non-current assets as at the end of the reporting period amounted to RMB59,906,523.64, mainly due to prepaid land funds, equipment funds and reclassification of technology transfer funds to other non-current assets.



**MANAGEMENT DISCUSSION AND ANALYSIS** *(continued)***Analysis of Financial Conditions** *(continued)***Material changes in liabilities**

	<b>At the end of 2015</b>	<i>Amount denominated: RMB</i> At the end of 2014	
	<b>Amount</b>	Amount	Year-on-year change (%)
Short-term loans	<b>250,000,000.00</b>	375,920,221.10	-33.50%
Taxes payables	<b>130,034,879.53</b>	33,211,993.26	291.53%
Interest payables	<b>11,823,945.25</b>	17,089,201.23	-30.81%
Dividends payables	<b>2,531,984.46</b>	5,049,329.12	-49.86%
Other payables	<b>1,287,284,945.74</b>	860,502,818.73	49.60%
Non-current liabilities due within one year	<b>400,400,000.00</b>	400,000.00	100000.00%
Other current liabilities	–	300,000,000.00	-100.00%
Long-term loans	<b>700,000.00</b>	66,500,000.00	-98.95%
Notes payables	–	400,000,000.00	-100.00%
Deferred income tax liabilities	<b>12,442,303.79</b>	7,241,263.39	71.83%

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

- (1) Short-term loans decreased by 33.50% year-on-year, which was mainly due to the repayments of certain borrowings.
- (2) Taxes payables increased by 291.53%, which was mainly attributable to the increase in income taxes payables due to profit growth; and increase in taxes payable due to the increased evaluation as a result of the additional investments in subsidiaries with its capital;
- (3) Interest payables decreased by 30.81% year-on-year, which was mainly due to increased repayments of borrowings for the reporting period, decreased borrowings and decreased accrued interests at the end of the reporting period;

**MANAGEMENT DISCUSSION AND ANALYSIS** *(continued)***Analysis of Financial Conditions** *(continued)***Material changes in liabilities** *(continued)*

- (4) Dividends payables decreased by 49.86% year-on-year, which was mainly due to payments of dividends to Topsino Industries for the reporting period;
- (5) Other payables increased by 49.60% year-on-year, which was mainly due to the repurchase obligation derived from the adoption of the Restricted A Shares Incentive Scheme and issuance of A shares;
- (6) Non-current liabilities due within one year increased by 100000.00% year-on-year, which was mainly due to the issuance of the 2013 first tranche mid-term notes due within one year and its reclassification to non-current liabilities due within one year;
- (7) Other current liabilities decreased by 100.00%, mainly due to payments to 2014 first tranche super short-term financing bills;
- (8) Long-term loans decreased by 98.95% year-on-year, mainly due to payments to long-term loans from the banks;
- (9) Notes payables decreased by 100.00% year-on-year, which was mainly attributable to the issuance of the 2013 first tranche mid-term notes due within one year and the reclassification of notes payables to non-current liabilities due within 1 year;
- (10) Deferred income tax liabilities increased by 71.83% year-on-year, which was mainly due to increased profit of associates and accelerated depreciation of fixed assets according to policies;

**Debt ratio**

As at 31 December 2015 and 31 December 2014, the debt ratios were calculated by dividing the Group's total liabilities at each respective date by the total assets. The Group's debt ratio decreased to 40.45% as at 31 December 2015 from 44.10% as at 31 December 2014.



**MANAGEMENT DISCUSSION AND ANALYSIS** *(continued)***Analysis of Financial Conditions** *(continued)***Material changes in income statement items**

	<b>31 December 2015</b>	<i>Amount denominated: RMB</i> 31 December 2014	Year-on-year change (%)
Administrative expenses	<b>606,301,968.07</b>	464,522,751.34	30.52%
Financial expenses	<b>27,203,995.64</b>	20,631,590.86	31.86%
Asset impairments loss	<b>102,791,483.11</b>	57,533,367.36	78.66%
Gain from changes in fair value	<b>-182,343.23</b>	-4,939,260.57	96.31%
Non-operating income	<b>130,686,902.75</b>	70,113,415.16	86.39%
Non-operating expenses	<b>15,564,685.82</b>	2,596,922.38	499.35%
Income tax expenses	<b>148,357,921.88</b>	98,402,861.09	50.77%

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

- (1) Administrative expenses increased by 30.52% year-on-year, which was mainly due to the increased investment in research and development and increased allocated expenses due to the adoption of Restricted A Shares Incentive Scheme;
- (2) Financial expenses increased by 31.86%, which was mainly due to a decrease in capitalized interests and an increase in cost interests as a result of gradual conversion of project under construction into fixed asset;
- (3) Asset impairments loss increased by 78.66%, which was mainly due to the continuous decrease of market value of stocks of the overseas companies we invested in and provisions for impairments;
- (4) Gain from changes in fair value increased by 96.31% year-on-year, which was mainly due to the slowing decrease of market value of stocks held at the end of the reporting period as compared with that of last year;
- (5) Non-operating income increased by 86.39% year-on-year, which was mainly attributable to the increase of government grant received;
- (6) Non-operating expenses increased by 499.35% year-on-year, which was mainly due to loss resulting from the disposal of obsolete facilities; and
- (7) Income tax expenses increased by 50.77% year-on-year, which was mainly due to profit growth and unrecognized deferred income tax assets of the loss-making businesses.

**MANAGEMENT DISCUSSION AND ANALYSIS** *(continued)***Analysis of Financial Conditions** *(continued)***Material changes in cash flow items**

	<i>Amount denominated: RMB</i>		
	<b>31 December 2015</b>	31 December 2014	Year-on-year change (%)
Net cash flows from financing activities	<b>-314,882,874.23</b>	-20,882,108.37	1407.91%
Effect of foreign exchange rate changes on cash and cash equivalents	<b>3,493,658.47</b>	-320,229.13	1190.99%
Net increase in cash and cash equivalents	<b>57,978,977.28</b>	-41,814,307.14	238.66%

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

- (1) Net cash flows from financing activities decreased by 1,407.91% year-on-year, which was mainly due to the decrease in loans;
- (2) Effect of foreign exchange rate changes on cash and cash equivalents increased by 1,190.99% year-on-year, which was mainly due to the fluctuation of the exchange rate;
- (3) Net increase in cash and cash equivalents increased by 238.66% year-on-year, which was mainly due to the increase of sales receipts and government grant received.

**Liquidity and financial resources**

As at 31 December 2015, the Group's cash at bank and on hand amounted to RMB798.30 million (31 December 2014: RMB715.71 million).

As at 31 December 2015, the Group's borrowings from banks amounted to RMB250.00 million (31 December 2014: RMB742.42 million), accounting for 3.10% of the total assets (31 December 2014: 10.17%), of which short-term borrowings to mature within one year amounted to RMB250.00 million (31 December 2014: RMB675.92 million), accounting for 3.10% of total assets (31 December 2014: 9.26%) and long-term borrowings to mature after one year amounted to RMB0 million (31 December 2014: RMB66.50 million), accounting for 0% of total assets (31 December 2014: 0.91%). Repayments of borrowings denominated in Reminbi and borrowings denominated in Hong Kong dollars during the year amounted to RMB851.80 million and HK\$476.53 million, respectively.



## MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

### Analysis of Financial Conditions *(continued)*

#### Capital structure

The Group's capital structure comprises the shareholders' equity and liabilities. As at 31 December 2015, the shareholders' equity amounted to RMB4,809.90 million, the total liabilities amounted to RMB3,267.64 million and the total assets amounted to RMB8,077.54 million. Among which, the current liabilities of the Group amounted to RMB3,154.94 million (31 December 2014: RMB2,669.17 million), which increased by 18.20% from the end of previous year; the aggregated non-current liabilities amounted to RMB112.70 million (31 December 2014: RMB551.01 million), which decreased by 79.55% from the end of previous year. During the year, the Group repaid liabilities of RMB1,242.01 million (31 December 2014: RMB1,167.40 million).

Equity attributable to shareholders of the Company amounted to RMB4,346.26 million (31 December 2014: RMB3,696.52 million), which increased by 17.58% from the end of last year. Minority interests of the Group amounted to RMB463.64 million (31 December 2014: RMB385.90 million), which increased by 20.14% from the end of previous year.

#### Currency structure

Item	31 December 2015			<i>Amount denominated: RMB</i> 31 December 2014		
	Foreign currency amount	Translation rate	Amount in RMB	Foreign currency amount	Translation rate	Amount in RMB
Cash on hand:			72,486.40			177,881.98
– RMB	–	–	71,706.84			177,881.98
– Euro	109.87	7.0952	779.56			
Bank deposits:			766,211,133.63			708,388,606.07
– RMB	–	–	719,629,721.59			679,527,879.52
– HK dollar	8,042,719.82	0.83778	6,738,029.81	7,018,811.61	0.78887	5,536,929.91
– U.S. dollar	2,921,811.01	6.4936	18,973,071.97	2,593,865.03	6.119	15,871,860.12
– Japanese Yen	318,592,276.00	0.053875	17,164,158.87	105,263,476.00	0.051371	5,407,490.03
– Euro	454,256.12	7.0952	3,223,038.01	28,511.82	7.4556	212,572.73
– MOP	594,016.20	0.8133	483,113.38	2,357,320.50	0.7771	1,831,873.76
Other monetary fund:			32,011,663.71			7,139,115.75
Total			798,295,283.74			715,705,603.80

#### Interest rate

As at 31 December 2015, total interest-bearing bank borrowings and other borrowings were RMB250.00 million (31 December 2014: RMB441.72 million) with a fixed interest rate.

On 29 May 2013, the Group issued 3-year mid-term notes with an aggregate amount of RMB400.00 million with a fixed interest rate.

**MANAGEMENT DISCUSSION AND ANALYSIS** *(continued)***Analysis of Financial Conditions** *(continued)***Ageing analysis of outstanding liabilities**

	<i>Amount denominated: RMB '000,000</i>	
	<b>31 December 2015</b>	31 December 2014
Within one year	<b>949.41</b>	1,028.94
1-2 years	–	465.80
2-5 years	–	–
Over 5 years	<b>0.70</b>	0.70
Total	<b>950.11</b>	1,495.44

**Capital commitments**

As at 31 December 2015, the Group's capital commitments contracted in relation to the purchase of long-term assets amounted to RMB51.41 million (31 December 2014: RMB218.29 million).

**Bank borrowings and other borrowings**

Details of the bank borrowings and other borrowings of the Company and the Group as at 31 December 2015 are set out in "Note VI.19, 20, 28, 29, 30, 31" to the financial statements in this annual report as prepared in accordance with the China Accounting Standards for Business Enterprises.

**Payment of super short-term financing bills**

The payment of the 2014 first tranche of super short-term financing bills issued by the Company on 22 September 2014 with a par value of RMB300 million was completed on 20 June 2015. These bills are due for a lump sum principal repayment with interest.

**Gearing ratio**

As at 31 December 2014 and 31 December 2015, the gearing ratios were calculated by dividing the Group's total debts as at each respective date by shareholders' equity. The gearing ratio was 36.63% as at 31 December 2014 and decreased to 19.75% as at 31 December 2015.

**Interest expenses and capitalisation**

	<i>Amount denominated: RMB</i>	
	<b>2015</b>	2014
Interest expenses	<b>31,329,411.11</b>	26,855,257.66
Capitalised interest	<b>13,408,148.23</b>	32,627,626.68
Total interest expenses	<b>44,737,559.34</b>	59,482,884.34

**Foreign exchange risks**

Details of foreign exchange risks of the Group are set out in "Note IX. Risks Related to Financial Instruments" to the financial statements in this annual report as prepared in accordance with the China Accounting Standards for Business Enterprises.

**Contingent liabilities**

As at 31 December 2015, the Group had no significant contingent liabilities.



## MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

### Analysis of Financial Conditions *(continued)*

#### Pledge of assets

As at 31 December 2015, the Group's pledged assets under restrictions were as follows:

	31 December 2015 (RMB)	Reasons for restriction
<b>Assets pledged:</b>		
Other cash fund	22,455,390.29	Deposits for bank acceptance bills
Other cash fund	8,746,490.00	Deposits for guarantee
Total	31,201,880.29	

#### Staff, Remuneration and Pension Scheme

As at 31 December 2015, the Group had 5,913 staff members (31 December 2014: 5,544 staff members). Remuneration of our staff was determined by the Group mainly according to the PRC laws and regulations and linked to the Company's performance with reference to general remuneration level in the society. During the year, the total wages, bonuses, allowances, compensation, welfare, housing funds and social insurance paid to the employees by the Group amounted to approximately RMB502.71 million (31 December 2014: RMB442.16 million).

During the year, there was no change in the employees remuneration policies and training programs. The employees of the Group participated in the social basic pension insurances organized by local labor and social security authorities. Upon retirement, the employees are entitled to the payment of social basic pensions from local labor and social security authorities. The Group is required to contribute certain social basic pension insurance fees for the employees at a specified rate of the employees' salaries to fund the pension benefits. The sole obligation of the Group with respect to the contribution of social basic pension insurance fees for the employees is to make the required contributions under the scheme. There was no change in the details of the pension welfare. The Company implemented the Restricted A Shares Incentive Scheme in 2015, details of which is set out under the "Restricted A Shares Incentive Scheme" on page 39 in this annual report.

### Investments

#### Participation in CYNVENIO and the establishment of the Joint Venture

On 18 May 2015, the operational management of the Company convened a meeting to consider and approve the equity investment made by the Company in CYNVENIO BIOSYSTEMS, INC.\* ("CYNVENIO") (a U.S. company) as well as the "Joint Venture Framework Agreement" entered into between the controlling subsidiary of the Company and CYNVENIO.

On that date, the Company, ACCORD DATA HOLDINGS LIMITED, SKYEAST GLOBAL LIMITED and SYNO VENTURES MASTERFUND, L.P. (SYNOCAPITAL, LLC being its fund manager) (hereafter collectively as the "Fund Contributors") collectively entered into the "Note Conversion and Series B Preferred Stock Purchase Agreement" with CYNVENIO, pursuant to which the Fund Contributors collectively contribute US\$20,500,000 (out of which the Company contributes US\$9,000,000 while other participants contribute US\$11,500,000) to subscribe for the Series B Preferred Stock presently issued by CYNVENIO. The Company has contributed US\$9,000,000 to complete its subscription for the Series B Preferred Stock presently issued by CYNVENIO.

## MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

### Investments *(continued)*

#### Participation in CYNVENIO and the establishment of the Joint Venture *(continued)*

On 18 May 2015, Zhuhai Livzon Diagnostics Inc.\*("Livzon Diagnostics"), the Company's controlling subsidiary, entered into the "Joint Venture Framework Agreement" with CYNVENIO, pursuant to which both parties agreed to collectively invest in the establishment of a Sino-foreign Joint Venture (the "Joint Venture") in the PRC. As ultimately agreed by both parties after negotiation, the "Zhuhai Livzon Shengmei Medical Diagnosis Technology Co. Ltd. (珠海麗珠聖美醫療診斷技術有限公司) Joint Venture Operation Agreement" (the "Joint Venture Agreement") 《珠海麗珠聖美醫療診斷技術有限公司合資經營合同》(「《合資經營合同》」) was entered into on 22 February 2016 in relation to the establishment of the Joint Venture, where Livzon Diagnostics made a cash contribution in the sum of RMB62,000,000, representing 60% of the registered capital; CYNVENIO made a contribution in the form of valuation of the patent in Liquid Biopsy and relevant technical know-how as well as other intellectual properties in the sum of RMB41,333,333, representing 40% of the registered capital. Pursuant to the Joint Venture Agreement, the Joint Venture will submit application for the registration of ClearID test and LiquidBiopsy to the State Food and Drug Administration as soon as possible. If the application is successful, the Joint Venture will be responsible for the commercialization and sales of the above products in China.

As at the publication date of this annual report, the Joint Venture has completed matters related to the business registration.

#### Participation in Jiangsu Nike Company (江蘇尼科公司)

On 18 June 2015, the operational management of the Company convened a meeting to consider and approve the equity investment made by the Company through a capital contribution in cash in Jiangsu Nike Medical Equipment Co., Ltd. ("Jiangsu Nike") (江蘇尼科醫療器械有限公司(「江蘇尼科」)) in the sum of RMB25,000,000 (of which RMB2,526,316 was attributed to the registered capital of Jiangsu Nike (江蘇尼科)), the balance was attributed to the capital reserve of Jiangsu Nike (江蘇尼科)). Upon the completion of such investment, the registered capital of Jiangsu Nike (江蘇尼科) would be increased to RMB10,526,316, the shareholding ratio of the Company would be 24%.

By 29 June 2015, the Company has contributed RMB25,000,000 to complete its equity investment in Jiangsu Nike (江蘇尼科). Jiangsu Nike (江蘇尼科) has completed business registration of the relevant changes.

The new-generation of cerebrovascular embolectomy devices developed by Jiangsu Nike (江蘇尼科) has incorporated the advanced technologies available in the country, and would effectively promote the sales of the Group's existing cerebrovascular medicine, thus promote the Group's and in the cerebrovascular areas.

#### Establishment of Industry Investment Funds

On 24 September 2015, the Board resolved and approved the limited partnership between the Company and Beijing Huizhi Yicheng Investment Management Co., Ltd ("Yicheng Investment") (北京匯智易成投資管理有限公司(「易成投資」)) to invest and jointly invest and establish the Industry Investment Fund, Huizhi Livzon Industry Investment Fund Partnership (Limited Partnership) (匯智麗珠產業投資基金合夥企業(有限合夥))(the "Industry Investment Fund").

The aggregated amount of the Industry Investment Fund is intended to be RMB500,000,000, of which RMB1,000,000 (or 0.2%) would be contributed by Yicheng Investment (易成投資) as the general partner and fund manager; and RMB300,000,000 (or 60%) would be contributed by the Company as the limited partner; the remaining contributions shall be raised later. Contributions to the Industry Investment Fund may be made in the form of structural arrangement, with the total capital commitment fully paid by installments. The Industry Invest Fund will contribute RMB200,000,000 for the first installment, and the remaining amount will be contributed separately in phase according to the process of the investment project. Each phrase contribution will be calculated as per capital contribution of all the partners.



## MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

### Investments *(continued)*

#### Establishment of Industry Investment Funds *(continued)*

The Industry Investment Fund shall identify outstanding corporations that enjoy competitive advantages and potential for future growth within the domestic and foreign medical and medicine industries and make equity investments accordingly. The Company has a right of first refusal to acquire and invest on the same terms.

As at the publication date of this annual report, The Industry Investment Fund have not yet established. The Company and Yicheng Investment (易成投資) are actively seeking additional contributing parties for the establishment of the Industry Investment Fund.

### Core competitiveness analysis

Since our incorporation, the Group has been focusing on operation in the pharmaceutical industry and closely monitoring the movements in the industry. We have developed distinct core competitiveness in a competitive market through continuous exploration and innovation, primarily reflected in the following aspects:

#### I. A diversified product mix and a diversified business portfolio

Our products include drug preparation products, raw material and intermediaries, diagnostic reagents and medical equipment in various pharmaceutical sub-sections. In addition, the Group has established an advantageous position in the specialized pharmaceutical segments of anti-tumor auxiliary medicine, assisted reproduction, gastrointestinal drugs and others. The Company strengthens the research and development of monoclonal antibodies as well as actively plan its precise pharmaceutical field with a focus on business in relation to gene diagnostic technologies in the current period.

#### II. A comprehensive marketing system and a professional marketing team

The Group has a marketing network covering the majority of leading medical institutions, chain drugstores, disease control centres and health authorities in China. There are more than 4,000 staff members in the marketing team for various sections. The Group has developed a comprehensive marketing system through deepening marketing reform and enhancing marketing team as well as strengthening marketing promotion and utilizing resources so as to expand our market and ensure a steady growth in the Company's results.

#### III. A mature quality management system

The Group has been adhering to the quality management philosophy of "product quality risk comprehensive prevention, systemic risk comprehensive prevention" and established a three-dimensional quality management system which fully covers supervision of production quality and sales quality management so as to assure that our products including Shenqi Fuzheng Injection (參芪扶正注射液), Ilaprazole Enteric-coated Tablets (艾普拉唑腸溶片), anti-virus granules (抗病毒顆粒), Mouse Nerve Growth Factor (鼠神經生長因子), Urofollitropin for Injection (注射用尿促卵泡素), Leuprolide (亮丙瑞林) and others, are competitive in respect of safety, stability, effectiveness and soon.

#### IV. Strong R&D capabilities and a global R&D vision

The Group has outstanding research and development teams for chemical drugs, drug preparation products for traditional Chinese medicine, biopharmaceutical drugs and diagnostic reagent the Group is further enhancing its research and development competitiveness through exerting greater efforts in research and development as well as attracting experts and innovative talents from home and abroad and overseas strategic alliances.

## MANAGEMENT DISCUSSION AND ANALYSIS (continued)

## Investment analysis

## Overall status

Investment during the year (RMB)	Investment during the same period in the previous year (RMB)	Change in %
83,831,500.00	15,000,000.00	458.88%

## Material Equity Investment during the year

Name of invested company	Main business	Investment methods	Amount of investment	Percentage of shares held	Sources of funds	Partner	Term of investment	Category of products	Progress at the date of the balance sheet	Gains and losses for the current period (RMB)	Involved in lawsuit	Date of disclosure (if any)	Index of disclosure (if any)
CYNVENIO BIOSYSTEMS, INC.	Cancer genes testing services, the first Company in the world that adopted high purity extraction of circulating tumor cell mass for DNA sequencing	Other	RMB55.83 million (USD9 million)	13.64%	Self-funding	CYNVENIO BIOSYSTEMS, INC.	Not applicable	Not applicable	USD9 million invested	-	No	8 May 2015, 20 May 2015	"Announcement of Outbound Investment by Livzon Pharmaceutical Group Inc. *" (Announcement No.2015-30), "Announcement of Process of Outbound Investment by Livzon Pharmaceutical Group Inc. *" (Announcement No.2015-31)
江蘇尼科醫療器械有限公司	Production, research and development and sale of medical equipment	Other	RMB25 million	24.00%	Self-funding	Yu Yongyi Xu Dongliang Li Wenshao Zhijin Zhonghao (Tian Jin) Investment Co., Ltd (紫金中浩(天津)投資有限公司) Du Li	Not applicable	Not applicable	RMB25 million invested	-560,672.30	No	Not applicable	Not applicable
深圳市有費科技有限公司	Medical equipment, technological development, consultancy and transference of medical products	Other	RMB3 million	30.00%	Self-funding	Xu Yuan Shenzhen City Xiang Rui Investment Development Co., Ltd (深圳市祥睿投資發展有限公司) Shenzhen City Angel Health Industry Investment Limited Partnership (深圳市天使健康產業投資合夥企業(有限合伙))	Not applicable	Not applicable	Subscribed, yet to contributed	-179,162.84	No	Not applicable	Not applicable



## MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

### Investment analysis *(continued)*

#### Investment in Securities

*Amount denominated: RMB*

Types of securities	Securities codes	Securities abbreviations	Initial investment cost	Accounting measurements	Carrying amount at the beginning of the reporting period	Gains or losses on fair value change for the current period	Profit or loss for the current period	Carrying amount at the end of the reporting period	Accounting items	Source of funds
Shares	00135	Kunlun Energy	4,243,647.64	Measured at fair value	5,782,417.10	-349,731.90	-187,911.76	5,780,682.00	Financial assets at fair value through profit or loss	Self funding
Funds	206001	Penghua Fund	150,000.00	Measured at fair value	641,154.67	167,388.67	167,388.67	808,543.34	Financial assets at fair value through profit or loss	Self funding
Total			4,393,647.64	-	6,423,571.77	-182,343.23	-20,523.09	6,589,225.34	-	-

*Note:* Securities investment mentioned above consists of investment made in H share market and is converted to Renminbi based on the exchange rates as at the end of the reporting period.

## MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

### Investment analysis *(continued)*

#### Analysis of Major Subsidiaries and Investee Companies

The following represents the major subsidiaries and investee companies which have significant impact towards the financial results or net assets of the Group as considered by the Board.

Company names	Company categories	Type of legal entity	Place of main business	Place of incorporation	Main business	<i>Amount denominated: RMB</i>			
						Registered capital	Total assets	Net assets	Net profit
Livzon Group Livzon Pharmaceutical Factory (麗珠集團麗珠製藥廠)	Subsidiary	Limited company	Zhuhai	Zhuhai	Principally engaged in production and sale of self-made chemical drugs, biochemical drugs, microbiological preparations, antibiotics, etc.	450,000,000.00	2,192,613,489.08	1,518,081,177.09	208,310,775.90
Sichuan Guangda Pharmaceutical Manufacturing Co., Ltd. (四川光大製藥有限公司)	Subsidiary	Limited company	Pengzhou	Pengzhou	Principally engaged in R&D, production and sale of traditional Chinese medicine, major products include Anti-viral Granules, Dexamlin Oral Paste, etc.	149,000,000.00	693,602,207.78	645,267,368.46	77,957,966.86
Livzon Group Limin Pharmaceutical Manufacturing Factory (麗珠集團利民製藥廠)	Subsidiary	Limited company	Shaoguan	Shaoguan	Principally engaged in production and operation of Chinese drug preparations and pharmaceutical raw materials, etc., major products include Shenqi Fuzheng Injection, Xueshuantong, etc.	61,561,014.73	842,011,160.50	661,946,431.94	194,931,839.74
Shanghai Livzon Pharmaceutical Manufacturing Co., Ltd. (上海麗珠製藥有限公司)	Subsidiary	Limited company	Shanghai	Shanghai	Principally engaged in production of biochemical and polypeptide bulk medicines, major products include biochemical bulk medicines such as Human Menopausal Gonadotropin and Human Chorionic Gonadotropin.	87,328,900.00	342,551,746.62	231,126,961.06	82,868,099.16
Zhuhai FTZ Livzon Hecheng Pharmaceutical Manufacturing Co., Ltd. (珠海保稅區麗珠合成製藥有限公司)	Subsidiary	Limited company	Zhuhai	Zhuhai	Principally engaged in production and operation of chemical bulk medicines, major products include Cefuroxime Sodium, Cefodizime Sodium, Ceftriaxone Sodium, etc.	128,280,000.00	613,966,997.89	236,104,591.37	21,840,336.57
Livzon Group Xinbeijiang Pharmaceutical Manufacturing Inc. (麗珠集團新北江製藥股份有限公司)	Subsidiary	Limited company	Qingyuan	Qingyuan	Principally engaged in sale of bulk medicines, intermediate products and export of related technologies, major products include Pravastatin, Mevastatin, Salinomycin, etc.	134,925,200.00	445,127,533.58	298,266,203.15	44,515,407.63
Livzon Group Fuzhou Fuxing Pharmaceutical Co., Ltd. (麗珠集團福州福興醫藥有限公司)	Subsidiary	Limited company	Fuzhou	Fuzhou	Principally engaged in production of antibiotics bulk medicines, intermediate and drug preparation products and chemical raw materials for pharmaceutical production, major products include Colistin, Vancomycin, Phenylalanine, etc.	USD41,700,000	505,078,864.58	437,989,622.42	25,667,416.02
Zhuhai Livzon Diagnostic Reagents Inc. (珠海麗珠試劑股份有限公司)	Subsidiary	Limited company	Zhuhai	Zhuhai	Principally engaged in production and sale of diagnostic reagents, major products include Chlamydia Trachomatis Antigen Diagnostic Kit and ELISA HIV Testing Reagents Kit.	46,450,837.00	543,338,930.56	363,697,107.64	86,268,237.96
Livzon MABPharm Inc. (珠海市麗珠單抗生物技術有限公司)	Subsidiary	Limited company	Zhuhai	Zhuhai	Principally engaged in technological R&D for biopharmaceutical products and antibiotics.	500,000,000.00	354,956,204.71	321,409,161.10	-100,215,161.37
Livzon Group Ningxia Fuxing Pharmaceutical Manufacturing Co., Ltd. (麗珠集團寧夏福興製藥有限公司)	Subsidiary	Limited company	Pingluo County	Pingluo County	Principally engaged in production and sale of medical intermediates, chemical raw materials	100,000,000.00	705,475,885.46	20,915,780.08	-42,582,799.05



## MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

### Subsidiaries acquired or disposed during the year

Name of Company	Method of acquiring or disposing of the subsidiary during the year	Effect on the general operation and results
Lian Hong Kong Limited (麗安香港有限公司)	Establishment	No material impact

### Details of material investments and capital asset acquisition plan

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

### Details of subsequent events with material impact on the Group

As at the date of this annual report, the Company has no disclosable material contingent event.

### Other significant event

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

## PROSPECTS FOR FUTURE DEVELOPMENT

### Trend of Development of Pharmaceutical Industry in 2016

2016 is the first year of China's 13th Five-Year Plan guiding the development of the pharmaceutical industry. For the first time, health is incorporated into China's national strategy. With the goal of continuously developing the national medical insurance system, the hierarchical diagnosis and treatment system, together with goals related to population, medicines, disease prevention and treatment, etc., supported by a continued increase in financial, medical and health spending. Meanwhile, with increasing population aging and higher level of health of residents, despite the substantial impact of the slowing general economy and the healthcare reforms, the overall pharmaceutical industry is expected to maintain a growth.

### Main Opportunities, Challenges and Responding Strategies in 2016

In 2015, the nationwide pharmaceutical policy reform affected a number of pharmaceutical enterprises. With the new GMP certification, there will be a dramatic change in the pharmaceutical enterprises as many products will change their owners. After the self-review of clinical trial data implemented by China Food and Drug Administration, many drug registration applications are withdrawn. The consistent assessments on generic drugs create a difficult situation for the operation of enterprises to different extents. Moreover, drug prices are constantly adjusted down, and there is an increased difficulty for development of new products. As a result, pharmaceutical enterprises are in urgent need of finding new opportunities to overcome the challenges. The continued implementation of China's various healthcare reforms, the constant expansion of the upstream and downstream sectors of the industrial chain and the cross-boundary infusion of external capital all contribute to the development and upgrade of the industry.

**PROSPECTS FOR FUTURE DEVELOPMENT** *(continued)***Main Opportunities, Challenges and Responding Strategies in 2016** *(continued)*

In order to fit into the dramatic reform of the industry and grasp the opportunities of development in the new environment, the management, upon deliberation, has specified the management philosophy based on “innovation, service, integration and development”. The Group has introduced innovative ideas in each area and stage such as sales, R&D, manufacture and duty management, and develop new markets through innovation and adaptation to changes. Meanwhile, the Company will continue to closely follow the policies and the development of the industry, and constantly learn and apply new technologies and tools. With the advantage of its product types and quality, the Group will continue to focus on expanding the scale of sales and put more efforts on product introduction and R&D. As a result, the Company can establish its advantageous position and competency in the ever changing environment.

**Future Development Strategies of the Group**

The Group is always devoted to the health of mankind. It is aimed at providing leading domestic and international specialist medicines with the expectation to provide customized treatment solutions in the areas related to “precision medicine”. Based on this long-term goal of development, the Group is gradually transforming from a general pharmaceutical enterprise into a specialist pharmaceutical enterprise integrating the R&D, manufacture and sales of specialist medicines. In addition to the current reproductive specialist area, the Group is constantly adding new types of products and expanding the areas of specialist treatment, including antitumor and psychiatry. Meanwhile, the Group is closely following the frontier development of international biomedical and speeding up on the deployment of precision medical services to achieve the coordinated development of “biopharmaceutical + gene sequencing”, and provide general customized treatment solution plans ranging from diagnosis to drug application.

In the upcoming years, the Group will proactively explore opportunities for internal and external development in order to expand the scale of sales and facilitate continued growth of profit according to the target required by Restricted A Shares Incentive Scheme. Meanwhile, the Group will also further study the trend of development of the international and domestic pharmaceutical industry and change of market environment. The Group will take advantage of its internal and external resources to seek opportunities to cooperate with industries related to the long-term development of the pharmaceutical industry (such as financial, insurance, mobile internet and E-commerce) to constantly adapt to the changes in domestic pharmaceutical sales model and healthcare reform.



## PROSPECTS FOR FUTURE DEVELOPMENT *(continued)*

### Operation Plans

In 2016, the Group will uphold the general management principles of “innovation, service, integration and development”. It will further improve the efficiency of management and constantly strengthen the risk management mechanism in areas such as sales, R&D, manufacture and leadership. It strives to achieve the annual performance goal by mobilizing all employees. In the aspect of specific works, the Group’s main work plan in 2016 is as follows:

#### **(a) Pushing Sales Through Innovation and Continuing Sales Reform**

In 2016, the Group will further integrate the frontline sales resources. It will adopt flexible sales strategies together with practical and effective measures to fit into the changing new environment. It will take advantage of the sales team to absorb external sales resources. It will fully promote its products on the mass level and build up a multi-channel sales system, and shift its focus from market coverage to market share to expand its influence. Meanwhile, the Group will constantly innovate its model of market promotion and sales management. It will replace the transaction model with communication model of sales, and use internet to establish an information management platform. With improved efficiency of communication, it will further implement fine management and improve the performance evaluation system to motivate its employees.

#### **(b) Focusing on its R&D Direction for International Standard**

In 2016, the Group will continue to follow its R&D direction and put in more effort on innovation. It will improve the R&D management systems in each area, control R&D costs reasonably and carefully carry out the R&D process. It will solidify the specialist and innovative R&D platforms such as antibody, sustained release of microspheres and targeted drug delivery. It will speed up the R&D of specialist medicines deployment of services related to precision diagnosis. It will line up its R&D standard of biopharmaceutical drugs, chemical medicine and traditional Chinese medicine with international standards. By means of international operations such as joint development, patent licensing and international certification of manufacturing facilities, it will establish a regular R&D and manufacturing system meeting international standards. Meanwhile, the Company will leverage on expertise from the industry frequency of tests and with the development of new technologies, allocate domestic and foreign resources to the key R&D projects such as overseas registration of Shenqi Fuzheng Injection, international multicenter clinical trial of monoclonal antibodies biopharmaceuticals and consistent assessments on generic drugs.

#### **(c) Strict Production Management and Strengthened Risk Control Mechanism**

The Company will focus on “lowering the risk and increasing the productivity” and “eliminating errors and preventing contamination” for each manufacturing enterprise. It is aimed to meet the general requirement of “precise GMP with daily settlement” to solidify quality management and prevent risk related to manufacturing and product quality. Meanwhile, the Group will further increase on GMP and continue to increase GSP daily monitoring to increase productivity. Moreover, it will increase daily supervision and inspection to prevent EHS accidents.

## PROSPECTS FOR FUTURE DEVELOPMENT *(continued)*

### Operation Plans *(continued)*

#### (d) Innovation of Management Model and Enhancement of Management Skills

The Company will further improve duty management works by implementing the ideas of “monitoring, assisting and facilitating”. It will specify various processes and positions for the internal and external customers. It endeavors to provide professional services to internal and external customers with its professional knowledge and ability, and constantly improve the efficiency of management and quality of work. Meanwhile, the Company is to bring forth new ideas, methods and tools of management continuously. It is gradually building up an efficiency-oriented assessment system of enterprise value and management ability. It will constantly develop multiple efficiency indicators such as personnel, asset and productivity, which will be applied to more and more performance evaluations.

#### (e) Integration of Internal and External Resources, Speeding up Outward Development

While the Group is constantly strengthening its own advantage on specialist areas, it will speed up the process of developing precision medical services. It will consolidate internal and external resources and increase selection and research of investment projects. Further, It will gain access to more channels of acquisition and watch closely for investment opportunities in the domestic and foreign pharmaceutical industry. When appropriate, and by means of capital operation it will further accelerate the Company’s performance growth and diversify its business network. Meanwhile, the Group will continue to cooperate with the government authorities to carry out the old factory land renovation projects, Qingyuan Xinbeijiang Project and when appropriate, relocate the head office of the Group.

## OTHER EVENTS

### Reserves

Details of the amount and movements in the reserves of the Group during the year are set out in the Consolidated Statement of Changes in Shareholders’ Equity and Note VI.37 Surplus Reserve to the financial statements in this annual report.

### Distributable Reserves

As at 31 December 2015, the distributable reserves of the Company calculated in accordance with China Accounting Standards for Business Enterprises amounted to RMB746 million (31 December 2014: RMB478 million).

### Fixed Assets

Details of the movements in fixed assets during the year are set out in Note VI.10. Fixed Assets to the financial statements in this annual report.

### Connected/Related Party Transactions

Details of the connected/related party transactions are set out in Chapter VII “Major Events” in this annual report.

### Management Contracts

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

## OTHER EVENTS *(continued)*

### The Restricted A shares Incentive Scheme

On 15 December 2014, the Board considered and approved the resolution in respect of the Restricted A Shares Incentive Scheme and relevant resolutions, which proposed to grant 10,000,000 Restricted A Shares (the "Restricted Shares") to the Incentive Participants of which 9,000,000 Shares were granted under the First Grant and 1,000,000 Shares were reserved.

The Company announced on 13 January 2015 that the CSRC had confirmed that it had no objection to the Draft Scheme and has submitted the Draft Scheme and its amendments submitted for records.

The Restricted A Shares Incentive Scheme has been approved by the Shareholders at the 2015 First Extraordinary General Meeting, the 2015 First Class Meeting of H Shareholders and the 2015 First Class Meeting of A Shareholders of the Company convened on 13 March 2015.

On 27 March 2015, the Directors of the Company approved the First Grant of restricted shares to Incentive Participants (the "First Grant") at the grant price of RMB25.2 per share with adjustment to the participants and the number of restricted shares, and 27 March 2015 as the First Grant Date. After the adjustment, the number of Incentive Participants under the First Grant changed from 484 to 458, and the number of Restricted Shares under the First Grant changed from 9,000,000 to 8,660,400.

On 9 April 2015, all procedures related to the First Grant under the Restricted A Share Incentive Scheme, including the verification of subscribed capital, had been completed pursuant to the requirements of the CSRC, the Shenzhen Stock Exchange and the China Securities Depository and Clearing Corporation Limited. The Restricted Shares under the First Grant were listed on the Shenzhen Stock Exchange on 14 April 2015.

On 22 May 2015, The Company completed the business registration of change in registered capital with Guangdong Province Zhuhai Administration for Industry and Commerce. The registered capital of the Company was changed from RMB295,721,852 to RMB304,382,252.

On 14 August 2015, the Company completed the 2014 Equity Distribution, in which the Company issued 3 shares for every 10 shares held to all shareholders of the Company by way of capitalizing our capital reserve. Adjustments were made to the number of Restricted Shares under the initial grant and repurchase price according to the adjustment methods of the number of shares granted and the repurchase price upon the transfer of capital reserves into the share capital under Restricted A Shares Incentive Scheme. The number of Restricted Shares under the First Grant is adjusted to 11,258,520 shares (excluding the reserved portion) and the repurchase price of Restricted Shares under the First Grant is adjusted to RMB19.308 per share.

On 12 November 2015, the Board resolved and approved the adjustment on the number of Reserved Restricted Shares under the Restricted A Shares Incentive Scheme, and granting of Reserved Restricted Shares to the incentive participants (the "Reserved Grant"). After adjustment, the number of Reserved Restricted Shares was adjusted from the original 1,000,000 shares to 1,300,000 shares, and the 1,300,000 Reserved Restricted Shares were granted at the grant price of RMB24.61 per share to 184 incentive participants, whereas 12 November 2015 is confirmed as the grant date of such Reserved Restricted Shares.



**OTHER EVENTS** *(continued)***The Restricted A shares Incentive Scheme** *(continued)*

On 10 December 2015, the Company repurchased 93,080 locked Restricted Shares in total granted as held by 7 Incentive Participants under the Initial Grant who have resigned and the repurchase and cancellation were completed on 14 December 2015. Upon the Repurchase, the number of incentive participants of the First Grant under the Restricted A Shares Incentive Scheme was adjusted to 451 individuals from the original 458 individuals.

On 22 December 2015, among the 184 original Incentive Participants under the Reserved Grant, 7 of which have voluntarily waived their rights to subscribe for the Reserved Restricted Shares due to personal reasons. Therefore, the number of Incentive Participants under the Reserved Grant has been reduced from 184 individuals to 177 individuals and the number of Reserved Restricted Shares under the Reserved Grant has been reduced from 1,300,000 shares to 1,285,700 shares.

On 29 December 2015, all the relevant procedures (including the capital verification of the fund for subscription) concerning the Reserved Grant under the Restricted A Shares Incentive Scheme have been completed in accordance with the relevant requirements of the CSRC, the Shenzhen Stock Exchange and China Securities Depository and Clearing Corporation Limited. The Reserved Restricted Shares granted under the Reserved Grant were listed on the Shenzhen Stock Exchange on 31 December 2015.

For details of the Restricted A Share Incentive Scheme, the First Grant and the Reserved Grant, please refer to the announcements of the Company dated 15 December 2014, 13 January 2015, 26 January 2015, 13 March 2015, 30 March 2015, 10 April 2015, 6 August 2015, 12 November 2015, 14 December 2015, 22 December 2015 and 29 December 2015 respectively, and the circular of the Company dated 5 February 2015.

**Restricted Share Agreement**

According to relevant resolutions of the general meeting and the Board, "Restricted Share Agreement" was entered into between the Company and the Incentive Participants (the Company's staff who can obtain restricted shares under the Restricted A Share Incentive Scheme) in relation to the granting of shares to the restricted Incentive Participants in order to create incentive and encourage innovation of our staffers effectively. According to the Restricted Share Agreement, the Company may only grant the further placing of Restricted A Share to the Incentive Participants provided that the participants have fulfilled the following conditions:

**OTHER EVENTS** *(continued)***The Restricted A shares Incentive Scheme** *(continued)***Restricted Share Agreement** *(continued)*

(I) None of the following has occurred to the Company:

1. issue of the Company's financial and accounting report for the most recent financial year in which a certified public accountant gives adverse opinions or indicates the inability to give an opinion;
2. administrative penalties being imposed by the CSRC for material non-compliance by the Company during the most recent year;
3. any other circumstances as identified by the CSRC.

(II) None of the following has occurred in relation to the participants:

1. being publicly condemned or declared as an ineligible candidate by the Shenzhen Stock Exchange, the Shanghai Stock Exchange or The Stock Exchange of Hong Kong Limited during the most recent three years;
2. administrative penalties imposed by the CSRC for material non-compliance by the participant during the three year ended;
3. being prohibited from acting as a director or senior management of the Company under the Company Law;
4. any other serious non-compliance with the relevant provisions of the Company by the participant as identified by the board.

The first grant and reserved grant of restricted shares were granted by the Company on 27 March 2015 and 12 November 2015 respectively. The number of restricted shares of the first grant and reserved grant amounted to 8,660,400 shares and 1,300,000 shares and subsequently adjusted to 1,285,700 shares at the granting price of RMB25.20 and 24.61 per share respectively.

**OTHER EVENTS** *(continued)***Repurchase, sale or redemption of the Company's securities**

Pursuant to the Company's "The Restricted Shares Incentive Scheme (Revised Draft)" (the "Restricted A Shares Incentive Scheme"), 458 incentive participants were first granted 8,660,400 Restricted Shares, and 1,285,700 Reserved Restricted Shares were reserved for 177 Incentive Participants.

In view of that seven original Incentive Participants under the Restricted A Shares Incentive Scheme have resigned, pursuant to the provisions of "13. Handling unusual changes to the Company/Incentive Participants" under the Restricted A Shares Incentive Scheme, 93,080 Restricted Shares granted but still locked-up held by the seven resigned Incentive Participants have been repurchased and cancelled by the Company.

On 10 December 2015, the Company has repurchased a total of 93,080 Restricted A Shares on the Shenzhen Stock Exchange ("Repurchased A Shares") at the price of RMB19.308 per share (the "Repurchase"). The aggregate purchase price paid for the Repurchase was RMB1,797,188.64. Pursuant to the Repurchase, the Repurchased A Shares have been cancelled on 14 December 2015.

Save for disclosed above, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities from 1 January 2015 up to 31 December 2015. For further details of the Company's Restricted A Shares Incentive Scheme, please refer to page 39 of this annual report.

**Relationships with employees, customers and suppliers**

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

**Permitted indemnity provisions**

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



## OTHER EVENTS *(continued)*

### Compliance with rules and regulations

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

### Environmental policies and performance

The Group has carried out and complied with various rules and regulations concerning environmental protection and safe production including the PRC Environmental Protection Law (中華人民共和國環境保護法), the Cleaner Production Law of the PRC (中華人民共和國清潔生產法) with an increasing investment of environmental funds and continuous commitment in energy saving and material consumption reducing projects. The Group actively promotes cleaner production through integrated utilization of resources to reduce and avoid waste in order to guarantee physical and mental health of the employees. Meanwhile, the Group strives to obtain coordinated and sustainable growth of economic performance, environmental and social benefit.

The Group and relevant subsidiaries set up a comparatively complete system of contingency plans for environment protection including integrated contingency plans for environment protection, project contingency plans for environment protection and on-site management plans and so on and has filed documents to competent administrative department of environmental protection. Emergency teams and working teams have been established to carry out contingency measurements and employee training and contingency plan drills are held regularly. Majority of the corporations of the Group have implemented and passed the cleaner production audit and ISO 14001 environmental management system certification. Environmental protection facilities of the Group's relevant manufacturers are in steady use with the online monitoring system connected to administrative department of environmental protection is in normal use. The emission of major pollutants including COD, SS, NH<sub>x</sub>, sulphur dioxide and NO<sub>x</sub> achieved a steady compliance and the dangerous pollutants were treated according to relevant rules and regulations. During the year, there was no material environment pollution incident by the Group.

## AUDITORS

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

As for explanation of changes in accounting policies, accounting estimates and accounting methods as compared with the financial report of previous year, please refer to the related contents in Section III "Changes of significant accounting policies, accounting estimates and correction of accounting errors" of this annual report.

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

## EXPLANATION TO THE CHANGE IN THE SCOPE OF CONSOLIDATED FINANCIAL STATEMENT COMPARED WITH THAT OF THE PREVIOUS YEAR

The Company set up Li An (Hong Kong) Co., Ltd. in Hong Kong on 16 January 2015, with registered capital of HKD1 million. Li An (Hong Kong) Co., Ltd. is consolidated into the financial statements of the Company for the year.

## PROPOSED PROFIT DISTRIBUTION PLAN

The Board has proposed a profit distribution plan for 2015 as follows: to distribute cash of RMB5 (including taxes) for every 10 shares held to all shareholders based on the Company's total share capital of 396,889,547 shares at the end of 2015. The Company will pay RMB198,444,773.5 on profit distribution, representing 31.87% of the net profit attributable to the shareholders of the Company in 2015. The remaining undistributed profit is to be carried forward to the next year. No distribution of shares and no transfer of capital reserve into share capital will be undertaken by the Company. If there is any change in the total issued share capital of the Company as a result of issuance of new shares, exercise of incentive share option, conversion of convertible bonds before implementing the distribution plan, specific proportion of allocation will be adjusted in accordance with the principle of "the total amount of cash distribution remains unchanged".

The above proposed distribution is subject to the approval at the annual general meeting. A circular containing, among other things, further information in respect to the annual general meeting and the Cash Dividend will be dispatched to the shareholders of the Company as soon as practicable.

### Cash Dividend Distribution of the Company in Recent Three Years

Distribution years	Cash dividend amount (taxes inclusive)	Amount denominated: RMB	
		Net profit attributable to shareholders of the Company as stated in the consolidated financial statements for the year	Proportion of net profit attributable to shareholders of the Company as stated in the consolidated financial statements (%)
2015 (Proposed)	198,444,773.50	622,641,033.06	31.87%
2014	30,438,225.20	515,978,431.82	5.90%
2013	147,860,926.00	487,502,351.80	30.33%

## TAXATION AND TAX RELIEF

Shareholders are taxed in accordance with the following tax regulations and the amendments thereof from time to time. They shall enjoy possible tax relief according to the actual situation. The following cited laws, regulations and stipulations are all relevant provisions issued during the year ended 31 December 2015. Shareholders, if necessary, shall seek professional advice from their tax and legal advisors for advices relating to tax payment or its impact:

## TAXATION AND TAX RELIEF *(continued)*

### A Shareholders

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

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

### H Shareholders

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



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

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

**SERVICE CONTRACTS OF DIRECTORS AND SUPERVISORS AND THEIR INTERESTS IN THE CONTRACTS**

Each of the Directors and Supervisors has entered into a respective Director and Supervisor service contract with the Company. Contents of such contracts are the same in all material respects. The service contracts of the Directors and Supervisors will expire upon the expiry of the term of the current Board in place (i.e. 30 June 2017). Save as the aforesaid, no service contract that cannot be terminated within one year without payment of compensation (other than statutory compensation) has been or proposed to be entered into between the Company and the Directors or the Supervisors.

Save for the service contracts, none of the Directors or Supervisors of the Company had a material interest, whether direct or indirect, in any other transactions, arrangements or contacts of significance which had been entered into by the Company, any of its subsidiaries, or its holding company or the holding company's subsidiaries for the year ended 31 December 2015.

**ARRANGEMENT TO PURCHASE SHARES OR BONDS BY DIRECTORS**

Except for the Restricted A Shares Incentive Scheme disclosed on page 39, the Company or its subsidiaries or the holding company of the Company or its subsidiaries did not enter into any arrangement at anytime during the year that enabled the Directors, Supervisors and senior management of the Company to acquire benefits by means of purchasing shares or bonds of the Company or any other body corporate.

**PRE-EMPTIVE RIGHTS**

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

**CHARITABLE DONATION**

During the year, the expenditure of charitable donation of the Group amounted to RMB87,820 (2014: RMB757,010).

## EMPLOYEES OF THE COMPANY

As of the end of the year, the Company, its wholly-owned subsidiaries and controlling subsidiaries had a total of 5,913 current employees, and the Company and its subsidiaries had distributed partial pension to a total of 621 retired employees.

### Current employees' speciality composition and education level

Specialty	Number of staff
Production staff	3,020
Sales staff	1,000
Technical staff	973
Administrative staff	770
Financial staff	150
Total	5,913

Education level	Number of staff
Below post-secondary	2,638
Post-secondary	1,510
Undergraduate	1,502
Postgraduate	236
Doctor	27
Total	5,913

### Employees' Remuneration Policies

During the year, the Company's remuneration policies are in line with the provisions of relevant national laws and regulations, by reference to the industry and regional remuneration level, and consideration of internal equity, depending on the position value, and the basis of the performance and ability of individual employees, the Company determined the Company's employees salary level, formulation and revision of remuneration system are to solicit the views of the majority of employees. To reflect incentive remuneration, employee remuneration comprises of two portions: fixed income and variable income. Variable income was affected by performance of the Company and individual performance, which has fully boosted the morale and initiative of staff, to achieve the Company's goal of promoting sustainable development.

### Employees' Training Plan

In 2015, the learning structural construction of the Company has entered a new phase. Based on the notion of serving the interests of our employees, the Company has constructed a learning platform for the staff, and has actively provided continuous education and training for our professional staff members. The Company has furthered its construction of the "Continuous Learning Organizational Platform" to build on the training of our research and development technicians. During the year, with the view of perfecting our training schemes and enhancing the overall abilities of our staff members, the Company has established the "Rules on Internal Tutor Management" and the "Training Management Scheme" which set out guidelines for the selection and management of our internal tutors, and to encourage the communication and sharing of knowledge, experiences and skills of our staff. During the second half of 2015, the Company set up the Livzon Business School, and has recruited the first enrollment of students for the MBA and EMBA programs. By fully integrating our internal and external resources, the Livzon Business School contributes to the improvement and development of our human resources, and encourages active and motivated learning for our staff members.

**LIST OF DIRECTORS OF THE COMPANY DURING THE YEAR AND UP TO THE DATE OF THIS ANNUAL REPORT*****Executive Directors***

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

Mr. Fu Daotian (傅道田先生) (Vice President)

Mr. Yang Daihong (楊代宏先生) (Vice President)

***Non-Executive Directors***

Mr. Zhu Baoguo (朱保國先生) (Chairman)

Mr. Qiu Qingfeng (邱慶豐先生)

Mr. Zhong Shan (鍾山先生)

***Independent Non-Executive Directors***

Mr. Xu Yanjun (徐焱軍先生)

Mr. Guo Guoqing (郭國慶先生)

Mr. Wang Xiaojun (王小軍先生)

Mr. Zheng Zhihua (鄭志華先生) (appointed on 26 June 2015)

Mr. Xie Yun (謝耘先生) (appointed on 26 June 2015)

Mr. Yu Xiong (俞雄先生) (resigned on 27 February 2015)

Mr. Yang Bin (楊斌先生) (retired upon expiry of tenure of service on 26 June 2015)

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

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

Mr. Huang Huamin (黃華敏先生)

Mr. Tang Yin (湯胤先生) (appointed on 26 February 2016)

Mr. Yuan Huasheng (袁華生先生) (resigned as supervisor on 20 November 2015 with effect from 26 February 2016)

By order of the Board

*Chairman*

**Zhu Baoguo**

24 March 2016



## BASIC CORPORATE GOVERNANCE

During the year ended 31 December 2015, in strict accordance with the Company Law, the Securities Law of the People's Republic of China, the Guidelines for Corporate Governance of Listed Companies, the Guidelines for Standardised Operation of Companies Listed on the Main Board of the Shenzhen Stock Exchange, and other requirements of normative documents relating to the governance of listed companies announced by the CSRC, the Shenzhen Stock Exchange and the Hong Kong Stock Exchange. The Company constantly enhanced the corporate governance structure and strengthened the internal control systems of the Company to achieve higher corporate governance standards. The Board believed that the actual conditions of corporate governance of the Company are compliant with the rules and requirements of normative documents including the Guidelines for Corporate Governance of Listed Companies without deviation.

In order to present the financial position and operating results of the Company in a more objective and fair manner, the Company has amended the accounting policy related to the impairment of available-for-sale financial assets in accordance with the relevant requirements under the Accounting Standards for Chinese Enterprises issued by the Ministry of Finance at the Eleventh Meeting of the Eighth Session of the board of directors and the Tenth Meeting of the Eighth supervisory committee held on 5 June 2015.

On 26 August 2015, taking into account the actual situation, the Company has amended the "Articles of Association of the Company", the "Rules and Procedures for General Meetings", the "Rules and Procedures for Board Meetings", the "Rules and Procedures for Supervisory Committee Meetings" and the "Working Rules for Special Committee of the Board" in compliance with the relevant requirements of the "Guideline for Articles of Listed Companies (2014 revision)" at the Fourteenth Meeting of the Eighth Session of the board of directors and the Twelfth Meeting of the Eighth supervisory committee in order to further enhance the corporate governance structure. The mentioned system has become effective after the consideration and approval at the 2015 Second Extraordinary Meeting.

### General Meetings Convened during the year

Session of meeting	Date of meeting	Resolution(s)
The 2015 First Extraordinary General Meeting	13 March 2015	"the Restricted Shares Incentive Scheme of the Company (Revised Draft) and its Summary: (A) Basis for identifying and the scope of Incentive Participants of the Restricted Shares Incentive Scheme; (B)Source, number and allocation of Restricted Shares; (C) Validity period, date of grant, lock-up period, unlocking date and black out period of the Restricted Shares Incentive Scheme; (D) Prices of granting the Restricted Shares and the basis of determination; (E) Conditions of granting and unlocking the Restricted Shares; (F) Adjustment methods and procedures of the Restricted Shares Incentive Scheme; (G)Accounting treatment of the Restricted Shares; (H) Procedures of implementation, granting and unlocking under the Restricted Shares Incentive Scheme; (I) Rights and obligations of the Company and the Incentive Participants; (J) Handling unusual changes to the Company and Incentive Participants; (K) "Principles of repurchasing and cancelling the Restricted Shares.", "Administrative Measures for Appraisal System in relation to the Share Incentive Scheme of the Company (Revised)", "Seeking the General Mandate to Authorise the Board of Directors to deal with matters regarding the Restricted Shares Incentive Scheme on the General Meetings"

**BASIC CORPORATE GOVERNANCE** *(continued)***General Meetings Convened during the year** *(continued)*

Session of meeting	Date of meeting	Resolution(s)
The 2015 First Class Meeting of H Shareholders	13 March 2015	"the Restricted Shares Incentive Scheme of the Company (Revised Draft) and its Summary: (A) Basis for identifying and the scope of Incentive Participants of the Restricted Shares; (B)Source, number and allocation of Restricted Shares; (C) Validity period, date of grant, lock-up period, unlocking date and black out period of the Restricted Shares Incentive Scheme; (D) Prices of granting the Restricted Shares and the basis of determination; (E) Conditions of granting and unlocking the Restricted Shares; (F) Adjustment methods and procedures of the Restricted Shares Incentive Scheme; (G)Accounting treatment of the Restricted Shares; (H) Procedures of implementation, granting and unlocking under the Restricted Shares Incentive Scheme; (I) Rights and obligations of the Company and the Incentive Participants; (J) Handling unusual changes to the Company and Incentive Participants; (K) "Principles of repurchasing and cancelling the Restricted Shares.", "Administrative Measures for Appraisal System in relation to the Share Incentive Scheme of the Company (Revised)", "Seeking the General Mandate to Authorise the Board of Directors to deal with matters regarding the Restricted Shares Incentive Scheme on the General Meetings"
The 2015 First Class Meeting of A Shareholders	13 March 2015	"the Restricted Shares Incentive Scheme of the Company (Revised Draft) and its Summary: (A) Basis for identifying and the scope of Incentive Participants of the Restricted Shares; (B)Source, number and allocation of Restricted Shares; (C) Validity period, date of grant, lock-up period, unlocking date and black out period of the Restricted Shares Incentive Scheme; (D) Prices of granting the Restricted Shares and the basis of determination; (E) Conditions of granting and unlocking the Restricted Shares; (F) Adjustment methods and procedures of the Restricted Shares Incentive Scheme; (G)Accounting treatment of the Restricted Shares; (H) Procedures of implementation, granting and unlocking under the Restricted Shares Incentive Scheme; (I) Rights and obligations of the Company and the Incentive Participants; (J) Handling unusual changes to the Company and Incentive Participants; (K) "Principles of repurchasing and cancelling the Restricted Shares.", "Administrative Measures for Appraisal System in relation to the Share Incentive Scheme of the Company (Revised)", "Seeking the General Mandate to Authorise the Board of Directors to deal with matters regarding the Restricted Shares Incentive Scheme on the General Meetings"
The Annual Meeting for the year 2014	26 June 2015	"the work report of the Board of the Company for the year 2014", "the work report of the Supervisory Committee of the Company for the year 2014", "the financial accounts report of the Company for the year 2014", "the reappointment of Ruihua Certified Public Accountants (LLP) (瑞華會計師事務所(特殊普通合夥)) as the auditor of the Company for the year 2015 and fix its remuneration", "the 2014 annual report of Livzon Pharmaceutical Group Inc.*", "the 2014 Annual Profit Distribution Plan of the Company", "the Company's facility financing and provision of financing guarantees to its subsidiaries", "the grant of general mandate to the Board for issuing of shares"
The 2015 Second Class Meeting of H Shareholders	26 June 2015	"the 2014 Annual Profit Distribution Plan of the Company"
The 2015 Second Class Meeting of A Shareholders	26 June 2015	"the 2014 Annual Profit Distribution Plan of the Company"

**BASIC CORPORATE GOVERNANCE** *(continued)***General Meetings Convened during the year** *(continued)*

Session of meeting	Date of meeting	Resolution(s)
The 2015 Second Extraordinary General Meeting	11 November 2015	"the change of the registered address of the Company", "the revision of annual caps of 2015 and 2016 for continuing connected transactions between the Company and Joincare (健康元)", "the amendments to the articles of association of Livzon Pharmaceutical Group Inc.*", "the amendments to the Rules and Procedures for General Meetings of Livzon Pharmaceutical Group Inc.*", "the amendments to the Rules and Procedures for Board Meetings of Livzon Pharmaceutical Group Inc.*", "the amendments to the Rules and Procedures for Supervisory Committee Meetings of Livzon Pharmaceutical Group Inc.*", "the amendments to Livzon Pharmaceutical Group Inc.*'s Shareholders' Return Plan for the Coming Three Years (2015-2017)"
The 2015 Third Extraordinary General Meeting	21 December 2015	"the Company's fulfillment of the conditions of the Non-public Issuance of A shares", "the proposal of Non-public Issuance of A shares of the Company: Types and par value of shares to be issued; Number of Shares to be issued; method and time of issuance; targets of issuance and subscription method; pricing method and issuing price; black out period; Place of listing; use of proceeds and amounts; ownership of undistributed profits of the Company accrued before this Non-public Issuance; Validity period of the resolution", "the contingency plan of non-public issuance of A shares of the Company", "the feasibility analysis report on the use of funds raised under the Non-public Issuance of A shares of the Company", "the connected transactions constituted by the Non-public Issuance of A shares of the Company", "Seeking the General Mandate to Authorise the Board of Directors to deal with matters regarding the Restricted Shares Incentive Scheme on the General Meetings", "the overall amendment of 'Administrative Measures on the Usage of Funds raised by Livzon Pharmaceutical Group Inc.*"

During the year, all resolutions considered at the eight general meetings convened by the Company were approved and were effectively implemented.



**BASIC CORPORATE GOVERNANCE** *(continued)***Performance of Duties by Independent Directors****Attendance of Board meetings and general meetings by Independent Directors**

Name of Independent Director	Attendance of Board meetings during their term of office					Attendance of general meeting(s) during their term of office
	Required attendance at Board meetings during the year	Attendance in person	Attendance by proxy	Absence	Unable to attend in person for two consecutive meetings	Attendance of general meeting(s)/ Number of general meetings convened
Guo Guoqing (郭國慶)	14	14	0	0	No	7/8
Wang Xiaojun (王小軍)	14	14	0	0	No	0/8
Xu Yanjun (徐焱軍)	14	14	0	0	No	7/8
Zheng Zhihua (鄭志華) <i>(note 2)</i>	8	8	0	0	No	0/2
Xie Yun (謝耘) <i>(note 2)</i>	8	8	0	0	No	0/2
Yu Xiong (俞雄) <i>(note 2)</i>	1	1	0	0	No	N/A
Yang Bin (楊斌) <i>(note 2)</i>	6	6	0	0	No	0/4

*Notes:*

- (1) The above table is compiled according to the relevant requirements under CSRC and the Shenzhen Stock Exchange.
- (2) Mr. Yu Xiong (俞雄) resigned on 27 February 2015. Mr. Yang Bin (楊斌先生) retired upon expiry of tenure of service on 26 June 2015. Mr. Zheng Zhihua (鄭志華先生) and Mr. Xie Yun (謝耘先生) were appointed on 26 June 2015.

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

**BASIC CORPORATE GOVERNANCE** *(continued)***Performance of Duties by Independent Directors** *(continued)***Other explanations about performance of duties by Independent Directors**

During the year, there is no opinions from the Independent Directors of the Company that are not adopted.

**Competing Business**

On 10 January 2014, for the purposes of advancing the implementation of the Company's B-to-H Share Conversion, Mr. Zhu Baoguo (the ultimate beneficial owner of the Company), Ms. Liu Guangxia and Joincare (健康元) (the controlling shareholder of the Company) and its controlling shareholder, namely Shenzhen Baiyeyuan Investment Co., Ltd. (深圳市百業源投資有限公司) (collectively the "Covenantors") entered into the non-competition undertakings (for specific details, please refer to relevant content as set out in the section headed "Performance of Undertakings" of this report). The Covenantors have provided confirmations concerning their compliance with the terms of the "non-competition undertaking", details are as follows:

Each of the Covenantors hereby confirmed that from the date of the "non-competition undertaking" (i.e. 10 January 2014) up to 31 December 2015, the Covenantor and the companies under his/her/its control (other than the Company and its subsidiaries) have strictly complied with and enforced the terms of the "non-competition undertaking" without breaching any terms of the "non-competition undertaking" under any circumstances.

Independent Directors of the Company conducted review on the compliance and enforcement of the non-competition undertaking by the Covenantors, and believed that the Covenantors complied with the "non-competition undertaking".

**Internal Control**

During the Year, the Board had conducted a review of effectiveness and adequacy of the risk management and internal control of the Group, including the supervision on finance, operation, and compliance, as well as an assessment on internal environment and risks. The review had shown no significant and important default that indicates inefficient internal control of the Group. The Board considers the risk management and internal control systems of the Group are effective and adequate.

## CORPORATE GOVERNANCE SITUATION DISCLOSED PURSUANT TO THE HONG KONG LISTING RULES

### Compliance with the Corporate Governance Code

Since 1 January 2015 up to 31 December 2015, the Company strictly complied with principles and all of the code provisions in the Corporate Governance Code as set out in Appendix 14 of Hong Kong Listing Rules.

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

### Securities Transactions of Directors and Supervisors

The Company adopted the Model Code as set out in Appendix 10 of the Hong Kong Listing Rules as its own code of conduct regarding the securities transactions in the H Shares of the Company by the Company's Directors, Supervisors and the "Relevant Employees" as defined in the Corporate Governance Code as set out in Appendix 14 of the Hong Kong Listing Rules. After making sufficient and specific enquiries to all of the Directors and Supervisors of the Company, the Company was not informed of any information which reasonably revealed that each of the Directors and Supervisors had not complied with the standard required by the above codes during the period from 1 January 2015 to the date of this annual report. All Directors and Supervisors have confirmed that they had complied with the standards as set out in the above codes during the period from 1 January 2015 to the date of this annual report. The Company also made specific enquiry to all of the employees in respect of the codes in the above mentioned Code by the employees, and note that there has been no incident of non-compliance with the codes in the above mentioned Code.

### Board of Directors

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



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

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

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

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

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

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

### Board of Directors *(continued)*

During the year, the Company convened a total of fourteen Board meetings and eight shareholders' general meetings. Attendance of the Directors of the Company is as follows:

Name	Position	Attendance of relevant meetings during their term of office/ Number of relevant meetings held during their term of office	
		Board meetings	Shareholders' general meetings (including class meetings)
I. Executive Directors			
Tao Desheng (陶德勝)	Vice Chairman and President	14/14	8/8
Fu Daotian (傅道田)	Vice President	14/14	5/8
Yang Daihong (楊代宏)	Vice President	14/14	4/8
II. Non-executive Directors			
Zhu Baoguo (朱保國)	Chairman	14/14	0/8
Qiu Qingfeng (邱慶豐)	Director	14/14	0/8
Zhong Shan (鍾山)	Director	14/14	0/8
III. Independent Non-executive Directors			
Xu Yanjun (徐焱軍)	Independent non-executive Director	14/14	7/8
Guo Guoqing (郭國慶)	Independent non-executive Director	14/14	7/8
Wang Xiaojun (王小軍)	Independent non-executive Director	14/14	0/8
Zheng Zhihua (鄭志華) <i>(Note)</i>	Independent non-executive Director	8/8	0/2
Xie Yun (謝耘) <i>(Note)</i>	Independent non-executive Director	8/8	0/2
Yu Xiong (俞雄) <i>(Note)</i>	Independent non-executive Director	1/1	N/A
Yang Bin (楊斌) <i>(Note)</i>	Independent non-executive Director	6/6	0/4

*Notes:* Mr. Yu Xiong (俞雄) resigned on 27 February 2015. Mr. Yang Bin (楊斌先生) retired upon expiry of tenure of service on 26 June 2015. Mr. Zheng Zhihua (鄭志華先生) and Mr. Xie Yun (謝耘先生) were appointed on 26 June 2015.

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

### Board of Directors *(continued)*

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

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

Directors' trainings and professional development: During the year, all of the new Directors of the Company received necessary training on listing of shares provided by the Hong Kong legal advisor appointed by the Company, as to ensure their understanding to the Company's operation and business as well as their responsibility under relevant laws, rules and the Hong Kong Listing Rules to a certain extent. The Company arranged professional trainings organised by CSRC and the Shenzhen Stock Exchange for its Directors on irregular basis, for obtaining training certificates or qualification certificates recognised by relevant authority.

### Chairman and President

As required by the Company, the positions of Chairman and President are held by different persons and there is a clear division of work between the two roles. The Chairman of the Company is Mr. Zhu Baoguo and the President of the Company is Mr. Tao Desheng.

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

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



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

### **Independent Non-Executive Directors**

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

### **Directors’ Term of Office**

Pursuant to the requirements under the Articles of Association, all of the Directors (including Non-executive Directors) are elected in shareholders’ general meetings, with a three-year term of office from 30 June 2014 to 30 June 2017. Directors can be re-elected upon expiry of their term. The term of office of each Independent Non-executive Director shall not be more than six years.

### **Directors’ Responsibility for the Financial Statements**

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

### **Special Committees of the Board**

Pursuant to the Corporate Governance Code, three committees are set up under the Board, namely the Audit Committee, Remuneration and Assessment Committee, and Nomination Committee, as to oversee specific scopes concerning the state of affairs of the Company. Each of the Board committees specifies the term of reference in writing. The written term of reference for each of the Board committees are published on websites of the Hong Kong Stock Exchange and the Company. Save as the requirements under the Hong Kong Listing Rules and the Corporate Governance Code, the Company also established the Strategic Committee in order to monitor the Company’s long term development strategic plan, conduct research and give recommendations thereon.

### **Audit Committee**

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

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

During the year, the Audit Committee had discussed the Group's annual, interim and quarterly financial statements, review the accounting principles and practices, internal supervision system and consider audit conducted and fees charged by auditors. On 7 March 2016, the Committee reviewed the 2015 Self-Evaluation Report on Internal Control.

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

- (1) On 6 February 2015 the Fourth Meeting of the Audit Committee of the Eighth Session of the Board of the Company was held, during which the resolution on consideration of the draft financial auditors' report for the year 2014 and the resolution on consideration of the final financial report were considered and approved.
- (2) On 5 March 2015 the Fifth Meeting of the Audit Committee of the Eighth Session of the Board of the Company was held, during which the resolution on consideration of the auditors' report for the year 2014, the resolution on consideration of the results announcement for the year 2014 and the draft of the annual report, the resolution on consideration of continuing connected transactions, the resolution on consideration of the 2014 Self-Evaluation Report On Internal Control, the resolution in relation to review arrangements of employees to raise concern about improprieties and the resolution of the evaluation report on the audit work carried out by Ruihua Certified Public Accountants (LLP) for the year 2014 and the resolution on consideration in relation to the re-appointment of Ruihua Certified Public Accountants (LLP) as the audit firm of the Company for the year 2015 were considered and approved.
- (3) On 23 April 2015 the Sixth Meeting of the Audit Committee of the Eighth Session of the Board of the Company was held through written communication and voting, during which the resolution of the Company's and its subsidiaries' unaudited consolidated financial statements and the quarterly results announcement for three months ended 31 March 2015 were considered and approved.
- (4) On 12 August 2015 the Seventh Meeting of the Audit Committee of the Eighth Session of the Board of the Company was held through written communication and voting, during which the resolution on consideration of the Company's unaudited half-yearly results announcement, the half-yearly report and consolidated financial reports for the six months ended 30 June 2015 were considered and approved.
- (5) On 22 October 2015 the Eighth Meeting of the Audit Committee of the Eighth Session of the Board of the Company was held through written communication and voting, during which the resolution on consideration of the Company's and its subsidiaries' unaudited consolidated financial statements and the quarterly results announcement for nine months ended 30 September 2015 were considered and approved.
- (6) On 28 December 2015 the Ninth Meeting of the Audit Committee of the Eighth Session of the Board of the Company was held, during which the resolution on consideration of the Financial Audit Plan of Livzon Pharmaceutical Group Inc. for the year 2015 was considered and approved.

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

The Remuneration and Assessment Committee under the Eighth Session of Board is comprised of three Directors. The Chairman of the committee is Mr. Guo Guoqing (Independent Non-executive Director), and other committee members are Mr. Tao Desheng (Executive Director) and Mr. Xu Yanjun (Independent Non-executive Director). The member composition is in compliance with the requirements under Rule 3.25 of the Hong Kong Listing Rules. The key responsibilities of the Remuneration and Assessment Committee are to assess and review the remuneration packages for the Chairman of the Board, Executive Directors and senior management of the Company, and to make recommendations to the Board on the policy and structure for all Directors' and senior management's remuneration and on the establishment of a formal and transparent procedure for developing remuneration policy, so as to ensure that any Director or any of their associates shall not be involved in fixing their remuneration etc.

During the year, the Remuneration and Assessment Committee held two meetings to assess, review and make recommendations to the Board on remuneration, remuneration policy and framework of the Directors and senior management of the Company and the interests of the Company as a whole, terms of the service contract of newly elected directors and the Restricted A Shares Incentive Scheme.

**Nomination Committee**

The Nomination Committee under the Eighth Session of Board is comprised of three Directors. The Chairman of the committee is Mr. Xie Yun (Independent Non-executive Director), and other committee members are Mr. Guo Guoqing (Independent Non-executive Director) and Mr. Tao Desheng (Executive Director). The member composition is in compliance with the requirements under code provision A.5.1 of the Corporate Governance Code as set out in Appendix 14 of the Hong Kong Listing Rules. The key responsibilities of the Nomination Committee are to review the structure, number of members and composition of the Board (including gender, ages, cultural and education background, skills, knowledge and experience); study the criteria and procedures for selection and appointment of Directors and senior management, and give recommendations to the Board; recommend the Board on the appointment or re-appointment of Directors, and succession plan for Directors (particularly the Chairman and the President); and evaluate the independence of the Independent Non-executive Directors.

During the year, the Nomination Committee held three meetings to review the Board Diversity Policy and monitor its implementation, evaluate the independence of Independent Non-executive Directors, review the structure, number of members and composition of the Board and make recommendations on its size and composition, and consider matters on re-election and appointment of Directors.



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

The Nomination Committee has adopted a set of nomination procedures. The Committee may search extensively for candidates for directorship and senior management from the Company, its subsidiaries or investees and the job market, in compliance with the relevant laws and regulations and the relevant provisions in the Articles of Association, and in consideration of the Company's actual circumstances, election criteria, selection procedures and term of service for Directors and senior management of the Company, submit the resolution to the Board for approval. The Nomination Committee may select candidates for Directors and Senior Management of the Company according to the Company's needs within the extent permitted by statutory requirements, Laws and regulations by making reference to their occupations, education, job titles, detailed work experience and their part-time jobs.

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

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

### Special Committees of the Board *(continued)*

#### Strategic Committee

The Strategic Committee under the Eighth Session of Board is comprised of three Directors. The Chairman of the committee is Mr. Zhu Baoguo (Non-executive Director), and other committee members are Mr. Tao Desheng (Executive Director) and Mr. Zhong Shan (Non-executive Director). The key responsibilities of the Strategic Committee are to conduct research on the Company's long term development strategy and major investment decisions, and give recommendations thereon. During the year, the Strategic Committee did not convene any meeting.

#### Attendance of Special Committees of the Board

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

Name	Position	Attendance of relevant meetings during their term of office/ Number of relevant meetings held during their term of office			
		Meetings of Audit Committee	Meetings of Nomination Committee	Meetings of Remuneration and Assessment Committee	Meetings of Strategic Committee
Mr. Tao Desheng (陶德勝)	Executive Director/ Vice Chairman and President	N/A	3/3	2/2	0/0
Mr. Zhu Baoguo (朱保國)	Non-executive Director/ Chairman	N/A	N/A	N/A	0/0
Mr. Zhong Shan (鍾山先生)	Non-executive Director	N/A	N/A	N/A	0/0
Mr. Xu Yanjun (徐焱軍先生)	Independent Non-executive Director	6/6	N/A	2/2	N/A
Mr. Xie Yun (謝耘先生) <i>(Note)</i>	Independent Non-executive Director	3/3	1/1	N/A	N/A
Mr. Guo Guoqing (郭國慶先生)	Independent Non-executive Director	6/6	3/3	2/2	N/A
Mr. Yang Bin (楊斌先生) <i>(Note)</i>	Independent Non-executive Director	3/3	2/2	N/A	N/A

*Note:* Mr. Yang Bin retired upon expiry of tenure of service on 26 June 2015. Mr. Xie Yun served as Chairman of Nomination Committee and a member of Audit Committee of the Eighth Board of the Company from 26 June 2015.

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

### Auditors and Remuneration

On 26 June 2015, after consideration and approval at the 2014 Annual General Meeting of the Company the appointment of Ruihua Certified Public Accountants (LLP) as the auditors firm of the Company for the year 2015 has been approved. As at the end of the year, remunerations payable to Ruihua Certified Public Accountants (LLP) for its audit services and non-audit services to the Group in 2015 amounted to RMB1,380,000 (tax inclusive) and RMB1,850,000 (tax inclusive), respectively. The non-audit services includes annual internal control audit, review of half yearly financial statements and asset reorganisation audit.

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

### Supervisors and Supervisory Committee

The Supervisory Committee of the Company is accountable to all Shareholders, responsible for overseeing the legal compliance of financial matters of the Company as well as performance of responsibilities by Directors, the President and other senior management, and safeguarding the legal interests of the Company and shareholders. The Supervisory Committee consists of two shareholders' representatives and one employee representative of the Company. The positions of Supervisors held by shareholder, representatives are subject to election and removal at shareholders' general meetings, and the position of Supervisor held by an employee representative is subject to democratic election and removal by the employees of the Company.

### Communication with Shareholders

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

#### Information disclosure on the Company's website

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

#### Convening of shareholders' general meetings

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



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

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

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

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

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

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

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

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

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

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

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

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

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

**Procedure for delivering shareholders' inquiries to the Board**

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

**Procedure for submission of shareholders' proposals to shareholders' general meetings**

Pursuant to Article 78 of the Articles of Association: "The Company convenes general meeting, the Board, Supervisory Committee and shareholder(s) individually or jointly holding 3% or more of the Company's shares shall have the right to submit proposed resolutions to the Company for a shareholders' general meeting of the Company. If those proposals are within the functions and powers of the shareholders' general meeting, they are required to be added to the agenda of the general meeting.

The shareholder(s) individually or jointly holding 3% or more of the Company's shares may submit extra proposed resolutions in writing to the convener of a shareholders' general meeting in writing 10 days prior to the meeting. The convener shall issue a supplementary notice of the shareholders' general meeting and announce the contents of such extra proposed resolutions within 2 days after receipt thereof.

Except as provided by the preceding clause, the convener of a shareholders' general meeting shall not amend the proposed resolutions set out in the notice of the meeting or add any new proposed resolutions subsequent to the issue of the notice of the shareholders' general meeting.

Proposals which are not specified in the notice of the shareholders' general meeting or which do not comply with Article 77 of the Articles of Association shall not be voted and resolved at the shareholders' general meeting and become resolutions."

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

### Shareholders' Rights *(continued)*

#### Investors' relations

The Company serves and visits investors to introduce the business of the Group in a timely manner. In addition, the Company will promptly answer questions raised by the public and individual shareholders through calls, interactive platform for the Shenzhen Stock Exchange, etc. Under any circumstances, the Company will adopt prudent attitude to ensure no selective disclosure of any information that affects share prices.

#### Articles of Association

During the year, the Company amended the Articles of Association three times.

- (1) The board has been granted mandate to handle matters related to the Restricted A Shares Incentive Scheme (including appropriate amendments to the Articles of Association) by the Company on the 2015 First Extraordinary General Meeting, the 2015 First Class Meeting of A Shareholders and the 2015 First Class Meeting of H Shareholders convened on 13 March 2015. Since there were changes in the share capital and the registered capital of the Company as a result of the completion of the First Grant under the Restricted A Shares Incentive Scheme, provisions in relation to share capital and registered capital in the Articles of Association were amended by the Company on 14 April 2015, details of which is available in the announcement of the Company dated 14 April 2015 as posted on the websites of the Company and the Hong Kong Stock Exchange.
- (2) Given the increase in share capital and registered capital of the Company on 14 August 2015 (as a result of the 2014 Equity Distribution and transfer of share capital) and in compliance with relevant requirements of "Guideline for Articles of Association of Listed Companies (2014 revision)" issued by the CSRC and taking into consideration the actual situation of the Company, part of the Articles of Association was amended and refined by the Company and was considered and approved at the 2015 Second Extraordinary General Meeting convened on 11 November 2015 and implemented thereafter. Details for the amendment is available in the circular of the Company dated 22 October 2015 as posted on the websites of the Company and the Hong Kong Stock Exchange.
- (3) Since there were changes in the share capital and registered capital of the Company as a result of the completion of the repurchase and cancellation of locked restricted shares granted to the Incentive Participants who no longer satisfy the conditions for participating in the Incentive Scheme, and the granting of Reserved Restricted Shares to the Incentive Participants on 14 December 2015 and 29 December 2015 respectively, provisions in relation to share capital and registered capital in the Articles of Association were amended by the Company on 29 December 2015. Details for the amendment is available in the announcement of the Company dated 29 December 2015 as posted on the websites of the Company and the Hong Kong Stock Exchange.

#### Company Secretary

Ms. Cheng Pik Yuk of Tricor Services Limited, an external service provider of the Company, has been engaged by the Company as Assistant Company Secretary. The primary contact person at the Company is Mr. Yang Liang, the Secretary to the Board of the Company (Company Secretary).

Both Mr. Yang Liang and Ms. Cheng Pik Yuk took no less than 15 hours of relevant professional training during the year.



## SUBSTANTIAL CONNECTED TRANSACTION DISCLOSED PURSUANT TO THE SHENZHEN LISTING RULES

### Connected Transactions in the Ordinary Course of Business

Transactions with connected persons	Relationships with connected persons	Type of connected transactions	Description of connected transactions	Pricing principle of connected transactions	Amount of connected transaction (RMB'0,000)	Proportion to transaction amount of the same category
Zhuhai Jincare Pharmaceutical Co., Ltd. (珠海健康元生物醫藥有限公司)	Subsidiary of the controlling shareholder	Sale of commodities	Sale of finished goods	Determined by negotiation based on market price	0.74	0.00%
Guangdong Blue Treasure Pharmaceutical Co. Ltd. (廣東藍寶製藥有限公司)	Associate	Sale of commodities	Sale of finished goods	Determined by negotiation based on market price	3,952.53	0.61%
Guangzhou Jincare Respiratory Drugs Engineering Technology Co., Ltd. (廣州健康元呼吸藥物工程技術有限公司)	Subsidiary of the controlling shareholder	Sale of commodities	Sale of finished goods	Determined by negotiation based on market price	9.40	0.00%
Shenzhen Haibin Pharmaceutical Co., Ltd. (深圳市海濱製藥有限公司)	Subsidiary of the controlling shareholder	Provision of services	Subcontracting charge	Determined by negotiation based on market price	151.08	56.06%
Zhuhai Jincare Pharmaceutical Co., Ltd. (珠海健康元生物醫藥有限公司)	Subsidiary of the controlling shareholder	Provision of services	Water, electricity and power	Determined by negotiation based on market price	54.32	8.58%
Guangdong Blue Treasure Pharmaceutical Co. Ltd. (廣東藍寶製藥有限公司)	Associate	Provision of services	Water, electricity and power	Determined by negotiation based on market price	573.49	90.63%
Jiaozuo Jincare Pharmaceutical Industry Group Co., Ltd. (焦作健康元生物製品有限公司)	Subsidiary of the controlling shareholder	Procurement of goods	Procurement of raw materials	Determined by negotiation based on market price	26,640.80	14.71%
Shenzhen Haibin Pharmaceutical Co., Ltd. (深圳市海濱製藥有限公司)	Subsidiary of the controlling shareholder	Procurement of goods	Procurement of raw materials	Determined by negotiation based on market price	2,756.63	1.52%
Health Pharmaceutical (China) Co., Ltd. (健康藥業(中國)有限公司)	Subsidiary of the controlling shareholder	Procurement of goods	Procurement of goods	Determined by negotiation based on market price	13.95	0.01%
Shenzhen Taitai Gene Engineering Co., Ltd. (深圳太太基因工程有限公司)	Subsidiary of the controlling shareholder	Procurement of goods	Low-valued consumables	Determined by negotiation based on market price	0.85	0.00%
Guangdong Blue Treasure Pharmaceutical Co. Ltd. (廣東藍寶製藥有限公司)	Associate	Procurement of goods	Procurement of raw materials	Determined by negotiation based on market price	58.81	0.03%
Jincare (健康元)	Controlling shareholder	Procurement of goods	Procurement of finished goods	Determined by negotiation based on market price	3.80	0.00%
Shenzhen Taitai Pharmaceutical Co., Ltd. (深圳太太藥業有限公司)	Subsidiary of the controlling shareholder	Procurement of goods	Procurement of raw materials	Determined by negotiation based on market price	1.49	0.00%
Jiaozuo Jincare Pharmaceutical Industry Group Co., Ltd. (焦作健康元生物製品有限公司)	Subsidiary of the controlling shareholder	Acceptance of services	Water, electricity and power	Determined by negotiation based on market price	134.19	0.53%
Zhuhai Jincare Pharmaceutical Co., Ltd. (珠海健康元生物醫藥有限公司)	Subsidiary of the controlling shareholder	Renting out of assets	Renting out of office premises	Determined by negotiation based on market price	36.18	12.48%
Health Pharmaceutical (China) Co., Ltd. (健康藥業(中國)有限公司)	Subsidiary of the controlling shareholder	Renting out of assets	Renting out of office premises	Determined by negotiation based on market price	9.99	3.45%
Jiaozuo Jincare Pharmaceutical Industry Group Co., Ltd. (焦作健康元生物製品有限公司)	Subsidiary of the controlling shareholder	Hiring of assets	Renting out of office premises	Determined by negotiation based on market price	3.60	2.19%
Jincare (健康元)	Controlling shareholder	Hiring of assets	Renting out of office premises	Determined by negotiation based on market price	65.89	40.03%
Total				–	34,467.75	–

Substantial amount of returned products

Projected total amount of connected transactions in the ordinary course of business during the current period by type and actual performance during the reporting period

Not applicable

During the year, the amount of connected transactions actually occurred between the Company and its controlling shareholder and subsidiaries was RMB299,000,000, representing 87.94% of the projected amount approved by the general meeting of shareholders, the board and operational management of the Company; the amount of connected transactions actually occurred between the Company and other related parties (Guangdong Blue Treasure Pharmaceutical Co. Ltd. (廣東藍寶製藥有限公司)) was RMB46,000,000, representing 13.53% of the projected amount approved by the general meeting of shareholders, the board and operational management of the Company.

Not applicable

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

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

### Connected Transactions relating to Acquisition and Disposal of Assets or Equity

Related parties	Relationships with connected persons	Type of connected transactions	Description of connected transactions	Pricing principle of connected transactions	Carrying amounts of transfer assets (RMB'0,000)	Profit/loss on transactions (RMB'0,000)
Jiaozuo Jincare Pharmaceutical Industry Group Co., Ltd. (焦作健康元生物製品有限公司)	Subsidiary of the controlling	Sale of assets	Sale of equipments	Determined by negotiation based on market price	688.53	688.53
Jiaozuo Jincare Pharmaceutical Industry Group Co., Ltd. (焦作健康元生物製品有限公司)	Subsidiary of the controlling	Purchase of assets	Purchase of equipment	Determined by negotiation based on market price	260.79	260.79
Reason for the significant difference between the transference amounts and carrying amount or referential projection amounts (if applicable)		Not applicable				
Impact on the Company's operating results and financial statements		Results achievement during the reporting period, if relevant transactions are involved in contractual results				
Results achievement during the reporting period, if relevant transactions are involved in contractual results		Not applicable				

### Credits and Debts with Connected Persons

#### Liabilities receivable to the connected persons

Connected parties	Relationships with connected parties	Reason for occurrence	Use of extraordinary capital	Balance at the beginning of the period (RMB'0,000)	Amount increased for the year (RMB'0,000)	Amount recovered for the year (RMB'0,000)	Balance at the end of the year (RMB'0,000)
Zhuhai Jincare Pharmaceutical Co., Ltd. (珠海健康元生物醫藥有限公司)	Subsidiary of the controlling shareholder	Sales of goods, provision of services, leasing of assets	No	1.61	93.50	87.56	7.55
Guangdong Blue Treasure Pharmaceutical Co. Ltd. (廣東藍寶製藥有限公司)	Associate	Sale of goods	No	1,067.66	4,624.47	3,951.13	1,741.00
Guangzhou Jincare Respiratory Drugs Engineering Technology Co., Ltd. (廣州健康元呼吸藥物工程技術有限公司)	Subsidiary of the controlling shareholder	Sale of goods	No	–	11.00	11.00	–
Jiaozuo Jincare Pharmaceutical Industry Group Co., Ltd. (焦作健康元生物製品有限公司)	Subsidiary of the controlling shareholder	Sale of goods, equipment	No	5.00	805.58	810.58	–
Zhuhai Jincare Pharmaceutical Co., Ltd. (珠海健康元生物醫藥有限公司)	Subsidiary of the controlling shareholder	Leasing of assets	No	3.03	8.40	8.12	3.31
Health Pharmaceutical (China) Co., Ltd. (健康藥業(中國)有限公司)	Subsidiary of the controlling shareholder	Leasing of assets	No	0.83	9.99	9.99	0.83
Guangdong Blue Treasure Pharmaceutical Co. Ltd. (廣東藍寶製藥有限公司)	Associate	Provision of services	No	87.63	685.39	656.24	116.78
Shenzhen Haibin Pharmaceutical Co., Ltd. (深圳市海濱製藥有限公司)	Subsidiary of the controlling shareholder	Subcontracting charge	No	–	225.73	176.76	48.97
Effect of creditors with connected parties on the operating results and financial position of the Company		The creditors mainly arose from ordinary course of business of the Company. There is no significant effect on the operating results and financial position of the Company					

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

### Credits and Debts with Connected Persons *(continued)*

#### Liabilities payable to the connected persons

Connected parties	Relationships with connected parties	Reason for occurrence	Balance at the beginning of the period (RMB'0,000)	Amount increased for the current period (RMB'0,000)	Amount recovered for the current period (RMB'0,000)	Balance at the end of the period (RMB'0,000)
Jiaozuo Joincare Pharmaceutical Industry Group Co., Ltd. (焦作健康元生物製品有限公司)	Subsidiary of the controlling shareholder	Purchase of goods, equipment	8,424.32	31,474.86	27,971.39	11,927.79
Shenzhen Haibin Pharmaceutical Co., Ltd. (深圳市海濱製藥有限公司)	Subsidiary of the controlling shareholder	Purchase of goods	–	3,225.26	2,623.42	601.84
Health Pharmaceutical (China) Co., Ltd. (健康藥業(中國)有限公司)	Subsidiary of the controlling shareholder	Purchase of goods	5.55	16.32	21.87	–
Shenzhen Taitai Gene Engineering Co., Ltd. (深圳太太基因工程有限公司)	Subsidiary of the controlling shareholder	Purchase of goods	0.50	1.00	1.50	–
Guangdong Blue Treasure Pharmaceutical Co. Ltd. (廣東藍寶製藥有限公司)	Associate	Purchase of goods	4.41	68.81	66.66	6.56
Joincare (健康元)	Controlling shareholder	Purchase of goods, lease of assets	–	70.33	70.33	–
Shenzhen Taitai Pharmaceutical Co., Ltd. (深圳太太藥業有限公司)	Subsidiary of the controlling shareholder	Purchase of raw material	–	1.75	1.75	–
Jiaozuo Joincare Pharmaceutical Industry Group Co., Ltd. (焦作健康元生物製品有限公司)	Subsidiary of the controlling shareholder	Collection and advance payment to social security fees, telephone bills, lease of assets and acceptance of service	5.45	139.11	73.33	71.23
Shenzhen Haibin Pharmaceutical Co., Ltd. (深圳市海濱製藥有限公司)	Subsidiary of the controlling shareholder	Collection and advance payment to social security fees	–	4.61	4.61	–
EPIRUS SWITZERLAND GmbH	Subsidiary of company in which our Directors hold leadership	Research and development cooperation	–	949.55	–	949.55
Topsino Industries Limited (天誠實業有限公司)	Subsidiary of the controlling shareholder	Dividend payable	251.73		251.73	
Effect of creditors with connected parties on the operating results and financial position of the Company		The creditors mainly arose from ordinary course of business of the Company. There is no significant effect on the operating results and financial position of the Company				



**SUBSTANTIAL CONNECTED TRANSACTION DISCLOSED PURSUANT TO THE SHENZHEN LISTING RULES** *(continued)***Other Major Connected Transactions****Collaboration with EPIRUS SWITZERLAND GmbH**

On 24 September 2015, Livzon MABPharm Inc. ("Livzon MABPharm", a subsidiary controlled by the Company) entered into the New Collaboration Compound Supplement to the Collaboration Agreement by and between EPIRUS SWITZERLAND GmbH and LIVZON MABPHARM INC. (Epirus瑞士有限公司－珠海市麗珠單抗生物技術有限公司新合作化合物的補充合作協議) (the "Collaboration Agreement") with EPIRUS SWITZERLAND GmbH ("Epirus").

As Mr. Fu Daotian, an executive director of the Company, is the existing director of EPIRUS BIOPHARMACEUTICALS, INC., and EPIRUS BIOPHARMACEUTICALS, INC. indirectly holds the entire equity interests of Epirus, the signing of the Collaboration Agreement between Livzon MABPharm and Epirus constitutes a connected transaction under the Shenzhen Listing Rules.

**Establishment of Youbao Technology Corporation (有寶科技公司)**

On 20 November 2015, the management of the Company resolved and approved the joint investment with XuYuan (許源), Shenzhen Angel Health Industry Investment Limited Partnership (深圳市天使健康產業投資合夥企業) and Shenzhen City Xiang Rui Investment Development Co., Ltd (深圳市祥睿投資發展有限公司) to establish Shenzhen City Youbao Technology Co., Ltd ("Youbao Technology") (深圳市有寶科技有限公司 ("有寶科技")), a limited company that focuses on the mobile health care business, with the view to leverage on the competitive edges of the Company in terms of sales resources and specialty products in the fertility medicine field.

The registered capital of Youbao Technology amounts to RMB10.00 million, of which RMB3.00 million was contributed by the Company, which holds 30% of its shares; RMB1.50 million was contributed by XuYuan (許源), which holds 15% of its shares; RMB2.50 million was contributed by Shenzhen Angel Health Industry Investment Limited Partnership (深圳市天使健康產業投資合夥企業), which holds 25% of its shares; and RMB3.00 million was contributed by Shenzhen City Xiang Rui Investment Development Co., Ltd. (深圳市祥睿投資發展有限公司), which holds 30% of its shares.

As Mr. Xu Guoxiang, the Vice President of the Company, is the chairman of Shenzhen City Xiang Rui Investment Development Co., Ltd (深圳市祥睿投資發展有限公司), the establishment of company constitutes a connected transaction under the Shenzhen Listing Rules.

**Capital Injections to Livzon MABPharm**

For details of the connected transactions constituted by capital injections to Livzon MABPharm under the Shenzhen Listing Rules, please refer to page 71 of this annual report.

Save for the above, the Group has no other major connected transactions during the year.

## CONNECTED TRANSACTIONS DEFINED IN HONG KONG LISTING RULES

### Connected Persons

As the controlling shareholder of the Company, Joicare (健康元) and the subsidiaries under its control (excluding the Group) are connected persons of the Company under the provisions of Rule 14A.13(1) and Rule 19A.04(b) of the Hong Kong Listing Rules.

### One-Off Connected Transactions

#### Capital Injections to Livzon MABPharm

"Capital injections to Livzon MABPharm for its investment in the construction of Research & Development and Industrialization of therapeutic antibody-based drugs" is one of the Non-public Issuance of A Shares proceeds-funded projects organized by the Company. "Research & Development and Industrialization of therapeutic antibody-based drugs" is implemented by Livzon MABPharm, which is jointly invested and held by the Company as to 51% and Joicare (健康元), the Controlling Shareholder of the Company, as to 49%. The Company intends to invest in Livzon MABPharm by way of capital increase through the fund raised by non-public issuance of A Shares, Joicare (健康元) will increase capital in Livzon MABPharm on pro-rata basis according to the proportion of its existing shareholding (the "Capital Injection"). On 2 November 2015, the Company and Joicare (健康元) signed the "Framework Agreement on the Capital Injections to Livzon MABPharm Inc.\* by Livzon Pharmaceutical Group Inc.\* and Joicare Pharmaceutical Industry Group Co."

The Capital Injection is based on the principle of "voluntary contribution, fair and reasonable, interest and risk sharing", of which the Company and Joicare (健康元) will make capital injections in cash on pro-rata basis according to the proportion of their existing shareholdings, details are as follows: the Company and Joicare (健康元) will jointly inject capital to Livzon MABPharm in an total amount of RMB600 million in cash, of which the Company will inject RMB306 million, of which RMB51 million will become the paid-in registered capital, and the remaining RMB255 million will be accounted as capital reserves; Joicare (健康元) will inject RMB294 million, of which RMB49 million will become the paid-in registered capital, and the remaining RMB245 million will be accounted as capital reserves. After the Capital Injection, the registered capital of Livzon MABPharm will increase to RMB600 million, the shareholding of the Company and Joicare (健康元) in Livzon MABPharm will remain unchanged as 51% and 49% respectively.

The Company and Joicare (健康元) both confirmed that the capital injection of RMB600 million in Livzon MABPharm will be earmarked for the construction of "Research & Development and Industrialization of therapeutic antibody-based drugs". The aforementioned proceeds of RMB600 million shall be injected to Livzon MABPharm proportionally in accordance with the development requirements for the construction of "Research & Development and Industrialization project of therapeutic antibody-based drugs" by installments. The capital injection shall commerce before 31 December 2016.

The main purpose of the capital injection in Livzon MABPharm by the Company and Joicare (健康元) is to satisfy its funding needs for "Research & Development and Industrialization of therapeutic antibody-based drugs", ensure the successful implementation of the project, and facilitate the Company in achieving its long-term development strategic target in the bio-pharmaceutical field. The Capital Injection will not materially affect the financial status and operational results of the Company. The implementation of proceeds-funded projects will speed up the Company's progress in laying out a bio-pharmaceutical field with its focus in monoclonal antibody drugs.

**CONNECTED TRANSACTIONS DEFINED IN HONG KONG LISTING RULES***(continued)***One-Off Connected Transactions** *(continued)***Capital Injections to Livzon MABPharm** *(continued)*

Joincare (健康元) is the Controlling Shareholder of the Company, as at the date of the Annual Report, it directly and indirectly held and controlled a total of 45.90% equity interests in the issued share capital of the Company, since Joincare (健康元) held 49% equity interests in Livzon MABPharm, therefore, pursuant to the requirements under Chapter 14A of the Hong Kong Listing Rules, Joincare (健康元) and Livzon MABPharm are Connected Persons of the Company. Therefore, pursuant to the requirements under Chapter 14A of the Hong Kong Listing Rules, the Capital Injection constitutes a connected transaction of the Company. Since Joincare (健康元), the Controlling Shareholder of the Company will make capital injections on pro-rata basis according to the proportion of their existing shareholdings in Livzon MABPharm, therefore pursuant to Rule 14A.92(1) of the Hong Kong Listing Rules, the Capital Injection is exempted from the announcement, reporting and shareholders' approval requirements.

Since Joincare (健康元) is the Controlling Shareholder of the Company, the Capital Injection also constitutes a connected transaction of the Company under the Shenzhen Listing Rules. The capital injection amount of the Company is RMB306 million, attributing to 7.50% of the latest audited net asset value of the Company (RMB4,082.4215 million). Pursuant to the Shenzhen Listing Rules and other relevant laws and regulations and relevant requirements of the Articles of Association, the Capital Injection was approved and effected by the shareholders of the Company by a special resolution on the 2015 Third Extraordinary Meeting of the Company.

For details of the non-public issuance of A shares, please refer to page 80 of this annual report.

**The Grant of the Restricted Shares under the Restricted A Shares Incentive Scheme**

The grant of the Restricted Shares under the Restricted A Shares Incentive Scheme to connected persons of the Company constituted a non-exempt connected transaction of the Company, and will be subject to reporting, announcement and independent Shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules. Mr. Tao Desheng and Mr. Yang Daihong, both being executive Directors and Incentive Participants under the Restricted A Shares Incentive Scheme, have abstained from voting at the Board meeting to approve the proposed adoption of the Restricted A Shares Incentive Scheme and the Proposed Grant.

For details of the Restricted A Shares Incentive Scheme, please refer to page 39 of this annual report.

**Continuing Connected Transactions**

On 5 September 2014, the Company and Joincare (健康元) entered into the New Joincare (健康元) Purchases Agreement to revise the existing annual caps for the two years ended 31 December 2014 and 2015 to RMB260 million and RMB280 million respectively, and to set the annual cap for the year ending 31 December 2016 in respect of the transactions contemplated under the New Joincare (健康元) Purchases Agreement at RMB460 million.

The aggregate amount of the products and raw materials to be procured from the Joincare (健康元) Group for the year ending 31 December 2015 and 2016 is expected to exceed the abovementioned annual caps. In view of the above, the Company and Joincare (健康元) entered into a supplementary agreement on 24 September 2015 to further revise the annual caps for the two years ending 31 December 2015 and 2016, in compliance with Rule 14A.54 of the Hong Kong Listing Rules.



## CONNECTED TRANSACTIONS DEFINED IN HONG KONG LISTING RULES

(continued)

### Continuing Connected Transactions (continued)

Pursuant to the supplementary agreement, the Company and Joicare (健康元) agreed to further revise the annual caps for the two years ending 31 December 2015 and 2016 to RMB340 million and RMB572 million respectively. Save for the abovementioned amendments, all other terms of the New Joicare (健康元) Purchases Agreement shall remain unchanged and in full force. The supplementary agreement has been approved and effected on the 2015 Second Extraordinary Meeting of the Company convened on 11 November 2015.

At the time when the Supplementary Agreement was entered into, Joicare (健康元) directly and indirectly owned approximately 46.04% of the total issued share capital of the Company and therefore is the controlling Shareholder of the Company. Accordingly, Joicare (健康元) and its associates are connected persons of the Company and the transactions contemplated under the Supplementary Agreement constitute continuing connected transactions of the Company under Chapter 14A of the Hong Kong Listing Rules. For details of the transaction mentioned above, please refer to the announcement dated 24 September 2015 and the Circular dated 22 October 2015 of the Company.

As considered and approved at the 2015 Second Extraordinary General Meeting of the Company, the annual cap of products to be procured from the Joicare Group for the year ended 31 December 2015 is RMB340 million, while the aggregate amount of purchase arising from the transaction between the Company and Joicare (健康元) constituting "continuing connected transactions" under Chapter 14A of the Hong Kong Listing Rules was RMB294.18 million.

Connected Persons	Relationships	Type of connected transactions	Pricing principle of connected transactions	Amount of connected transactions in 2015 (RMB'0,000)	Proportion to transaction amount of the same category (%)
Zhuhai Joicare Pharmaceutical Co., Ltd. (珠海健康元生物醫藥有限公司)	Subsidiary of the controlling shareholder	Sale of goods	Determined by negotiation based on market price	0.74	0.00%
Guangzhou Joicare Respiratory Drugs Engineering Technology Co., Ltd. (廣州健康元呼吸藥物工程技術有限公司)	Subsidiary of the controlling shareholder	Sale of goods	Determined by negotiation based on market price	9.40	0.00%
Shenzhen Haibin Pharmaceutical Co., Ltd. (深圳市海濱製藥有限公司)	Subsidiary of the controlling shareholder	Provision of service	Determined by negotiation based on market price	151.08	56.06%
Zhuhai Joicare Pharmaceutical Co., Ltd. (珠海健康元生物醫藥有限公司)	Subsidiary of the controlling shareholder	Provision of service	Determined by negotiation based on market price	54.32	8.58%
Jiaozuo Joicare Pharmaceutical Industry Group Co., Ltd. (焦作健康元生物製品有限公司)	Subsidiary of the controlling shareholder	Purchase of goods	Determined by negotiation based on market price	26,640.80	14.71%

## CONNECTED TRANSACTIONS DEFINED IN HONG KONG LISTING RULES

(continued)

### Continuing Connected Transactions (continued)

Connected Persons	Relationships	Type of connected transactions	Pricing principle of connected transactions	Amount of connected transactions in 2015 (RMB '0,000)	Proportion to transaction amount of the same category (%)
Shenzhen Haibin Pharmaceutical Co., Ltd. (深圳市海濱製藥有限公司)	Subsidiary of the controlling shareholder	Purchase of goods	Determined by negotiation based on market price	2,756.63	1.52%
Health Pharmaceutical (China) Co., Ltd. (健康藥業(中國)有限公司)	Subsidiary of the controlling shareholder	Purchase of goods	Determined by negotiation based on market price	13.95	0.01%
Shenzhen Taitai Gene Engineering Co., Ltd. (深圳太太基因工程有限公司)	Subsidiary of the controlling shareholder	Purchase of goods	Determined by negotiation based on market price	0.85	0.00%
Joincare (健康元)	Controlling shareholder	Purchase of goods	Determined by negotiation based on market price	3.80	0.00%
Shenzhen Taitai Pharmaceutical Co., Ltd. (深圳太太藥業有限公司)	Subsidiary of the controlling shareholder	Purchase of goods	Determined by negotiation based on market price	1.49	0.00%
Jiaozuo Joincare Pharmaceutical Industry Group Co., Ltd. (焦作健康元生物製品有限公司)	Subsidiary of the controlling shareholder	Acceptance of service	Determined by negotiation based on market price	134.19	0.53%
Zhuhai Joincare Pharmaceutical Co., Ltd. (珠海健康元生物醫藥有限公司)	Subsidiary of the controlling shareholder	Lease of assets	Determined by negotiation based on market price	36.18	12.48%
Health Pharmaceutical (China) Co., Ltd. (健康藥業(中國)有限公司)	Subsidiary of the controlling shareholder	Lease of assets	Determined by negotiation based on market price	9.99	3.45%
Jiaozuo Joincare Pharmaceutical Industry Group Co., Ltd. (焦作健康元生物製品有限公司)	Subsidiary of the controlling shareholder	Lease of assets	Determined by negotiation based on market price	3.60	2.19%
Joincare (健康元)	Controlling shareholder	Lease of assets	Determined by negotiation based on market price	65.89	40.03%
Total				29,882.91	–

## CONNECTED TRANSACTIONS DEFINED IN HONG KONG LISTING RULES

*(continued)*

### Continuing Connected Transactions *(continued)*

#### **Confirmation from Independent Non-Executive Directors in respect of the above Connected Transactions**

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

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

#### **Confirmation from the Auditors in respect of the above Connected Transactions**

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

- The auditors did not notice any matter which caused them to believe that the above transactions had not been approved by the Board of the Company;
- In respect of transactions for provision of goods or services by the Group, the auditors did not notice any matter which caused them to believe that the above transactions had not been conducted in accordance with the pricing policies of the Group;
- The auditors did not notice any matter which caused them to believe that the above transactions had not been conducted in accordance with the relevant agreements governing such transactions; and
- The auditors did not notice any matter which caused them to believe that the amounts of such transactions had exceeded the Group's annual cap of transactions for the year ended 31 December 2015.



## CONNECTED TRANSACTIONS DEFINED IN HONG KONG LISTING RULES

*(continued)*

### Connected Transactions and Related Party Transactions

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

## MAJOR CONTRACTS AND ITS ENFORCEMENT

### Custody, Hiring and Leasing Matters

During the year, the Company had no custody, hiring or leasing of other companies' assets which generated 10% or more of total profit of the Company for the current period.

### Guarantees

During the year, the Company had no guarantee provided for companies other than its subsidiaries. The total guarantee for its subsidiaries amounted to RMB333.749 million. For the details, please refer to the relevant content in "Note XI. Related Party Transactions" as set out in the section headed "Financial Report" in the Report.

### Other Major Contracts

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

### Other Material Transactions

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

## PUNISHMENT AND RECTIFICATION

During the year, the Company was not a subject of punishment nor required to make any rectification.

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

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

## MATTERS OF COMMITMENTS

### Undertakings during B-to-H Share Conversion of the Company or re-financing

**Covenantors:** Shenzhen Baiyeyuan Investment Co., Ltd. (深圳市百業源投資有限公司), Joincare (健康元), Mr. Zhu Baoguo (朱保國), Ms. Liu Guangxia (劉廣霞) (collectively, the "Covenantors")

**Date of undertakings and their duration:** 10 January 2014; These undertakings will be effective for long term.

**Details of the undertakings:** Regarding the Company's implementation of listing and trading on the Main Board of the Hong Kong Stock Exchange by way of introduction of domestically listed foreign shares, the Covenantors have provided the non-competition undertakings as follows:

- "1. Subject to Articles 2 and 3 below, the Covenantors together with companies and individuals controlled thereof may not, at present or in the future, engage in businesses which may in any form, directly or indirectly, result in competition or potential competition with the pharmaceutical research, development, production and sale businesses by the Group from time to time (hereinafter referred to as the "Restricted Activities").
2. The Covenantors together with companies and individuals controlled thereof shall immediately notify the Company in writing and prioritise such business opportunity to the Group on reasonable and fair terms and conditions, upon discovering any new business opportunities which constituted competition with the Restricted Activities. If the Group waives such business opportunity, the Covenantors together with companies and individuals controlled thereof may accept such business opportunity on terms and conditions no more favourable than those made available to the Group.
3. As long as the Covenantors together with companies and individuals controlled thereof intend to transfer, dispose of, lease, allow to use, or otherwise transfer or allow to use such assets and businesses which may, directly or indirectly or potentially constitute competition with the Restricted Activities (hereinafter referred to as the "Disposal and Transfer"), the Covenantors together with companies and individuals controlled thereof shall provide pre-emptive rights to the Group on equivalent terms. If the Group waives such pre-emptive rights, major terms of the Disposal and Transfer between the Covenantors together with companies and individuals controlled thereof and other third parties may not be more favourable than the terms provided to the Group.
4. The Covenantors together with companies and individuals controlled thereof shall not engage in or carry on any business which may harm the interests of the Group or other shareholders by using their relationship with shareholders of the Group or their identity as shareholders of the Group.

**MATTERS OF COMMITMENTS** *(continued)***Undertakings during B-to-H Share Conversion of the Company or re-financing**  
*(continued)*

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



## MATTERS OF COMMITMENTS *(continued)*

### Undertakings during B-to-H Share Conversion of the Company or re-financing *(continued)*

7. Commencing from the date of issuing this relevant letter of undertaking, the Covenantors undertake that they shall bear related legal responsibilities and consequences arising from breach of any terms in the relevant letter of undertaking by the Covenantors (or subsidiaries of the Covenantors excluding the Group, and associate(s) of the Covenantors).
8. The above undertaking shall terminate upon occurrence of the following events (whichever is earliest):
  - a) The Covenantors and any subsidiaries thereof cease as controlling shareholders of the Company;
  - b) The shares of the Company are no longer listed on the Stock Exchange and other stock exchange overseas (save as suspension of trading of the shares of the Company due to any reason(s)).

**Compliance of undertakings:** have been complying.

**Covenantors:** Joincare (健康元) and Mr. Zhu Baoguo (朱保國)

**Date of undertakings and their duration:** 8 March 2016; These undertakings will be effective for long term.

**Details of the undertakings:** not to intervene in the operation and management of the Company beyond its authority, nor to infringe on the interest of the Company. Compliance of undertakings: have been complying.

**Compliance of undertakings:** have been complying.

**Covenantors:** Zhu Baoguo (朱保國), Tao Desheng (陶德勝), Yang Daihong (楊代宏), Fu Daotian (傅道田), Qiu Qingfeng (邱慶豐), Zhong Shan (鍾山), Xu Yanjun (徐焱軍), Wang Xiaojun (王小軍), Zheng Zhihua (鄭志華), Xie Yun (謝耘), Xu Guoxiang (徐國祥), Lu Wenqi (陸文岐), Si Yanxia (司燕霞), Yang Liang (楊亮)

**Date of undertakings and their duration:** 8 March 2016; These undertakings will be effective for long term.

**Details of the undertakings:**

1. I undertake not to transfer benefits to other units or individuals at nil consideration or on unfair conditions, nor to damage the interests of the Company by other means.
2. I undertake to impose restrictions on spending during performance of duties of directors and senior management.
3. I undertake not to apply any assets of the Company for investments and consumption activities that are irrelevant to the duties performed.
4. I undertake that the remuneration system set up by the Board or the remuneration committee will be linked with the implementation of remedial measures for returns of the Company.
5. If the Company subsequently launches a share incentive scheme, I undertake that the conditions for exercising the right in respect of the prospect share incentive scheme will be linked with the implementation of remedial measures for returns of the Company.

**Compliance of undertakings:** have been complying.

## MATTERS OF COMMITMENTS *(continued)*

### Other undertakings to minority shareholders of the Company

**Convenator:** Joincare (健康元)

**Date of undertakings and their duration:** 17 December 2008; These undertakings will be effective for long term.

**Details of the Undertakings:** “1. Joincare (健康元) shall strictly follow relevant provisions of the Guiding Opinions on Transfer of Shares subject to Trading Moratorium by Listed Companies ([2008] No. 15 notice) issued by CSRC when transferring the Group’s shares subject to trading moratorium held by it. 2. If Joincare (健康元) plans to dispose the released tradable shares held by it through the auction system of stock exchanges and its reduced shareholding amounts to 5% and more within 6 months since its first reduction date, it will disclose an indicative announcement through the Group within two trading days prior to the first reduction of shareholding.”

**Compliance of the undertakings:** During the year, the Covenantor had complied with the undertakings in good faith.

## SHARES PLEDGED BY THE CONTROLLING SHAREHOLDER

The Company noted on 29 May 2014, by a notice from Topsino Industries Limited (天誠實業有限公司) (“Topsino”), a wholly-owned subsidiary of Joincare (健康元), its controlling shareholder, that Topsino had entered into an equity interests pledge agreement with Nanyang Commercial Bank to pledge its 16,000,000 H Shares (the number of shares was increased to 20,800,000 shares after the Company’s implementation of 2014 Equity Distribution) of the Company to Nanyang Commercial Bank as security for the bank loans granted by Nanyang Commercial Bank to Topsino and Jiaozuo Joincare (健康元) Pharmaceutical Industry Group Co., Ltd. (焦作健康元生物製品有限公司), another wholly-owned subsidiary of Joincare (健康元). The pledge of equity interests shall be effective from 11 June 2014 on which Topsino deposited its H Shares of the Company with Nanyang Commercial Bank.

As at the end of the year, Joincare (健康元), the Company’s controlling shareholder, directly and indirectly, holds and controls a total of 182,159,367 Shares of the Company, representing 45.90% of the Company’s total issued shares. Among which, Topsino directly holds 65,858,067 H Shares of the Company, representing 16.59% of the Company’s total issued shares, and a total of 20,800,000 H Shares of the Company are subject to pledge, representing 5.24% of the Company’s total issued shares.

## THE NON-PUBLIC ISSUANCE OF A SHARES

On 2 November 2015, the Board approved the non-public issuance of A Shares (the “Issuance”) and relevant resolutions. The aggregate proposed funding to be raised from the proposed non-public issuance of domestic RMB ordinary shares (A Shares) with a nominal value of RMB1.00 each will not exceed RMB1,457,820,000. The upper limit of the total number of A Shares to be issued will not exceed the maximum funding to be raised under the Issuance divided by the minimum issue price of the Issuance, and will not exceed 20% (i.e. 38,000,000 shares, inclusive) of the total number of A shares of the Company as of the date when the general mandate to issue shares was granted to the Board as resolved at the 2014 General Meeting of the Company.

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

The Issuance shall proceed by way of non-public issuance, and such shares shall be issued to no more than 10 specific individuals within six months after the approval of CSRC is granted. All subscriptions shall be made in cash for the purpose of the issuance. Upon expiry of the lock up period, shares issued under the Issuance shall be listed on the Shenzhen Stock Exchange.

On 21 December 2015, the 2015 Third Extraordinary General Meeting was convened by the Company to resolve and approve the resolution of the Issuance and relevant resolutions, and granted to the Board the mandate to handle such matters in relation to the Issuance in its absolute discretion. On the same day, the Company confirmed that the issue price under the Issuance shall be no less than RMB45.03 per share, and the number of shares so issued shall be no less than 32,374,417 shares (including 32,374,417 shares). The final issuing price shall be determined by auction in accordance with Detailed Implementation Rules for the Non-Public Issuance by Listed Companies after the Issuance is approved by the CSRC, whereas the general meeting has authorized the Board to finalize the number of shares to be issued after discussing with the sponsor (the lead underwriter) according to relevant facts.

On 15 January 2016, the Company received the "Acceptance Notice of the Application for Administrative Permission from CSRC" (No. 160060) (《中國證監會行政許可申請受理通知書》(160060號)) issued by the CSRC. CSRC has reviewed the application materials of the "Non-public Issuance for Listed Companies" for the administrative permission submitted by the Company and decided to accept the Application for administrative permission for further processing.

On 16 February 2016, the Company received the "Notice regarding China Securities Regulatory Commission's Feedback on the Review of Administrative Permission Items" (No. 160060) (《中國證監會行政許可項目審查反饋意見通知書》(160060號)) issued by the CSRC. The Company and the relevant intermediate agencies were required to make illustration and explanation in respect of relevant issues in writing.

On 8 March 2016, the Board considered and made adjustments to resolutions on proposed adjustments to the plan of this issuance. The issuance amount is proposed to be adjusted to no more than 38 million shares (inclusive) and the pricing benchmark date was 9 March 2016 with the issue price no less than RMB38.36 per share. The proposal shall be submitted on the 2016 Second Extraordinary General Meeting to be considered and approved on 25 April 2016.

The Company has submitted "Application for Suspension of the Examination Process of Application Documents for the Non-public Issuance of A Shares" to the CSRC and received the "Notice of the Application for Administrative Permission for Suspension of Examination Process" (No. 160060) from CSRC for acceptance of the Company's application for suspension of examination process on 22 March 2016. After the consideration and approval of relevant resolutions in relation to adjustments to the issuance plan on the Second 2016 Extraordinary General Meeting, the Company will continue to carry on issuance work and timely submit application to CSRC to restore the examination process.

As at the date of the annual report, the issuance is pending the approval from the CSRC.

**DURING THE YEAR, NO EXPLANATION HAS BEEN GIVEN BY THE SUPERVISORY COMMITTEE AND INDEPENDENT DIRECTORS BECAUSE NO "NON-STANDARD AUDITORS' REPORT" WAS ISSUED BY THE ACCOUNTING FIRM.**



## SHARE CAPITAL

During the year, the Company had 4 changes in its share capital as follows: (1) on 9 April 2015, the Company completed the First Grant under the Restricted A Shares Incentive Scheme, pursuant to which a total of 8,660,400 shares were granted, and the Restricted Shares under the First Grant were listed on the Shenzhen Stock Exchange on 14 April 2015; (2) on 14 August 2015, the Company completed the 2014 Equity Distribution, in which the Company issued 3 shares for every 10 shares held to all shareholders of the Company by way of capitalizing our capital reserve, and the share capital has increased by 91,314,675 shares (including 57,716,669 A Shares and 33,598,006 H Shares); (3) on 14 December 2015, the Company completed the repurchase and cancellation of the Restricted Shares, pursuant to which the share capital has decreased by 93,080 shares; (4) on 29 December 2015, the Company completed the Reserved Grant under the Restricted A Shares Incentive Scheme which led to changes in the share capital, pursuant to which 1,285,700 shares were granted, and the Restricted Shares under the Reserved Grant were listed on the Shenzhen Stock Exchange on 31 December 2015.

As at 31 December 2015, the share capital structure of the Company is as follows:

Unit: Share

		Before the current change		Increase/Decrease (+,-) due to the current change			After the current change	
		Number	Percentage	Reserved Fund Capitalised	Others	Sub-total	Number	Percentage
I.	Shares subject to selling restrictions	6,059,428	2.05%	+4,415,948	+9,853,020	14,268,968	20,328,396	5.12%
1	State-owned shares	—	—	—	—	—	—	—
2	State-owned legal person shares	6,059,428	2.05%	+1,817,828	—	1,817,828	7,877,256	1.98%
3	Other domestic shares	—	—	+2,598,120	+9,853,020	12,451,140	12,451,140	3.14%
	Of which: Domestic legal person shares	—	—	—	—	—	—	—
	Domestic natural person shares	—	—	+2,598,120	+9,853,020	12,451,140	12,451,140	3.14%
4	Foreign shares	—	—	—	—	—	—	—
	Of which: Overseas legal person shares	—	—	—	—	—	—	—
	Overseas natural person shares	—	—	—	—	—	—	—
II.	Shares not subject to selling restrictions	289,662,424	97.95%	+86,898,727	—	86,898,727	376,561,151	94.88%
1	Ordinary shares denominated in Renminbi	177,669,070	60.08%	+53,300,721	—	53,300,721	230,969,791	58.19%
2	Domestically listed foreign shares	—	—	—	—	—	—	—
3	Overseas listed foreign shares	111,993,354	37.87%	+33,598,006	—	33,598,006	145,591,360	36.68%
4	Others	—	—	—	—	—	—	—
III.	Total number of shares	295,721,852	100%	+91,314,675	+9,853,020	101,167,695	396,889,547	100.00%

### Changes in shares with selling restrictions

Unit: Share

Name of shareholder	Number of shares with selling restrictions at the beginning of the period	Number of shares relieved from restrictions for the period	Increase in number of shares with selling restrictions in the period	Number of shares with selling restrictions at the end of the period	Reasons for selling restrictions
Guangzhou Begol Trading Corporation	6,059,428	0	1,817,828	7,877,256	the Company implemented its 2014 annual equity distribution, capitalising capital reserve on the basis of 3 shares for every 10 shares
Total	6,059,428	0	1,817,828	7,877,256	—

## NUMBER OF SHAREHOLDERS AND SHAREHOLDINGS OF THE COMPANY

### Numbers of Shareholders

As of the end of the year, the Company had a total of 18,068 Shareholders which included 4 H Shareholders <sup>(Note 1)</sup> and 18,064 A Shareholders. Among them, 18,067 Shareholders have no selling restrictions and 1 Shareholder has selling restrictions.

### Shareholdings of Top Ten Shareholders of the Company

Name of shareholder (Full name)	Nature of shareholder	Class of shares	Shareholding percentage (%)	Number of shares held at the end of the year (Shares)	Change during the year (Shares)	Number of shares with selling restrictions (Shares)	Pledge or lock up	
							Share status	Number
HKSCC Nominees Limited <sup>(Note 2)</sup>	Foreign legal person	H Share	36.68%	145,588,370	33,595,916	20,800,000 <sup>(Note 2)</sup>	Pledge	20,800,000 <sup>(Note 2)</sup>
Joincare Pharmaceutical Industry Group Co., Ltd.	Domestic non-state owned legal person	A Share	25.39%	100,763,218	23,253,051	–	–	–
Guangzhou Begol Trading Corporation	State owned legal person	A Share	1.98%	7,877,256	1,817,828	7,877,256	Pledge and lock up	7,877,256
Shenzhen Haibin Pharmaceutical Co., Ltd.	Domestic non-state owned legal person	A Share	1.93%	7,660,826	1,767,883	–	–	–
China Securities Finance Corporation Limited	State owned legal person	A Share	1.46%	5,796,651	5,796,651	–	–	–
Central Huijin Investment Company Limited	State owned legal person	A Share	1.38%	5,487,820	5,487,820	–	–	–
Everbright Securities Co. Ltd.	Domestic non-state owned legal person	A Share	1.31%	5,195,000	5,195,000	–	–	–
National Social Security Fund 110	Others	A Share	0.72%	2,872,799	2,872,799	–	–	–
Bank of Communications Co., Ltd. – ICBC Credit Suisse Double Income Bond-Based Securities Investment Fund	Others	A Share	0.54%	2,159,843	2,159,843	–	–	–
Agricultural Bank of China – Greatwall Anxin Return Mixed Type Securities Investment Fund	Others	A Share	0.50%	2,000,000	–3,362,584	–	–	–

### Shareholdings of top ten shareholders without selling restrictions

Name of shareholder (Full name)	Number of shares held without selling restriction at the year end (Shares)	Type of shares	
		Category of shares	Number (Shares)
HKSCC Nominees Limited <sup>(Note 2)</sup>	124,788,370	H Shares	124,788,370
Joincare Pharmaceutical Industry Group Co., Ltd.	100,763,218	A Shares	100,763,218
Shenzhen Haibin Pharmaceutical Co., Ltd.	7,660,826	A Shares	7,660,826
China Securities Finance Corporation Limited	5,796,651	A Shares	5,796,651
Central Huijin Investment Company Limited	5,487,820	A Shares	5,487,820
Everbright Securities Co. Ltd.	5,195,000	A Shares	5,195,000
National Social Security Fund 110	2,872,799	A Shares	2,872,799
Bank of Communications Co., Ltd. – ICBC Credit Suisse Double Income Bond-Based Securities Investment Fund	2,159,843	A Shares	2,159,843
Agricultural Bank of China – Greatwall Anxin Return Mixed Type Securities Investment Fund	2,000,000	A Shares	2,000,000
AIFMC Herun Structured Hybrid Securities Investment Fund	1,594,797	A Shares	1,594,797

## NUMBER OF SHAREHOLDERS AND SHAREHOLDINGS OF THE COMPANY

(continued)

### Shareholdings of top ten shareholders without selling restrictions (continued)

Description on connection and concert in actions among top ten shareholders without selling restrictions themselves and between top ten shareholders without selling restrictions and top ten shareholders	(1) On 2 January 2004, Joincare (健康元) and Guangzhou Begol Trading Corporation (廣州市保科力貿易公司) (hereinafter referred to as "Begol") entered into a share transfer and custody agreement and a share pledge agreement, pursuant to which the 6,059,428 original domestic legal person shares (the number of shares was increased to 7,877,256 shares after the Company's implementation of 2014 Equity Distribution) of the Company held by Begol have been directly transferred, entrusted and pledged to Joincare (健康元); (2) Shenzhen Haibin Pharmaceutical Co., Ltd. (深圳市海濱製藥有限公司) is Joincare's directly and indirectly wholly-owned subsidiary; (3) the Company does not know whether the other shareholders mentioned above are related parties or persons acting-in-concert as defined in the Administration Procedures of the Takeover of Listed Companies.
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*Note 1:* Total number of H Shareholders is calculated based on the record of Tricor Investor Services Limited, the H Share Registrar of the Company.

*Note 2:* HKSCC Nominees Limited is a nominee holder of H Shares of the Company and the shareholdings under its name for others include 65,858,067 H Shares held by Topsino Industries Limited (天誠實業有限公司), which is a wholly-owned subsidiary of Joincare (健康元), the Company's controlling shareholder (Topsino Industries Limited has entered into an equity interest pledge agreement with Nanyang Commercial Bank to pledge its 16,000,000 H Shares (the number of shares was increased to 20,800,000 shares after the Company's implementation of 2014 Equity Distribution) held in the Company to Nanyang Commercial Bank. The effective date of the pledge is 11 June 2014. Please see Chapter VII "Major Events" of this annual report for details).



As at 31 December 2015, the interests and short positions of the substantial shareholders and other persons (within the meaning of SFO), other than the Directors, Supervisors or chief executives of the Company, in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO were as follows:

Name of shareholder	Capacity	Number of the Shares interested/subject to the short position	Position	As a percentage of the specific class of issued share of the Company	As a percentage of the total issued shares of the Company
<b>Substantial shareholder</b>					
Baiyeyuan	Interest of controlled corporations	116,301,300 A Shares <sup>(1)</sup>	Long position	46.28%	29.30%
	Interest of controlled corporations	65,858,067 H Shares <sup>(2)</sup>	Long position	45.23%	16.59%
Ms. Liu Guangxia (劉廣霞女士)	Spouse interest	116,301,300 A Shares <sup>(3)</sup>	Long position	46.28%	29.30%
		65,858,067 H Shares <sup>(3)</sup>	Long position	45.23%	16.59%
Joincare (健康元)	Beneficial owner	100,763,218 A Shares	Long position		
	Interest of controlled corporations	7,660,826 A Shares <sup>(4)</sup>	Long position		
	Person having a security interest in shares	7,877,256 A Shares <sup>(5)</sup>	Long position		
		116,301,300 A Shares		46.28%	29.30%
	Interest of controlled corporations	65,858,067 H Shares <sup>(2)</sup>	Long position	45.23%	16.59%
Topsino Industries Limited (天誠實業有限公司) ("Topsino")	Beneficial owner	65,858,067 H Shares <sup>(2)</sup>	Long position	45.23%	16.59%
<b>Other persons</b>					
UBS AG	Beneficial owner	163 H Shares <sup>(6)</sup>	Long position		
	Person having a security interest in shares	1,353,700 H Shares <sup>(6)</sup>	Long position		
	Interest of controlled corporations	7,420,602 H Shares <sup>(6)</sup>	Long position		
		8,774,465 H Shares		6.03%	2.21%
	Interest of controlled corporations	24,630 H Shares <sup>(7)</sup>	Short position	0.02%	0.01%
UBS Group AG	Person having a security interest in shares	1,353,700 H Shares <sup>(8)</sup>	Long position		
	Interest of controlled corporations	7,420,765 H Shares <sup>(8)</sup>	Long position		
		8,774,465 H Shares		6.03%	2.21%
	Interest of controlled corporations	24,630 H Shares <sup>(8)</sup>	Short position	0.02%	0.01%

**Notes:**

- (1) Among these shares, 108,640,474 shares and 7,660,826 shares are held directly by Joincare (健康元) and its wholly-owned subsidiary, Shenzhen Haibin Pharmaceutical Co., Ltd. (深圳市海濱製藥有限公司).
- (2) These shares are held directly by Topsino, a wholly-owned subsidiary of Joincare (健康元).
- (3) As Ms. Liu Guangxia is the spouse of Mr. Zhu Baoguo, Ms. Liu Guangxia is deemed to be interested in Mr. Zhu Baoguo's equities in which he is deemed to be interested.
- (4) These shares are held directly by Shenzhen Haibin, a wholly-owned subsidiary of Joincare (健康元).
- (5) These shares were directly transferred from, entrusted and pledged by Guangzhou Begol Trading Corporation (廣州市保科力貿易公司) ("Begol") in favor of Joincare (健康元) in accordance with the share transfer, custody and pledge agreement with Joincare (健康元) and Zhuhai Lishi Investment Co., Ltd. (珠海市麗士投資有限公司) dated 2 January 2014, the share transfer and custody agreement and the share pledge agreement with Joincare (健康元).
- (6) These shares include 163 shares that are beneficially owned, 1,353,700 shares with security interest and 7,420,602 shares that are interest of controlled corporations. Among which 2,130 shares are derivatives settled by cash. Interest of controlled corporations is held as to 6,224,210 shares, 1,010,882 shares, 160,580 shares, 300 shares and 24,630 shares by its wholly-owned UBS Fund Services (Luxembourg) S.A., UBS Global Asset Management (Hong Kong) Limited, UBS Global Asset Management (Singapore) Ltd, UBS Global Asset Management Trust Company and UBS Securities LLC respectively.
- (7) These short positions are held by its wholly-owned UBS Securities LLC.
- (8) As UBS Group AG holds 98.02% of the interest of UBS AG, UBS Group AG is deemed to be interested in UBS AG's equities in which it is interested.

**CONTROLLING SHAREHOLDER OF THE COMPANY**

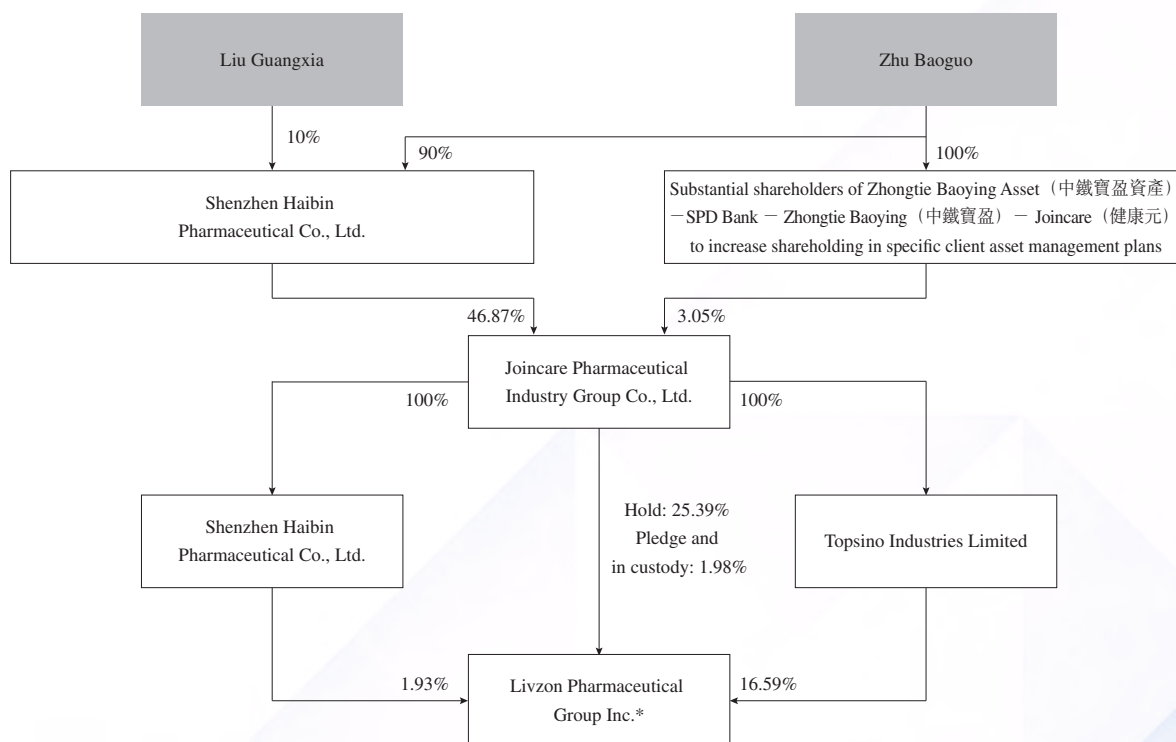
Name of Controlling Shareholder	Joincare Pharmaceutical Industry Group Co., Ltd. (健康元藥業集團股份有限公司)
Legal representative	Zhu Baoguo (朱保國)
Date of establishment	18 December 1992
Registered capital	RMB1,583,879,292
Principal activities	Research and development of Chinese medicines, chemical bulk medicines, chemical drug preparation products, antibiotics bulk medicines and their preparations, food, health food supplements, cosmetics, (exclusive of research and development of state protected resources for Chinese herbal medicines, secret recipe of Chinese medicines), wholesale, import and export and related supplementary businesses (except the commodities subject to the state-run trade management with regard to the commodities subject to quota and license management, make applications in accordance with the relevant regulations of the State)

**ULTIMATE BENEFICIAL OWNER OF THE COMPANY**

Name of the ultimate beneficial owner	Zhu Baoguo (朱保國)
Nationality	Chinese
Obtain any right of residence of other countries or regions	No
Careers and duties for the past five years	Please see related details in the section headed "Directors, Supervisors, Senior Management and Employees" in Chapter IX in this annual report.
Controlled domestic and overseas listed companies for the past ten years	Joincare (健康元)

**ULTIMATE BENEFICIAL OWNER OF THE COMPANY** *(continued)*

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





**ULTIMATE BENEFICIAL OWNER OF THE COMPANY** *(continued)*

Notes:

1. Zhu Baoguo (朱保國) is the spouse of Liu Guangxia (劉廣霞).
2. On 9 April 2015, after Hongxinghang Co., Ltd ("Hongxinghang"), the former second largest shareholder of Joincare (健康元), agreed to transfer part of its shares held in Joincare (健康元), it was interested in 4.81% of Joincare's total issued share capital. On the same day, Able City Investment Limited (formerly holding 0.1% of Hongxinghang's issued equity), the former shareholder of Hongxinghang, and Taitai Pharmaceutical Industry Group Limited (formerly holding 99.9% of Hongxinghang's issued equity) resold all of the held Hongxinghang's issued equity and interest by a share transfer agreement. After this change in equity, Able City Investment Limited and Taitai Pharmaceutical Industry Group Limited ceased to hold any share and interest in Hongxinghang, and Mr. Zhu Baoguo (朱保國), the ultimate beneficial owner of Joincare (健康元) and his mother Ms. Liu Miao (劉苗) also ceased to hold any interest and revenue in Hongxinghang indirectly.

By 15 September 2015, Mr. Zhu Baoguo (朱保國) increased shareholding in Joincare (健康元) by 48,277,046 shares in the form of targeted asset management scheme(s) through the Shanghai Stock Exchange centralized bidding trading system, amounting to 3.05% of total share capital of Joincare (健康元). Prior to the increase in shareholding, Mr. Zhu Baoguo (朱保國) indirectly held 742,415,520 shares without selling restrictions through Shenzhen Baiyeyuan Investment Co., Ltd., (深圳市百業源投資有限公司) accounting to 46.87% of the total issued share capital of Joincare (健康元). After completing the increase of shareholding, Mr. Zhu Baoguo (朱保國) indirectly held 790,692,566 shares without selling restrictions of Joincare (健康元), accounting to 49.92% of the total issued share capital of Joincare (健康元). The amount of proceeds applied in the increase of shareholding by Mr. Zhu Baoguo (朱保國) amounted to RMB499,999,401.27 (tax, etc included) and the increase in shareholding has been completed.

**SUFFICIENT PUBLIC FLOAT**

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

## BRIEF BIOGRAPHIES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

As of the date of this annual report, brief biographies of the current Directors, Supervisors and senior management of the Company are as follows:

### Brief Biography of Executive Director

Mr. Tao Desheng (陶德勝先生), aged 51, who joined the Company in 1985 is currently our Executive Director, Vice Chairman, President, authorised representative and a committee member of Strategic Committee, Nomination Committee and Remuneration and Assessment Committee, and also served as a Director in other subsidiaries of the Group. Mr. Tao graduated with a bachelor's degree in chemistry from the faculty of pharmaceutical chemistry of the Nanjing School of Pharmaceutical Sciences (南京藥學院). From 2000 to 2002, Mr. Tao attended a postgraduate advanced course in enterprise management organised by Sun Yat-Sen University (中山大學). Mr. Tao obtained his licensed pharmacist qualification (執業藥師) in October 2002 and the title of senior engineer in pharmaceutical manufacturing (professor) (製藥專業高級工程師(教授)職稱) in 2013. Mr. Tao has been the vice president and president of our Company since June 2005 and March 2014, respectively. He has been our Vice Chairman and our Executive Director from August 2014 and July 2009 onwards, respectively.

Mr. Yang Daihong (楊代宏先生), aged 49, who joined the Company in 1997 is currently our Executive Director, Vice President, pharmaceutical engineer and a licenced pharmacist. He studied at China Pharmaceutical University (中國藥科大學) from 1984 to 1988 and was awarded a bachelor's degree in science. From 2000 to 2002, Mr. Yang attended a course in enterprise management organised by the Business School of Sun Yat-Sen University (中山大學). Mr. Yang obtained qualifications as a pharmaceutical engineer and a licenced pharmacist. From 1999 to 2009, Mr. Yang was the deputy factory manager and factory manager of Livzon Group Livzon Pharmaceutical Factory (麗珠集團麗珠製藥廠). Mr. Yang has been our Vice President and Executive Director from May 2006 to present and from October 2014 to present, respectively.

Mr. Fu Daotian (傅道田先生), aged 53, is currently our Executive Director and Vice President and serves as a Director of the Company's subsidiary. Mr. Fu graduated from Iowa State University and obtained his doctorate degree in 1989, and carried out his postdoctoral research at the Complex Carbohydrate Research Center in University of Georgia in 1990. He served as the analysis and research manager and the quality control manager of Neose Pharmaceuticals from 1992 to 1998, as a director at Primedica division of Genzyme Transgenics Corporation in the United States from 1998 to 2001, as the technology director, senior technology director and deputy president in technology research from 2001 to 2012. He has been the deputy general manager and the general manager of Livzon MABPharm Inc. from 2012 to present, and our Vice President and our Executive Director from March 2014 and from June 2014 to present, respectively. From July 2014 to present, he has served as a director of EPIRUS BIOPHARMACEUTICALS, INC. (NASDAQ:EPRS). From May 2015 to present, he has served as a director CYNVENIO BIOSYSTEMS, INC.

## BRIEF BIOGRAPHIES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT *(continued)*

### Brief Biographies of Non-executive Directors

Mr. Zhu Baoguo (朱保國先生), aged 53, is currently our Chairman, Non-executive Director and the Chairman of our Strategic Committee, and also served as a Director in other subsidiaries of the Group. Mr. Zhu obtained his bachelor's degree in chemistry from Henan Normal University (河南師範大學) in 1985. Since 2002 to present, Mr. Zhu has been the chairman of our Board and since April 2006 to September 2013, he has also been the president of our Company. Mr. Zhu is also the founder of Joicare (健康元), and is currently the chairman of Joicare (健康元). Since June 2012, Mr. Zhu has been the vice chairman of Shenzhen Federation of Industry and Commerce (深圳市工商業聯合會). Mr. Zhu Baoguo is the spouse of Ms. Liu Guangxia (劉廣霞女士), being one of our controlling shareholders.

Mr. Qiu Qingfeng (邱慶豐先生), aged 44, is currently our Non-executive Director. Mr. Qiu obtained his MBA from China Europe International Business School (中歐國際工商學院) in September 2007. Mr. Qiu joined Shenzhen Taitai Pharmaceutical Company Limited (深圳太太藥業有限公司) in 1996 and is currently a director and the secretary to the board of directors of Joicare Pharmaceutical Industry Group Co., Ltd. (健康元藥業集團股份有限公司). Mr. Qiu was the Supervisor and the Chief Supervisor of the Company from June 2005 to April 2007. Mr. Qiu has been our Non-executive Director from April 2007 to present.

Mr. Zhong Shan (鍾山先生), aged 44, is currently our Non-executive Director and a committee member of our Strategic Committee. Mr. Zhong graduated from the applied chemistry profession of the Faculty of Applied Chemistry of Huaqiao University (華僑大學) and obtained a bachelor's certificate in 1993. From July 1994 to April 2000, Mr. Zhong worked in the Guangzhou branch of Deloitte Touche Tohmatsu and Deloitte Touche Tohmatsu (Hong Kong) which provide auditing and accounting consultancy services. Mr. Zhong joined Joicare Pharmaceutical Industry Group Co., Ltd. (健康元藥業集團股份有限公司) in 2001 and is currently the vice general manager of Joicare (健康元). Mr. Zhong has been our Non-executive Director from April 2007 to present.

### Brief Biographies of Independent Non-executive Directors

Mr. Xu Yanjun (徐焱軍先生), aged 43, is currently our Independent Non-executive Director, chairman of our Audit Committee and a member of our Remuneration and Assessment Committee and an associate professor and a postgraduate tutor at the International Business School of Jinan University (暨南大學), and an external expert of Zhuhai Science, Industry, Trade & Information Technology Bureau as well as Zhuhai Finance Bureau. He is also a member of China Association Promoting Democracy and a Chinese certified public accountant. Mr. Xu graduated from Wuhan University (武漢大學) and obtained his bachelor degree of science in 1995, graduated from Zhongnan University of Economics and Law (中南財經政法大學) and obtained his master degree in accounting in 2003, and graduated from Jinan University (暨南大學) and obtained his doctorate degree in management (accounting) in 2010. He had served as a quality controller at Wuhan Research Institute of Biological Products of Sinopharm Group, a project manager of Huibei An Yong Xin Accounting Firm (湖北安永信會計師事務所), a project manager at Guangdong Branch of Zhongxingcai Guanghua CPA (formerly Zhuhai Yoanda CPA) and the department head of Finance Department at Zhuhai College of Jinan University (暨南大學). He has been an independent director of Zhuhai Hokai Medical Instruments Co., Ltd. (300273.SZ) from April 2013 to present. He has been our Non-executive Director from June 2014 to present.



## BRIEF BIOGRAPHIES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT *(continued)*

### Brief Biographies of Independent Non-executive Directors *(continued)*

Mr. Guo Guoqing (郭國慶先生), aged 54, is currently our Independent Non-executive Director, the Chairman of our Remuneration and Assessment Committee and a member of our Audit Committee and Nomination Committee. Mr. Guo obtained his doctoral degree in economics from Renmin University of China (中國人民大學) in January 1998. Mr. Guo is a committee member of 7th All-China Youth Federation (全國青聯會), 8th, 9th and 10th CPPCC National Committee (全國政協), a member of the 11th National People's Congress (全國人民代表大會) and a member of the Democratic League of China (中國民主同盟) Central Committee. He was one of the experts entitled to special subsidy granted by the State Council of the PRC. Mr. Guo has successively been a deputy director of the School of Trade Economics, the vice-president of the Faculty of Business Administration of Renmin University of China and the vice chairman of China Marketing Association of University (中國高校市場學研究會). Mr. Guo is currently a professor and doctoral tutor of the School of Business of Renmin University of China (中國人民大學) and the director of PRC marketing research centre of Renmin University of China (中國人民大學). Mr. Guo is also a consultant of China Marketing Association of University (中國高校市場學研究會), the vice-president of PRC Business History Society (中國商業史學會) and an expert of the National Natural Science Foundation of Management Science Review Panel (國家自然科學基金委員會管理科學部評審組). Mr. Guo has been our Independent Non-executive Director from June 2013 to present.

Mr. Guo Guoqing (郭國慶先生) has held directorship in other listed companies as follows:

Name of listed company and stock code	Position	Period
Longrun Tea Group Company Limited (龍潤茶集團有限公司) (02898.HK)	Independent Non-executive Director	August 2002 – present
Beijing Wangfujing Department Store (Group) Co., Ltd. (北京王府井百貨(集團)股份有限公司) (600859.SH)	Independent Director	June 2011 – present
Gree Real Estate Co., Ltd. (格力地產股份有限公司) (600185.SH)	Director	July 2015 – present
Gree Real Estate Co., Ltd. (格力地產股份有限公司) (600185.SH)	Independent Director	August 2010 – July 2015
Sinosteel Jilin Carbon Co., Ltd. (中鋼集團吉林炭素股份有限公司) (000928.SZ)	Independent Director	June 2011 – May 2014
Jiugui Liquor Co., Ltd. (酒鬼酒股份有限公司) (000799.SZ)	Independent Director	July 2008 – August 2014

## BRIEF BIOGRAPHIES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT *(continued)*

### Brief Biographies of Independent Non-executive Directors *(continued)*

Mr. Wang Xiaojun (王小平先生), aged 61, is currently our Independent Non-executive Director. Mr. Wang graduated from Renmin University of China (中國人民大學) majoring in law in July 1983 and graduated from the Graduate School of the Chinese Academy of Social Sciences (中國社會科學院) in December 1986. Mr. Wang qualified as a lawyer in the PRC in 1988, and passed solicitor qualifying examinations in Hong Kong in 1992. Mr. Wang currently holds lawyer licences in Hong Kong, England and the PRC. During the period from 1992 to 2001, Mr. Wang served as an assistant manager in the China Listing Affairs Unit of the Hong Kong Stock Exchange, a solicitor of Richards Butler, an assistant director of Peregrine Capital Limited and a director of ING Barings Investment Bank. In 2001, he established X.J. Wang & Co. Mr. Wang is currently a partner of Junhe Law Offices. Mr. Wang was named as "Leading Lawyers in Capital Markets and Corporate Finance" by Asialaw from 2008 to 2015. Mr. Wang has been our Independent Non-executive Director from September 2013 to present.

Mr. Wang Xiaojun (王小平先生) has held directorship in other listed companies as follows:

Name of listed company and security code	Position	Period
Yanzhou Coal Mining Company Limited (兗州煤業股份有限公司) (01171.HK)	Independent Non-executive Director	May 2011 – present
China Aerospace International Holdings Limited (中國航天國際控股有限公司) (00031.HK)	Independent Non-executive Director	March 2013 – present
OP Financial Investments Limited (東英金融投資有限公司) (01140.HK)	Independent Non-executive Director	August 2004 – present
Norinco International Co. Ltd. (北方國際合作股份有限公司) (000065.SZ)	Independent Director	June 2008 – April 2014
Zijin Mining Group Co., Ltd. (紫金礦業集團股份有限公司) (02899.HK)	Independent Non-executive Director	November 2009 – October 2013

Mr. Zheng Zhihua (鄭志華先生), aged 45, is currently our Independent Non-executive Director. He graduated from Medical Enterprises Management, China Pharmaceutical University with a Bachelor of Science degree in July 1992. In July 2002, he received an MSc in Biochemistry (pharmacy direction) from Sun Yat-sen University. Since 1992, Mr. Zheng has worked in Guangdong Pharmaceutical Association, and served as a committee member, deputy head of the Information Division, head of the Academic Division and the deputy secretary-general, and is currently as and the secretary-general. He was qualified as a director pharmacist by the Department of Personnel of Guangdong Province in 2007. Mr. Zheng has been our Independent Non-executive Director from June 2015 to present.

Mr. Xie Yun (謝耘先生), aged 45, is currently our Independent Non-executive Director, Chairman of the Nomination Committee and a member of the Audit Committee. Mr. Xie Yun graduated from the School of Finance, Shanghai University of Finance and Economics with a Bachelor Degree in 1993, and has obtained a Master of Business Administration Degree from the International East-West University in the United States in 2000. From 1993 to 2011, he has worked as an office director and financial manager in Zhuhai Airport Power Station Limited Company\* (珠海機場電廠有限公司); as a sales manager, general manager assistant and vice-general manager in Zhuhai Huidafeng Electric Power Development (Group) Co., Ltd. of Zhuhai Electrical Bureau\* (珠海電力局珠海匯達豐電力發展(集團)有限公司); as a director and general manager in Southern Zhuhai Hua Litong Special Transformer Limited Company\* (珠海南方華力通特種變壓器有限公司); as a director of human resources department and director of business development in Zhuhai Water Affairs Group Limited\* (珠海水務集團有限公司). He is currently the deputy general manager in Leaguer Stock Co., Ltd. (力合股份有限公司). Mr. Xie has been our Independent Non-executive Director, Chairman of the Nomination Committee and a member of the Audit Committee from June 2015 to present.

## BRIEF BIOGRAPHIES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT *(continued)*

### Brief Biographies of Supervisors of the Company

Mr. Wang Maolin (汪卯林先生), aged 50, graduated from the Law Department of Anhui University (安徽大學) and was awarded with a bachelor's degree in Law. From January 2001 to present, Mr. Wang has been our Chief Supervisor of the legal supervision head office. Mr. Wang has been the chairman of our labour union and the employee representative supervisor of our Supervisory Committee from January 2010 to present. In January 2012, Mr. Wang was elected as a representative of 8th Zhuhai People's Congress (珠海市第八屆人民代表大會). He has served as the Chief Supervisor of our Supervisory Committee from June 2014 to present.

Mr. Huang Huamin (黃華敏先生), aged 45, is currently our Supervisor. Mr. Huang, an accountant, obtained a bachelor's degree in Economics from the Shanghai University of Finance and Economics (上海財經大學) in 1993. Mr. Huang has been the chief financial officer and assistant to the general manager of Livzon Group Lixin Co. Ltd. (麗珠集團麗新公司), the manager of the finance department and business department of Livzon Group Liwei Co., Ltd. (麗珠集團麗威公司) as well as the manager of our finance clearing centre. From September 2008 to May 2009, Mr. Huang was employed by Zhuhai Gree Real Estate Co., Ltd. (珠海格力房產有限公司). Mr. Huang has been the chief financial controller, the secretary to the board of directors of Gree Real Estate Co., Ltd. (格力地產股份有限公司) and vice president of Gree Real Estate Co., Ltd. (格力地產股份有限公司) since May 2009, October 2009 and March 2016 to present, respectively. Mr. Huang was elected as the Supervisor of our Supervisory Committee from June 2013 to present.

Mr. Tang Yin (湯胤先生), aged 41, is currently our Supervisor. He obtained a double degree in mechanics and mathematics from the South China Institute of Technology in 1996, a master degree in science from the Department of Applied Mathematics from the South China Institute of Technology in 1999, and a doctor degree in the Intelligent Calculation Team of the Faculty of Computer in 2004. Since 2004 to present, he has been the deputy professor and master tutor of the Management Faculty of Jinan University, an assistant to director of the Faculty of Entrepreneurship and the director of Internet Innovation Institute of Jinan University. Since 2013 to present, he has held the position of the consultant in information technology and e-commerce of Guangdong Wellfull Holding Group. He is also the deputy secretary of Guangzhou Internet Association, committee member of Guangdong Electronic Commerce Association, vice president of Guangzhou Electronic Commerce and Internet Economy Association and council member of Guangdong Mobile Economy Association. He has been our Supervisor of the Supervisory Committee since February 2016 to present.

### Brief Biographies of Other Senior Management of the Company

Mr. Xu Guoxiang (徐國祥先生), aged 53, is currently our Vice President. From November 2010 to November 2011, Mr. Xu attended an advanced EMBA course in PRC's pharmaceutical industry organised by the Medical School of Peking University (北京大學醫學部) and obtained a completion certificate. From 2000 to 2005, Mr. Xu was the director of Yangtze River Pharmaceutical Co., Ltd. (揚子江製藥股份有限公司). In March 2007, Mr. Xu was our Chief Sale Supervisor and the general manager of our branch company in Henan Province. Mr. Xu has been our Vice President from December 2007 to present. He is currently the vice president of China Association of Pharmaceutical Commerce, and the executive director of the Chinese Hospital Association.

Mr. Lu Wenqi (陸文岐先生), aged 48, is currently our Vice President. Mr. Lu obtained his bachelor's degree in industrial electrical automation from Huazhong University of Science and Technology (華中科技理工大學) in 1988. From 1995 to 2006, Mr. Lu worked as the manager of the project development department of Shenzhen Taitai Pharmaceutical Co., Ltd. (深圳太太藥業有限公司) and a director of the research institute of Joincare Pharmaceutical Industry Group Co., Ltd. (健康元藥業集團股份有限公司) (600380.SH). Mr. Lu has been our Vice President from October 2006 to present.



## BRIEF BIOGRAPHIES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT *(continued)*

### Brief Biographies of Other Senior Management of the Company *(continued)*

Ms. Si Yanxia (司燕霞女士), aged 47, is currently the Vice President and Chief Financial Officer of the Company. She graduated from the Department of Accounting at Shanxi University of Finance and Economics (山西財經學院) with a bachelor degree in July 1990. She is an accountant and finished part-time CFO study at China Europe International Business School (中歐國際工商學院) from July 2005 to November 2005. She joined the Company since April 1993 and was the manager of the Capital Settlement Center and the manager of the Accounting Center of the Finance & Accounting Head Office of the Group. She has been our Director of Finance & Accounting Head Office from April 2004 to June 2014 and our Vice President and Chief Financial Officer since June 2014 to present.

Mr. Yang Liang (楊亮先生), aged 32, is currently the Secretary to the Board, Company Secretary and authorised representative of the Company. In 2006, he graduated from Jinan University with a Bachelor Degree in Management. He then graduated from the College of Business Administration at South China University of Technology (華南理工大學) with a Master Degree in Management in 2008. He has worked as senior investment project manager in the Secretariat of the Board of the Company since August 2011. From July 2010 to July 2011, he served as the strategic performance director in the Department of Enterprises Management of China International Marine Containers (Group) Ltd. (CIMC, 000039.SZ, 02039.HK). From May 2008 to June 2010, Mr. Yang worked successively as strategic development director and investment and acquisition manager in Zhuhai W.S.M Ltd. He has been the Company Secretary and authorised representative of the Company since June 2014 to present.

### Remuneration of directors, supervisors and senior management of the Company during the year

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

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

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

## BRIEF BIOGRAPHIES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT *(continued)*

### Appraisal and incentive in respect of senior management

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

## APPOINTMENT, RESIGNATION AND DISMISSAL OF DIRECTORS AND SUPERVISORS OF THE COMPANY

Name	Position	Type	Date	Reason
Yu Xiong (俞雄)	Independent Non-executive Director	Resigned	27 February 2015	Engagement on work from China State Institute of Pharmaceutical Industry (中國醫藥工業研究總院).
Yang Bin (楊斌)	Independent Non-executive Director, Chairman of the Nomination Committee and a member of Audit Committee	Retired upon expiry of tenure of service	26 June 2015	End of six-year tenure of service as an Independent Non-executive Director of the Company.
Zheng Zhihua (鄭志華)	Independent Non-executive Director	Newly appointed	26 June 2015	Upon consideration and approval by the 2014 annual general meeting of the Company, he was appointed as an Independent Non-executive Director of the Company.
Xie Yun (謝耘)	Independent Non-executive Director	Newly appointed	26 June 2015	Upon consideration and approval by the 2014 annual general meeting of the Company, he was appointed as an Independent Non-executive Director of the Company.
	Chairman of the Nomination Committee and a member of Audit Committee	Newly appointed	26 June 2015	Upon consideration and approval by the twelve meeting of the Eighth Session of the Board of the Company, he was appointed as the Chairman of the Nomination Committee and a member of the Audit Committee of the Eighth Session of the Board.
Yuan Huasheng (袁華生)	Supervisor	Resigned	26 February 2016	Resigned due to personal career arrangements, with effect from 26 February 2016.
Tang Yin (湯胤)	Supervisor	Newly appointed	26 February 2016	Upon consideration and approval by the 2016 first extraordinary general meeting of the Company, he was appointed as the supervisor of the Company.

## CHANGES IN SHAREHOLDINGS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

During the year, there were no changes in shareholdings of Supervisors of the Company. On 27 March 2015, the following Directors and senior management of the Company were granted Restricted Shares as the Incentive Participants under the First Grant of the Restricted A Shares Incentive Scheme; on 14 August 2015, the Company completed the 2014 Equity Distribution, in which the Company issued 3 shares for every 10 shares held to all shareholders of the Company by way of capitalizing our capital reserve, resulting in an increase in the number of Restricted Shares. Their particular shareholding breakdown is as follows:

Name	Position	Number of Restricted Shares granted on 27 March 2015	Percentage to the total number of Restricted Shares under the First Grant	Number of bonus shares granted on 14 August 2015	As a percentage to the total issued share of the Company as of 31 December 2015
Tao Desheng (陶德勝)	Executive Director, Vice Chairman and President	212,300	2.451%	275,990	0.07%
Yang Daihong (楊代宏)	Executive Director and Vice President	135,800	1.568%	176,540	0.04%
Xu Guoxiang (徐國祥)	Vice President	212,300	2.451%	275,990	0.07%
Lu Wenqi (陸文岐)	Vice President	135,800	1.568%	176,540	0.04%
Si Yanxia (司燕霞)	Vice President	84,900	0.980%	110,370	0.03%
Yang Liang (楊亮)	Secretary of the Board	40,400	0.466%	52,520	0.01%

**As at 31 December 2015, the interests or short positions of the Directors, Supervisors or chief executives of the Company, in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of SFO) as recorded in the register required to be kept under Section 352 of the SFO, or as otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code were as follows:**

### Interest in shares of the Company

Name of Director	Capacity	Number of shares Interested (Long position)	As a percentage of the specific class to issued shares of the Company	As a percentage to the total issued shares of the Company
Mr. Zhu Baoguo (朱保國先生)	Interest of controlled corporations	116,301,300 A Shares <sup>(1) (2)</sup>	46.28%	29.30%
		65,858,067 H Shares <sup>(1) (3)</sup>	45.23%	16.59%
Mr. Tao Desheng (陶德勝先生)	Beneficial owner Spouse interest	275,990 A Shares		
		48,360 A Shares <sup>(4)</sup>		
		324,350 A Shares	0.13%	0.08%
Mr. Yang Daihong (楊代宏先生)	Beneficial owner	176,540 A Shares	0.07%	0.04%



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

As at 31 December 2015, the interests or short positions of the Directors, Supervisors or chief executives of the Company, in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of SFO) as recorded in the register required to be kept under Section 352 of the SFO, or as otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code were as follows: *(continued)*

### Interest in shares of associated corporations of the Company

Name of Director	Name of associated corporation	Capacity	Equity interest (RMB)	As a percentage of the equity interest of associated corporation
Mr. Zhu Baoguo (朱保國先生)	Shenzhen Baiyeyuan Investment Co., Ltd. (深圳市百業源投資有限公司) ("Baiyeyuan")	Beneficial owner	72,000,000	90.00%
	Joincare (健康元)	Beneficial owner	48,277,046	
		Interest of controlled corporations	742,415,520 <sup>(5)</sup>	
			790,692,566	49.92%
	Livzon MABPharm Inc. (珠海市麗珠單抗生物技術有限公司)	Interest of controlled corporations	245,000,000 <sup>(1)(6)</sup>	49.00%

#### Notes:

- (1) Joincare (健康元) is 46.87% held by Baiyeyuan which is in turn 90% held by Mr. Zhu Baoguo (朱保國). Mr. Zhu Baoguo (朱保國) is deemed to be interested in the shares of the Company and the equity interest of its associated corporations in which Joincare (健康元) is or is deemed to be interested by virtue of the SFO.
- (2) Among these shares, 108,640,474 shares and 7,660,826 shares are held directly by Joincare (健康元) and its wholly-owned subsidiary, Shenzhen Haibin Pharmaceutical Co., Ltd. (深圳市海濱製藥有限公司) ("Shenzhen Haibin"), respectively.
- (3) These shares are held directly by Topsino Industries Limited, a wholly-owned subsidiary of Joincare (健康元).
- (4) As Mr. Tao Desheng is the spouse of Ms. Hou Xuemei, Mr. Tao Desheng is deemed to be interested in Ms. Hou Xuemei's equities in which she is deemed to be interested.
- (5) These shares are held by Baiyeyuan.
- (6) These shares are held by Joincare (健康元).



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## AUDITORS' REPORT

Rui Hua Shen Zi [2016] No. 40030008

### To the Shareholders of Livzon Pharmaceutical Group Inc.

We have audited the attached financial statements of Livzon Pharmaceutical Group Inc. (the "Company"), which comprise the consolidated balance sheet and the balance sheet of the Company as at 31 December 2015 and the consolidated income statement, consolidated cash flow statement and consolidated statement of changes in equity and the income statement, cash flow statement and statement of changes in equity of the Company for the year 2015 together with the notes thereto.

## 1. MANAGEMENT'S RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS

The management of the Company is responsible for the preparation and fair presentation of the financial statements. Such responsibilities include (1) the preparation of the financial statements in accordance with Accounting Standards for Business Enterprises, and the presentation of them in a fair manner; (2) the design, implementation and maintenance of internal controls that are necessary to ensure that the financial statements are free from material misstatement, whether due to fraud or error.

## 2. CERTIFIED PUBLIC ACCOUNTANTS' RESPONSIBILITIES

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with China Standards on Auditing for Certified Public Accountants. Those standards require that we comply with China Code of Ethics for Certified Public Accountants, and plan and perform the audit in order to obtain reasonable assurance as to whether these financial statements are free from material misstatement.

The audit involves implementation of audit procedures to obtain audit evidences related to the amounts and disclosures specified in the financial statements. The selection of the audit procedures depend on the certified public accountants' judgment, including assessing material misstatement in the financial statements caused by fraud or error. While assessing risks, the certified public accountants shall consider the internal control related to the preparation and fair presentation of the financial statements in order to design proper audit procedures. The audit also includes assessing the appropriateness of the accounting policies selected by the management and the reasonableness of the accounting estimates made by the management and evaluating the overall presentation of the financial statements.

We believe the audit evidences obtained by us are sufficient and appropriate and provide basis for our audit opinions.

### 3. AUDIT OPINIONS

In our opinion, the above mentioned financial statements are, in all material aspects, prepared in accordance with the Accounting Standards for Business Enterprises and give a fair view on the consolidation of Livzon Pharmaceutical Group Inc. as at 31 December 2015 and the financial conditions of the Company and the consolidation for the year 2015 as well as the operation results and cash flows of the Company.

Ruihua Certified Public Accountants (LLP)

Wang Shuyan

Chinese Certified Public Accountants

Beijing, the People's Republic of China,

Li Encheng

Chinese Certified Public Accountants

24 March 2016

Prepared by: Livzon Pharmaceutical Group Inc.

Amount denominated: RMB

Item	Notes	31 December 2015	31 December 2014
<b>Current assets:</b>			
Cash at bank and on hand	VI.1	798,295,283.74	715,705,603.80
Financial assets at fair value through profit or loss	VI.2	6,589,225.34	6,423,571.77
Derivative financial assets			
Bills receivables	VI.3	343,042,435.08	305,315,241.79
Accounts receivables	VI.4	1,256,094,264.14	1,072,890,517.48
Prepayments	VI.5	122,297,549.66	165,935,012.06
Interest receivables			
Dividends receivables			
Other receivables	VI.6	67,649,763.66	52,132,444.90
Inventories	VI.7	983,915,770.14	847,479,822.39
Classified as held-for-sale assets			
Non-current assets due within one year			
Other current assets			
<b>Total current assets</b>		<b>3,577,884,291.76</b>	3,165,882,214.19
<b>Non-current assets:</b>			
Available-for-sale financial assets	VI.8	179,622,286.76	141,402,772.99
Held-to-maturity investments			
Long-term receivables			
Long-term equity investments	VI.9	68,908,511.07	37,771,892.70
Investment properties			
Fixed assets	VI.10	3,323,765,437.26	2,943,569,643.19
Construction in progress	VI.11	347,248,914.85	561,716,329.53
Construction supplies	VI.12	72,208.40	121,472.17
Fixed assets to be disposed			
Bearer biological assets			
Oil and gas assets			
Intangible assets	VI.13	259,474,188.00	258,275,580.98
Development costs	VI.14	13,252,992.01	
Goodwill	VI.15	103,040,497.85	103,040,497.85
Long-term deferred expenses	VI.16	40,023,456.83	25,569,660.19
Deferred tax assets	VI.17	104,338,481.98	65,254,992.11
Other non-current assets	VI.18	59,906,523.64	
<b>Total non-current assets</b>		<b>4,499,653,498.65</b>	4,136,722,841.71
<b>Total assets</b>		<b>8,077,537,790.41</b>	7,302,605,055.90



Prepared by: Livzon Pharmaceutical Group Inc.

Amount denominated: RMB

Item	Notes	31 December 2015	31 December 2014
<b>Current liabilities:</b>			
Short-term loans	VI.19	250,000,000.00	375,920,221.10
Financial liabilities at fair value through profit or loss			
Derivatives financial liabilities			
Bills payables	VI.20	299,007,801.36	352,619,794.63
Accounts payables	VI.21	636,752,599.23	598,748,939.78
Receipts in advance	VI.22	65,255,250.41	56,013,777.28
Employee benefits payables	VI.23	71,848,597.13	69,614,375.75
Taxes payables	VI.24	130,034,879.53	33,211,993.26
Interest payables	VI.25	11,823,945.25	17,089,201.23
Dividends payables	VI.26	2,531,984.46	5,049,329.12
Other payables	VI.27	1,287,284,945.74	860,502,818.73
Classified as held-for-sale liabilities			
Non-current liabilities due within one year	VI.28	400,400,000.00	400,000.00
Other current liabilities	VI.29		300,000,000.00
<b>Total current liabilities</b>		<b>3,154,940,003.11</b>	<b>2,669,170,450.88</b>
<b>Non-current liabilities:</b>			
Long-term loans	VI.30	700,000.00	66,500,000.00
Notes payables	VI.31		400,000,000.00
Of which: preferred shares			
Perpetual bonds			
Long-term payables			
Long-term employee benefits payables			
Special payables			
Accrued liabilities			
Deferred gain	VI.32	99,558,739.98	77,271,812.03
Deferred tax liabilities	VI.17	12,442,303.79	7,241,263.39
Other non-current liabilities			
<b>Total non-current liabilities</b>		<b>112,701,043.77</b>	<b>551,013,075.42</b>
<b>Total liabilities</b>		<b>3,267,641,046.88</b>	<b>3,220,183,526.30</b>
<b>Shareholders' equity:</b>			
Share capital	VI.33	396,889,547.00	295,721,852.00
Other equities			
Of which: Preferred shares			
Perpetual bonds			
Capital reserve	VI.34	395,709,350.15	212,694,714.74
Less: Treasury shares	VI.35	247,219,957.00	
Other consolidated earnings	VI.36	-12,753,227.85	-33,326,810.31
Special reserve			
Surplus reserve	VI.37	546,610,551.66	513,472,484.27
General risks provision			
Unallocated earnings	VI.38	3,267,019,067.30	2,707,954,326.83
Total equity attributable to shareholders of the parent company		4,346,255,331.26	3,696,516,567.53
Non-controlling interests		463,641,412.27	385,904,962.07
<b>Total shareholders' equity</b>		<b>4,809,896,743.53</b>	<b>4,082,421,529.60</b>
<b>Total liabilities and shareholders' equity</b>		<b>8,077,537,790.41</b>	<b>7,302,605,055.90</b>

Legal representatives:  
Zhu Baoguo

Principal in charge of  
accounting work:  
Si Yanxia

Name of the accounting firm's  
principal:  
Zhuang Jianying

Prepared by: Livzon Pharmaceutical Group Inc.

Amount denominated: RMB

Item	Notes	For the year	For the Previous Year
<b>I. Total operating income</b>		<b>6,620,516,536.73</b>	5,544,233,777.86
Including: Operating income	VI.39	<b>6,620,516,536.73</b>	5,544,233,777.86
<b>II. Total operating costs</b>		<b>5,934,311,533.42</b>	4,963,009,813.13
Including: Operating costs	VI.39	<b>2,575,330,534.39</b>	2,142,911,022.41
Business taxes and surcharges	VI.40	<b>81,008,459.65</b>	69,192,335.88
Selling expenses	VI.41	<b>2,541,675,092.56</b>	2,208,218,745.28
Administrative expenses	VI.42	<b>606,301,968.07</b>	464,522,751.34
Financial expenses	VI.43	<b>27,203,995.64</b>	20,631,590.86
Impairment loss	VI.44	<b>102,791,483.11</b>	57,533,367.36
Add: Gains from changes in fair value ("—" represents losses)	VI.45	<b>-182,343.23</b>	-4,939,260.57
Investment income ("—" represents losses)	VI.46	<b>6,776,422.79</b>	8,223,836.93
Including: Income from investment in associates and jointly controlled entities		<b>6,136,618.37</b>	4,781,707.78
<b>III. Operating profit ("—" represents losses)</b>		<b>692,799,082.87</b>	584,508,541.09
Add: Non-operating income	VI.47	<b>130,686,902.75</b>	70,113,415.16
Including: Profit from disposal of non-current assets		<b>2,003,640.57</b>	355,242.11
Less: Non-operating expenses	VI.48	<b>15,564,685.82</b>	2,596,922.38
Including: Losses from disposal of non-current assets		<b>6,009,136.37</b>	1,354,272.04
<b>IV. Profit before income tax ("—" represents total losses)</b>		<b>807,921,299.80</b>	652,025,033.87
Less: Income tax expenses	VI.49	<b>148,357,921.88</b>	98,402,861.09
<b>V. Net profit ("—" represents net losses)</b>		<b>659,563,377.92</b>	553,622,172.78
Net profit attributable to the shareholders of the parent company		<b>622,641,033.06</b>	515,978,431.82
Profit or loss from non-controlling interests		<b>36,922,344.86</b>	37,643,740.96

Prepared by: Livzon Pharmaceutical Group Inc.

Amount denominated: RMB

Item	Notes	For the year	For the Previous Year
<b>VI. Other comprehensive net income after taxation</b>	VI.50	<b>34,927,687.80</b>	-31,281,778.71
Other comprehensive net income after taxation attributable to the shareholders of the parent company		<b>20,573,582.46</b>	-16,998,600.32
(I) Other comprehensive income items subsequently not to be re-classified as profit or loss			
1. Changes caused by re-measurement of net liabilities or net assets of benefit plans			
2. Other comprehensive income portions subsequently not to be re-classified as profit or loss of investment units using the equity method			
(II) Other comprehensive income items subsequently to be re-classified as profit or loss		<b>20,573,582.46</b>	-16,998,600.32
1. Other comprehensive income portions subsequently to be re-classified as profit or loss of investment units using the equity method			
2. Profit and loss from change of fair value of available-for-sale financial assets		<b>17,171,928.75</b>	-17,246,053.09
3. Held-to-maturity investment to be re-classified as available-for-sale financial asset profit and loss			
4. Portion of the gains or losses arising from cash valid flow hedges instrument			
5. Translation differences of financial statements denominated in foreign currency		<b>1,182,388.71</b>	247,452.77
6. Others		<b>2,219,265.00</b>	
Other comprehensive net income after taxation attributable to non-controlling interests		<b>14,354,105.34</b>	-14,283,178.39
<b>VII. Total comprehensive income</b>		<b>694,491,065.72</b>	522,340,394.07
Total comprehensive income attributable to the shareholders of the parent company		<b>643,214,615.52</b>	498,979,831.50
Total comprehensive income attributable to non-controlling interests		<b>51,276,450.20</b>	23,360,562.57
<b>VIII. Earnings per share:</b>			
(I) Basic earnings per share	XVIII.2	<b>1.62</b>	1.34
(II) Diluted earnings per share	XVIII.2	<b>1.60</b>	1.34

Legal representatives:  
Zhu Baoguo

Principal in charge of  
accounting work:  
Si Yanxia

Name of the accounting firm's  
principal:  
Zhuang Jianying

Prepared by: Livzon Pharmaceutical Group Inc.

Amount denominated: RMB

Item	Notes	For the year	For the Previous Year
<b>I. Cash flows from operating activities</b>			
Cash received from sale of goods and rendering of services		<b>6,542,051,769.04</b>	5,734,733,028.52
Refund of taxes		<b>56,988,221.84</b>	34,804,053.19
Cash received relating to other operating activities	VI.51	<b>196,416,549.20</b>	116,438,994.13
<b>Sub-total of cash inflows from operating activities</b>		<b>6,795,456,540.08</b>	5,885,976,075.84
Cash paid for purchasing goods and services		<b>1,827,345,832.18</b>	1,631,606,641.93
Cash paid to and for employees		<b>502,821,066.83</b>	421,094,103.74
Cash paid for all types of taxes		<b>857,290,360.35</b>	769,748,289.54
Cash paid relating to other operating activities	VI.51	<b>2,680,210,820.40</b>	2,346,133,147.08
<b>Sub-total of cash outflows from operating activities</b>		<b>5,867,668,079.76</b>	5,168,582,182.29
<b>Net cash flows from operating activities</b>		<b>927,788,460.32</b>	717,393,893.55
<b>II. Cash flows from investing activities:</b>			
Cash received from disposal of investments			10,181,993.32
Cash received from return on investments		<b>477,984.28</b>	4,167,796.06
Net cash received from disposal of fixed assets, intangible assets and other long-term assets		<b>6,995,579.22</b>	2,830,255.60
Net cash received from disposal of subsidiaries and other operating entities			
Cash received relating to other investing activities	VI.51	<b>14,260,023.82</b>	11,844,211.41
<b>Sub-total of cash inflows from investing activities</b>		<b>21,733,587.32</b>	29,024,256.39
Cash paid for acquisition of fixed assets, intangible assets and other long-term assets		<b>477,133,933.56</b>	665,519,169.35
Cash paid for acquisition of investments		<b>80,831,500.00</b>	93,254,995.09
Net cash paid for acquisition of subsidiaries and other operating entities			
Cash paid relating to other investing activities	VI.51	<b>22,188,421.04</b>	8,255,955.14
<b>Sub-total of cash outflows from investing activities</b>		<b>580,153,854.60</b>	767,030,119.58
<b>Net cash flows from investing activities</b>		<b>-558,420,267.28</b>	-738,005,863.19



Prepared by: Livzon Pharmaceutical Group Inc.

Amount denominated: RMB

Item	Notes	For the year	For the Previous Year
<b>III. Cash flows from financing activities:</b>			
Cash received from investors		298,883,157.00	98,000,000.00
Including: Cash received from non-controlling shareholders of subsidiaries		49,000,000.00	98,000,000.00
Cash received from borrowings		736,000,000.00	964,948,392.37
Cash received from issue of financing bills			300,000,000.00
Cash received relating to other financing activities			
<b>Sub-total of cash inflows from financing activities</b>		<b>1,034,883,157.00</b>	<b>1,362,948,392.37</b>
Cash repayments of borrowings		1,242,009,122.45	1,167,396,663.73
Cash paid for dividends, profit distributions or interest		105,959,720.14	216,433,837.01
Including: Dividends and profits paid to non-controlling shareholders of subsidiaries		22,540,000.00	17,150,000.00
Cash paid relating to other financing activities	VI.51	1,797,188.64	
<b>Sub-total of cash outflows from financing activities</b>		<b>1,349,766,031.23</b>	<b>1,383,830,500.74</b>
<b>Net cash flows from financing activities</b>		<b>-314,882,874.23</b>	<b>-20,882,108.37</b>
<b>IV. Effect of foreign exchange rate changes on cash and cash equivalents</b>		<b>3,493,658.47</b>	<b>-320,229.13</b>
<b>V. Net increase in cash and cash equivalents</b>		<b>57,978,977.28</b>	<b>-41,814,307.14</b>
Add: Cash and cash equivalents at the beginning of the period		709,114,426.17	750,928,733.31
<b>VI. Cash and cash equivalents at the end of the period</b>		<b>767,093,403.45</b>	<b>709,114,426.17</b>

Legal representatives:  
Zhu Baoguo

Principal in charge of  
accounting work:  
Si Yanxia

Name of the accounting firm's  
principal:  
Zhuang Jianying

Prepared by: Livzon Pharmaceutical Group Inc.

Amount denominated: RMB

Item	For the period year													Total	
	Attributable to shareholders of the Parent Company													Non-controlling shareholders' equity	
	Share capital	Other Equity	Preferred Shares	Residual Shares	Others	Capital reserve	Treasury shares	Loss	Comprehensive income	Other	Special reserve	Surplus reserve	General risks provision	Retained earnings	Non-controlling shareholders' equity
I. Balance at 31 December 2014	25,721,052.00				215,094,714.74			-33,263,813.31				519,474,484.27		2,821,123,981.31	259,071,907.39
Add: Effects of changes in accounting policies															
Effects of correction on errors in prior years															
Business combination under common control															
Others															
II. Balance at 1 January 2015	25,721,052.00				215,094,714.74			-33,263,813.31				519,474,484.27		2,821,123,981.31	259,071,907.39
III. Change in equity for the year ("represents decrease")	91,471,659.00				85,044,628.41	242,719,357.00	20,573,522.46	20,573,522.46				33,133,062.39		35,544,598.52	135,034,054.68
(I) Total comprehensive income															
(II) Shareholders' contributions and decrease of capital	9,833,320.00				234,340,319.41	242,719,357.00									
1. Ordinary shares issued by shareholders															
2. Capital contributed by holders of other equities	9,833,320.00				234,340,319.41	242,719,357.00									
3. Increase in shareholders' equity resulted from share-based payments															
4. Others															
(III) Appropriation of profits															
1. Appropriation of surplus reserve															
2. Appropriation of general risks provision															
3. Distribution to shareholders															
4. Others															
(IV) Transfer of shareholders' equity internally	9,134,675.00				9,134,675.00										
1. Capital reserve transferred to capital (or share capital)															
2. Surplus reserve transferred to capital (or share capital)	9,134,675.00				9,134,675.00										
3. Surplus reserves transferred to retained earnings or share income															
4. Others															
(V) Special reserve															
1. Appropriation of special reserve															
2. Utilization of special reserve															
(VI) Others															
IV. Balance at 31 December 2015	34,862,711.00				395,769,343.15	242,719,357.00	-12,520,222.85					546,611,546.66		2,877,553,539.83	395,904,962.07

Principal in charge of accounting work:  
Si YanxiaName of the accounting firm's principal:  
Zhuang Jianying

Prepared by: Livzon Pharmaceutical Group Inc.

Amount denominated: RMB

Item	Notes	31 December 2015	31 December 2014
<b>Current assets:</b>			
Cash at bank and on hand		694,156,636.07	611,639,109.41
Financial assets at fair value through profit or loss			
Derivative financial assets			
Bills receivables		249,484,247.50	181,046,438.78
Accounts receivables	XVII.1	662,518,994.54	593,485,326.96
Prepayments		9,546,100.48	27,017,775.87
Interest receivables			
Dividends receivables			
Other receivables	XVII.2	1,585,385,721.95	1,480,787,894.81
Inventories		168,357,913.47	139,040,977.30
Classified as held-for-sale assets			
Non-current assets due within one year			
Other current assets			
<b>Total current assets</b>		<b>3,369,449,614.01</b>	<b>3,033,017,523.13</b>
<b>Non-current assets:</b>			
Available-for-sale financial assets		147,699,684.48	86,570,027.83
Held-to-maturity investments			
Long-term receivables			
Long-term equity investments	XVII.3	2,026,142,377.51	1,714,413,011.87
Investment properties			
Fixed assets		63,844,093.19	76,953,739.79
Construction in progress			
Construction supplies			
Fixed assets to be disposed			
Bearer biological assets			
Oil and gas assets			
Intangible assets		28,496,294.11	31,840,732.46
Development costs		13,252,992.01	
Goodwill			
Long-term deferred expenses		180,000.00	240,000.00
Deferred tax assets		21,492,844.45	12,042,901.45
Other non-current assets		12,292,055.00	
<b>Non-Total current assets</b>		<b>2,313,400,340.75</b>	<b>1,922,060,413.40</b>
<b>Total assets</b>		<b>5,682,849,954.76</b>	<b>4,955,077,936.53</b>

Prepared by: Livzon Pharmaceutical Group Inc.

Amount denominated: RMB

Item	Notes	31 December 2015	31 December 2014
<b>Current liabilities:</b>			
Short-term loans		250,000,000.00	56,009,770.00
Financial liabilities at fair value through profit and loss			
Derivative financial liabilities			
Bills payables		330,374,507.17	369,572,162.56
Accounts payables		429,038,759.87	408,184,644.28
Receipts in advance		16,427,440.17	9,179,615.60
Employee benefits payables		7,548,051.22	10,293,617.42
Taxes payables		103,953,327.71	23,162,584.35
Interest payables		11,823,945.25	16,065,090.02
Dividends payables		20,174.46	2,537,519.12
Other payables		2,343,751,581.54	1,925,930,936.25
Classified as held-for-sale liabilities			
Non-current liabilities due within one year		400,000,000.00	
Other current liabilities			300,000,000.00
<b>Total current liabilities</b>		<b>3,892,937,787.39</b>	<b>3,120,935,939.60</b>
<b>Non-current liabilities:</b>			
Long-term loans			
Notes payables			400,000,000.00
of which: preferred shares			
perpetual bonds			
Long-term payables			
Long-term employee benefits payables			
Special payables			
Accrued liabilities			
Deferred income		23,223,982.36	11,129,525.60
Deferred tax liabilities		3,684,688.37	2,417,229.95
Other non-current liabilities			
<b>Total non-current liabilities</b>		<b>26,908,670.73</b>	<b>413,546,755.55</b>
<b>Total liabilities</b>		<b>3,919,846,458.12</b>	<b>3,534,482,695.15</b>
<b>Shareholders' equity:</b>			
Share capital		396,889,547.00	295,721,852.00
Other equity instruments			
of which: preferred shares			
perpetual bonds			
Capital reserve		517,236,658.50	334,222,023.09
Less: Treasury shares		247,219,957.00	
Other comprehensive income		8,563,940.22	4,060,507.07
Special reserve			
Surplus reserve		341,647,498.08	308,509,430.69
General risks provision			
Retained earnings		745,885,809.84	478,081,428.53
<b>Total shareholders' equity</b>		<b>1,763,003,496.64</b>	<b>1,420,595,241.38</b>
<b>Total liabilities and shareholders' equity</b>		<b>5,682,849,954.76</b>	<b>4,955,077,936.53</b>

Legal representatives:  
Zhu Baoguo

Principal in charge of  
accounting work:  
Si Yanxia

Name of the accounting firm's  
principal:  
Zhuang Jianying



Prepared by: Livzon Pharmaceutical Group Inc.

Amount denominated: RMB

Item	Notes	For the year	For the Previous Year
<b>I. Operating income</b>	XVII.4	<b>3,859,294,389.53</b>	3,108,878,505.18
Less: Operating costs	XVII.4	<b>1,843,639,493.40</b>	1,386,595,502.39
Business taxes and surcharges	XVII.5	<b>38,464,541.06</b>	31,831,106.99
Selling expenses		<b>1,693,266,135.27</b>	1,500,165,448.07
Administrative expenses		<b>223,663,468.74</b>	142,780,858.35
Financial expenses		<b>-34,334,309.93</b>	-27,122,507.78
Impairment loss		<b>10,392,882.38</b>	386,925.46
Add: Gains from changes in fair value ("—" represents losses)			
Investment income ("—" represents losses)	XVII.6	<b>21,526,249.92</b>	20,834,109.22
Including: Gains from investment in associates and joint ventures		<b>788,265.64</b>	1,078,882.36
<b>II. Operating profit ("—" represents losses)</b>		<b>105,728,428.53</b>	95,075,280.92
Add: Non-operating income		<b>289,113,854.95</b>	43,729,115.14
of which: proceeds from disposal of non-current assets		<b>218,886,808.71</b>	163,124.00
Less: Non-operating expenses		<b>6,599,196.44</b>	775,488.63
of which: Losses from disposal of non-current assets		<b>103,354.06</b>	90,858.14
<b>III. Total profit ("—" represents total losses)</b>		<b>388,243,087.04</b>	138,028,907.43
Less: Income tax expenses		<b>56,862,413.14</b>	15,273,534.42
<b>IV. Net profit ("—" represents net losses)</b>		<b>331,380,673.90</b>	122,755,373.01
<b>V. Other comprehensive income after tax,     net</b>		<b>4,503,433.15</b>	-2,358,292.49
(I) Other comprehensive income items subsequently not to be re-classified as profit or loss			
1. Changes caused by re-measurement of net liabilities or net assets of benefit plans			
2. Other comprehensive income portions subsequently not to be re-classified as profit or loss of investment units using the equity method			

Prepared by: Livzon Pharmaceutical Group Inc.

Amount denominated: RMB

Item	Notes	For the year	For the Previous Year
(II) Other comprehensive income items subsequently to be re-classified as profit or loss		4,503,433.15	-2,358,292.49
1. Other comprehensive income portions subsequently to be re-classified as profit or loss of investment units using the equity method			
2. Profit and loss from change of fair value of available-for-sale financial assets		2,284,168.15	-2,358,292.49
3. Held-to-maturity investment to be re-classified as available-for-sale financial asset profit and loss			
4. Valid portion of the gains or losses arising from cash flow hedges instrument			
5. Translation differences of financial statements denominated in foreign currency		2,219,265.00	
6. Others		335,884,107.05	120,397,080.52
<b>VI. Total comprehensive income</b>			

Legal representatives:  
Zhu Baoguo

Principal in charge of  
accounting work:  
Si Yanxia

Name of the accounting firm's  
principal:  
Zhuang Jianying

Prepared by: Livzon Pharmaceutical Group Inc.

Amount denominated: RMB

Item	Notes	For the year	For the Previous Year
<b>I. Cash flows from operating activities:</b>			
Cash received from sale of goods and rendering of services		<b>4,050,414,458.30</b>	3,472,098,691.02
Refund of taxes			
Cash received relating to other operating activities		<b>139,004,267.68</b>	239,401,113.82
<b>Sub-total of cash inflows from operating activities</b>		<b>4,189,418,725.98</b>	3,711,499,804.84
Cash paid for purchasing goods and services		<b>2,139,116,391.60</b>	1,326,639,464.70
Cash paid to and for employees		<b>91,917,513.66</b>	75,918,710.38
Cash paid for all types of taxes		<b>326,414,910.90</b>	308,688,223.78
Cash paid relating to other operating activities		<b>1,693,128,474.02</b>	1,603,462,957.83
<b>Sub-total of cash outflows from operating activities</b>		<b>4,250,577,290.18</b>	3,314,709,356.69
<b>Net cash flows from operating activities</b>		<b>-61,158,564.20</b>	396,790,448.15
<b>II. Cash flows from investing activities:</b>			
Cash received from disposal of investments			30,747,287.90
Cash received from return on investments		<b>20,737,984.28</b>	18,764,091.30
Net cash received from disposal of fixed assets, intangible assets and other long-term assets		<b>31,000.00</b>	161,269.44
Cash received relating to other investing activities			2,464,091.30
<b>Sub-total of cash inflows from investing activities</b>		<b>20,768,984.28</b>	52,136,739.94
Cash paid for acquisition of fixed assets, intangible assets and other long-term assets		<b>29,899,189.76</b>	22,883,958.07
Cash paid for acquisition of investments		<b>131,831,500.00</b>	109,890,690.87
Cash paid relating to other investing activities			2,400,000.00
<b>Sub-total of cash outflows from investing activities</b>		<b>161,730,689.76</b>	135,174,648.94
<b>Net cash flows from investing activities</b>		<b>-140,961,705.48</b>	-83,037,909.00

Prepared by: Livzon Pharmaceutical Group Inc.

Amount denominated: RMB

Item	Notes	For the year	For the Previous Year
<b>III. Cash flows from financing activities:</b>			
Cash received from investors		<b>249,883,157.00</b>	
Borrowings received from subsidiaries		<b>1,103,773,887.99</b>	612,806,170.42
Cash received from borrowings		<b>404,600,000.00</b>	456,272,470.00
Cash received from issue of bonds			300,000,000.00
Cash received relating to other financing activities			
<b>Sub-total of cash inflows from financing activities</b>		<b>1,758,257,044.99</b>	1,369,078,640.42
Cash repayments of borrowings		<b>511,804,700.00</b>	761,890,491.44
Cash paid for dividends, profit distributions or interest		<b>66,101,984.06</b>	172,320,921.73
Advances to subsidiaries			
Cash paid relating to other financing activities		<b>912,454,855.13</b>	742,148,928.59
<b>Sub-total of cash outflows from financing activities</b>		<b>1,490,361,539.19</b>	1,676,360,341.76
<b>Net cash flows from financing activities</b>		<b>267,895,505.80</b>	-307,281,701.34
<b>IV. Effect of foreign exchange rate changes on cash and cash equivalents</b>		<b>59,985.10</b>	-17,198.89
<b>V. Net increase in cash and cash equivalents</b>		<b>65,835,221.22</b>	6,453,638.92
Add: Cash and cash equivalents at the beginning of the period		<b>611,630,017.65</b>	605,176,378.73
<b>VI. Cash and cash equivalents at the end of the period</b>		<b>677,465,238.87</b>	611,630,017.65

Legal representatives:  
Zhu Baoguo

Principal in charge of  
accounting work:  
Si Yanxia

Name of the accounting firm's  
principal:  
Zhuang Jianying



Prepared by: Livzon Pharmaceutical Group Inc.

Amount denominated: RMB

Item	For the year										For the previous year									
	Share capital	Other equities	Capital reserve	Less: Treasury shares	Other comprehensive income	Special reserves	Surplus reserve	Generalists provision	Retained earnings	Total shareholders' equity	Share capital	Other equities	Capital reserve	Less: Treasury shares	Other comprehensive income	Special reserves	Surplus reserve	Generalists provision	Retained earnings	Total shareholders' equity
Balance at 31 December 2014	255,721,852.00		334,222,023.09		4,060,507.07		308,559,403.69		478,081,428.53	1,400,555,241.38	255,721,852.00		332,214,740.02		6,418,799.36		296,233,893.39		515,462,518.82	1,446,051,803.79
Add: Effects of changes in accounting policies																				
Effects of corrections on errors in prior years																				
Others																				
Balance at 1 January 2015	255,721,852.00		334,222,023.09		4,060,507.07		308,559,403.69		478,081,428.53	1,400,555,241.38	255,721,852.00		332,214,740.02		6,418,799.36		296,233,893.39		515,462,518.82	1,446,051,803.79
1. Changes in equity for the year (= Represents decrease)	80,147,655.00		182,014,635.41	247,219,957.00	4,592,428.15		31,138,067.39		267,884,981.31	301,408,355.26			2,007,283.07		-2,358,292.49		12,275,537.30		-27,381,090.29	-25,466,562.41
(I) Total comprehensive income					4,592,428.15				331,380,673.90	355,884,107.05					-2,358,292.49				122,755,373.01	102,397,080.52
(II) Shareholders' contributions and decrease of capital	9,653,020.00		238,242,310.41	247,219,957.00						873,373.41			2,007,283.07							2,007,283.07
1. Ordinary shares issued by shareholders	9,653,020.00		238,232,948.36	247,219,957.00						866,011.36										
2. Capital contributed by holders of other equities																				
3. Increase in shareholders' equity resulted from share-based payments																				
4. Others			7,362.05							7,362.05			2,007,283.07				12,275,537.30		-80,136,483.30	-47,800,026.00
(III) Appropriation of profits							31,138,067.39		43,576,292.59	-30,438,225.20							12,275,537.30		-12,275,537.30	
1. Appropriation of surplus reserve							31,138,067.39		31,138,067.39								12,275,537.30		-12,275,537.30	
2. Appropriation of general risks provision																				
3. Contributions to shareholders									-30,438,225.20	-30,438,225.20									-47,800,026.00	-47,800,026.00
4. Others																				
(IV) Transfer of shareholders' equity	91,314,675.00		-91,314,675.00																	
1. Capital reserve transferred to capital (or share capital)			-91,314,675.00																	
2. Surplus reserve transferred to capital (or share capital)																				
3. Surplus reserves transferred to retained earnings for losses incurred																				
4. Others																				
(V) Special reserve																				
1. Appropriation of special reserve																				
2. Utilization of special reserve																				
(VI) Others																				
Balance at 31 December 2014	366,869,547.00		517,236,658.50	247,219,957.00	8,593,940.22		341,647,488.08		745,885,809.84	1,763,003,496.44	366,869,547.00		517,236,658.50	247,219,957.00	8,593,940.22		341,647,488.08		745,885,809.84	1,763,003,496.44
											255,721,852.00		334,222,023.09		4,060,507.07		308,559,403.69		478,081,428.53	1,420,995,241.38

Principal in charge of  
accounting work:  
Si YanxiaName of the accounting firm's  
principal:  
Zhuang JianyingLegal representatives:  
Zhu Baoguo

## I. COMPANY STATUS

### 1. History and development

In March 1992, Livzon Pharmaceutical Group Inc. (麗珠醫藥集團股份有限公司) (hereinafter referred to as the "Company") was transformed into a sino-foreign fund raising company limited by shares. Funds were raised from its seven promoters namely, Macau Nam Yue (Group) Co., Ltd. (澳門南粵(集團)有限公司), Zhuhai Credit Cooperative Union (珠海市信用合作聯社), Guangdong Medicine Group Co., Ltd. (廣東省製藥工業公司), Zhuhai Medicine Corporation (珠海市醫藥總公司), Guangzhou Medicines & Health Products Imp. & Exp. Corp. (廣州醫藥保健品進出口公司), Zhuhai Trust and Consultancy of the Bank of China (中國銀行珠海信託諮詢公司) and Zhuhai Guihua Employees Mutual Aid Association (珠海桂花職工互助會), which converted their interests in the Company's net assets into shares, as well as from other domestic legal persons and internal staff pursuant to the approval documents [1992] No. 29 issued by Zhuhai Economic System Reform Commission (珠海市經濟體制改革委員會) and [1992] No. 45 jointly issued by Joint Examination Group for Pilot Joint Stock Enterprise in Guangdong Province (廣東省企業股份制試點聯審小組) and Guangdong Economic System Reform Committee (廣東省經濟體制改革委員會).

In 1993, pursuant to Yue Zheng Jian Fa Zi [1993] No. 001 document (粵證監發字[1993]001號文) issued by Guangdong Securities Regulatory Commission (廣東省證券監督管理委員會), Shen Ren Yin Fu Zi [1993] No. 239 document (深人銀復字[1993]第239號文) issued by Shenzhen Special Economic Zone branch of the People's Bank of China (中國人民銀行深圳經濟特區分行) and Zheng Jian Fa Shen Zi [1993] No. 19 document (證監發審字[1993]19號文) issued by China Securities Regulatory Commission ("CSRC"), the Company was listed on the Shenzhen Stock Exchange.

In 1998, the promoters of the Company, namely Zhuhai Credit Cooperative Union (珠海市信用合作聯社), Guangdong Medicine Group Co., Ltd. (廣東省製藥工業公司), Zhuhai Guihua Employees Mutual Aid Association (珠海桂花職工互助會) and Zhuhai branch of Bank of China (中國銀行珠海市分行) entered into an equity interests transfer agreement with China Everbright (Group) Corporation (中國光大(集團)總公司) respectively, and transferred all shares held by them to China Everbright (Group) Corporation (中國光大(集團)總公司). Upon the completion of the transfer, China Everbright (Group) Corporation (中國光大(集團)總公司) held 38,917,518 domestic legal person shares of the Company. Macau Nam Yue (Group) Co., Ltd. (澳門南粵(集團)有限公司), the foreign promoter of the Company, entered into an equity interests transfer agreement with China Everbright Pharmaceutical Co., Ltd. (中國光大醫藥有限公司), and transferred all of the 18,893,448 foreign-invested legal person shares held by it to China Everbright Pharmaceutical Co., Ltd. (中國光大醫藥有限公司).

On 12 April 2002, China Everbright (Group) Corporation (中國光大(集團)總公司) entered into an equity custody agreement with Xi'an Dongsheng Group Co., Ltd. (西安東盛集團有限公司) and assigned the 38,917,518 domestic legal person shares of the Company held by it in the custody of Xi'an Dongsheng Group Co., Ltd. (西安東盛集團有限公司). On 21 December 2004, Xi'an Dongsheng Group Co., Ltd. (西安東盛集團有限公司) accepted the transfer of 38,917,518 domestic legal person shares held by China Everbright (Group) Corporation (中國光大(集團)總公司). As at 31 December 2004, China Everbright (Group) Corporation (中國光大(集團)總公司) did not hold any share in the Company. 38,917,518 domestic legal person shares were held directly by Xi'an Dongsheng Group Co., Ltd. (西安東盛集團有限公司), which represented 12.72% of the total share capital of the Company.

## I. COMPANY STATUS *(continued)*

### 1. History and development *(continued)*

On 4 February 2005, Joincare Pharmaceutical Industry Group Co., Ltd. (健康元藥業集團股份有限公司) (hereinafter referred to as the "Joincare") entered into an equity transfer agreement and an equity interests pledge agreement with Xi'an Dongsheng Group Co., Ltd. (西安東盛集團有限公司). Xi'an Dongsheng Group Co., Ltd. (西安東盛集團有限公司) directly transferred and pledged the 38,917,518 domestic legal person shares of the Company (representing 12.72% of the total share capital in the Company) to Joincare (健康元). On 3 August 2006, the procedures for the transfer of the 38,917,518 domestic legal person shares to Joincare (健康元) was completed.

As at 31 December 2012, Joincare (健康元) and its subsidiaries held a total of 140,122,590 shares of the Company through transfer agreements and direct purchase from secondary market, representing 47.3832% of the total share capital of the Company, which became the single largest shareholder of the Company and had de facto control in the Company. Of which 6,059,428 legal person shares held in the name of Guangzhou Begol Trading Corporation (廣州市保科力貿易公司) did not complete the procedures for the transfer to Joincare (健康元).

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

Pursuant to "Livzon Pharmaceutical Group Inc. Restricted Shares Incentive Scheme (Revised Draft)" and its summary considered and approved by the 2015 First Extraordinary Shareholders' Meeting of the Company and the resolution of the 8th meeting (27 March 2015) of the 8th session of the Board of directors, for this time, 458 restricted shares incentive participants exercised the options and there were 8,660,400 shares effectively exercised. Capital verification of this exercise of options was completed on 27 March 2015 with the approval registration completed by China Securities Depository and Clearing Corporation Limited (Shenzhen branch). The registered capital following the exercise of options has changed to 304,382,252. This capital increase was validated and confirmed by Capital Verification Report [2015]40030004 Endorsed by Ruihua issued by Ruihua Certified Public Accountants. The Company completed the registration procedures at the Administration of Industry and Commerce on 22 May 2015.

**I. COMPANY STATUS** *(continued)***1. History and development** *(continued)*

Pursuant to the resolutions of the 2014 Annual General Meeting, the 2015 Second Class Meeting of A Shareholders and the 2015 Second Class Meeting of H Shareholders, based on the Company's total share capital of 304,382,252 shares, the Company made a bonus issue of 91,314,675 shares, each RMB1 by way of capitalizing our capital reserve on the basis of 3 shares for every 10 shares held to all shareholder. After completion of issue, the registered capital of the Company has changed to RMB395,696,927. This capital increase was validated and confirmed by Capital Verification Report [2015]40030017 Endorsed by Ruihua issued by Ruihua Certified Public Accountants. The Company completed the registration procedures at the Administration of Industry and Commerce on 21 January 2016 with the unified social credit code 914404006174883094.

Pursuant to "the Resolution on Repurchase and Cancellation of Locked Restricted Shares Granted to Incentive Participants No Longer Satisfying the Conditions for Incentive" considered and approved by the 16th Board Meeting of the 8th Session of the Board (27 October 2015), 93,080 shares were repurchased. After the repurchase, the Company's share capital has changed to RMB395,603,847. This capital reduction was validated and confirmed by Capital Verification Report [2015]40030020.

According to "the Resolution on Granting the Reserved Restricted Shares to Incentive Participants" considered and approved by the 18th Board Meeting of the 8th Session of the Board (12 November 2015), for this time, 177 restricted shares incentive participants exercised the options and there were 1,285,700 shares effectively exercised. Capital verification of this exercise of options was completed on 18 December 2015 with the approval registration completed by China Securities Depository and Clearing Corporation Limited (Shenzhen branch). The Company's share capital following the exercise of options has changed to RMB396,889,547. This capital increase was validated and confirmed by Capital Verification Report [2015]40030023.

**2. Industry of the Company**

The Company is engaged in the industry of manufacturing pharmaceutical products.

**3. Scope of business**

The scope of business for the Company as approved was the production and sales of bulk medicines for traditional Chinese and western medicines, pharmaceutical intermediates, traditional Chinese herbal medicines, traditional Chinese medicine drink tablets, medical equipment, sanitary materials, healthcare products, medical cosmetics, over-the-counter drugs for traditional Chinese and western medicines biochemical reagents, as well as chemicals, food, information business, and bulk medicines; import & export of proprietary products of the Company and relevant auxiliary service; wholesale of over-the-counter traditional Chinese medicines, chemical bulk medicines and their preparations, antibiotics bulk medicines and their preparations, biological products (except for preventive biological products), biochemical drugs (where those products are administrated with quota licence or special regulations, they shall be subject to the relevant national rules; for other projects that require administrative permits, the Company shall only engage in the same upon the approval being obtained).



**I. COMPANY STATUS** *(continued)***4. Change of principal activities**

During the reporting period, there was no change in the principal activities of the Company.

The financial statements has been approved and published by the Board meeting on 24 March 2016.

Please refer to note. VIII "Equity in other entities" for names of subsidiaries included into the consolidation in 2015. One more subsidiary is added compared with the previous year, please refer to note. VII "Change to consolidation scope".

**II. BASIS OF PREPARATION FOR THE FINANCIAL STATEMENTS**

The financial statements have been prepared by the Company on the basis of going concern, actual transactions and events. The financial statements were prepared in accordance with the Accounting Standards for Business Enterprises – Basic Standards (issued as MOF Decree No. 33, revised as MOF Decree No. 76), and another 41 specific accounting standards amended on or after 15 February 2006. The financial statements were also prepared based on the Accounting Standards for Business Enterprises – Application Guide, interpretations to the Accounting Standards for Business Enterprises and the other related provisions (together the "Accounting Standards for Business Enterprises"), and the disclosure provisions of the Information Disclosure and Presentation Rules for Companies Offering Securities to the Public No. 15 – General Provisions on Financial Reporting (Revised in 2014) issued by the China Securities Regulatory Commission.

In accordance with the applicable provisions under the Accounting Standards for Business Enterprises, the Company uses the accrual method as its basis of accounting. Except certain financial instruments, accounting items are generally measured at historical cost in the financial statements. The held-for-sale non-fixed assets are measured at the fair value less the estimated expense or the original carrying amount existing when the sale conditions are satisfied, whichever is the lower. In case of impairment, the impairment loss shall be determined in accordance with applicable provisions.

**III. STATEMENT OF COMPLIANCE ON THE ACCOUNTING STANDARDS FOR BUSINESS ENTERPRISES**

The financial statements prepared by the Company comply with the Accounting Standards for Business Enterprises, which truly and completely present the information on the financial conditions of the Company as at 31 December 2015 and the results and cash flow of the Company for the year 2015. In addition, the financial statements of the Company, in all material aspects, comply with the disclosure requirements of the Information Disclosure and Presentation Rules for Companies Offering Securities to the Public No. 15 – General Provisions on Financial Reporting (Revised in 2014) issued by the China Securities Regulatory Commission on financial statements and notes thereof.

## IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

### 1. Accounting period

The accounting period of the Company is classified into an accounting year and an interim accounting period. The interim accounting period is a reporting period shorter than a full accounting year. The accounting year of the Company is a calendar year, that is, from 1 January to 31 December in each year.

### 2. Operating cycle

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

### 3. Functional currency

Renminbi is the main currency adopted in the main economic environment where the Company and our domestic subsidiaries operate. The Company and its domestic subsidiaries adopt Renminbi as the functional currency. The Company's offshore subsidiaries determine to adopt HK dollar and Macau dollar as the functional currency based on the currencies adopted in the main economic environment where the Company's offshore subsidiaries operate. The currency adopted by the Company in preparing financial statements is Renminbi.

### 4. Accounting treatments for business combinations

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

#### (1) Business combinations involving enterprises under common control

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

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

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

## IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

*(continued)*

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

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

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

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

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

## IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(continued)

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

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

For the business combination involving enterprises not under common control realised through several transactions, it is to determine whether such transactions are “a basket of transactions” in accordance with the standards on “a basket of transactions” specified in the Notice of the Ministry of Finance on Issuing Interpretation No. 5 of the Accounting Standards for Business Enterprises (Cai Kuai [2012] No. 19) and in Article 51 of Accounting Standards for Business Enterprises No. 33 – Consolidated Financial Statements (note IV 5(2)). In case such transactions are “a basket of transactions”, the accounting treatment will be made with reference to the above paragraphs and note IV 11 (Long-term equity investments); and in case such transactions are not “a basket of transactions”, separate finance statements and consolidated financial statements will be subject to different ways of accounting treatment.

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

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



## IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

*(continued)*

### 5. Preparation of consolidated financial statements

#### (1) Determination in the scope of consolidation

The scope of consolidated financial statements is determined based on control. Control means the Company has exposures or rights to variable returns from its involvement with the investee and the ability to affect those returns through power over such investee. The scope of consolidation comprises the Company and all of its subsidiaries. Subsidiaries are the entities controlled by the Company.

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

#### (2) Preparation of consolidated financial statements

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

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

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

## IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(continued)

### 5. Preparation of consolidated financial statements (continued)

#### (2) Preparation of consolidated financial statements (continued)

The shareholders' equity of the subsidiaries and the share in the net profit or loss for the current period other than the Company's share are separately presented under the shareholders interests and net profits in the consolidated financial statements as the non-controlling shareholders interests and profit or loss attributable to non-controlling shareholders. The portion in the net profit or loss of the subsidiary for the current period attributable to the non-controlling shareholders interests is presented under the "profit or loss attributable to non-controlling shareholders" in the net profits of the consolidated income statement. Where the loss of the subsidiary undertaken by the non-controlling shareholders exceeds non-controlling shareholders' share in the opening balance of shareholders' equity of the subsidiary of the period, the excess is allocated against the non-controlling interests.

Where the Company loses its control over the original subsidiary due to the disposal of some equity investment or other reasons, the remaining equity is re-measured at its fair value on the date when the Company loses its control. The difference between the sum of the consideration acquired due to the disposal of the equity and the fair value of the remaining equity and the Company's share in the net assets of the original subsidiary calculated on an on-going basis from the acquisition date based on the original shareholding proportion is recognised in the investment income for the current period when the control is lost. Other comprehensive income in relation to the subsidiary are accounted on the same basis as the investee when control cease (i.e. except for changes due to net liabilities or net assets from such investee's re-measured defined benefits plan, the rest are reclassified as investment income during the period). After that, the remaining equity is subject to subsequent measurement in accordance with such rules as the "Accounting Standards for Business Enterprises No. 2 – Long-term Equity Investment" and the "Accounting Standards for Business Enterprises No. 22 – Recognition and Measurement of Financial Instruments". Please see note IV 11 (Long-term equity investment) and note IV 8 (Financial Instruments) for details.

Where the Company disposes of the equity investment in the subsidiary through several transactions until the Company loses control, it shall be determined whether such transactions are a basket of transactions. Where the terms, conditions and economic impacts of various transactions involved in the disposal of the equity investment in the subsidiary satisfy one or several of the following circumstances, such several transactions shall be normally deemed as a basket of transactions in accounting treatment: (1). Such transactions are entered into simultaneously or upon the consideration of the mutual impacts; (2). No complete commercial result will be realised without such transactions as a whole; (3). The occurrence of one transaction depends on the occurrence of at least another transaction; (4). One transaction is not economical independently but economical together with other transactions. In case no basket of transactions is constituted, each transaction is subject to the accounting treatment separately based on the applicable principles stipulated in "Partial disposal of the long-term equity investment in subsidiaries without losing control" (note IV 11(2)4) and "Lose of control over original subsidiaries due to the disposal of partial equity investment or other reasons" (above paragraph) as the case may be. Where such transactions constitute a basket of transactions, such transactions are together subject to the accounting treatment as a transaction of disposal subsidiaries and losing control; provided that the difference between the consideration of each disposal and the Company's share in the net assets of the subsidiary corresponding to the investment disposal before the loss of the control is recognised as the other comprehensive income and carried forward to the profit or loss for the current period when the control is lost.

## IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(continued)

### 6. Cash and Cash Equivalents

Cash and cash equivalents of the Company include cash on hand, bank deposit available for payment at any time and those investments that are short-term (to be matured within three months at the time of acquisition), highly liquid, readily convertible into known amounts of cash and subject to an insignificant risk of change in value are classified as cash and cash equivalents.

### 7. Foreign currency transactions and Translation of financial statements in foreign currency

#### (1) Translation of foreign currency transactions

Foreign currency transactions incurred by the Company are translated to the functional currency at the spot exchange rates on the date of the transactions at the initial confirmation, which is normally the median exchange rate quoted by the People's Bank of China of that day; provided that the foreign currency exchange business or the transactions involving foreign currency exchange incurred by the Company are translated to the functional currency at the prevailing exchange rates.

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

Monetary items denominated in foreign currencies are translated to functional currency at the spot exchange rate at the balance sheet date. The resulting exchange differences are treated based on the principal of capitalisation of borrowing costs except for the foreign exchange differences arising from the funds denominated in foreign currency specially borrowed for the establishment of the qualifying assets; and the available-for-sale monetary items denominated in foreign currency are recognised in the profit or loss for the currency period except for such foreign exchange differences arising from the other changes in the balance other than amortised cost that will be recognised in the other comprehensive income.

Non-monetary items denominated in foreign currencies that are measured at historical cost are translated to functional currency using the foreign exchange rate at the transaction date. Non-monetary items denominated in foreign currencies that are measured at fair value are translated using the foreign exchange rate at the date the fair value is determined; the resulting exchange differences are dealt with as the change in fair value (including the change in exchange rate) and recognised in profit or loss for the current period or recognised as the other comprehensive income.

#### (3) Translation of financial statements in foreign currency

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

## IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(continued)

### 7. Foreign currency transactions and Translation of financial statements in foreign currency (continued)

#### (3) Translation of financial statements in foreign currency (continued)

The financial statements in foreign currency of the overseas operation are translated to the financial statements in RMB by the following methods: The assets and liabilities of foreign operations are translated to the functional currency at the spot exchange rates at the balance sheet date. Items under shareholders' equity, excluding "retained earnings", are translated to functional currency at the spot exchange rates at the transaction dates. The income and expenses of foreign operation are translated to the functional currency at the rates that approximate the spot exchange rates at the transaction dates. The non-distributed profits at the beginning of the year is the non-distributed profits at the end of the prior years upon translation; the non-distributed profit at the end of the year is presented based on the items of translated profit appropriation; the differences between the assets and the sum of the liabilities and the shareholders' equity are recognised as the other comprehensive income. When the Company disposes of the overseas operation and loses control, the differences arising from the translation of the financial statements in foreign currency that are presented under the shareholders' equity in the balance sheet and related to the overseas operation are carried forward to the profit or loss for the current period in whole or in the proportion of the disposal of the overseas operation.

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

The opening balance and the actual amounts in the prior year are presented in the amounts arising upon the translation of the financial statements of the prior year.

### 8. Financial Instruments

Financial assets and financial liabilities are recognised when the Company becomes a party to the contractual provisions of the instruments. Financial assets and financial liabilities are initially measured at fair value. For financial assets and financial liabilities measured at fair value and changes recorded in current profit and loss, relevant transaction costs are directly accounted in profit and loss. For other financial assets and financial liabilities, relevant transaction costs are accounted in initially recognized amount.

#### (1) Determination of fair value of financial assets and financial liabilities

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing market participants in an arm's length transaction at the measurement date. For financial assets or financial liabilities where there is an active market, the fair value is determined by reference to quoted price in the active market. The quoted price in the active market is the price easily to be obtained on a regular basis from exchanges, brokers, industrial associations, pricing institutions and other similar organisations and represents the actual price of the market transaction in the fair transaction. If no active market exists for a financial instrument, a valuation technique is used to establish the fair value. Such valuation techniques include referring to the price adopted by the parties trading knowingly and voluntarily in the latest market transaction, referring to the current fair value of the other financial instruments of substantially the same type, the discounted future cash flow and the option pricing model.



## IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(continued)

### 8. Financial Instruments (continued)

#### (2) Classification, recognition and measurement of financial instruments

Financial instruments are purchased and sold in normal ways and recognised and de-recognised based on the transaction date. Upon initial recognition, financial instruments are classified into financial assets at fair value through profit or loss, held-to-maturity investments, loans and receivables and available-for-sale financial assets.

##### (1) Financial assets at fair value through profit or loss

Such financial assets include financial assets held for trading and financial assets designated at fair value through profit or loss.

Financial assets held for trading refer to the financial assets satisfying any of the following conditions: A. the purpose of acquiring the financial asset is to sell it in a recent period; B. the financial asset is a part of the identifiable financial instrument portfolio under centralised management and there is objective evidence indicating that the Company manages this portfolio by a way to gain profits in a short period recently; C. the financial asset is derivatives, except those designated as derivatives of effective hedges instrument, derivatives under financial guarantee contracts and derivatives linked to the equity instruments investments that are not quoted in an active market and of which the fair value cannot be reliably measured and to be settled through delivery of such equity instruments.

The financial assets satisfying any of the following conditions may be designated as financial assets at fair value through profit or loss upon initial recognition: A. such designation may eliminate or apparently reduce the inconsistency in the recognition or measurement of the relevant gains or losses caused by the different basis of measurement of the financial asset; B. it has been specified in the official written documents of the Company on risk management or investment strategies that the financial assets portfolio or the portfolio of financial assets and financial liabilities to which the financial asset belongs is managed and evaluated and reported to key managers at the fair value.

The financial assets at fair value through profit or loss are subsequently measured at the fair value. The gains or losses arising from the change in fair value and the dividends and interests income related to the financial instruments are recognised in the profit or loss for the current period.

## IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

*(continued)*

### 8. Financial Instruments *(continued)*

#### (2) Classification, recognition and measurement of financial instruments *(continued)*

##### (2) *Held-to-maturity investments*

Held-to-maturity investments refer to the non-derivative financial assets with fixed maturity date and fixed or identifiable recovery amount and which the Company explicitly intends and is capable to hold to maturity.

Held-to-maturity investments are subsequently measured at the amortised cost using the effective interest rate method. The gains or losses arising from de-recognition, impairment or amortisation are recognised in profit or loss for the current period.

The effective interest rate method refers to the method by which the amortised cost and interest income or expenses in different periods of the financial assets or financial liabilities (including a portfolio of financial assets or financial liabilities) are calculated at the effective interest rate. The effective interest rate is the interest rate adopted to transfer the future cash flow derived from the financial assets or financial liabilities in the expected existence period or an applicable shorter period to the current carrying amount of the financial assets or financial liabilities.

In calculating the effective interest rate, the Company considers the estimated future cash flow based on all the contractual terms applicable to the financial assets or financial liabilities (not taking future credit loss into consideration) and considers the various charges, transactions costs and discounts or premium paid or received between the parties to the contracts applicable to the financial assets or financial liabilities and constituting a part of the effective interest rate.

##### (3) *Loans and receivables*

Loans and receivables refer to the non-derivative financial assets without quoted price in the active market and fixed or identifiable recoverable amount. The financial assets classified by the Company as loans and receivables include bills receivables, accounts receivables, interest receivables, dividends receivables and other receivables.

Loans and receivables are subsequently measured at the amortised cost using the effective interest rate method. The gains or losses arising from de-recognition, impairment or amortisation are recognised in profit or loss for the current period.

## IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

*(continued)*

### 8. Financial Instruments *(continued)*

#### (2) Classification, recognition and measurement of financial instruments *(continued)*

##### *(4) Available-for-sale financial assets*

Available-for-sale financial assets refer to the non-derivative financial assets designated as available for sale at the time of initiation recognition and the financial assets other than financial assets at fair value through profit or loss, loans and receivables and held-to-maturity investments.

The ending cost of available-for-sale debt instrument investments is recognised at amortised cost, i.e. the initially recognised amount less the repaid principal, and then plus or less the accumulated amortisation amount arising from the amortisation of the difference between the initially recognised amount and the amount on the maturity date using the effective interest rate method, and then further less the impairment loss already incurred. The ending cost of available-for-sale equity instrument investments is the initial acquisition cost.

Available-for-sale financial assets are subsequently measured at fair value. The gains or losses arising from the change in fair value are recognised as other comprehensive income and carried forward to the profit or loss for the current period upon de-recognition except for impairment loss, and exchange differences of monetary financial assets in foreign currency related to amortised cost which are recognised in the profit or loss for the current period. However, for derivatives that are linked to equity instruments for which there are no quoted price in active market or the fair value of the underlying equity instruments cannot be measured reliably and the derivative have to be settled by delivering the underlying equity instrument are subsequently measured by costs.

For the available-for-sale financial assets, the interests acquired during the holding period and the cash dividends declared by the investee are recognised in the investment income.

#### (3) Impairment of financial assets

On each balance sheet date, the Company inspects the carrying amount of the other financial assets other than the financial assets at fair value through profit or loss for the current period, and if there is objective evidence of impairment in relation to the financial assets, impairment loss is determined by the excess of the carrying amount of the financial asset over the estimated present value of future cash flow.

The Company carries out individual impairment test on the financial assets with significant amount on individual basis; and carries out individual impairment test or impairment test together with the portfolio of the financial assets with similar credit risks on the financial assets without significant amount on individual basis. For those not impaired in individual impairment test (including the financial assets with and without significant amount on individual basis), the Company carries out impairment test on such assets together with the portfolio of the financial assets with similar credit risks. The financial assets impaired in individual impairment test are not subject to the impairment test together with the portfolio of the financial assets with similar credit risks.

## IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

*(continued)*

### 8. Financial Instruments *(continued)*

#### (3) Impairment of financial assets *(continued)*

##### *(1) Impairment of held-to-maturity investments, loans and receivables*

The carrying amount of the financial assets measured at cost or amortised cost is written down to the present value of the estimated future cash flow and the written-down amount is recognised as the impairment loss in the profit or loss for the current period. The originally recognised impairment loss is reversed if there is objective evidence that the value of the financial assets has been recovered and the recovery can be linked objectively to an event occurring after the impairment loss was recognised. The carrying amount of the financial assets upon the reversal of the impairment loss will not exceed the amortised cost of the financial assets on the reversal date as if no impairment loss provision had been made.

##### *(2) Impairment of available-for-sale financial assets*

If there is a significant or prolonged decline in the fair value of available-for-sale financial assets based on relevant factors, the available-for-sale equity instrument investment is impaired. In determining the meaning of “significant” and “prolonged”, the Company shall base its judgment upon the extent and the duration to which the fair value of the investment is less than its cost, and shall take into account other factors to reach a comprehensive view.

When an available-for-sale financial asset is impaired, the accumulated loss arising from the decline in fair value that had been recognised directly in capital reserve is reclassified to profit or loss for the current period. The reclassified accumulated loss is the balance of the initial acquisition cost less the recovered principal, the amortisation amount, the current fair value and the impairment loss originally recognised in the profit or loss.

An impairment loss is reversed and the impairment loss in the available-for-sale equity instrument investment is reversed as the other comprehensive income and the impairment loss in the available-for-sale debt instrument is reversed in the profit or loss for the current period if there is any objective evidence that there is a favourable change in the estimates used to determine the recoverable amount and the change can be linked objectively to an event occurring after the impairment loss was recognised.

The impairment loss of the equity instrument investments that are not quoted in an active market and their fair value cannot be reliably measured or the derivative financial assets linked to such equity instrument and to be settled through the delivery of such equity instrument will not be reversed.



## IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

*(continued)*

### 8. Financial Instruments *(continued)*

#### (4) Recognition basis and measurement methods of transfer of financial assets

The financial assets satisfying any of the following conditions are de-recognised: 1. The contractual right to receive the cash flow of the financial assets is terminated; 2. The financial assets have been transferred and almost all of the risks and rewards of ownership of the financial assets have been transferred to the transferee; 3. The financial assets have been transferred and the enterprise waives the control over the financial assets although it has neither transferred nor reserved almost all of the risks and rewards of ownership of the financial assets.

Where the enterprise has neither transferred nor reserved almost all of the risks and rewards of ownership of the financial assets and not waived the control over the financial assets, the relevant financial assets and the relevant liabilities are recognised based on the extent of the financial assets continuing to be involved. The extent of the financial assets continuing to be involved is the level of the risks to be encountered by the enterprise due to the change in the value of the financial assets.

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

Where the partial transfer of the financial assets satisfies the conditions of de-recognition, the carrying amount of the transferred financial assets is allocated between the de-recognised portion and the not de-recognised portion at the corresponding fair value, and the difference between the consideration received from the transfer and the sum of the accumulated changes in the fair value of the originally recognised other comprehensive income allocated to the de-recognised portion and the above mentioned allocated carrying amount are recognised in the profit or loss for the current period.

Where the Company transfers by endorsement the financial assets sold with the right of recourse or the financial assets held by it, it shall be determined that whether almost all the risks and rewards of ownership of the financial assets have been transferred. Where almost all the risks and rewards of ownership of the financial assets have been transferred to the transferee, the financial assets are de-recognised; where almost all the risks and rewards of ownership of the financial assets have been reserved, the financial assets are not de-recognised; and where almost all the risks and rewards of ownership of the financial assets have been neither transferred nor reserved, it shall be determined whether the enterprise reserves control over the assets and the accounting treatment will be carried out based on the above mentioned principles.

## IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(continued)

### 8. Financial Instruments (continued)

#### (5) Classification and measurement of financial liabilities

Upon initial recognition, financial liabilities are classified into financial liabilities at fair value through profit or loss and other financial liabilities. Upon initial recognition, financial liabilities are measured at fair value. For the financial liabilities at fair value through profit or loss, the relevant transaction costs are directly recognised in profit or loss for the current period; and for the other financial liabilities, the relevant transactions are included in initial recognition.

##### 1 *Financial liabilities at fair value through profit or loss*

The conditions for the financial liabilities to be classified as the financial liabilities held for trading and the financial liabilities designated to be measured at fair value through profit or loss upon initial recognition are the same as the conditions for the financial assets to be classified as the financial assets held for trading and the financial assets designated to be measured at fair value through profit or loss upon initial recognition.

The financial liabilities at fair value through profit or loss are subsequently measured at the fair value. The gains or losses arising from the change in fair value and the dividends and interests expenses related to the financial instruments are recognised in the profit or loss for the current period.

##### 2 *Other financial liabilities*

The derivative financial liabilities linked to the equity instruments that are not quoted in an active market and of which the fair value cannot be reliably measured and to be settled through delivery of such equity instruments are subsequently measured at cost. The other financial instruments are subsequently measured at amortised cost using the effective interest rate method and the gains or losses arising from de-recognition or amortisation are recognised in profit or loss for the current period.

##### 3 *Financial guarantee contracts and loan commitments*

The financial guarantee contracts other than the financial liabilities at fair value through profit or loss or the loan commitments other than the loan at fair value through profit or loss and granted at an interest rate lower than the market rate are initially recognised at fair value and then subsequently measured at the amount determined in accordance with the Accounting Standards for Business Enterprises No. 13 – Contingencies and the balance of the initially recognised amount less the accumulated amortisation amount determined in accordance with the Accounting Standards for Business Enterprises No. 14 – Income, whichever is the higher.

## IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

*(continued)*

### 8. Financial Instruments *(continued)*

#### (6) De-recognition of financial liabilities

The financial liabilities may not be de-recognised in whole or in part unless and until the present obligations of the financial liabilities are discharged in whole or in part. Where the Company (the debtor) concludes agreements with the creditors to replace the existing financial liabilities with the new financial liabilities and the contractual terms for the new financial liabilities and the existing financial liabilities are materially the same, the existing financial liabilities are de-recognised and the new financial liabilities are recognised at the same time.

Where the financial liabilities are de-recognised in whole or in part, the difference between the carrying amount of the de-recognised portion and the consideration so paid (including the transferred non-monetary assets or the assumed new financial liabilities) is recognised in profit or loss for the current period.

#### (7) Offset between financial assets and financial liabilities

Where the Company is legally entitled to offset the recognised financial assets and financial liabilities and may exercise this right now and plans to net or realise the financial assets and repay the financial liabilities, the remaining amount upon the offset between the financial assets and the financial liabilities is presented in the balance sheet. In other cases, the financial assets and the financial liabilities are separately presented in the balance sheet and not offset against each other.

#### (8) Equity instruments

Equity instruments refer to the contracts proving the ownership of the remaining equities in the assets of the Company upon the deduction of all the liabilities. Change to share equity is accounted when the Company issue (including refinance), buyback, sell or cancel equity instrument. The consideration received from the issue of the equity instruments increases the shareholders' equity upon the deduction of the transaction costs.

The allocations made by the Company to the holders of equity instruments (excluding stock dividends) decrease shareholders' equity. The Company does not recognise the change in the fair value of equity instruments.

## IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(continued)

### 9. Receivables

Receivables include accounts receivables and other receivables.

#### (1) Treatment of bad debts provision

The Company inspects the carrying amount of the receivables on the balance sheet, and if there is objective evidence of impairment in relation to the receivables, impairment loss is determined by the excess of the carrying amount of the receivables over the estimated present value of future cash flow.

- 1 Criteria and method of provision for bad debt of receivables that are individually significant:

#### Methods of providing bad debts for single receivables with significant amount on individual provision basis

#### Amount of more than 10% of the balance of receivables

Method of provision for bad debt of receivables that are individually significant and impairment provided on an individual basis:

If there is objective evidence of impairment noted in the individual impairment test, provisions for bad debts are made based on the excess of the carrying amount of the financial asset over the present value of future cash flow. For those not impaired in the individual impairment test, provisions for bad debts are made based on the portfolio of credit risk using ageing analysis method.



**IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES***(continued)***9. Receivables** *(continued)***(1) Treatment of bad debts provision** *(continued)*

- 2 Bad debt provision for receivables by portfolio

<b>Basis for determining the portfolio</b>	<b>Basis for determining portfolio of credit risk by ageing</b>
Method of bad debts provision based on portfolio	Ageing analysis method

Method of bad debts provision of receivables based on portfolio of credit risk by ageing:

<b>Ageing</b>	<b>Percentage of provision for accounts receivables</b>	<b>Percentage of provision for other receivables</b>
within one year (including one year)	5%	5%
1-2 years (including 2 year)	6%	6%
2-3 years (including 3 year)	20%	20%
3-4 years (including 4 year)	70%	70%
4-5 years (including 5 year)	90%	90%
over 5 years	100%	100%

If there is any indication that there is a significant difference between the recoverability of individual receivable and other receivables with the same age as indicated by a portfolio test, and the bad debt provision made in accordance with the portfolio of credit risk using ageing analysis method cannot truly reflect the recoverable amount of that individual receivable, provision of bad debt will be made on an individual basis.

- 3 No bad debts provision is made on receivables from intra-company transactions in the scope of consolidation.
- 4 Criteria and method of provision for bad debt for receivables that are individually insignificant but impairment provided on an individual basis

<b>Basis for determining the portfolio</b>	<b>Amount that are not individually significant and aged over 3 years</b>
Method of bad debts provision	For the individual impairment test, provisions for bad debts are made as the excess of the carrying amount over the estimated present value of future cash flow. If the present value of future cash flow cannot be estimated accurately, provisions for bad debts are made based on the portfolio of credit risk using ageing analysis method.

For other receivables (including bills receivable, prepayments, interest receivable and long-term receivables), provisions for bad debts are made based on the excess of the carrying amount over the estimated present value of future cash flow.

## IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(continued)

### 9. Receivables (continued)

#### (1) Treatment of bad debts provision (continued)

4 (continued)

The above amounts that are not recoverable are written off against the corresponding receivables after approval.

#### (2) Reversal of bad debts provision

The originally recognised impairment loss is reversed and reclassified in profit or loss for current period if there is any objective evidence that the value of the receivables has been recovered and the recovery can be linked objectively to an event occurring after the impairment loss was recognised. The carrying amount upon the reversal will not exceed the amortised cost of the receivables on the reversal date as if no impairment loss provision had been made.

### 10. Inventories

#### (1) Classification of inventories

Inventories include raw materials, packaging materials, work in progress, finished goods, subcontracting materials and low-value consumables.

#### (2) Inventory system: The Company maintains a perpetual inventory system.

#### (3) Method of measurement

Inventories are initially measured at actual cost. Cost of inventories comprises actual costs of purchase and other expenditures incurred in bringing the inventories to their present location and condition. Cost of distribution of inventories is calculated using the weighted average cost method. Low-value consumables and packaging materials are amortised in full upon the use.

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

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion, selling expenses and related taxes. The net realizable value of inventories is determined based on the exact evidence and consideration will be given to the purpose of holding the inventories and the effects of the events post balance sheet date.

On the balance sheet date, the inventories are calculated at the lower one of cost and the net realisable value. When the net realizable value is lower than the cost, the provision for diminution in value of inventories is made. Provision for diminution in the value of inventory is determined on an item-by-item basis and made in the excess of the cost of the inventory over its net realizable value. Provision for diminution in the value of inventories is normally determined on a collective group basis when inventories are numerous and with low unit price.

After the provision for diminution in the value of inventory is made, if the circumstances resulting in the write-down of inventories no longer exist and the net realizable value of the inventory is higher than its carrying amount, the amount of the provision for diminution in value of inventories that has been made is reversed. The amount of reversal is recognised in the profit or loss for the current period.

## IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

*(continued)*

### 11. Long-term equity investment

Long-term equity investment refers to those with which the Company exercise control over the invested entity, or has significant influence on its operation, or equity investment in joint ventures.

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

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

#### (1) Determination of investment cost

In case of long-term equity investment arising from business combination, the initial investment cost of a long-term equity investment acquired through a business combination involving entities under common control is the Company's share in the consolidated financial statement of the ultimate controlling party in the carrying amount of the acquiree's equity at the combination date. For a long-term equity investment acquired through a business combination not involving enterprises under common control, the cost initially recognised is comprised of the fair value of the assets transferred, liabilities incurred or assumed, and equity securities issued by the acquirer at the acquisition date, in exchange for control of the acquiree. The costs incurred by the acquirer due to the combination including such intermediary costs as audit fees, legal fees and valuation fees and other relevant administrative costs shall be recognised in the profit or loss for the current period. The transaction costs of the equity securities or debt securities issued by the acquirer as the consideration of the combination shall be included in the initially recognised amount of the equity securities or debt securities.

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

#### IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(continued)

##### 11. Long-term equity investment (continued)

###### (2) Subsequent measurement and recognition of profit or loss

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

If the Company is able to exert control in the investee of a long-term equity investment, the cost method will be applied to measure that investment on its individual financial statements. When accounted for using the cost method, the long-term equity investment is measured at the initial investment cost, and cash dividend or profit distributions declared by the investee are recognised as investment income, except those that have been declared but unpaid at the time of acquisition and therefore included in the consideration.

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

If the Company has common control in or significant influence on the investee of a long-term equity investment, the equity method will be applied to account for the investment. When accounted for using the equity method, the initial investment cost of the long-term equity investment is not adjusted if the initial investment cost of the long-term equity investment is higher than the Company's share in the fair value of the identifiable net value of the investee at the time of investment; and the difference is recognised in the profit or loss for the current period and the cost of the long-term equity investment is adjusted if the initial investment cost of the long-term equity investment is lower than the Company's share in the fair value of the identifiable net value of the investee at the time of investment.



## IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(continued)

### 11. Long-term equity investment (continued)

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

##### 2 Long-term equity investment accounted for using the equity method (continued)

For long-term equity investment accounted for using equity method, return on investment and other comprehensive income are recognized separately according to the share in the invested entity's net profit/or loss and its other comprehensive income, with the book value adjusted for the long-term equity investment by the Company. Book value of the long-term equity investment will be deducted according to the announced profit to be distributed by the invested entity or the share of cash dividend. Changes to shareholders' equity other than net profit/or loss, other comprehensive and profit distribution cause book value of long-term equity investment to be adjusted, and taken into capital reserve. Net profit of the invested entity are recognized after adjustment on the basis of fair value of all recognizable assets of the invested entity on acquisition. Accounting policies and accounting period of the invested entity will be adjusted according to the Company's relative regulations if that entity adopted different policies. Meanwhile return on investment and other comprehensive income are adjusted accordingly. For transactions between the Company and its associates and joint ventures not constituting business transactions by transferring or selling assets, relative unrealized profit/or loss on internal transactions attributable to the Company pro rata will be offset, and return on investment will be recognized on such basis. However if such realized loss on internal transactions are classified as loss on decline in value of asset, then the relative loss are not to be offset.

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

##### 3 Acquisition of non-controlling interests

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

## IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(continued)

### 11. Long-term equity investment (continued)

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

##### 4 Disposal of long-term equity investment

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

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

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

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

#### (3) Basis of determining common control and significant influence on the investee

Joint control is the contractually agreed sharing of control over an activity, and exists only when decisions relating to the activity require the unanimous consent of the parties sharing control. Significant influence refers to the power to participate in the financial and operational decisions of the investors without control or common control over the formulation of such policies. When determining whether it has control or significant influence over the investee, the Company shall consider the convertible corporate bonds, exercisable call options and other voting rights of the investee held by the Company in the current period.

## IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(continued)

### 11. Long-term equity investment (continued)

#### (4) Impairment test and provision for impairment

The Company inspects the possibility of impairment of the long-term equity investment on each balance sheet date, and if there is evidence of such impairment, the Company estimates the recoverable amount. If the recoverable amount of the asset is lower than its carrying amount, the impairment provision of the asset is made based on the difference and recognised in the profit or loss for the current period.

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

### 12. Investment Properties

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

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

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

Please see note IV 19 (Impairment of non-fixed non-financial assets) for the impairment test and provision for impairment on investment properties.

Where the properties for private use or inventories are converted to investment properties or vice versa, the carrying amount prior to the conversion is recognised as the entry value after conversion.

Where the purpose of the investment properties is changed to private use, the investment properties are converted to fixed assets or intangible assets from the date of such change. Where the purpose of the properties for private use is changed to earning rental income or capital appreciation, the properties are converted from fixed assets or intangible assets to investment properties from the date of such change. In case of any conversion, if the property under the conversion is an investment property using the cost model, the carrying amount prior to the conversion is recognised as the entry value after conversion; and if the property under the conversion is an investment property using the fair value model, the fair value on the conversion date is recognised as the entry value after conversion.

Where the investment properties are disposed of or perpetually not used and it is expected that no economic benefits may arise from such disposal, the investment properties are de-recognised. When an investment property is sold, transferred, discarded, damaged or destroyed, the amount of disposal proceeds less the carrying amount of the property and relevant taxes is recognised as gain on disposal in the profit or loss for the current period.

## IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(continued)

### 13. Fixed Assets

#### (1) Recognition of fixed assets

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

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

#### (2) Classification of fixed assets

Fixed assets include plant and building, machinery and equipment, motor vehicles, electronic devices and others.

#### (3) Measurement of fixed assets

Fixed assets are initially measured at cost.

- 1 Where the payment for purchase of a fixed asset is postponed beyond the normal credit terms, which constitutes financing transaction in substance, the present value of the purchase price is recognised as the cost of fixed assets.
- 2 The fixed assets acquired from debtor under debt restructuring are measured at the fair value, and the difference between the carrying amount of the restructured debt and the fair value of the fixed assets acquired from debtor under debt restructuring is recognised in the profit or loss for the current period. If the exchange of non-monetary assets transaction is commercial in nature and the fair value of the assets received or transferred can be reliably measured, the fixed assets received in the exchange of non-monetary assets transaction shall normally be measured at the fair value of the assets transferred, unless there is objective evidence indicating that the fair value of the assets received is more reliable; For the exchange of non-monetary assets transaction which does not meet the above conditions, the cost of fixed assets received is recognised at the carrying amount of the assets transferred with the relevant taxes, and no gains or losses are recognised in the profit or loss.
- 3 The fixed assets acquired in the business combinations involving enterprises under common control are measured at the carrying amount of the fixed assets recognised by the acquiree. The fixed assets acquired in the business combinations involving enterprises not under common control are recognised at its fair value.



**IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES***(continued)***13. Fixed Assets** *(continued)***(3) Measurement of fixed assets** *(continued)*

The present value of the initial estimate for the costs of dismantling and removing the fixed assets is recognised in the carrying amount of fixed assets.

The subsequent cost on fixed assets is recognised in the carrying amount of fixed assets provided that the economic benefits associated with fixed assets exceed those upon its initial recognition will flow to the Company, and the carrying amount does not exceed the recoverable amount of the fixed assets.

**(4) Method for depreciation of fixed assets**

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

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

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

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

Please see note IV 19 (Impairment of non-fixed non-financial assets) for the impairment test and provision for impairment on fixed assets.

## IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(continued)

### 14. Construction in progress

#### (1) Classification of construction in progress

Construction in progress is classified into individual projects.

#### (2) Conversion of construction in progress to fixed assets

All expenditures arising from construction in progress before the asset becomes ready for its intended use are recognised as the entry value of the fixed asset. If the construction in progress reaches a stage where the construction in progress is ready for its intended use but the final account of the completed project has not been issued, the cost of fixed asset and the depreciation are recognised in accordance with the estimated cost determined by the construction budget, construction price or actual cost upon the date when the asset is ready for their intended use until the final account of completed project is issued when the estimated cost is adjusted according to the actual cost, while the depreciation charged is not adjusted.

#### (3) Impairment of construction in progress

Please see note IV 19 (Impairment of non-fixed non-financial assets) for the impairment test and provision for impairment on construction in progress.

### 15. Borrowing Costs

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

- 1 Expenditures for the asset are being incurred. Expenditures for the asset include payment by cash, transfer of non-cash asset, undertaking of interest-bearing liability to acquire, construct or produce qualifying assets;
- 2 Borrowing costs are being incurred;
- 3 Activities relating to the acquisition, construction or production of the asset that are necessary to prepare the asset for its intended use or sale have commenced.

#### IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(continued)

##### 15. Borrowing Costs (continued)

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

## IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(continued)

### 16. Biological Assets

#### (1) Determination and classification of biological assets

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

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

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

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

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

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



## IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

*(continued)*

### 17. Intangible Assets

#### (1) Intangible assets

An intangible asset is an identifiable non-monetary asset without physical substance owned or controlled by the Company. An intangible asset is recognised when it meets the following conditions:

- 1 It is probable that the economic benefits associated with the intangible assets will flow to the Company;
- 2 The cost of the intangible asset can be reliably measured.

Intangible assets are measured initially at cost.

- 1 Where the payment for acquisition of an intangible asset is postponed beyond the normal credit terms, which constitutes financing transaction in substance, the present value of the purchase price is recognised as the cost of fixed assets.
- 2 The intangible assets acquired from debtor under debt restructuring are measured at the fair value, and the difference between the carrying amount of the restructured debt and the fair value of the intangible assets acquired from debtor under debt restructuring is recognised in the profit or loss for the current period. If the exchange of non-monetary assets transaction is commercial in nature and the fair value of the assets received or transferred can be reliably measured, the intangible assets received in the exchange of non-monetary assets transaction shall be measured at the fair value of the assets transferred, unless there are objective evidences indicating that the fair value of the assets received is more reliable. For the exchange of non-monetary assets transaction that does not meet the above conditions, the cost of intangible assets received is initially recognised at the carrying amount of the assets transferred with the relevant taxes, and no gains or losses are recognised in the profit or loss.
- 3 The intangible assets acquired from business combinations involving enterprises under common control are measured at the carrying amount of the intangible assets recognised by the acquiree. The intangible assets acquired in the business combinations involving enterprises not under common control are recognised at its fair value.

## IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(continued)

### 17. Intangible Assets (continued)

#### (1) Intangible assets (continued)

The Company shall determine the useful life of intangible assets upon acquisition according to its judgment. For intangible assets with finite useful life, useful life is estimated from the length of, or number of production or similar units constituting. When there is no foreseeable limit to the period over which an intangible asset is expected to generate economic benefits for the Company, it is regarded as having an indefinite useful life.

Amortisation of intangible assets: Intangible assets with finite useful life are amortised in the profit or loss using the straight-line method over the estimated useful life. An intangible asset with indefinite useful life is not amortised. The useful life for an intangible asset with a finite useful life and the method of amortisation are reviewed at least once at the end of each year. If the useful life and amortisation method for the intangible assets are different from the previous estimate, the change of amortisation is recognised prospectively.

#### (2) Research and development expenditures

Expenditures on an internal research and development project are classified into expenditures on the research phase and expenditures on the development phase.

Expenditures on the research phase refer to the costs incurred for original and planned investigations undertaken with the prospect of gaining new scientific or technical knowledge and understanding for further development activities. There is great uncertainty as to whether research in progress can move onto development phase and whether intangible assets can be created at the end of the development phase.

Expenditures on the development phase refer to the cost incurred for the application of research findings or other knowledge to a plan or design for the production of new or substantially improved materials, devices, products or processes before the start of commercial production or use. The development phase is the application of the result of the research phase with the entity capable to demonstrate the feasibility of creating new products or new technologies.

Expenditures on a research phase are recognised in profit or loss when incurred. Expenditures on a development phase are recognised as intangible assets if an entity can demonstrate all of the following:

- 1 The technical feasibility of completing the intangible asset so that it will be available for use or for sale;
- 2 The intention to complete the intangible asset and use or sell it;

## IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(continued)

### 17. Intangible Assets (continued)

#### (2) Research and development expenditures (continued)

- 3 The intangible asset will generate future economic benefits, including proving that the products produced by using the intangible assets have markets or the intangible assets have markets. If the intangible assets will be used internally, the intangible assets are proved useful;
- 4 The availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible assets;
- 5 The expenditures attributable to such intangible assets during its development can be reliably measured.

After obtaining relevant approval (such as "the Clinical Test Approval (臨床試驗批件)", "the Drug Registration Approval (藥品註冊批件)" pursuant to the requirements in the Measures for the Administration of Drug Registration (藥品註冊管理辦法) by the State Food and Drug Administration) or approval by international drug administration institutions or satisfying the conditions of pilot in R&D projects through combining the R&D process of the pharmaceutical industry and the Company's own R&D features, expenses occurred after obtaining relevant approval or commencing the pilot can be regarded as capitalized R&D expenses when such expenses satisfy conditions for development through the Company's assessment; the remaining R&D expenses are regarded as expensed R&D expenses; and the purchase of production technology or formulation are regarded as development expenses and projects requiring further R&D follow the standards as mentioned; the remaining R&D expenses are regarded as expensed R&D expenses; and the purchase of production technology or formulation are regarded as development expenses and projects requiring further R&D follow the standards as mentioned.

Where it is impossible to differentiate the expenditures on the research phase and the expenditures on the development phase, all the research and development expenditures are recognised in profit or loss for the current period.

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

Please see note IV 19 (Impairment of non-fixed non-financial assets) for the impairment test and provision for impairment on intangible assets.

### 18. Long-term deferred expenses

Long-term deferred expenses are the various expenses already incurred but to be amortised over the reporting period and the subsequent amortisation periods (together of more than 1 year). Major repair and maintenance expenditures on fixed assets of the Company are amortised over the interval period using a straight-line method. Other long-term deferred expenses are amortised over the beneficial period using a straight-line method.

#### IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

*(continued)*

##### 19. Impairment of Non-fixed Non-financial Assets

For fixed assets, construction in progress, intangible assets with limited useful life, investment properties measured using cost model, long-term equity investment in subsidiaries, joint ventures and associates and other non-fixed non-financial assets, the Company inspects the possibility of impairment of such assets on each balance sheet date, and if there is evidence of such impairment, the Company shall estimate the recoverable amount and conduct impairment test. Goodwill, intangible assets with indefinite useful life and intangible assets not ready for the intended use are subject to impairment test in each year regardless of the possibility of impairment.

Where the impairment test indicates that the recoverable amount of the asset is lower than its carrying amount, the provision for impairment is made based on the difference and recognised in impairment loss. The recoverable amount is the net amount of the fair value of the asset less the costs to sell or the present value of the estimated future cash flow expected to derive from the asset, whichever is the higher. The fair value of the asset is determined based on the price under the sale agreement in the fair transaction; or, in case of no sale agreement but an active market for the asset, the buyer's offer of the asset; or, in case of no sale agreement and no active market for the asset, the available best information. The costs to sell include the legal costs, taxes and charges, transportation costs and direct costs incurred by the asset to reach the condition ready for its intended use, which are related to the disposal of the asset. The present value of the estimated future cash flow of the asset is determined based on the estimated future cash flow expected to derive from the asset in the course of holding and use and at the time of final disposal after discounted at an appropriate discount rate. The provision for impairment on the asset is calculated and determined on an item-by-item basis. Where it is difficult to estimate the recoverable amount of an individual asset, the Company determines the recoverable amount of the asset group to which the asset belongs. The asset group is the minimum set of asset group that may generate cash inflow.

The accounting amount of the goodwill separately presented in the financial statements is allocated to the asset groups or the sets of asset groups expected to benefit from the synergy effect of business combination at the time of impairment test. Where the test result indicates that the recoverable amount of the asset groups or the sets of asset groups containing the allocated goodwill is lower than their carrying amount, the Company determines the corresponding impairment loss. The amount of the impairment loss is to offset the carrying amount of the goodwill allocated to the asset groups or the sets of asset groups in the first place, and then to offset the carrying amount of all the other assets in the proportion of the carrying amount of all the other assets except goodwill.

Once the above mentioned impairment loss of the asset is recognised, the recovered portion of the value will not be reversed in the subsequent periods.



## IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

*(continued)*

### 20. Employee compensation

Employee compensation of the Company mainly comprise short-term employee compensation, welfare post resignation, and welfare post cancellation of the labor relationship, including:

Short-term employee compensation include wage, bonus, allowances and subsidies, employee welfare expenditures, medical insurance expenditures, maternity insurance expenditures, work injury insurance expenditures, housing accumulation fund expenditures, labor union expenditures and employee education expenses, non-monetary welfare, etc. During the accounting period that an employee's providing services to the Company, The Company recognize the relative short-term employee compensation incurred as liabilities, and will account for in the current Profit and Loss or relative cost of asset. Non-monetary welfare will be measured by fair value.

Welfare post resignation mainly comprises of defined provision plan, which include basic endowment insurance, unemployment insurance. The relative payables will be accounted for in the relative cost of asset or the current profit and loss.

The relative employee compensation liabilities due to cancellation of labor relationship are recognized and taken into the current Profit and Loss, when the Company cancels the labor relationship with any employee prior to the expiration of the relevant labor contract, or brings forward any compensation proposal for the purpose of encouraging the employee to accept a layoff, on the earlier date between the date that Company cannot withdraw the relative compensation, or date that the Company recognize reconstruction of cost involving payment of compensation for the cancellation of the labor relationship with the employee.

Internal retirement plan adopts the same principles as the above mentioned compensation for the cancellation of the labor relationship with the employee. The Company account for the wage and social insurance payables incurred from the date the relative employee cease services to the Company to his/her date of expected retirement to the internally retired employee into the current Profit and Loss (i.e. compensation for the cancellation of the labor relationship with the employee), when requirements for recognition of provision are met.

## IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(continued)

### 21. Provisions

#### (1) Principles for the recognition of provisions

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

- 1 An entity has a present obligation;
- 2 It is probable that an outflow of economic benefits will be required to settle the obligation;
- 3 The amount of the obligation can be estimated reliably.

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

#### (2) Determination for the best estimate of provisions

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

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

## IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(continued)

### 22. Share-based payments

#### (1) Accounting treatment for share-based payments

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

##### 1 *Equity-settled share-based payments*

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

At each balance sheet date during the pending period, the Company, based on the latest subsequent information such as the latest update on the change in the number of entitled employees, makes best estimates to adjust the expected number of equity instruments that can be vested. The effect of the above estimate is included in relevant costs or expenses for the period and the capital reserve is adjusted accordingly.

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

##### 2 *Cash-settled share-based payments*

Cash-settled share-based payments are measured at the fair value of the liabilities (share-based or other equity instrument-based) assumed by the Company. Instruments which are vested immediately upon the grant are charged to relevant costs or expenses on the date of grant and liabilities are increased accordingly. If vesting is conditional upon completion of services in the pending period or fulfillment of performance conditions, at each balance sheet date during the pending period, based on the best estimates of the vesting situation, according to the amount of fair value of the liabilities assumed by the Company, the services received for the period are charged to costs or expenses and liabilities are increased accordingly.

At each balance sheet date and settlement date before the relevant liabilities are settled, the fair value of liabilities are re-measured and the resulting changes are included in the profit and loss for the period.

## IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(continued)

### 22. Share-based payments (continued)

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

When the Company modifies the share-based payment plan, and if such modification increases the fair value of the equity instruments granted, the increase in services received will be recognized accordingly following the increase in fair value of the equity instruments. The increase in fair value of the equity instruments refers to the difference in fair value on the date of modification before and after the modification in respect of the equity instruments. If the modification reduces the total fair value of the share-based payments or adopts any form that is unfavorable to employees, accounting treatment will be continued to be conducted in respect of the services received and the modification will be deemed to have never occurred, unless the Company had cancelled part or all of the equity instruments granted.

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

#### (3) Accounting treatment for share-based payments involving the Company and the shareholders of the Company or the actual controller

For share-based payment transactions involving the Company and the shareholders of the Company or the actual controller, the settlement enterprise and the enterprise receiving services (one under the Company while another external to the Company) shall follow the requirements below to conduct accounting treatment in the Company's consolidated financial statements:

- 1 For settlement enterprises settling through their own equity instruments, such share-based payment transaction will be treated as equity-settled share-based payment; except for this, such share-based payment transaction will be treated as cash-settled share-based payment.

Where a settlement enterprise is an investor of an enterprise receiving services, the fair value of the equity instruments on the date of grant or the fair value of the liabilities that shall be assumed are recognized as long-term equity investment in the enterprise receiving services, at the same time, capital reserve (other capital reserve) or liabilities are recognized.

- 2 Where an enterprise receiving services has no settlement obligations or grants its own equity instruments to employees, such share-based payment transaction will be treated as equity-settled share-based payment; where an enterprise receiving services has settlement obligations and grants equity instruments (other than its own) to employees, such share-based payment transaction will be treated as cash-settled share-based payment.

For a share-based payment transaction occurring between each enterprise under the Company where the enterprise receiving services and the settlement enterprise are not the same enterprise, such share-based payment transaction shall be recognized and measured in each of the respective financial statements of the enterprise receiving services and the settlement enterprise (as compared with the above principles).



## IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

*(continued)*

### 23. Repurchase of shares of the Company

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

Prior to cancellation or transfer of shares repurchased, the Company recognises all expenditures arising from share repurchase as cost of treasury shares in the treasury share account.

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

### 24. Revenue

#### (1) Sale of goods

Revenue is recognised when the significant risks and rewards of ownership of goods have been transferred by the Company to the buyer, and the Company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold, and when it is probable that the economic benefits will flow to the Company and the amount of revenue and costs can be measured reliably.

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

## IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(continued)

### 24. Revenue (continued)

#### (2) Rendering of services

At the balance sheet date, where the outcome of a transaction involving the rendering of services can be estimated reliably, revenue from the rendering of services is recognised by reference to the stage of completion of the transaction. The stage of completion of the transaction is determined according to the progress of work performed by the following methods:

- 1 Survey of work performed.
- 2 Services performed to date as a percentage of total services to be performed.
- 3 The proportion of the costs incurred to date bear to the estimated total costs of the transaction.

Total revenue from rendering of services is determined by the amount received or receivable from the party receiving the service as stated in the contract or agreement unless the amount received or receivable as stated in the contract or agreement is not at fair value. At the balance sheet date, the revenue arising from the rendering of services for the current period is recognised with reference to the total revenue of rendering of services multiplied by percentage of completion less the cumulative amount of revenue recognised in the prior accounting periods.

Where outcome of rendering of services cannot be estimated reliably at the balance sheet date, the revenue is determined as follows:

- 1 If the costs incurred are expected to be recoverable, revenues are recognised as costs incurred, and an equivalent amount is charged as service cost.
- 2 If the costs incurred are not expected to be recoverable, the costs incurred are recognised in profit or loss for the current period and no service revenue is recognised.

#### (3) Assignment of asset use right

If it is probable that economic benefits associated with the transaction will flow to the Company, and the amount of revenue can be reliably estimated, the Company recognises the revenue from the assignment of asset use rights by the following methods:

- 1 Interest income is recognised on a time proportion basis with reference to the principal outstanding at the applicable effective interest rate.
- 2 Licensing revenue is recognised with reference to the period and method stated under relevant contract or agreement.

## IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

*(continued)*

### 25. Government Grant

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

#### (1) Principles of recognition and classification standards

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

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

#### (2) Measurement

If a government grant is in the form of a transfer of a monetary asset, it is measured at the amount that is received or receivable. If a government grant is in the form of a transfer of a non-monetary asset, it is measured at its fair value. If its fair value cannot be measured reliably, it is measured at its nominal amount.

#### (3) Accounting treatment

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

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

## IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(continued)

### 26. Recognitions of deferred tax assets/deferred tax liabilities

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

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

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

### 27. Accounting Treatment for Income tax

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

#### (1) Recognition of deferred tax assets

- 1 Apart from the following exceptions, deferred tax asset are recognised to the extent that it is probable that future taxable profits will be available against which deductible temporary difference can be utilised:
  - A. The transactions are not business combinations;
  - B. The transactions affect neither accounting nor taxable profit (or deductible loss).
- 2 Deductible temporary difference related to investments in subsidiaries, associates and joint ventures are recognised as deferred tax assets if the following conditions are satisfied:
  - A. It is probable that the deductible temporary difference will be reversed in the foreseeable future;
  - B. Future Taxable profits will be available against which deductible temporary difference can be utilised.
- 3 Deferred tax assets in relation to tax loss are recognised to the extent that it is probable that future taxable profits will be available against which the tax loss can be utilised.



**IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES***(continued)***27. Accounting Treatment for Income tax** *(continued)***(2) Recognition of deferred tax liabilities**

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

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

**(3) Measurement of income taxes**

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

- 1 Business combinations;
- 2 The transactions or events directly recognised in the shareholders' equity.

## IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(continued)

### 28. Other Comprehensive Income

The Company stipulates that the gains and losses not recognised in profit or loss for the current period are presented as the other comprehensive income in accordance with applicable accounting standards. The other comprehensive income is presented by the following two groups in accordance with applicable accounting standards:

- (1) The other comprehensive income items not eligible to be re-classified as profit or loss in the subsequent accounting periods mainly include the changes caused by re-measurement and re-definition of net liabilities or net assets of benefit plans and the Company's share in the other comprehensive income not eligible to be re-classified as profit or loss in the subsequent accounting periods of the investee and accounted for using the equity method;
- (2) The other comprehensive income items to be re-classified as profit or loss in the subsequent accounting periods upon the satisfaction of stipulated conditions mainly include the Company's share in the other comprehensive income to be re-classified as profit or loss in the subsequent accounting periods of the investee upon the satisfaction of stipulated conditions and accounted for using the equity method, the gains or losses arising from the hold-to-maturity investment re-classified as available-for-sale financial assets, such a portion of the gains or losses arising from cash flow hedges instrument as may be attributable to hedging activities and difference in translation of financial statements in foreign currency.

### 29. Leases

Finance leases are the leases that substantially transfer all the risks and rewards related to ownership of assets, under which the ownership may be or may not be finally transferred. Leases other than finance leases are operating leases.

#### (1) The Company books operating leases as a lessee.

Rent expenditures of operating leases are recognised in cost of relevant assets or profit or loss for current period by the straight-line method in various periods within the term of lease. Initial direct costs are recognised in profit or loss for current period. Contingent rent is recognised in profit or loss for current period when actually taking place.

#### (2) The Company books operating leases as a lessor.

Rent income of operating leases is recognised in profit or loss for current period by the straight-line method in various periods within the term of lease. Initial direct costs with large amount are capitalised when actually taking place and recognised in profit or loss for current period in different stages on the same basis as that to recognise rent income; and other initial direct costs with small amount are recognised in profit or loss for current period directly at the time of occurrence. Contingent rent is recognised in profit or loss for current period when actually taking place.

## IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

*(continued)*

### 29. Leases *(continued)*

#### **(3) The Company books finance leases as a lessee.**

On the commencement date of the term of lease, the fair value of the leased asset on the commencement date of the lease or the present value of the minimum lease payment, whichever is the lower, is recognised as the cost of the leased asset; the minimum lease payment is recognised as the cost of long-term receivables; and the difference is the unrecognised financing costs. In addition, the initial direct costs attributable to leases and arising in the course of lease negotiations and conclusion of lease contracts are also recognised in the value of the leased asset. The balance of the minimum lease payment less the unrecognised financing costs is presented in long-term liabilities and long-term liabilities due within one year.

Unrecognised financing costs are calculated and recognised as the financing costs for the current period by the effective interest rate method. Contingent rent is recognised in profit or loss for current period when actually taking place.

#### **(4) The Company books finance leases as a lessor.**

On the commencement date of the term of lease, the sum of the minimum lease receipt on the commencement date of the lease and the initial direct costs are recognised as the cost of finance lease accounts receivables and the unsecured balance is recognised at the same time; the difference between the sum of the minimum lease receipt, the initial direct costs and the unsecured balance and the present value thereof is recognised as the unrealised finance income. The balance of the finance lease accounts receivables less the unrealised finance income is presented in long-term credits and long-term credits due within one year.

Unrealised financing income is calculated and recognised in financing income for the current period by the effective interest rate method. Contingent rent is recognised in profit or loss for current period when actually taking place.

#### IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

*(continued)*

##### 30. Held-for-sale Assets

Where the Company has resolved to dispose of a certain non-fixed asset, has concluded an irrevocable transfer agreement with the transferee and the transfer is likely to be completed within one year, the non-fixed asset is accounted for as held-for-sale non-fixed asset, and no provision for depreciation or amortisation is made and the asset is measured based on the carrying amount and the net amount of the fair value less the costs to sell, whichever is the lower. Held-for-sale non-fixed assets include separate assets and disposal groups. Where the disposal group is an asset group and the goodwill arising from business combination is allocated to this asset group in accordance with provisions stipulated in Accounting Standards for Business Enterprises No. 8 – Impairment of Asset or this disposal group is an operation in such asset groups, this disposal group includes the goodwill involved in the business combination.

Where an asset or disposal group fails to satisfy the recognition conditions for the held-for-sale non-fixed assets after classified as held-for-sale assets, the Company stops classifying it as held-for-sale assets and measure the group at the (1) the amount of the carrying amount of the asset or disposal group prior to being classified as held-for-sale assets adjusted based on the originally recognised depreciation, amortisation or impairment as if it had not been classified as held-for-sale assets; (2) the recoverable amount on the date when the Company determines not to sell the group, whichever is the lower.



**IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES***(continued)***31. Change of significant accounting policies, accounting estimates and correction to accounting errors****(1) Changes of accounting policies**

On 5 June 2015, the Company considered and approved "Resolution related to the Change of the Company's Accounting Policy" at the 11th meeting of the 8th session of the board of Directors. The Company has changed the accounting policy related to the impairment of available-for-sale financial assets. Details of the changes are set out as follows:

Accounting policy adopted before the change:

"If there is a significant or prolonged decline in the fair value of available-for-sale financial assets based on relevant factors, the available-for-sale equity instrument investment is impaired. "Significant decline" refers to the decline of fair value by more than 20%; "prolonged decline" refers to the decline of fair value for more than 12 months consecutively."

Accounting policy adopted upon the change:

"If there is a significant or prolonged decline in the fair value of available-for-sale financial assets based on relevant factors, the available-for-sale equity instrument investment is impaired. In determining the meaning of "significant" and "prolonged", the Company shall base its judgment upon the extent and the duration to which the fair value of the investment is less than its cost, and shall take into account other factors to reach a comprehensive view."

Effective date: Effective from 1 January 2015.

The change of accounting policy of the Company requires no retrospective adjustment to any previous annual financial report disclosed.

**(2) Changes of accounting estimates and correction of accounting errors**

Nil

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

## V. TAXATION

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

Types of tax	Basis of taxation	Tax rate
Value added tax	Income from sales of products and raw materials	Value added tax rate for sales of biological preparation: 3% and 6%, value added tax rate for other sales: 17%.
Business tax	Taxable operating income	5%
Urban maintenance and construction tax	Turnover tax to be paid	1%, 5%, 7%
Education surcharges	Turnover tax to be paid	3%
Local education surcharges	Turnover tax to be paid	Note 1
Enterprise income tax	Taxable income	Note 2

Note 1: The Company and its subsidiaries that are incorporated in Zhuhai shall pay local education surcharges that is charged as 2% of the turnover tax to be paid. Other subsidiaries shall pay local education surcharges according to the tax rate as specified at its place of incorporation on the basis of turnover tax to be paid.

Note 2: The enterprise income tax rate applicable to the Company and its subsidiaries are set out as follows:

Name	Actual tax rate	Remarks
Lizhu (Hong Kong) Co., Limited (麗珠(香港)有限公司), Ando Development Limited (安滔發展有限公司), Livzon Pharmaceutical Biotechnology Co., Limited (麗珠醫藥生物科技股份有限公司), Li An (Hong Kong) Co., Ltd. (麗安香港有限公司)	16.5%	Policies regarding Hong Kong Profits Tax are applicable
Companhia de Macau Carason Limitada (澳門嘉安信有限公司), Li Zhu (Macau) Limitada (麗珠(澳門)有限公司)	0-12%	Tax rate is 12% where the taxable income is Macau dollar 600,000 or more; for those with taxable income less than Macau dollar 600,000, they are exempted from income taxes.
Livzon Pharmaceutical Group Inc. (麗珠醫藥集團股份有限公司), Livzon Group Limin Pharmaceutical Manufacturing Factory (麗珠集團利民製藥廠), Livzon Group Livzon Pharmaceutical Factory (麗珠集團麗珠製藥廠), Zhuhai FTZ Livzon Hecheng Pharmaceutical Manufacturing Co., Ltd. (珠海保稅區麗珠合成製藥有限公司), Shanghai Livzon Pharmaceutical Manufacturing Co., Ltd. (上海麗珠製藥有限公司), Livzon Group Xinbeijiang Pharmaceutical Manufacturing Inc. (麗珠集團新北江製藥股份有限公司), Sichuan Guangda Pharmaceutical Manufacturing Co., Ltd. (四川光大製藥有限公司), Zhuhai Livzon Diagnostic Reagents Inc. (珠海麗珠試劑股份有限公司), Livzon Group Fuzhou Fuxing Pharmaceutical Co., Ltd. (麗珠集團福州福興醫藥有限公司), Shanghai Livzon Biotechnology Co., Ltd. (上海麗珠生物科技股份有限公司)	15%	Shanghai Livzon Biotechnology Co., Ltd. (上海麗珠生物科技股份有限公司) was recognised as a high and new technology enterprise in 2015 for a valid period of three years; Livzon Group Ningxia Xinbeijiang Pharmaceutical Manufacturing Co., Ltd. (麗珠集團寧夏新北江製藥有限公司) and Zhuhai Livzon Diagnostic Reagents Inc. (珠海麗珠試劑股份有限公司) were recognised as high and new technology enterprises in 2013 for a valid period of three years; other companies were all recognised as high and new technology enterprises in 2014 for a valid period of three years.
Other subsidiaries	25%	

**V. TAXATION** *(continued)***2. Tax Preference and Approvals**

Preferential value added tax:

In accordance with the Notice of the Ministry of Finance and the State Administration of Taxation on the Application of Low Value Added Tax Rates and Policies on Collecting Value Added Tax by the Simple Approach to Some Goods (Cai Shui [2009] No. 9), the biological products produced by the subsidiaries of the Company using microbe, microbe metabolites, animal toxin, human or animal blood or tissue are subject to value added tax at 6% by the simple approach.

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

Preferential enterprise income tax:

The Company and its subsidiaries, Livzon Group Limin Pharmaceutical Manufacturing Factory (麗珠集團利民製藥廠), Livzon Group Livzon Pharmaceutical Factory (麗珠集團麗珠製藥廠) and Zhuhai FTZ Livzon Hecheng Pharmaceutical Manufacturing Co., Ltd. (珠海保稅區麗珠合成製藥有限公司), Shanghai Livzon Pharmaceutical Manufacturing Co., Ltd. (上海麗珠製藥有限公司), Sichuan Guangda Pharmaceutical Manufacturing Co., Ltd. (四川光大製藥有限公司), Livzon Group Fuzhou Fuxing Pharmaceutical Co., Ltd. (麗珠集團福州福興醫藥有限公司) have obtained the certificates of high and new technology enterprises before May 2015. Such companies were subject to preferential enterprise income tax rates for 3 years starting from 2014. Livzon Group Xinbeijiang Pharmaceutical Manufacturing Inc. (麗珠集團新北江製藥股份有限公司) and Zhuhai Livzon Diagnostic Reagent Inc. (珠海麗珠試劑股份有限公司) obtained certificates of high and new technology enterprises in March 2014 and were subject to preferential enterprise income tax rates for 3 years starting from 2014; Shanghai Livzon Biotechnology Co., Ltd. (上海麗珠生物科技有限公司) high and new technology enterprise in February 2015 and is entitled to the preferential taxation policies applicable to high and new technology enterprises for three years since 2015. Such subsidiaries were subject to an enterprise income tax rate of 15% for the year.

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

In accordance with the Revenue Bill 2008 passed by the Legislative Council of the Hong Kong Special Administrative Region on 26 June 2008, the subsidiaries of the Company, Lizhu (Hong Kong) Co., Limited (麗珠(香港)有限公司), Ando Development Limited (安滔發展有限公司) and Livzon Pharmaceutical Biotechnology Co., Limited (麗珠醫藥生物科技有限公司), Li An (Hong Kong) Co. Ltd. (麗安香港有限公司) began to pay enterprise income tax rate at 16.5% from 2008 and were subject to the rate of 16.5% for the year.

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

## VI. NOTES TO THE COMPONENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS

### 1. Cash at bank and on hand

Item	Balance at the year end	Balance at the beginning of the year
Cash on hand	72,486.40	177,881.98
Bank deposits	766,211,133.63	708,388,606.07
Other cash at bank and on hand	32,011,663.71	7,139,115.75
Total	798,295,283.74	715,705,603.80
In which: total overseas deposit	5,944,040.29	5,710,492.60

- (1) Other cash at bank and on hand are mainly deposits for investments, security for bank acceptance bills and guarantees.
- (2) The above mentioned restricted funds such as guarantee for letter of credit and security for bank acceptance bills and guarantees were deducted from cash and cash equivalents in cash flow statement. Apart from the restricted funds, there is no other charge, pledge or lock up on the balance of cash at bank and on hand that may limit its use, kept outside China and may have probable risks in its collection. Below is the details of the use of restricted funds:

	Balance at the year end	Balance at the beginning of the year
Deposits under guarantees for letter of credit	0.00	69,091.76
Deposits under bank acceptance bills	22,455,390.29	6,522,085.87
Guarantees	8,746,490.00	0.00
Total	31,201,880.29	6,591,177.63

### 2. Financial assets at fair value through profit or loss

#### (1) Classification

Item	Balance at the year end	Balance at the beginning of the year
Financial assets at fair value through profit or loss	6,589,225.34	6,423,571.77
Of which: Shares	5,780,682.00	5,782,417.10
Funds	808,543.34	641,154.67

The Company's financial assets measured at fair value, with the change in fair value included in the profit or loss for the year were listed for trading on Shenzhen Stock Exchange and Hong Kong Stock Exchange. The fair value was determined based on the closing price on the last trading date in the year.

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



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

### 3. Bills receivables

#### (1) Classification of bills receivables

Type	Balance at the year end	Balance at the beginning of the year
Bank acceptance bills	342,877,975.08	305,153,666.79
Short-term commercial papers	164,460.00	161,575.00
Total	343,042,435.08	305,315,241.79

(2) At the end of this year, no bills receivables of the Group was pledged.

#### (3) Endorsed or discounted receivable bills not yet mature by the date of balance sheet

Item	Recognised amount by year end	Unrecognised amount by year end
Bank acceptance bills not yet mature but already endorsed	241,718,730.30	0.00
Bank acceptance bills not yet mature but already discounted	63,372,816.84	0.00

(4) There was no bills transferred into account receivables for non-performance by the issuer by the year end.

(5) For the year, the Company discounted RMB142,394,750 bank acceptance bills (RMB174,194,850 in the previous year). As the main risks (such as interest risks) related to these bank acceptance bills were transferred to the bank, the Company derecognized the undue bank acceptance bills that had been discounted. The discounted fee was RMB1,980,560 (RMB2,748,480 in the previous year).

### 4. Accounts receivables

#### (1) Accounts receivables disclosed by types

Type	Balance at the year end				
	Balance		Provision for bad debts		Carrying Value
	Amount	Percentage (%)	Amount	Percentage (%)	
Accounts receivables that are individually significant and impairment provided on an individual basis	0.00	0.00	0.00	0.00	
Accounts receivables assessed for impairment collectively	1,329,418,573.07	99.96	73,324,308.93	5.52	1,256,094,264.14
Accounts receivables that are individually insignificant but impairment provided on an individual basis	566,871.41	0.04	566,871.41	100.00	0.00
Total	1,329,985,444.48	100.00	73,891,180.34	5.56	1,256,094,264.14

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

**VI. NOTES TO THE COMPONENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS** *(continued)***4. Accounts receivables** *(continued)***(1) Accounts receivables disclosed by types** *(continued)*

Type	Balance at the beginning of the year				Carrying Value
	Balance		Provision for bad debts		
	Amount	Percentage (%)	Amount	Percentage (%)	
Accounts receivables that are individually significant and impairment provided on an individual basis	0.00	0.00	0.00	0.00	
Accounts receivables assessed for impairment collectively	1,134,836,751.70	99.95	61,946,234.22	5.46	1,072,890,517.48
Accounts receivables that are individually insignificant but impairment provided on an individual basis	566,871.41	0.05	566,871.41	100.00	0.00
Total	1,135,403,623.11	100.00	62,513,105.63	5.51	1,072,890,517.48

- 1 *Accounts receivables for which provision for bad debts has been made using the ageing analysis method in the portfolio*

Ageing	Balance at the year end		
	Account receivables	Provision for bad debts	Percentage (%)
Within 1 year	1,292,187,011.54	64,609,350.57	5.00
1 to 2 years	23,121,028.26	1,387,261.70	6.00
2 to 3 years	6,743,252.97	1,348,650.60	20.00
3 to 4 years	4,121,072.72	2,884,750.90	70.00
4 to 5 years	1,519,124.20	1,367,211.78	90.00
Over 5 years	1,727,083.38	1,727,083.38	100.00
<b>Total</b>	<b>1,329,418,573.07</b>	<b>73,324,308.93</b>	

- 2 *As at the year end, ageing analysis of accounts receivables that are individually insignificant but impairment provided on an individual basis*

Accounts receivables description	Balance	Provision for bad debts	Percentage (%)	Reason for provision made
Loans	566,871.41	566,871.41	100.00	not expected to be recoverable

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

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

### 4. Accounts receivables *(continued)*

#### (2) The ageing analysis of accounts receivables (based on dates of recognition of accounts receivables)

Item	Balance at the year end		Balance at the beginning of the year	
	Amount	Percentage (%)	Amount	Percentage (%)
1 to 90 days	1,103,414,629.39	82.96	892,939,631.57	78.64
91 to 180 days	137,056,779.67	10.30	177,228,210.75	15.61
181 days to 1 year	51,715,602.48	3.89	37,037,363.34	3.26
1 to 2 years	23,121,028.26	1.74	15,959,104.30	1.41
2 to 3 years	6,743,252.97	0.51	6,833,675.62	0.60
3 to 4 years	4,121,072.72	0.31	1,772,481.41	0.16
4 to 5 years	1,562,134.20	0.12	582,321.27	0.05
Over 5 years	2,250,944.79	0.17	3,050,834.85	0.27
Total	1,329,985,444.48	100.00	1,135,403,623.11	100.00

(3) Provisions for bad debts made for the year was RMB13,172,300.39; no provision for bad debts was recovered or reversed.

#### (4) Actual write-off of accounts receivables for the year

Item	Amount written-off
Receivables actually written off	1,794,225.68

In which: Important written-off receivables

Name of Unit	Nature of accounts receivables	Amount written off	Reason for written off	Procedure of written off taken place at	Related party transactions
國藥控股韶關有限公司	Sales of goods	380,620.90	Not recoverable	the 7th Meeting for the 8th	No
濟南萬禾醫藥有限公司	Sales of goods	199,000.00	Not recoverable	Board of the Company	No
Total		579,620.90			

(5) The total of account receivables with five largest amount by creditors was RMB197,421,915.16, or 14.84% of the total account receivables by the year end, total provision for bad debts by the year end was RMB9,871,095.76.

(6) The Company has no derecognized receivables out of transfer of financial assets.

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

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

**VI. NOTES TO THE COMPONENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS** *(continued)***5. Prepayments****(1) Ageing analysis of prepayments was as follows**

Ageing	Balance at the year end		Balance at the beginning of the year	
	Amount	Percentage (%)	Amount	Percentage (%)
Within 1 year	109,801,612.93	89.78	109,708,526.92	66.12
1 to 2 years	8,101,147.18	6.63	27,255,546.76	16.42
2 to 3 years	1,763,020.66	1.44	1,689,753.14	1.02
Over 3 years	2,631,768.89	2.15	27,281,185.24	16.44
Total	122,297,549.66	100.00	165,935,012.06	100.00

- (2) The total of prepayments with five largest amount by receiver of prepayments was RMB58,860,906.60, or 48.13% of the prepayments by the year end.

**6. Other receivables****(1) Other receivables presented by types**

Type	Balance at the year end				
	Balance		Provision for bad debts		Carrying value
	Amount	Percentage (%)	Amount	Percentage (%)	
Other receivables that are individually significant and impairment provided on an individual basis	0.00	0.00	0.00	0.00	0.00
Other receivables that are assessed for impairment collectively	77,802,020.54	99.00	10,152,256.88	13.05	67,649,763.66
Other receivables that are individually insignificant but impairment provided on an individual basis	786,698.56	1.00	786,698.56	100.00	0.00
Total	78,588,719.10	100.00	10,938,955.44	13.92	67,649,763.66

Type	Balance at the beginning of the year				Carrying value
	Balance		Provision for bad debts		
	Amount	Percentage (%)	Amount	Percentage (%)	
Other receivables that are individually significant and impairment provided on an individual basis	0.00	0.00	0.00	0.00	0.00
Other receivables that are assessed for impairment collectively	61,369,889.91	98.34	9,237,445.01	15.05	52,132,444.90
Other receivables that are individually insignificant but impairment provided on an individual basis	1,036,698.56	1.66	1,036,698.56	100.00	0.00
Total	62,406,588.47	100.00	10,274,143.57	16.46	52,132,444.90



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

### 6. Other receivables *(continued)*

#### (1) Other receivables presented by types *(continued)*

- 1 Other receivables for which provisions for bad debts has been made using the ageing analysis method in the portfolio

Ageing	Balance at the year end		
	Other receivables	Provision for bad debts	Percentage (%)
Within 1 year	63,678,387.11	3,183,919.39	5.00
1 to 2 years	6,923,682.70	415,420.97	6.00
2 to 3 years	706,555.53	141,311.10	20.00
3 to 4 years	242,548.55	169,783.98	70.00
4 to 5 years	90,252.11	81,226.90	90.00
Over 5 years	6,160,594.54	6,160,594.54	100.00
Total	77,802,020.54	10,152,256.88	

- 2 As at the year end, ageing analysis of other receivables that are individually insignificant but impairment provided on an individual basis

Other receivables description	Gross amount	Provision for bad debts	Percentage of provision (%)	Reason for provision made
Current account	786,698.56	786,698.56	100.00	Not expected to be recoverable

- (2) Provisions for bad debts made for the year was RMB899,845.54; no provision for bad debts was recovered or reversed.

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

**VI. NOTES TO THE COMPONENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS** *(continued)***6. Other receivables** *(continued)***(3) Actual write-off of accounts receivables for the year**

Item	Amount written-off
Receivables actually written off	254,600.00

In which: Important written-off receivables

Name of Unit	Nature of other accounts receivables	Amount written off	Reason for written off	Procedure of written off taken place at	Related party transactions
Shenzhen MPS Technology Co., Ltd (深圳市美普斯科技有限公司)	Current account	250,000.00	Not recoverable	the 7th Meeting for the 8th Board of the Company	No
Total		250,000.00			

**(4) Other receivables with five largest amount by creditors by the year end**

Name of unit	Nature of receivables	Balance at the year end	Ageing	Proportion to receivables at the end of the year(%)	Provision for bad debts at the end of the year
Tax refunds on exports	Tax refunds on exports	13,513,639.43	Within 1 year	17.19	675,681.97
Guangzhou Galaxy Sunshine Biological Products Co., Ltd. (廣州銀河陽光生物製品有限公司)	Borrowing	5,000,000.00	Over 5 years	6.36	5,000,000.00
Guangdong Blue Treasure Pharmaceutical Co. Ltd. (廣東藍寶製藥有限公司)	Energy and power	1,167,760.25	Within 1 year	1.49	58,388.01
Jiangsu Zheyuan Automatic Engineering Co., Ltd (江蘇浙遠自動化工程公司)	Current account	961,110.26	1-2 year	1.22	57,666.62
Guangdong Power Grid Corporation Shaoguan Power Supply Bureau (廣東電網公司韶關供電局)	Deposits	500,000.00	Within 1 year	0.64	25,000.00
Total	—	21,142,509.94	—	26.90	5,816,736.60

**(5)** The Company has no derecognized other receivables out of transfer of financial assets.**(6)** The Company has no assets or liabilities formed by its continuous involvement of transferring other receivables.

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

### 7. Inventories

#### (1) Classification of inventories

Item	Balance at the year end		
	Balance	Provision for diminution in value	Carrying amount
Raw materials	216,732,296.77	664,451.17	216,067,845.60
Packaging materials	28,578,805.91	9,615.19	28,569,190.72
Goods in process	210,116,014.94	4,168,968.75	205,947,046.19
Finished goods	500,142,988.31	17,364,298.44	482,778,689.87
Sub-contracting materials	78,305.07	0.00	78,305.07
Low-valued consumables	3,002,998.58	0.00	3,002,998.58
Goods in transit	4,278,555.40	0.00	4,278,555.40
Consumable biological assets	16,025,763.50	0.00	16,025,763.50
Proprietary semi-finished goods	27,167,375.21	0.00	27,167,375.21
Total	1,006,123,103.69	22,207,333.55	983,915,770.14

Item	Balance at the beginning of the year		
	Balance	Provision for diminution in value	Carrying amount
Raw materials	154,459,930.59	429,923.55	154,030,007.04
Packaging materials	23,606,121.57	54,650.00	23,551,471.57
Goods in process	185,942,212.81	5,497,646.24	180,444,566.57
Finished goods	489,768,744.29	34,955,933.82	454,812,810.47
Sub-contracting materials	4,553,237.83	0.00	4,553,237.83
Low-valued consumables	2,627,195.82	0.00	2,627,195.82
Goods in transit	3,281,380.84	0.00	3,281,380.84
Consumable biological assets	7,503,919.00	0.00	7,503,919.00
Proprietary semi-finished goods	16,675,233.25	0.00	16,675,233.25
Total	888,417,976.00	40,938,153.61	847,479,822.39

The consumable biological assets of the Group represent the planting of Chinese herbal medicines, including astragalus and radix notoginseng, which are the raw materials for the production of Chinese drug preparations.

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

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

### 7. Inventories (continued)

#### (2) Provision for diminution in value of inventories

Item	Balance at the beginning of the year	Increase during the year		Decrease during the year		Balance at the year end
		Provision	Other	Reversed	Written off	
Raw materials	429,923.55	702,125.15	0.00	79,482.38	388,115.15	664,451.17
packaging materials	54,650.00	109,892.31	0.00	7,225.25	147,701.87	9,615.19
Goods in progress	5,497,646.24	477,974.14	0.00	1,723,192.54	83,459.09	4,168,968.75
Finished goods	34,955,933.82	24,902,649.29	0.00	138,683.14	42,355,601.53	17,364,298.44
Proprietary semi-finished goods	0.00	5,854.70	0.00	0.00	5,854.70	0.00
Total	40,938,153.61	26,198,495.59	0.00	1,948,583.31	42,980,732.34	22,207,333.55

#### (3) Reason for provision and write-off for diminution in value of inventories

Item	Basis for provision for diminution in value of inventories	Reason for reversal provision for diminution in value of inventories during the year	Reason for written off provision for diminution in value of inventories during the year
Raw materials	Net realisable value is less than carrying amount	Increase in value	Sale of finished goods
Finished goods	Net realisable value is less than carrying amount	Increase in value	Sale and discard
Other inventories	Net realisable value is less than carrying amount	Increase in value	Sales of finished goods

### 8. Available-for-sale financial assets

#### (1) Status of available-for-sale financial assets

Item	Balance at the year end			Balance at the beginning of the year		
	Balance	Impairment provision	Carrying value	Balance	Impairment provision	Carrying value
Available-for-sale equity instruments	262,054,679.57	82,432,392.81	179,622,286.76	162,002,772.99	20,600,000.00	141,402,772.99
Of which: measured at fair value	100,759,170.73	61,832,392.81	38,926,777.92	59,149,664.15	0.00	59,149,664.15
measured at cost	161,295,508.84	20,600,000.00	140,695,508.84	102,853,108.84	20,600,000.00	82,253,108.84

#### (2) Available-for-sale financial assets measured by fair value at the end of the year

Classification of available-for-sale financial assets	Available-for-sale equity instruments
Cost of equity instruments	93,294,846.95
Fair value	38,926,777.92
Change in fair value accrued through other comprehensive income	6,344,675.21
Accrued impairment provision	61,832,392.81



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

### 8. Available-for-sale financial assets *(continued)*

#### (2) Available-for-sale financial assets measured by fair value at the end of the year *(continued)*

Available-for-sale equity instruments measured at fair value by year end were listed on Shenzhen Stock Exchange and on NASDAQ in the United State, the fair value was determined by the closing price for the last day of dealings in the year.

#### (3) Available-for-sale financial assets measured by cost at the end of the year

Investee	Balance				Impairment provision				Proportion of equity hold in investee(%)	Cash dividend for the period
	At the beginning of the year	Increase during the period	Decrease during the period	at the end of the year	At the beginning of the year	Increase during the period	Decrease during the period	at the end of the year		
Guangdong Development Bank Co., Ltd. (廣發銀行股份有限公司)	177,348.84	0.00	0.00	177,348.84	0.00	0.00	0.00	0.00	0.0004	0.00
Beijing Medical Supplies Joint Operating Corporation (北京醫藥物資聯合經營公司)	100,000.00	0.00	0.00	100,000.00	100,000.00	0.00	0.00	100,000.00	0.821	0.00
Doumen Sanzhou Industrial City Co., Ltd. (斗門三洲工業城股份有限公司)	500,000.00	0.00	0.00	500,000.00	500,000.00	0.00	0.00	500,000.00	1.60	0.00
Zhuhai China Resources Bank Co., Ltd. (珠海華潤銀行股份有限公司)	95,325,760.00	0.00	0.00	95,325,760.00	20,000,000.00	0.00	0.00	20,000,000.00	1.5065	0.00
Ruiheng Medical Technology Investment Co., Ltd. (瑞醫藥科技投資有限責任公司)	6,250,000.00	0.00	0.00	6,250,000.00	0.00	0.00	0.00	0.00	5.681	343,750.00
Shanghai Haixin Pharmaceutical Co., Ltd. (上海海欣醫藥有限公司)	500,000.00	0.00	0.00	500,000.00	0.00	0.00	0.00	0.00	4.55	50,000.00
CYNVENIO BIOSYSTEMS, INC	0.00	58,442,400.00	0.00	58,442,400.00	0.00	0.00	0.00	0.00	13.64	0.00
Total	102,853,108.84	58,442,400.00	0.00	161,295,508.84	20,600,000.00	0.00	0.00	20,600,000.00	—	393,750.00

#### (4) movement in impairment for available-for-sale financial assets by the year end

Categorised available-for-sale financial assets	Available-for-sale equity instruments	Total
Provision for Impairment at the beginning of the year	20,600,000.00	20,600,000.00
Provision for Impairment for the year	61,832,392.81	0.00
In which: transferred from other comprehensive income	29,191,687.45	0.00
Decrease during the year	0.00	0.00
In which: transferred upon increase in fair value after the period	0.00	0.00
Provision for Impairment by the year end	82,432,392.81	20,600,000.00

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

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

### 9. Long-term equity investments

Investee	Balance at the beginning of the year	Investment acquired	Investment disposed of	Change during the year		
				Investment profit and loss on the equity method	Adjustment in other comprehensive income	Other equity changes
Associates						
Livzon Medical Electronic Equipment (Plant) Co., Ltd. (麗珠醫用電子設備(廠)有限公司)	1,200,000.00	0.00	0.00	0.00	0.00	0.00
Guangdong Blue Treasure Pharmaceutical Co. Ltd. (廣東藍寶製藥有限公司)	37,771,892.70	0.00	0.00	6,876,453.51	0.00	0.00
江蘇尼科醫療器械有限公司	0.00	25,000,000.00		-560,672.30	0.00	0.00
深圳市有寶科技有限公司	0.00	0.00	0.00	-179,162.84	0.00	0.00
Total	38,971,892.70	25,000,000.00	0.00	6,136,618.37	0.00	0.00

Investee	Change during the year			Balance at the end of the year	Impairment provision at the end of the year
	Cash dividend or profit distribution announced	Impairment provision	Others		
Associates					
Livzon Medical Electronic Equipment (Plant) Co., Ltd. (麗珠醫用電子設備(廠)有限公司)	0.00	0.00	0.00	1,200,000.00	1,200,000.00
Guangdong Blue Treasure Pharmaceutical Co. Ltd. (廣東藍寶製藥有限公司)	0.00	0.00	0.00	44,648,346.21	0.00
江蘇尼科醫療器械有限公司	0.00	0.00	0.00	24,439,327.70	0.00
深圳市有寶科技有限公司	0.00	0.00	0.00	-179,162.84	0.00
Total	0.00	0.00	0.00	70,108,511.07	1,200,000.00

Pursuant to the Capital Increase Agreement entered into by the Company and 江蘇尼科醫療器械有限公司, the Company made a contribution of RMB25,000,000.00 in cash to 江蘇尼科 and the Company amounted to 24% of its registered capital after the capital increase; on 3 December 2015, the Company and the Third Party jointly established 深圳市有寶科技有限公司, with the Company made a contribution of RMB3,000,000.00 amounting to 30% of its registered capital.

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

### 10. Fixed assets

#### (1) Status of fixed assets

Item	Balance at the beginning of the year	Additions for the period	Decrease for the period	Balance at the year end
I.Total cost at book:	4,581,854,264.64	729,731,094.49	134,414,722.74	<b>5,177,170,636.39</b>
Including:Plant & buildings	2,296,496,276.73	429,229,592.50	57,535,690.59	<b>2,668,190,178.64</b>
Machinery & equipment	1,976,904,693.62	232,550,100.59	46,647,735.43	<b>2,162,807,058.78</b>
Motor vehicles	55,931,571.66	9,554,892.61	2,690,713.01	<b>62,795,751.26</b>
Electronic devices and others	252,521,722.63	58,396,508.79	27,540,583.71	<b>283,377,647.71</b>
II.Accumulated depreciation:	1,549,225,293.89	286,913,717.42	73,826,498.55	<b>1,762,312,512.76</b>
Including:Plant & buildings	571,897,160.03	104,775,736.48	14,850,710.96	<b>661,822,185.55</b>
Machinery & equipment	779,101,139.16	146,753,827.04	40,970,427.96	<b>884,884,538.24</b>
Motor vehicles	28,973,721.53	7,668,112.32	2,048,412.44	<b>34,593,421.41</b>
Electronic devices and others	169,253,273.17	27,716,041.58	15,956,947.19	<b>181,012,367.56</b>
III.Total fixed assets net carrying amount:	3,032,628,970.75			<b>3,414,858,123.63</b>
Including:Plant & buildings	1,724,599,116.70			<b>2,006,367,993.09</b>
Machinery & equipment	1,197,803,554.46			<b>1,277,922,520.54</b>
Motor vehicles	26,957,850.13			<b>28,202,329.85</b>
Electronic devices and others	83,268,449.46			<b>102,365,280.15</b>
IV.Total provision for impairment:	89,059,327.56	2,637,032.09	603,673.28	<b>91,092,686.37</b>
Including:Plant & buildings	47,160,194.64	10,287.61	0.00	<b>47,170,482.25</b>
Machinery & equipment	40,817,842.57	2,510,291.39	556,729.65	<b>42,771,404.31</b>
Motor vehicles	95,452.14	0.00	12,400.68	<b>83,051.46</b>
Electronic devices and others	985,838.21	116,453.09	34,542.95	<b>1,067,748.35</b>
V. Total fixed assets carrying amount:	2,943,569,643.19			<b>3,323,765,437.26</b>
Including:Plant & buildings	1,677,438,922.06			<b>1,959,197,510.84</b>
Machinery & equipment	1,156,985,711.89			<b>1,235,151,116.23</b>
Motor vehicles	26,862,397.99			<b>28,119,278.39</b>
Electronic devices and others	82,282,611.25			<b>101,297,531.80</b>

During the year, the amount of depreciation was RMB286,913,717.42 (RMB228,074,392.73 in 2014). During the year, construction in progress transferred to cost of fixed assets was RMB573,260,914.62 (RMB1,138,920,340.62 in 2014).

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

**VI. NOTES TO THE COMPONENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS** *(continued)***10. Fixed assets** *(continued)***(2) As at the year end, temporarily idled fixed assets**

Item	Cost	Accumulated depreciation	Provision for impairment	Carrying amount	Remarks
Plant & buildings	22,502,027.98	10,763,372.54	0.00	11,738,655.44	
Machinery & equipment	36,018,418.84	23,416,071.97	1,320,900.00	11,281,446.87	
Electronic devices and others	3,762,294.02	3,210,568.04	537.00	551,188.98	
Total	62,282,740.84	37,390,012.55	1,321,437.00	23,571,291.29	

**(3) The Company has no fixed assets leased in under finance leases****(4) Fixed assets leased out under operating leases**

Item	Carrying amount at the year end
Plant and building	1,432,901.28
Electronic devices and others	30,398,484.02
Total	31,831,385.30

**(5) Fixed assets with pending certificates for ownership at the year end**

Item	Carrying amount	Reason for pending certificates for ownership
Plant & buildings	977,108,887.97	Being in progress

**11. Construction in progress****(1) Construction in progress status**

Item	Balance at the year end			Balance at the beginning of the year		
	Balance	Provision for impairment	Carrying amount	Balance	Provision for impairment	Carrying amount
Construction of new production plants	252,195,979.46	0.00	252,195,979.46	442,145,378.46	0.00	442,145,378.46
Installation of equipment	77,728,082.13	0.00	77,728,082.13	61,404,895.98	0.00	61,404,895.98
Technology upgrade	4,144,916.71	0.00	4,144,916.71	44,589,853.89	0.00	44,589,853.89
Workshop modification	12,959,462.55	0.00	12,959,462.55	13,382,976.39	0.00	13,382,976.39
Others	220,474.00	0.00	220,474.00	193,224.81	0.00	193,224.81
Total	347,248,914.85	0.00	347,248,914.85	561,716,329.53	0.00	561,716,329.53



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

### 11. Construction in progress (continued)

#### (2) Status of changes of significant construction in progress item

Categories of project	Budgeted amount	Balance at the beginning of the year	Additions for the year	Transferred to fixed asset for the year	Other deduction	Balance at the year end
Construction of new production plants	463,830,037.70	442,145,378.46	172,485,690.93	344,641,322.86	17,793,767.07	252,195,979.46
Installation of equipment	93,217,434.83	61,404,895.98	133,790,978.00	116,977,581.22	490,210.63	77,728,082.13
Technology upgrade	4,144,916.71	44,589,853.89	7,443,921.46	47,888,858.64	0.00	4,144,916.71
Workshop modification	20,653,468.77	13,382,976.39	62,759,749.76	63,141,026.55	42,237.05	12,959,462.55
Others	1,500,000.00	193,224.81	1,253,409.58	612,125.35	614,035.04	220,474.00
Total	583,345,858.01	561,716,329.53	377,733,749.73	573,260,914.62	18,940,249.79	347,248,914.85

Categories of project	Accumulated amount of the interest capitalised as at the year end	Including: interest capitalised for the year	Interest capitalised rate for the year (%)	Percentage of cost incurred over budgeted amount (%)	Construction progress	Sources of funds
Construction of new production plants	1,105,838.20	13,408,148.23	4.34	54.37	Completion of some projects	Borrowings and self-funding
Installation of equipment	0.00	0.00	0.00	83.38	Completion of some projects	Self-funding
Technology upgrade	0.00	0.00	0.00	100.00	Completion of some projects	Self-funding
Workshop modification	0.00	0.00	0.00	62.75	Completion of some projects	Self-funding
Others	0.00	0.00	0.00	96.44	Completion of some projects	Self-funding
Total	1,105,838.20	13,408,148.23				

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

#### (3) As at the year end, status of the interest capitalised in the projects under construction in progress

Categories of project	Balance at the beginning of the year	Additions for the year	Transferred to fixed asset for the year	Other deduction	Balance at the year end
Construction of new production plants	14,676,220.92	13,408,148.23	26,978,530.95	0.00	1,105,838.20

### 12. Construction supplies

Item	Balance at the year end	Balance at the beginning of the year
Specialised equipment	72,208.40	121,472.17

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

**VI. NOTES TO THE COMPONENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS** *(continued)***13. Intangible assets****(1) Status of intangible assets**

Item	Balance at the beginning of the year	Additions for the period	Decrease for the period	Balance at the year end
I.Total cost:	445,856,639.07	25,201,361.56	0.00	471,058,000.63
Land use rights	257,772,315.75	4,477,301.92	0.00	262,249,617.67
Technical know-how	159,455,720.94	19,295,014.04	0.00	178,750,734.98
Software	28,604,602.38	1,429,045.60	0.00	30,033,647.98
Trademark rights	24,000.00	0.00	0.00	24,000.00
II. Accumulated depreciation:	185,219,231.26	24,002,754.54	0.00	209,221,985.80
Land use rights	59,297,121.05	5,153,850.17	0.00	64,450,971.22
Technical know-how	107,448,598.74	15,243,920.45	0.00	122,692,519.19
Software	18,449,511.47	3,604,983.92	0.00	22,054,495.39
Trademark rights	24,000.00	0.00	0.00	24,000.00
III. Total net carrying value of intangible assets :	260,637,407.81			261,836,014.83
Land use rights	198,475,194.70			197,798,646.45
Technical know-how	52,007,122.20			56,058,215.79
Software	10,155,090.91			7,979,152.59
Trademark rights	0.00			0.00
IV.Total provision for impairment:	2,361,826.83	0.00	0.00	2,361,826.83
Land use rights	981,826.94	0.00	0.00	981,826.94
Technical know-how	1,379,999.89	0.00	0.00	1,379,999.89
Software	0.00	0.00	0.00	0.00
Trademark rights	0.00	0.00	0.00	0.00
V. Carrying amount of intangible assets:	258,275,580.98			259,474,188.00
Land use rights	197,493,367.76			196,816,819.51
Technical know-how	50,627,122.31			54,678,215.90
Software	10,155,090.91			7,979,152.59
Trademark rights	0.00			0.00

Amortisation for the year is RMB24,002,754.54 (RMB19,040,602.87 in 2014).

**(2) Intangible assets with pending certificates for ownership were as follows:**

Item	Carrying amount	Reason for pending certificates for ownership
Land use rights	4,917,840.74	Being in progress

**(3) Notes to intangible assets**

The Company obtained the State-owned land use rights in accordance with Chinese laws in China, and there will be 50 years of grant term commencing from the date of obtaining the land use rights.

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

### 14. Development costs

Item	Balance at the beginning of the year	Additions for the year	Decrease for the year		Balance at the year end
			Recognised in profit or loss	Recognised as intangible assets	
Expensing costs	0.00	222,031,402.88	222,031,402.88	0.00	0.00
Capitalised expenses	0.00	13,252,992.01	0.00	0.00	13,252,992.01
In which: western drug preparation	0.00	13,252,992.01	0.00	0.00	13,252,992.01
Total	0.00	235,284,394.89	222,031,402.88	0.00	13,252,992.01

In respect of expenses after obtaining relevant approval or certificates (such as “the Clinical Test Approval (臨床試驗批件)”) which were obtained in R&D projects, when the present value or the realisable value of the Company’s future cash flow resulting from evaluation of the projects’ results is higher than the carrying amount, such expenses are regarded as capitalized R&D expenses; the remaining R&D expenses are regarded as expensed R&D expenses; Ilaprazole Sodium Injection Project in R&D for the year began its capitalisation after the approval of Phase III clinical test. As at 31 December 2015, Phase III clinical test has been completed and is currently at the stage of self inspection for clinical test and review by the State Food and Drug Administration.

### 15. Goodwill

#### (1) Total goodwill value at book

Name of investee or the matter of goodwill arisen	Balance at the beginning of the year	Additions for the period	Decrease for the period	Balance at the year end
Livzon Group Livzon Pharmaceutical Factory (麗珠集團麗珠製藥廠)	47,912,269.66	0.00	0.00	47,912,269.66
Sichuan Guangda Pharmaceutical Manufacturing Co., Ltd. (四川光大製藥有限公司)	13,863,330.24	0.00	0.00	13,863,330.24
Livzon Group Fuzhou Fuxing Pharmaceutical Co., Ltd. (麗珠集團福州福興醫藥有限公司)	46,926,155.25	0.00	0.00	46,926,155.25
Livzon Group Xinbeijiang Pharmaceutical Manufacturing Inc. (麗珠集團新北江製藥股份有限公司)	7,271,307.03	0.00	0.00	7,271,307.03
Zhuhai Livzon Meidaxin Technological Development Co., Ltd. (珠海市麗珠美達信技術開發有限公司)	287,756.12	0.00	0.00	287,756.12
Shanghai Livzon Pharmaceutical Manufacturing Co., Ltd. (上海麗珠製藥有限公司)	2,045,990.12	0.00	0.00	2,045,990.12
Zhuhai FTZ Livzon Hecheng Pharmaceutical Manufacturing Co., Ltd. (珠海保稅區麗珠合成製藥有限公司)	3,492,752.58	0.00	0.00	3,492,752.58
Total	121,799,561.00	0.00	0.00	121,799,561.00

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

**VI. NOTES TO THE COMPONENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS** *(continued)***15. Goodwill** *(continued)***(2) Provision for impairment of goodwill**

Name of investee or the matter of goodwill arisen	Balance at the beginning of the year	Additions for the period	Decrease for the period	Balance at the year end
Livzon Group Fuzhou Fuxing Pharmaceutical Co., Ltd. (麗珠集團福州福興醫藥有限公司)	11,200,000.00	0.00	0.00	<b>11,200,000.00</b>
Livzon Group Xinbeijiang Pharmaceutical Manufacturing Inc. (麗珠集團新北江製藥股份有限公司)	7,271,307.03	0.00	0.00	<b>7,271,307.03</b>
Zhuhai Livzon Meidaxin Technological Development Co., Ltd. (珠海市麗珠美達信技術開發有限公司)	287,756.12	0.00	0.00	<b>287,756.12</b>
Total	18,759,063.15	0.00	0.00	<b>18,759,063.15</b>

**(3) Impairment test and provision for impairment on goodwill**

Goodwill of the Company arose from its business combination involving enterprises under common control in previous years.

On the balance sheet date, the Company conducted impairment test on goodwill and adopted the asset groups related to goodwill to estimate the present value of the future cash flow when estimating the recoverable amount of the investment cost. The present value of future cash flow is calculated according to the five-year financial plan made by the management and a discount rate of 12%. The cash flows in the years beyond the years in the five-year plan are deemed stable.

Key assumptions of discounted future cash flow for goodwill impairment test are as follows:

For future cash flow of Livzon Group Livzon Pharmaceutical Factory (麗珠集團麗珠製藥廠), key assumptions are a gross margin of 55%-58% and a business revenue growth rate of 0~18%. The management took into account historical conditions and predictions for future market development in making above assumptions.



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

### 15. Goodwill *(continued)*

#### (3) Impairment test and provision for impairment on goodwill *(continued)*

For future cash flow of Sichuan Guangda Pharmaceutical Manufacturing Co., Ltd. (四川光大製藥有限公司), key assumptions are a gross margin of 60%-61% and a business revenue growth rate of 0~20%. The management took into account historical conditions and predictions for future market development in making above assumptions.

For future cash flow of Livzon Group Fuzhou Fuxing Pharmaceutical Co., Ltd. (麗珠集團福州福興醫藥有限公司), key assumptions are a gross margin of 20%-27% and a business revenue growth rate of 0~20%. The management took into account historical conditions and predictions for future market development in making above assumptions.

As tested, the management of the Company believes that no impairment provision is needed during the reporting period.

### 16. Long-term deferred expenses

Item	Balance at the beginning of the year	Additions for the year	Amortisation for the year	Other decrease	Balance at the year end	Reason for other decrease
Overhaul costs of fixed assets	3,491,352.61	1,561,500.00	2,199,608.80	0.00	2,853,243.81	
Renovation costs of offices	14,324,815.20	2,424,282.28	998,067.13	0.00	15,751,030.35	
Renovation costs of plants	26,882.00	14,275,440.12	798,461.08	0.00	13,503,861.04	
Share of costs for public utilities	4,042.00	97,500.00	20,291.98	0.00	81,250.02	
Resin and filler	5,138,145.97	5,110,750.74	4,280,218.87	0.00	5,968,677.84	
Others	2,584,422.41	1,029,865.28	1,748,893.92	0.00	1,865,393.77	
Total	25,569,660.19	24,499,338.42	10,045,541.78	0.00	40,023,456.83	

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

**VI. NOTES TO THE COMPONENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS** *(continued)***17. Deferred tax assets/Deferred tax liabilities****(1) Breakdown of deferred tax assets**

Item	Balance at the year end		Balance at the beginning of the year	
	Deductible temporary difference	Deferred tax assets	Deductible temporary difference	Deferred tax assets
Deductible temporary difference arising from provision for impairment	180,085,772.58	27,447,005.41	193,187,962.72	29,462,367.31
Deductible temporary difference arising from amortisation of intangible assets	16,498.33	2,474.75	56,382.67	8,457.40
Deductible temporary difference arising from accrued expenses	110,039,069.54	16,505,860.45	84,789,531.98	12,718,429.80
Deductible temporary difference arising from tax losses carried forward	58,907,279.16	8,836,091.88	85,241,417.38	12,786,175.12
Deductible temporary difference arising from available-for-sale financial assets	0.00	0.00	38,922,249.93	9,730,562.48
Deductible temporary difference arising from deferred income	53,129,897.41	7,969,484.61	3,660,000.00	549,000.00
Deductible temporary difference arising from gains from unrealized intra-company transactions	254,420,737.12	38,163,110.57	0.00	0.00
Deductible temporary difference arising from share incentive cost	36,089,000.00	5,414,454.31	0.00	0.00
Total	692,688,254.14	104,338,481.98	405,857,544.68	65,254,992.11

**(2) Breakdown of deferred tax liabilities**

Item	Balance at the year end		Balance at the beginning of the year	
	Taxable temporary difference	Deferred tax liabilities	Taxable temporary difference	Deferred tax liabilities
Taxable temporary difference arising from financial assets held for trading	658,543.34	98,781.50	491,154.67	73,673.20
Taxable temporary difference arising from available-for-sale financial assets	10,075,223.78	1,511,283.57	4,777,067.13	716,560.07
Taxable temporary difference arising from long-term equity investments under in equity method	23,796,301.97	3,569,445.29	17,659,683.60	2,648,952.54
Taxable temporary difference arising from accelerated depreciation of fixed assets	48,295,157.43	7,262,793.43	25,322,673.37	3,802,077.58
Total	82,825,226.52	12,442,303.79	48,250,578.77	7,241,263.39

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

### 17. Deferred tax assets/Deferred tax liabilities *(continued)*

#### (3) Breakdown of deferred tax assets not recognised

Item	Balance at the year end	Balance at the beginning of the year
Deductible temporary difference	109,628,369.67	45,514,892.39
Deductible loss	239,234,455.81	157,976,231.14
Total	348,862,825.48	203,491,123.53

#### (4) Deductible loss of deferred tax assets not recognised will be due next year

Year	Balance at the year end	Balance at the beginning of the year	Remarks
2015	0.00	8,393,580.85	
2016	24,646,839.24	24,646,839.24	
2017	20,911,633.82	20,911,633.82	
2018	27,888,663.82	27,888,663.82	
2019	59,410,126.67	59,410,126.67	
2020	86,397,169.60	0.00	
Indefinitely	19,980,022.66	16,725,386.74	
Total	239,234,455.81	157,976,231.14	

### 18. Other non-current assets

Item	Balance at the year end	Balance at the year beginning
Prepayment for acquisition of land use rights	20,425,185.00	0.00
Prepayment for acquisition of project and equipment	5,919,463.00	0.00
Prepayment for acquisition of technical know-how	33,561,875.64	0.00
Total	59,906,523.64	0.00

### 19. Short-term loans

#### (1) Classification of short-term loans

Item	Balance at the year end	Balance at the beginning of the year
Loans on credit	250,000,000.00	56,009,770.00
Guarantee loans	0.00	319,910,451.10
Total	250,000,000.00	375,920,221.10

#### (2) There was no past due short-term loans that were unpaid in the ending balance.

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

**VI. NOTES TO THE COMPONENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS** *(continued)***20. Bills payables**

<b>Type</b>	<b>Balance at the year end</b>	Balance at the beginning of the year
Bank acceptance bills	<b>299,007,801.36</b>	352,619,794.63

The amount of RMB299,007,801.36 will be due for the next accounting period.

**21. Accounts payables****(1) Breakdown of accounts payables (an ageing analysis is based on dates of recognition of account payables)**

<b>Type</b>	<b>Balance at the year end</b>	Balance at the beginning of the year
1 to 90 days	<b>391,502,813.19</b>	327,211,277.75
91 to 180 days	<b>76,598,394.01</b>	89,161,459.34
181 days to 1 year	<b>100,632,550.47</b>	117,872,097.04
1 to 2 years	<b>29,128,330.58</b>	43,392,010.73
Over 2 years	<b>38,890,510.98</b>	21,112,094.92
<b>Total</b>	<b>636,752,599.23</b>	598,748,939.78

**(2) Important payables ageing over 1 year**

<b>Item</b>	<b>Balance at the year end</b>	<b>Reason for non-payment or non-transfer</b>
Industrial Green Building Technology Co., Ltd. of Zhuhai (珠海興業綠色建築科技有限公司)	<b>6,934,409.42</b>	Holdback
<b>Total</b>	<b>6,934,409.42</b>	



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

### 22. Receipts in advance

#### (1) Presentation of receipts in advance

Type	Balance at the year end	Balance at the beginning of the year
Within 1 year	43,057,773.86	29,130,958.57
Over 1 year	22,197,476.55	26,882,818.71
Total	65,255,250.41	56,013,777.28

#### (2) Large sum of receipts in advance over one year

Item	Balance at the year end	Reason for not being charged
Shenzhen Family Planing Service Center (深圳市計劃生育服務中心)	3,595,838.40	The customer has not required the delivery of goods
Yunnan Province Center for Disease Prevention and Control (雲南省疾病預防控制中心)	3,421,571.41	The customer has not required the delivery of goods
Guangdong Province Centre for Disease Prevention and Control (廣東省疾病預防控制中心)	2,336,279.02	The customer has not required the delivery of goods
Total	9,353,688.83	

### 23. Employee benefits payables

#### (1) Presentation of salary payables

Item	Balance at the beginning of the year	Accruals for the year	Decrease for the year	Balance at the year end
I. Short-term salary	69,058,428.69	465,770,521.80	463,123,294.73	71,705,655.76
II. Post-resignation benefits – designated provision	297,947.06	40,415,064.46	40,570,070.15	142,941.37
III. Dismiss benefits	258,000.00	1,241,858.98	1,499,858.98	0.00
IV. Other benefits due within 1 year	0.00	0.00	0.00	0.00
Total	69,614,375.75	507,427,445.24	505,193,223.86	71,848,597.13

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

**VI. NOTES TO THE COMPONENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS** *(continued)***23. Employee benefits payables** *(continued)***(2) Presentation of short-term salary**

Item	Balance at the beginning of the year	Accruals for the period	Decrease for the period	Balance at the year end
1.Salaries, bonuses, allowances and subsidies	67,698,488.21	413,771,593.01	412,213,636.64	<b>69,256,444.58</b>
2.Employee welfare	662,594.89	18,590,965.31	17,481,184.86	<b>1,772,375.34</b>
3.Social insurance	126,847.95	16,510,977.60	16,569,723.85	<b>68,101.70</b>
Of which: Medical insurances	109,393.19	13,792,062.57	13,850,715.57	<b>50,740.19</b>
Work-related injury insurances	14,365.98	1,582,385.46	1,583,543.61	<b>13,207.83</b>
Maternity insurances	3,088.78	1,136,529.57	1,135,464.67	<b>4,153.68</b>
4.Housing funds	283,231.37	15,853,309.57	15,875,770.64	<b>260,770.30</b>
5.Labour union fees and employee education fees	287,266.27	1,043,676.31	982,978.74	<b>347,963.84</b>
6.Short-term compensated absence	0.00	0.00	0.00	<b>0.00</b>
7.Performance-linked bonuses of subsidiaries	0.00	0.00	0.00	<b>0.00</b>
Total	69,058,428.69	465,770,521.80	463,123,294.73	<b>71,705,655.76</b>

**(3) Presentation of designated provision**

Item	Balance the beginning of the year	Accruals for the period	Decrease for the period	Balance at the year end
1.Basic pension insurance	260,274.88	37,827,280.87	37,954,648.71	<b>132,907.04</b>
2.Unemployment insurance	37,672.18	2,587,783.59	2,615,421.44	<b>10,034.33</b>
Total	297,947.06	40,415,064.46	40,570,070.15	<b>142,941.37</b>

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

**VI. NOTES TO THE COMPONENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS** *(continued)***24. Taxes payables**

Item	Balance at the year end	Balance at the beginning of the year
Value added tax payable	-17,720,385.49	-30,246,456.40
Business tax payable	32,921.70	174,606.43
Urban maintenance and construction tax payable	4,827,251.64	3,615,771.23
Enterprise income tax payable	125,093,660.77	44,871,960.98
Property tax payable	4,418,116.16	5,618,879.93
Land use tax payable	1,834,686.81	1,760,288.81
Individual income tax payable	5,863,466.96	2,819,632.46
Stamp duty payable	1,259,358.85	1,058,477.91
Education surcharges payable	4,039,147.84	3,200,291.78
Flood prevention fee payable	285,782.33	259,645.39
Others	100,871.96	78,894.74
Total	130,034,879.53	33,211,993.26

**25. Interest payables**

Item	Balance at the year end	Balance at the beginning of the year
Interest for medium-term bills	11,823,945.25	11,823,945.24
Super short-term financing bills	0.00	4,241,095.90
Interest for short-term loans	0.00	1,024,160.09
Total	11,823,945.25	17,089,201.23

**26. Dividends payables**

Item	Balance at the year end	Balance at the beginning of the year	Reason for outstanding over 1 year
Dividends on ordinary shares	20,174.46	2,537,519.12	Not yet paid
Qingyuan Xinbeijiang (Group) Company (清遠新北江企業(集團)公司)	1,200,710.00	1,200,710.00	Not yet paid
Other legal persons and individual shares of subsidiaries	1,051,300.00	1,051,300.00	Not yet paid
Staff shares of subsidiaries	259,800.00	259,800.00	Not yet paid
Total	2,531,984.46	5,049,329.12	

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

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

### 27. Other payables

#### (1) Breakdown of other payables

Item	Balance at the year end	Balance at the beginning of the year
Within 1 year	1,165,075,389.28	806,407,040.65
Over 1 year	122,209,556.46	54,095,778.08
Total	1,287,284,945.74	860,502,818.73

#### (2) The breakdown of accruals included in balances was as follows:

Item	Balance at the year end	Balance at the beginning of the year	Reason for outstanding
Utilities expenses	4,918,521.09	4,096,008.22	Not yet paid
Research expenses	572,648.40	2,393,443.55	Not yet paid
Business promotion expenses	612,157,797.84	533,372,876.35	Not yet paid
Advertising expenses	294,147.66	10,311,109.78	Not yet paid
Business meeting expenses	31,737,907.19	17,594,069.54	Not yet paid
Auditing and information disclosure expenses	5,054,490.76	2,898,931.14	Not yet paid
Segment operating expenses	20,871,386.46	8,862,877.47	Not yet paid
Others	38,724,576.72	20,816,202.24	Not yet paid
Total	714,331,476.12	600,345,518.29	

### 28. Non-current liabilities due within one year

Item	Balance at the year end	Balance at the beginning of the year
Long-term loans due within 1 year (Note VI.30)	400,000.00	400,000.00
Notes payables due within 1 year (Note VI.31)	400,000,000.00	0.00
Total	400,400,000.00	400,000.00

Of which: changes in notes payables due within 1 year

Name of Bond	Nominal amount	Date of issue	Term of bond	Issue amount	Interest payables at the beginning of the year	Interest payables for the year	Interest paid for the year	Interest payables at the year end	Balance at the year end
13LivzonMTN1	400,000,000.00	29 May 2013	3 years	400,000,000.00	11,823,945.24	20,120,000.01	20,120,000.00	11,823,945.25	400,000,000.00



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

### 29. Other current liabilities

Item	Balance at the year end	Balance at the beginning of the year
Short-term payable bills	0.00	300,000,000.00

Of which: changes in short-term payable notes

Name of Bond	Nominal Amount	Date of issue	Term of bond	Issue amount	Interest payables at the beginning of the year	Interest payables for the year	Interest paid for the year	Interest payables at the year end	Balance at the year end
14Livzon SCP001	300,000,000.00	22 September 2014	270 days	300,000,000.00	4,241,095.90	6,404,054.81	10,645,150.71	0.00	0.00

### 30. Long-term loans

#### (1) Classification of long-term loans

Item	Balance at the year end	Balance at the beginning of the year
Loans on credit	1,100,000.00	1,100,000.00
Guarantee loans	0.00	65,800,000.00
Less: Long-term loans due within one year (Note VI.28)	400,000.00	400,000.00
Total	700,000.00	66,500,000.00

As at 31 December 2015, there was no overdue long-term loans that were unpaid.

#### (2) Long-term loans with five largest amount

Name of lender	Starting date of loans	Termination date of loans	Currency	Interest rates	Balance at the year end		Balance at the beginning of the year	
					Foreign amount	Local currency amount	Foreign amount	Local currency amount
Agricultural Bank of China, Shaoguan Branch Wujiang Sub-branch	18/1/2013	31/1/2016	RMB	6.15	—	0.00	—	65,800,000.00
Fuzhou Bureau of Finance	Indefinite	Indefinite	RMB	Interest-free	—	700,000.00	—	700,000.00
Total						700,000.00		66,500,000.00

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

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

### 31. Notes payables

Item	Balance at the year end	Balance at the beginning of the year
Bond payables	400,000,000.00	400,000,000.00
Less: notes payables due within 1 year (Note VI.28)	400,000,000.00	0.00
Total	0.00	400,000,000.00

### 32. Deferred income

Item	Balance at the beginning of the year	Increase during the year	Decrease during the year	Balance at the year end	Reason
Government grant	77,271,812.03	41,389,040.00	19,102,112.05	99,558,739.98	

Items related to government grant

	Balances at the beginning of the year	Amount of new additional subsidy for the year	Recognised in non-operating income for the year	Other changes	Balances at the year end	Related to assets/ Related to income
R&D and commercialisation of innovative drug of Ilaprazole series (艾普拉唑系列創新藥物研發及產業化)	9,831,374.90	0.00	2,000,000.04	0.00	7,831,374.86	Related to assets
	6,657,403.48	0.00	748,129.80	0.00	5,909,273.68	Related to income
Team for research, development and commercialisation of protein drugs (2012) under the scientific research team for introduction of innovation technologies in Guangdong Province (廣東省引進創新科研團隊(2012)蛋白質藥物研究開發及產業化團隊)	16,862,929.55	0.00	3,185,289.31	0.00	13,677,640.24	Related to assets
	110,428.34	0.00	110,428.34	0.00	0.00	Related to income
2014 Strategic Emerging Industries (Sustained Release Microsphere) (2014年戰略性新興產業(緩釋微球))	0.00	3,000,000.00	1,000,000.00	0.00	2,000,000.00	Related to income
R&D and Commercialisation of Mouse Nerve Growth Factor for Injection (注射用鼠神經生長因子研發及產業化)	0.00	5,000,000.00	1,250,000.03	0.00	3,749,999.97	Related to assets
Special Fund for Industry-Academia-Research Collaboration from Provincial Departments in 2013 (2013年度省部產學研合作專項資金)	0.00	1,000,000.00	1,000,000.00	0.00	0.00	Related to income

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

### 32. Deferred income *(continued)*

	Balances at the beginning of the year	Amount of new additional subsidy for the year	Recognised in non- operating income for the year	Other changes	Balances at the year end	Related to assets/ Related to income
2013 Provincial Technology Special Fund (2013年度省級科技專項資金)	0.00	750,000.00	216,170.73	0.00	533,829.27	Related to assets
	0.00	750,000.00	750,000.00	0.00	0.00	Related to income
Demonstration project on the application of solar photovoltaic architecture (太陽能光電建築應用示範項目)	5,491,166.58	0.00	701,000.04	0.00	4,790,166.54	Related to assets
Subsidy for the Tender of Technology Upgrade Project for PVC Soft Bag Supported by Provincial Finance Departments (省財政支持技改招標 項目補助金PVC軟袋)	2,769,711.66	0.00	194,365.80	0.00	2,575,345.86	Related to assets
Demonstration projects of high concentration organic wastewater treatment technology (高濃度有機廢水治理技術示範項目)	788,771.00	0.00	394,404.00	0.00	394,367.00	Related to assets
Shenqi Fuzheng Injection (參芪扶正注射液)	1,097,211.05	0.00	67,223.37	0.00	1,029,987.68	Related to assets
	964,070.19	0.00	0.00	0.00	964,070.19	Related to income
Financial grant for the quality control technologies of Shenqi (參芪質量控制技術財政撥款)	1,076,390.00	0.00	416,664.00	0.00	659,726.00	Related to assets
Construction of production facilities for the GAP commercialisation of astragalus at Hunyuan in Shanxi (山西渾源黃芪GAP產業化生產基地建設)	8,951,165.80	0.00	1,105,446.86	0.00	7,845,718.94	Related to assets
First batch of science and technology R&D funding from trade and industry subbranch in the district branch in 2010(區科工貿支 2010年第一批科技研發經費)	1,000,000.00	0.00	1,000,000.00	0.00	0.00	Related to income
Guidance Project for the Development of High-Tech Industrial Development Zone (Yue Cai Gong No. 319) Special Fund (粵財工319號省高新技術產業開發區 發展引導專項資金)	850,000.00	0.00	0.00	0.00	850,000.00	Related to income
First Batch of Fund for Industry-Academia- Research Integration Pilot Project 2011 (2011 年省部產學研結合引導項目 第一批資金)	400,000.00	0.00	400,000.00	0.00	0.00	Related to income

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

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

### 32. Deferred income *(continued)*

	Balances at the beginning of the year	Amount of new additional subsidy for the year	Recognised in non- operating income for the year	Other changes	Balances at the year end	Related to assets/ Related to income
Construction of hi-tech facilities for innovation and commercialisation of modern traditional Chinese medicines (現代中藥高技術創新產業化基地建設)	125,011.00	0.00	99,996.00	0.00	<b>25,015.00</b>	Related to assets
Power-saving of lighting pump fan and airconditioning system (照明水泵風機及空調系統節電)	87,511.00	0.00	69,996.00	0.00	<b>17,515.00</b>	Related to assets
R&D and Production Transformation of Gemifloxacin Tablets (吉米沙星片的研發及生產轉化)	212,527.55	0.00	0.00	0.00	<b>212,527.55</b>	Related to assets
Supplementary Funding from the Scientific and Technology Departments of the State and the Provinces in 2012 (2012年國家省科技計劃配套資金)	250,000.00	0.00	250,000.00	0.00	<b>0.00</b>	Related to income
Research in the technologies critical to the intelligent monitoring system for bottled infusion workshop (瓶裝輸液車間智能監控管理系統關鍵技術研究)	39,581.62	0.00	27,504.00	0.00	<b>12,077.62</b>	Related to assets
	3,958.38	0.00	0.00	0.00	<b>3,958.38</b>	Related to income
Research and development of sugar and electrolyte mixed injections (混合糖電解質注射液的研製開發)	25,277.78	0.00	25,277.78	0.00	<b>0.00</b>	Related to assets
	31,111.14	0.00	28,888.86	0.00	<b>2,222.28</b>	Related to income
Research of technologies for the inspection of toxic substances from high-throughput aquatic products in Guangdong Province (廣東省水產品中有害物質高通量檢測技術研究)	160,000.00	0.00	80,000.00	0.00	<b>80,000.00</b>	Related to income
Technology Centre Innovation Capabilities Development (Antibody Drugs Laboratory) (技術中心創新能力建設(抗體藥物實驗室))	4,221,660.00	3,778,340.00	397,064.81	0.00	<b>7,602,935.19</b>	Related to assets
	0.00	800,000.00	124,230.56	0.00	<b>675,769.44</b>	Related to income
Special Fund for the Research in the Technology Standard of Chinese Medicine Drinking Tablets (中藥飲片炮製技術規範研究專項經費)	1,351.01	0.00	1,351.01	0.00	<b>0.00</b>	Related to income



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

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

### 32. Deferred income *(continued)*

	Balances at the beginning of the year	Amount of new additional subsidy for the year	Recognised in non- operating income for the year	Other changes	Balances at the year end	Related to assets/ Related to income
Second Batch of Science and Technology R&D Funding in 2012 (2012年第二批科技研發經費)	1,000,000.00	0.00	0.00	0.00	1,000,000.00	Related to income
Industrial Revitalisation Supporting Funds (產業振興扶持資金)	7,950,000.00	2,580,000.00	1,136,500.00	0.00	9,393,500.00	Related to assets
Innovative drug of Ilaprazole phase IV clinical research (創新藥物艾普拉唑IV期 臨床研究)	903,200.00	1,445,600.00	0.00	0.00	2,348,800.00	Related to assets
Special construction projects of astragalus facilities of Finance Bureau in Hunyuan County (渾源縣財政局黃芪基地建設項目)	135,000.00	0.00	135,000.00	0.00	0.00	Related to assets
Government grant for industrial transformation (工業轉型政府扶持資金)	1,758,333.33	0.00	200,000.00	0.00	1,558,333.33	Related to assets
New Industrialisation Development Grant (新型工業化發展獎金)	1,750,000.00	1,500,000.00	245,833.33	0.00	3,004,166.67	Related to assets
Subsidy for Industrial Project (工業項目貼息補助)	1,766,666.67	0.00	200,000.00	0.00	1,566,666.67	Related to assets
Five Goods and One New Supporting Funds (五優一新扶持資金)	0.00	1,000,000.00	100,000.00	0.00	900,000.00	Related to assets
Set-up and research fund for post-doc station (博士後建站和科研補貼)	0.00	100,000.00	7,122.00	0.00	92,878.00	Related to income
New R&D Institution Subsidy (新型研發機構補助)	0.00	4,060,000.00	1,434,225.38	0.00	2,625,774.62	Related to assets
Special Funds Transferred to the Shanoguan Bureau of Finance Treasury Branch for Cooperative Innovation and Platform Environmental Construction (韶關市財政局 國庫支付中心轉省協同創新與 平台環境建設專項資金)	0.00	1,000,000.00	0.00	0.00	1,000,000.00	Related to assets
R&D of Innovative Traditional Chinese Medicine Qihuo Sugar (芪藿糖) Capsule for Kidney for cure for diabetes and kidney disease (治療糖尿病腎病創新 中藥“芪藿糖腎膠囊”的研究開發)	0.00	1,000,000.00	0.00	0.00	1,000,000.00	Related to assets
2012 Zhuhai Strategic Emerging Industries Special Funds (2012年珠海市戰略性 新興產業專項資金)	0.00	3,330,000.00	0.00	0.00	3,330,000.00	Related to assets

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

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

### 32. Deferred income *(continued)*

	Balances at the beginning of the year	Amount of new additional subsidy for the year	Recognised in non- operating income for the year	Other changes	Balances at the year end	Related to assets/ Related to income
Funds for R&D and commercialisation of innovative drug of Ilaprazole series (艾普拉唑系列創新藥物研發及產業化項目資金)	0.00	5,600,000.00	0.00	0.00	5,600,000.00	Related to assets
Innovative drug of Ilaprazole for Injection (創新藥注射用艾普拉唑鈉針劑)	0.00	2,400,000.00	0.00	0.00	2,400,000.00	Related to assets
Funds for Joint R&D and Commercialisation of Integrated Platform for molecular diagnostics (集成一體化分子診斷平臺的合作研發及產業化資金)	0.00	2,295,100.00	0.00	0.00	2,295,100.00	Related to income
Total	77,271,812.03	41,389,040.00	19,102,112.05	0.00	99,558,739.98	

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

### 33. Share capital

2015

Item	Balance at the beginning of the year		Movement for the year					Balance at the year end	
	Amount	Percentage (%)	Issue of new shares	Number of bonus shares	Reserve fund capitalised	Others	Sub-total	Amount	Percentage (%)
<b>I. Shares subject to selling restrictions</b>									
1. State-owned shares	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
2. State-owned legal person shares	6,059,428	2.05	0.00	0.00	1,817,828	0.00	1,817,828	7,877,256	1.98
3. Other domestic shares	0.00	0.00	0.00	0.00	2,598,120	9,853,020	12,451,140	12,451,140	3.14
Of which: Domestic legal person shares	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Domestic natural person shares	0.00	0.00	0.00	0.00	2,598,120	9,853,020	12,451,140	12,451,140	3.14
4. Foreign shares	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Of which: Overseas legal person shares	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Overseas natural person shares	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Shares subject to selling restrictions in aggregate	6,059,428	2.05	0.00	0.00	4,415,948	9,853,020	14,268,968	20,328,396	5.12
<b>II. Shares not subject to selling restrictions</b>									
1. Ordinary shares denominated in Renminbi	177,669,070	60.08	0.00	0.00	53,300,721	0.00	53,300,721	230,969,791	58.19
2. Domestically listed foreign shares (B-share)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
3. Overseas listed foreign shares (H-share)	111,993,354	37.87	0.00	0.00	33,598,006	0.00	33,598,006	145,591,360	36.68
4. Others	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Shares not subject to selling restrictions in aggregate	289,662,424	97.95	0.00	0.00	86,898,727	0.00	86,898,727	376,561,151	94.88
<b>III. Total number of shares</b>	295,721,852	100.00	0.00	0.00	91,314,675	9,853,020	101,167,695	396,889,547	100.00

Please refer to Note I. Company Status for details of changes in the share capital of the Company for the year.

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

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

### 33. Share capital *(continued)*

#### 2014

Item	Balance at the beginning of the year		Movement for the year					Balance at the year end	
	Amount	Percentage (%)	Issue of new shares	Number of bonus shares	Reserve fund capitalised	Others	Sub-total	Amount	Percentage (%)
<b>I. Shares subject to selling restrictions</b>									
1. State-owned shares	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
2. State-owned legal person shares	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
3. Other domestic shares	6,059,428	2.05	0.00	0.00	0.00	0.00	0.00	6,059,428	2.05
<i>Of which: Domestic legal person shares</i>	6,059,428	2.05	0.00	0.00	0.00	0.00	0.00	6,059,428	2.05
<i>Domestic natural person shares</i>	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
4. Foreign shares	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
<i>Of which: Overseas legal person shares</i>	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
<i>Overseas natural person shares</i>	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
<i>Shares subject to selling restrictions in aggregate</i>	6,059,428	2.05	0.00	0.00	0.00	0.00	0.00	6,059,428	2.05
<b>II. Shares not subject to selling restrictions</b>									
1. Ordinary shares denominated in Renminbi	177,669,070	60.08	0.00	0.00	0.00	0.00	0.00	177,669,070	60.08
2. Domestically listed foreign shares (B-share)	111,993,354	37.87	0.00	0.00	0.00	-111,993,354	0.00	0.00	0.00
3. Overseas listed foreign shares (H-share)	0.00	0.00	0.00	0.00	0.00	111,993,354	0.00	111,993,354	37.87
4. Others	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
<i>Shares not subject to selling restrictions in aggregate</i>	289,662,424	97.95	0.00	0.00	0.00	0.00	0.00	289,662,424	97.95
<b>III. Total number of shares</b>	295,721,852	100.00	0.00	0.00	0.00	0.00	0.00	295,721,852	100.00

On 16 January 2014, the Company was approved by the Stock Exchange of Hong Kong Limited to list and trade 111,993,354 domestically listed foreign shares (B share) in the share capital of the Company on the Main Board of the Stock Exchange of Hong Kong Limited.

### 34. Capital reserve

#### 2015

Item	Balance at the beginning of the year	Increase for the year	Decrease for the year	Balance at the year end
Capital premiums	192,213,531.98	239,944,419.05	93,018,783.64	339,139,167.39
Other capital reserve	20,481,182.76	36,089,000.00	0.00	56,570,182.76
Total	212,694,714.74	276,033,419.05	93,018,783.64	395,709,350.15

The increase in the share premium in the year includes: (1) the increase in the share premium in the sum of RMB239,937,057.00 by the exercise of restricted shares; (2) the transfer amounting to RMB7,362.05 by eradicating fractional shares. The decrease of share premium in the year was attributable to (1) the decrease of share premium in the sum of RMB1,704,108.64 by the repurchase and cancellation of 93,080 shares restricted shares granted to incentive participants no longer satisfying the conditions of incentive; (2) the decrease of share premium in the sum of RMB91,314,675.00 by increases of shares due to transfer.

The increase in other capital reserve for the year was attributable to the provision of share incentive expenses.



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

### 34. Capital reserve *(continued)*

2014

Item	Balance at the beginning of the year	Increase for the year	Decrease for the year	Balance at the year end
Capital premiums	191,464,446.44	2,007,283.07	1,258,197.53	<b>192,213,531.98</b>
Other capital reserve	20,481,182.76	0.00	0.00	<b>20,481,182.76</b>
Total	211,945,629.20	2,007,283.07	1,258,197.53	<b>212,694,714.74</b>

The increase in the share premium in the year was attributable to the increase in shareholder' equity interest by eradicating fractional shares; the decrease of share premium in the year was attributable to difference between the transfer price of the disposal of 24.99% of equity of Shanghai Livzon Pharmaceutical Manufacturing Co.,Ltd. (上海麗珠製藥有限公司) and the corresponding shareholder's equity interests of RMB1,258,197.53 as capital reserve.

### 35. Treasury shares

Item	Balances at the beginning of the year	Increase for the year	Decrease for the year	Balances at the end of the year
Repurchase arising from the Share Incentive Scheme	0.00	249,883,157.00	2,663,200.00	<b>247,219,957.00</b>
Total	0.00	249,883,157.00	2,663,200.00	<b>247,219,957.00</b>

Repurchase obligation arising from the Share Incentive Scheme includes: (1) based on the repurchase obligation arising from the Restricted Shares granted by the Company during the year to fully recognize the liability and treated as treasury shares, resulting in the increase of treasury shares of RMB249,883,157.00; (2) the repurchase and cancellation of 93,080 shares Restricted Shares granted to the Incentive Participants who no longer satisfying the incentive conditions at the price of RMB19.308 per share after the adjustments of the 2014 Annual Equity Distribution Plan (implemented on 14 August 2015, based on the original granting price of RMB25.20 per share), resulting in a repurchase payment of RMB1,797,188.64, among which the decrease of share capital of RMB93,080.00 and capital reserve of RMB1,704,108.64 were attributable to the cancellation of treasury shares; the decrease of treasury shares of RMB866,011.36 was due to cash dividends distributed to the holders of Restricted Shares.

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

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

### 36. Other comprehensive income

2015

Item	Balance at the beginning of the year	For the year					Balance at the year end
		Amount incurred before income tax for the year	Less: amount recognised in other comprehensive income in previous period transferred to profit or loss for the period	Less: income tax expenses	Attributable to the parent company after tax	Attributable to the non-controlling shareholders after tax	
(I) Other comprehensive income items subsequently not to be re-classified as profit or loss	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Of which: changes caused by re-measurement of net liabilities or net assets of benefit plans	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Other comprehensive income portions subsequently not to be re-classified as profit or loss of investment units using the equity method	0.00	0.00	0.00	0.00	0.00	0.00	0.00
(II) Other comprehensive income items subsequently to be re-classified as profit or loss	-33,326,810.31	6,530,723.85	-29,191,687.45	794,723.50	20,573,582.46	14,354,105.34	-12,753,227.85
Of which: other comprehensive income portions subsequently to be re-classified as profit or loss of investment units using the equity method	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Profit and loss from change of fair value of available-for-sale financial assets	-10,827,253.53	2,687,256.65	-29,191,687.45	403,088.50	17,171,928.75	14,303,926.85	6,344,675.22
Held-to-maturity investment to be re-classified as available-for-sale financial asset profit and loss	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Valid portion of the gains or losses arising from cash flow hedges instrument	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Translation differences of financial statements denominated in foreign currency	-22,499,556.78	1,232,567.20	0.00	0.00	1,182,388.71	50,178.49	-21,317,168.07
Others	0.00	2,610,900.00	0.00	391,635.00	2,219,265.00	0.00	2,219,265.00
Total of other comprehensive income	-33,326,810.31	6,530,723.85	-29,191,687.45	794,723.50	20,573,582.46	14,354,105.34	-12,753,227.85

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

### 36. Other comprehensive income *(continued)*

2014

Item	For the year						
	Balance at the beginning of the year	Amount incurred before income tax for the year	Less: amount recognised in other comprehensive income in previous period transferred to profit or loss for the period	Less: income tax expenses	Attributable to the parent company after tax	Attributable to the non-controlling shareholders after tax	Balance at the year end
(I) Other comprehensive income items subsequently not to be re-classified as profit or loss	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Of which: changes caused by re-measurement of net liabilities or net assets of benefit plans	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Other comprehensive income portions subsequently not to be re-classified as profit or loss of investment units using the equity method	0.00	0.00	0.00	0.00	0.00	0.00	0.00
(II) Other comprehensive income items subsequently to be re-classified as profit or loss	-16,328,209.99	-38,048,843.71	2,872,716.73	-9,639,781.73	-16,998,600.32	-14,283,178.39	-33,326,810.31
Of which: other comprehensive income portions subsequently to be re-classified as profit or loss of investment units using the equity method	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Profit and loss from change of fair value of available-for-sale financial assets	6,418,799.56	-38,317,044.94	2,872,716.73	-9,639,781.73	-17,246,053.09	-14,303,926.85	-10,827,253.53
Held-to-maturity investment to be re-classified as available-for-sale financial asset profit and loss	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Valid portion of the gains or losses arising from cash flow hedges instrument	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Translation differences of financial statements denominated in foreign currency	-22,747,009.55	268,201.23	0.00	0.00	247,452.77	20,748.46	-22,499,556.78
Others	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Total of other comprehensive income	-16,328,209.99	-38,048,843.71	2,872,716.73	-9,639,781.73	-16,998,600.32	-14,283,178.39	-33,326,810.31

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

**VI. NOTES TO THE COMPONENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS** *(continued)***37. Surplus reserve****2015**

Item	Balance at the beginning of the year	Increase for the year	Decrease for the year	Balance at the year end
Statutory surplus reserve	345,884,163.87	33,138,067.39	0.00	<b>379,022,231.26</b>
Discretionary surplus reserve	63,796,201.34	0.00	0.00	<b>63,796,201.34</b>
Reserve funds	82,108,376.71	0.00	0.00	<b>82,108,376.71</b>
Enterprise development funds	21,683,742.35	0.00	0.00	<b>21,683,742.35</b>
Total	513,472,484.27	33,138,067.39	0.00	<b>546,610,551.66</b>

**2014**

Item	Balance at the beginning of the year	Increase for the year	Decrease for the year	Balance at the year end
Statutory surplus reserve	333,608,626.57	12,275,537.30	0.00	<b>345,884,163.87</b>
Discretionary surplus reserve	63,796,201.34	0.00	0.00	<b>63,796,201.34</b>
Reserve funds	82,108,376.71	0.00	0.00	<b>82,108,376.71</b>
Enterprise development funds	21,683,742.35	0.00	0.00	<b>21,683,742.35</b>
Total	501,196,946.97	12,275,537.30	0.00	<b>513,472,484.27</b>



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

### 38. Retained earnings

#### (1) Movement in retained earnings

Item	For the year	For the previous year	Allocation or appropriation proportion
Retained earnings for the previous year before adjustment	2,707,954,326.83	2,352,112,358.31	
Add: Adjusted retained earnings at the beginning of the year	0.00	0.00	
Retained earnings at the beginning of the year after adjustment	2,707,954,326.83	2,352,112,358.31	
Add: Net earnings attributable to the shareholders of the parent company for the year	622,641,033.06	515,978,431.82	
Less: Appropriation to statutory surplus reserve	33,138,067.39	12,275,537.30	10%
Appropriation to discretionary surplus reserve	0.00	0.00	
Dividends payable to ordinary shares	30,438,225.20	147,860,926.00	
Dividends of ordinary shares capitalised	0.00	0.00	
Retained earnings at the year end	3,267,019,067.30	2,707,954,326.83	

Breakdown of adjustments to the retained earnings as at the beginning of the period:

- 1 The effect of the retrospective adjustments arising from Accounting Standards for Business Enterprises and their new related requirements on the retained earnings as at the beginning of the period amounted to RMB0.00.
- 2 The effect of changes in accounting policies on the retained earnings as at the beginning of the period amounted to RMB0.00.
- 3 The effect of corrections of significant accounting errors on the retained earnings as at the beginning of the period amounted to RMB0.00.
- 4 The effect of the change of the scope of combination under common control on the retained earnings as at the beginning of the period amounted to RMB0.00.
- 5 The effect of other adjustments on the retained earnings as at the beginning of the period amounted to RMB0.00.

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

**VI. NOTES TO THE COMPONENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS** *(continued)***38. Retained earnings** *(continued)***(2) Notes to appropriation of profits**

Item	For the year	Unit: RMB'000
		For the previous year
Dividends:		
Final dividends in respect of the year 2014 paid during the year (Note 2)	30,438.23	—
Final dividends in respect of the year 2013 paid during the year (Note 3)		147,860.93
Dividends proposed after the balance sheet date:		
Final dividends proposed for the year 2015 (Note 1)	198,444.77	—
Final dividends proposed for the year 2014 (Note 2)	—	30,438.23

Note 1: On 24 March 2016, the Company held the 22nd Meeting of the 8th Board, which passed the resolution of 2015 annual profit distribution plan to distribute a cash dividend (RMB0.5 per share (tax inclusive)) to all shareholders with reference to the total number of 396,889,54 shares of the Company at the end of the year. Such profit contribution plan is subject to the approval at the 2015 annual general meeting.

Note 2: On 23 March 2015, the 7th Meeting of the 8th Board of the Company has approved the profit distribution plan for 2014 as follows: based on the Company's total share capital as at the registration date of shares determined by implementation of the 2014 annual profit distribution plan to distribute a cash dividend of RMB0.1 per share (tax inclusive) to all the shareholders of the Company. Based on the Company's total share capital of 304,382,252 shares as at the registration date, a cash dividend of RMB30,438,230 was distributed to all shareholders of the Company. Said profit distribution plan was approved in the shareholders' meeting on 26 June 2015 and the dividends were paid to shareholders in August 2015.

Note 3: On 24 March 2014, the Company held the 28th Meeting of the 7th Board, which passed the resolution of 2013 annual profit distribution plan to declare a cash dividend of RMB147,860,930 (RMB0.5 per share (tax inclusive)) to all shareholders with reference to the total number of 295,721,852 shares of the Company at the end of the period of the report. Such profit contribution plan was approved in the shareholder's meeting on 30 June 2014 and the dividends were paid to shareholders in July 2014.

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

### 39. Operating income and operating cost

Item	For the year		For the previous year	
	Income	Cost	Income	Cost
Principal activities	6,516,612,497.64	2,478,508,546.86	5,456,211,974.12	2,083,831,632.88
Other activities	103,904,039.09	96,821,987.53	88,021,803.74	59,079,389.53
Total	6,620,516,536.73	2,575,330,534.39	5,544,233,777.86	2,142,911,022.41

The Company operates in a single operating segment in the PRC, i.e. the manufacture of pharmaceuticals. Accordingly, no operating segment for geographical information of the Company are presented.

### 40. Business taxes and surcharges

Item	For the year	For the previous year
Urban maintenance and construction tax payable	42,501,887.94	37,297,910.45
Education surcharges payable	33,619,441.63	29,191,576.91
Flood prevention fee payable	2,922,122.92	2,460,143.73
Business tax payable	1,964,895.15	241,648.46
Others	112.01	1,056.33
Total	81,008,459.65	69,192,335.88

The basis of calculations for various business taxes and surcharges taxes are disclosed in note V. Taxation.

### 41. Selling expenses

Item	For the year	For the previous year
Marketing and promotional expenses	2,317,726,850.71	2,002,527,160.49
Staff salaries	91,106,541.96	75,480,203.32
Transportation costs	49,898,970.31	42,857,561.80
Travelling expenses and entertainment	28,085,124.93	30,476,847.28
Business meeting expenses	24,912,786.02	22,771,349.09
Others	29,944,818.63	34,105,623.30
Total	2,541,675,092.56	2,208,218,745.28

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

**VI. NOTES TO THE COMPONENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS** *(continued)***42. Administrative expenses**

<b>Item</b>	<b>For the year</b>	<b>For the previous year</b>
Research and development costs	<b>222,031,402.88</b>	189,499,613.52
Staff salaries	<b>98,403,053.12</b>	87,523,725.82
Share incentive costs	<b>36,089,000.00</b>	0.00
Depreciation and amortisation	<b>43,234,664.48</b>	43,238,782.99
Loss on suspension of operations	<b>47,451,303.62</b>	24,935,364.24
Tax expenses	<b>21,577,454.31</b>	19,631,382.71
Auditor Remuneration	<b>3,047,169.77</b>	2,587,347.17
Others	<b>134,467,919.89</b>	97,106,534.89
<b>Total</b>	<b>606,301,968.07</b>	464,522,751.34

**43. Financial expenses**

<b>Item</b>	<b>For the year</b>	<b>For the previous year</b>
Interest expenses	<b>31,329,411.11</b>	26,855,257.66
Less: Interest income	<b>10,505,970.45</b>	13,664,016.51
Exchange (gains)/losses	<b>2,257,000.20</b>	1,399,753.94
Bank charges	<b>4,123,554.78</b>	6,040,595.77
<b>Total</b>	<b>27,203,995.64</b>	20,631,590.86

**44. Impairment loss**

<b>Item</b>	<b>For the year</b>	<b>For the previous year</b>
Provision for bad debts	<b>14,072,145.93</b>	4,646,238.97
Provision for diminution in value of inventories	<b>24,249,912.28</b>	51,891,614.05
Provision for impairment of fixed assets	<b>2,637,032.09</b>	995,514.34
Provision for impairment of available-for-sale financial assets	<b>61,832,392.81</b>	0.00
<b>Total</b>	<b>102,791,483.11</b>	57,533,367.36

**45. Gains from changes in fair value**

<b>Sources of gains from changes in fair value</b>	<b>For the year</b>	<b>For the previous year</b>
Financial assets at fair value through profit or loss	<b>-182,343.23</b>	-4,939,260.57
Of which: Shares	<b>-349,731.90</b>	-4,985,191.50
Funds	<b>167,388.67</b>	45,930.93



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

### 46. Investment Income

Item	For the year	For the previous year
Long-term equity investments income under equity method	<b>6,136,618.37</b>	4,781,707.78
Investment income generated from disposal of long-term equity investments	<b>0.00</b>	-264,848.13
Investment income generated from financial assets measured at fair value, with the change in fair value included in the profit or loss for the year during its holding period	<b>161,820.14</b>	180,879.76
Investment income generated from disposal of financial assets measured at fair value, with the change in fair value included in the profit or loss	<b>0.00</b>	0.00
Investment income generated from held-to-maturity investments during its holding period	<b>0.00</b>	0.00
Investment income generated from available-for-sale financial assets during its holding period	<b>477,984.28</b>	161,916.30
In which: investment income generated from available-for-sale financial assets measured at fair value during its holding period	<b>84,234.28</b>	64,091.30
Investment income generated from disposal of available-for-sale financial assets investments	<b>0.00</b>	3,364,181.22
When without control, income generated from revaluation of remaining equity measured at fair value	<b>0.00</b>	0.00
<b>Total</b>	<b>6,776,422.79</b>	8,223,836.93

### 47. Non-operating income

Item	For the year	For the previous year	Recognised as extraordinary gains or losses for the year
Gains on disposal of non-current assets in aggregate	<b>2,003,640.57</b>	355,242.11	2,003,640.57
Of which: Gains on disposal of fixed assets	<b>116,848.12</b>	355,242.11	116,848.12
Income from scraps	<b>344,877.33</b>	1,214,462.30	344,877.33
Government grants (More details, please see the table below: Table for breakdown of government grants)	<b>127,679,776.28</b>	66,827,495.36	127,679,776.28
Compensation income	<b>90,938.48</b>	252,832.99	90,938.48
Waiver of payables	<b>138,233.63</b>	455,033.39	138,233.63
Others	<b>429,436.46</b>	1,008,349.01	429,436.46
<b>Total</b>	<b>130,686,902.75</b>	70,113,415.16	130,686,902.75

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

### 47. Non-operating income *(continued)*

Of which, breakdown of government grants through profit or loss:

Item	For the year	For the previous year	Related to assets/ Related to income
Team for research, development and commercialization of protein drugs (2012) under the scientific research team for introduction of innovation technologies in Guangdong Province (廣東省引進創新科研團隊 (2012) 蛋白質藥物研究開發及產業化團隊)	3,185,289.31	1,278,741.49	Related to assets
Guangdong Province Strategic Industry Core Technology Breakthrough Research Fund (2011) for MAB for Class I Treatment of Necrosis Factor in Human Tumour from Human Source (廣東省戰略新興產業核心技術攻關 (2011) I類治療用人源化抗人腫瘤壞死因子α單克隆抗體新藥的研製資金)	110,428.34	432,379.99	Related to income
NDRC Ilaprazole Project (發改委艾普拉唑項目)	0.00	472,053.20	Related to assets
	2,000,000.04	2,500,000.04	Related to assets
	748,129.80	1,248,129.80	Related to income
2014 Strategic Emerging Industries for the Province – Regional Agglomeration Development Pilot Project Fund (AT132) (2014年省戰略性新興產業區域集聚發展試點AT132項目款)	22,000,000.00	0.00	Related to income
The First Domestic Solid Preparations Workshop under LHoest Concept (Interest Discount Fund for Supporting Outstanding and Strong Enterprises) (國內首家LHoest理念固體制劑車間 (扶優扶強貼息資金))	11,285,100.00	0.00	Related to income
2014 Transformation Fund Received in respect of the Acquisition of Internationally Renowned Brands and Foreign Trade and Economic Promotion Supported by the Province (收到14年省級扶持收購國際著名品牌及促進外經貿轉型資金)	3,000,000.00	0.00	Related to income
R&D and Commercialisation of Mouse Nerve Growth Factor for Injection (注射用鼠神經生長因子研發及產業化)	1,250,000.03	0.00	Related to assets
Fund for Entrepreneurial Team (創業團隊經費)	150,000.00	150,000.00	Related to income
Subsidy for Rotavirus Vaccine Pre-clinical Research (輪狀病毒疫苗臨床前研究補助)	216,170.73	0.00	Related to assets
	750,000.00	0.00	Related to income
Special Fund for Foreign Patent Applications by Provincial Treasury from Central Treasury 2013 (省財政2013年中央資助向國外申請專利專項資金)	0.00	90,800.00	Related to income

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

### 47. Non-operating income *(continued)*

Item	For the year	For the previous year	Related to assets/ Related to income
Grant to Enterprises Manufacturing Bright Acrylic Microspheres and Injection (亮丙微球及注射劑企業撥款)	0.00	300,000.00	Related to assets
Rebate on the Incentives for Enterprises to Secure the Employment of Disabled People (殘疾人就業保障金企業獎勵金返還)	0.00	11,071.41	Related to income
Fund for Quality Control Programme on Chinese Injection Medicines from Finance Bureau of Shaoguan (韶關市財政局中藥注射劑質控撥款)	0.00	291,666.65	Related to income
Financial Interest Subsidy for the Industrialization of Traditional Chinese Medicine Injections Technological Transformation Projects (中藥注射劑產業化技術改造工程財政貼息款)	0.00	487,868.89	Related to income
Deferred Income Carried Forward from Astragalus GAP Projects (結轉黃芪GAP項目遞延收益)	1,240,446.86	548,834.20	Related to assets
Demonstration Projects of High Concentration Organic Wastewater Treatment Technology (高濃度有機廢水治理技術示範項目)	394,404.00	394,404.00	Related to assets
Financial Subsidy for Vocational Training in Pudong New Area (浦東新區職業培訓財政補貼撥款)	0.00	625,764.00	Related to income
Interest Discount Funds for Promoting Imports (進口貼息資金)	136,685.00	238,418.00	Related to income
Subsidy for Production Process Improvement for Antiviral Granule, Automatic Production and Packaging Line for Chinese Traditional Medicine (抗病毒顆粒生產工藝改進及提升、中藥顆粒劑自動化生產包裝線補貼)	0.00	176,500.00	Related to income
Subsidy for New Prescriptions for Antivirus Influenza (新處方抗病毒顆粒)	0.00	600,000.00	Related to income
Research on Quality Enhancement and Process Improvement for Skin-smoothing and Itch-relieving Granules (潤膚止癢顆粒質量提升和工藝改進技術研究)	288,100.00	0.00	Related to income
Subsidy from Pengzhou Industry, Information and Technology Bureau (彭州市工業和信息化局補貼)	400,000.00	86,477.08	Related to income
Special fund from Pengzhou Industry and Science Technology Bureau (彭州市工業和科學技術信息化局項目資金)	362,500.00	500,000.00	Related to income
Subsidy from Chengdu Enterprise Technology Center and Provincial Industrial Research (成都市企業技術中心及省級產業研究補貼)	1,289,300.00	300,000.00	Related to income

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

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

## 47. Non-operating income (continued)

Item	For the year	For the previous year	Related to assets/ Related to income
Special Fund for Industrial Technology R&D (產業技術研究與研發專項資金)	600,000.00	0.00	Related to income
Non-PVC bag improvement project (非PVC袋裝改造項目)	194,365.80	194,365.80	Related to assets
Amount Granted from Science and Technology Bureau of Shaoguan for Quality Control Research of Shenqi Fuzheng Injection (韶關市科技局轉參芪扶正注射液質量控制研究撥款)	416,664.00	173,610.00	Related to assets
	0.00	625,000.00	Related to income
Subsidy for the demonstration project on the application of solar photovoltaic architecture (太陽能光電建築應用示範項目補助)	701,000.04	701,000.04	Related to assets
Electricity Incentive Funds (用電獎勵資金)	1,980.00	159,400.00	Related to income
Construction of Hi-tech Facilities for Innovation and Commercialization of Modern Traditional Chinese Medicines (現代中藥高技術創新產業化基地建設)	99,996.00	99,996.00	Related to assets
Shanghai Jinqiao Export Processing Zone Management Committee Financial Support Funds (Tax Rebates) (上海金橋出口加工區管理委員會財政扶持款(稅收返還))	0.00	833,000.00	Related to income
Subsidy for Support Funds of the Financial Bureau of Pudong New Area, Shanghai (上海市浦東新區財政局開發扶持資金補貼款)	200,000.00	0.00	Related to income
Amount Granted for Triptorelin Acetate Microspheres Injection (注射用醋酸曲普瑞林微球撥款)	1,921,000.00	0.00	Related to income
Export credit insurance subsidies (出口信保補貼)	1,266,242.46	939,739.00	Related to income
Power-saving of Lighting Pump Fan and Air-conditioning System (照明水泵風機及空調系統節電)	69,996.00	69,996.00	Related to assets
Subsidy for solvent workshop process improvement (溶劑回車間工藝技術改造補貼)	0.00	1,000,000.00	Related to income
Experimental Studies on Anti-viral Granules Against Avian Influenza Virus (抗病毒顆粒的抗禽流感實驗研究)	32,000.00	0.00	Related to income
2010 Project Funding for Technology Centers for Municipal Level Enterprises in Zhuhai (2010年珠海市市級企業技術中心工程項目經費)	0.00	300,000.00	Related to income
2012 Zhuhai Strategic Emerging Industries Special Funds (2012年珠海市戰略性新興產業專項資金)	0.00	500,000.00	Related to income



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

### 47. Non-operating income *(continued)*

Item	For the year	For the previous year	Related to assets/ Related to income
863-plan biological and technical fields: in vitro diagnostic technology product development project (863計劃生物和醫藥技術領域體外診斷技術產品開發項目)	0.00	150,000.00	Related to income
Biomedicine R&D subsidies (生物醫藥研發補助資金)	500,000.00	200,000.00	Related to income
Innovation Special Rolling Funds paid by the Industry and Commerce Division (工貿科付省建創新滾動切塊資金)	0.00	490,000.00	Related to income
Grant to the Project of Three Rapid Testing Technologies for Melamine Illegally Added in Food (食品中非法添加物三聚氰胺三種快速檢測技術項目經費)	0.00	188,600.00	Related to income
Grant to the project in development of precise and rapid testing technologies and equipment for the presence of substantial toxic substances in food (食品中重要有害物殘留精準快速檢測技術與設備項目經費)	0.00	141,450.00	Related to income
2013 Xiangzhou District Outstanding Economic Contribution Reward Funds (2013年香洲區突出經濟貢獻獎勵金)	0.00	250,000.00	Related to income
2012 Zhuhai Enterprise Transformation and Upgrade Encouragement Reward Funds (2012年珠海鼓勵企業轉型升級獎勵金)	0.00	50,000.00	Related to income
Zhuhai Enterprise Transformation and Upgrade and Expansion Encouragement Reward Funds (珠海鼓勵企業轉型升級擴大生產獎勵)	0.00	38,926.28	Related to income
Industry-Academia Research Integration Special Fund (省部產學研合作專項資金)	1,400,000.00	0.00	Related to income
Supplementary funding from the Scientific and Technology Departments of the State and the Provinces in 2012 (2012年國家省科技計劃配套資金)	250,000.00	0.00	Related to income
First Batch of Science and Technology R&D Funding from Trade and Industry Sub-branch in the District Branch in 2010 (區科工貿支2010年第一批科技研發經費)	1,000,000.00	0.00	Related to income
Shenqi Fuzheng Injection (參芪扶正注射液)	67,223.37	105,788.95	Related to assets
Provision for Technology Transformation Funds (技術改造資金撥款)	1,103,000.00	1,004,550.00	Related to income
Incentives of the Bonded Zone (保稅區獎勵)	0.00	25,000.00	Related to income
Zhuhai Special Fund for Energy Saving and Emission Reduction (珠海市節能減排專項資金)	740,000.00	0.00	Related to income

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

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

### 47. Non-operating income *(continued)*

Item	For the year	For the previous year	Related to assets/ Related to income
Qingyuan Municipal Finance Bureau Grant for Special Funding to Small and Medium Enterprises to Develop in 2013 (清遠市財政局撥2013中小企業發展專項資金)	200,000.00	225,000.00	Related to income
Subsidies for Enterprises to Attract Graduates of Tertiary Academic Institutions (企業吸納高校畢業生補貼款)	192,043.80	47,810.30	Related to income
2014 Qingyuan Foreign Trade Development Special Fund (清遠市2014年外經貿發展專項資金)	45,000.00	0.00	Related to income
Scientific Technology Incentive and Subsidy for Technological Innovative Project (科學技術獎及科技創新項目資助)	1,388,800.00	0.00	Related to income
Enterprise Development Reward Funds (企業發展獎勵資金)	0.00	117,828.00	Related to income
2013 encouraging funds for enterprises to transform and expand production (2013年轉型升級擴大生產獎勵金)	0.00	120,000.00	Related to income
Special Funds for Provincial Intellectual Property Rights in 2013 (2013省級知識產權專項資金)	0.00	30,000.00	Related to income
Set-up and Research Fund for Post-doc Station (博士後建站和科研補貼)	107,122.00	700,000.00	Related to income
Subsidy and Support Fund for Relocation and Household Registration and Financial Support Funds (搬遷及落戶補助和財政扶持資金)	48,270,000.00	40,070,000.00	Related to income
Strategic Emerging Industries (Sustained Release Microsphere) (戰略性新興產業(緩釋微球)補助)	1,000,000.00	0.00	Related to income
2014 Special Funds for Brand Development of Technology and Trade (2014年科技興貿與品牌建設專項資金)	0.00	500,000.00	Related to income
Reward Funds from the Finance Bureau in Jinwan for Scientifically and Technologically Advanced Enterprises (金灣財政局獎勵科學技術先進企業獎勵金)	0.00	50,000.00	Related to income
Patent (Intellectual Property) Support Fund (專利(知識產權)資助資金)	965,100.00	83,850.00	Related to income
Zhuhai Tax Rebate for Normal Export and Subsidy for Increased Quantity (珠海市一般貿易出口退稅征退差資金及增量補貼款)	130,659.00	135,400.00	Related to income
Special Funds for Energy Auditing (能源審計專項資金)	0.00	20,000.00	Related to income
Energy Subsidy from Fuqing Municipal Bureau of Economics and Trade (福清經貿局能源補助款)	200,000.00	0.00	Related to income

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

### 47. Non-operating income *(continued)*

Item	For the year	For the previous year	Related to assets/ Related to income
Special Subsidies for Innovative Technology of Provincial Enterprises (Arginine) (省企業創新技術專項補助資金(精氨酸))	0.00	300,000.00	Related to income
Special subsidies for innovative technology of provincial enterprises (Teicoplanin) (省企業創新技術專項補助資金(替考))	0.00	400,000.00	Related to income
2015 Provincial Development Project Subsidy (2015年省區域發展項目資金補助)	1,000,000.00	0.00	Related to income
Subsidy for Elimination of the Second Batch of Backward Production Facilities for Energy Efficiency in 2015(2015年第二批節能淘汰落後產能資金補助)	1,000,000.00	0.00	Related to income
Incentive Bonus for Steady Industrial Growth of All Quarters of 2015 from Fuqing Municipal Bureau of Economics and Trade (福清經信局撥付15年4季度工業穩增長獎勵資金)	300,000.00	0.00	Related to income
Incentives for Supporting the Pharmaceutical Development Industry by Finance Bureau in Gu Tian Xian (古田縣財政局扶持醫藥發展產業獎勵)	500,000.00	0.00	Related to income
Research and Development Fee Subsidy Fund (研究開發費補助資金)	6,264,100.00	1,021,400.00	Related to income
Research in the Technologies Critical to the Intelligent Monitoring System for Bottled Infusion Workshop (瓶裝輸液車間智能監控管理系統關鍵技術研究)	27,504.00 0.00	15,418.38 43,541.63	Related to assets Related to income
Research and development of sugar and electrolyte mixed injections (混合糖電解質注射液的研製開發)	25,277.78 28,888.86	4,722.22 24,444.42	Related to assets Related to income
Project Funding from Shaoguan Technology Bureau (韶關市科技局撥付項目款)	1,019,200.00	0.00	Related to income
Policy fund for leading industrial enterprises loan Interests (工業龍頭企業貸款貼息政策資金)	200,000.00 0.00	233,333.33 369,800.00	Related to assets Related to income
Government grant for industry transformation (工業轉型政府扶持資金)	200,000.00	241,666.67	Related to assets
Government fund for industrial enterprise production Expansion (工業企業增產獎勵政府資金)	0.00	144,500.00	Related to income
2014 Reward from Industrial Economy Conference (2014年工業經濟大會獎勵)	0.00	454,000.00	Related to income
Reward Fund for Industry Growth and Production Expansion (工業保值增長及增產獎勵)	120,000.00	843,900.00	Related to income

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

**VI. NOTES TO THE COMPONENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS** *(continued)***47. Non-operating income** *(continued)*

Item	For the year	For the previous year	Related to assets/ Related to income
New Industrialization Development Grant (新型工業化發展獎金)	245,833.33	250,000.00	Related to assets
Government Industry Encouragement Fund (政府產業振興扶持資金)	1,136,500.00	1,050,000.00	Related to assets
Five Goods and One New Supporting Funds (五優一新扶持資金)	100,000.00	0.00	Related to assets
Leading Enterprise Development Bonus (龍頭企業做大做強獎勵款)	340,000.00	0.00	Related to income
Employment Assurance and Re-employment Subsidy (企業穩崗及再就業補貼)	612,761.39	0.00	Related to income
New Scientific Research Institution Subsidy (新型科研機構補助資金)	1,434,225.38	0.00	Related to assets
Enterprise Technology Center Innovation Capacity Development (Antibody Laboratory) (企業技術中心創新能力建設(抗體藥物試驗室))	397,064.81 124,230.56	0.00 0.00	Related to assets Related to income
Special Funds for Expanding Overseas by Enterprises in Zhuhai (珠海市“走出去”專項資金)	274,844.00	0.00	Related to income
Others	460,599.59	357,349.59	Related to income
Total	127,679,776.28	66,827,495.36	

**48. Non-operating expenses**

Item	For the year	For the previous year	Recognised as extraordinary gains or losses for the year
Losses on disposal of non-current assets	6,009,136.37	1,354,272.04	6,009,136.37
Of which: Losses on disposal of fixed assets	6,009,136.37	1,354,272.04	6,009,136.37
Write-off of fixed assets	456,085.19	0.00	456,085.19
Charity donation expenses	87,819.21	757,006.17	87,819.21
Others	9,011,645.05	485,644.17	9,011,645.05
Total	15,564,685.82	2,596,922.38	15,564,685.82



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

### 49. Income tax expenses

#### (1) Breakdown of income tax expenses

Item	For the year	For the previous year
Current income tax calculated according to tax laws and relevant rules	<b>192,765,657.33</b>	98,913,586.15
Include: Income tax on domestic enterprises	<b>192,764,014.45</b>	99,487,636.19
Income tax on Hong Kong and Macau enterprises	<b>1,642.88</b>	-574,050.04
Adjustment of deferred income tax	<b>-44,407,735.45</b>	-510,725.06
Total	<b>148,357,921.88</b>	98,402,861.09

#### (2) The relationships between income tax expenses and total profit are as follows

Item	For the year	For the previous year
Profit before tax	<b>807,921,299.80</b>	652,025,033.87
Income tax calculated at statutory tax rates	<b>201,980,324.95</b>	163,006,258.47
Tax effect of different rates applicable to subsidiaries	<b>996,958.20</b>	1,207,474.59
Effect of tax deduction	<b>-102,284,767.04</b>	-78,318,844.13
Effect of non-deductible expenses	<b>5,444,862.22</b>	3,435,633.78
Credit (charge) on temporary differences on which deferred tax assets are not recognised for the year	<b>18,940,711.69</b>	-5,358,514.01
Deductible losses of deferred tax assets that are not recognised for the year	<b>18,207,625.93</b>	16,877,054.00
Use of deductible losses of deferred tax assets that are not recognised in the previous year	<b>-124,576.04</b>	-4,121,151.17
Others	<b>5,210,536.68</b>	1,674,949.56
Total	<b>148,357,921.88</b>	98,402,861.09

### 50. Other comprehensive income details

Please refer to note VI. 36 for details.

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

**VI. NOTES TO THE COMPONENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS** *(continued)***51. Notes to cash flow statement item****(1) Cash received relating to other operating activities**

Item	For the year	For the previous year
Government grants	149,966,704.23	65,027,774.67
Interest income	10,505,970.45	13,664,016.51
Damages and penalty income	90,938.48	362,442.99
Income from scraps	344,877.33	1,214,462.30
Deposits under guarantees for letter of credit	0.00	2,240,968.33
Movements of capital and others	35,508,058.71	33,929,329.33
Total	196,416,549.20	116,438,994.13

**(2) Cash paid relating to other operating activities**

Item	For the year	For the previous year
Office expenses	26,402,730.70	30,471,460.20
Travelling expenses	29,603,354.25	28,707,547.21
Entertainment expenses	23,975,864.51	24,528,850.56
Transportation fees	57,630,256.38	53,310,216.12
Advertising expenses	5,936,488.60	22,224,921.30
Business meeting expenses	38,722,753.82	30,281,032.23
Auditing and information disclosure fees	5,822,775.49	5,623,995.77
Consultancy fees	5,800,966.83	17,656,638.40
Research and development costs	71,590,117.62	89,388,487.68
Bank charges	4,123,554.78	6,040,595.77
Business promotion expenses	2,315,726,877.30	1,948,283,686.66
Deposits under guarantees for letter of credit and bank acceptance bills	16,682,305.44	2,305,000.00
Other expenses paid and current account	78,192,774.68	87,310,715.18
Total	2,680,210,820.40	2,346,133,147.08

**(3) Cash received relating to other investing activities**

Item	For the year	For the previous year
Deposits under guarantees	14,260,023.82	11,844,211.41

**(4) Cash paid relating to other investing activities**

Item	For the year	For the previous year
Deposits under guarantees	22,188,421.04	8,255,955.14

**(5) Cash received relating to other financing activities**

Item	For the year	For the previous year
Repurchase of shares	1,797,188.64	0.00

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

### 52. Supplemental information to cash flow statement

#### (1) Information about reconciliation of net profit to cash flow from operating activities

Item	For the year	For the previous year
<b>1 Reconciliation of net profit to cash flow from operating activities:</b>		
<b>Net profit for the year</b>	<b>659,563,377.92</b>	553,622,172.78
Add: Provision for impairment of assets	<b>102,791,483.11</b>	57,533,367.36
Depreciation of fixed assets, amortisation of oil and gas assets, depreciation of productive biological assets biological assets	<b>286,913,717.42</b>	228,074,392.73
Amortisation of intangible assets	<b>24,002,754.54</b>	19,040,602.87
Amortisation of long-term expense	<b>10,045,541.78</b>	10,423,007.82
Losses on disposal of fixed assets, intangible assets and other long-term assets ("—" represents gains)	<b>4,005,495.80</b>	999,029.93
Losses on write-off of fixed assets	<b>456,085.19</b>	0.00
Losses from changes in fair value ("—" represents gains/income)	<b>182,343.23</b>	4,939,260.57
Financial expenses ("—" represents gains/income)	<b>13,546,851.29</b>	31,184,906.31
Investments losses ("—" represents gains)	<b>-6,776,422.79</b>	-8,223,836.93
Decrease in deferred tax assets ("—" represents increase)	<b>-48,814,052.35</b>	-5,334,021.11
Increase in deferred tax liabilities ("—" represents decrease)	<b>4,406,316.90</b>	4,823,296.05
Decrease in inventories ("—" represents increase)	<b>-196,614,062.19</b>	-270,830,470.53
Decrease in trade receivables ("—" represents increase)	<b>-262,102,156.95</b>	-123,561,204.71
Increase in trade payables ("—" represents decrease)	<b>300,092,187.42</b>	214,703,390.41
Others	<b>36,089,000.00</b>	0.00
<b>Net cash flows from operating activities</b>	<b>927,788,460.32</b>	717,393,893.55
<b>2 Significant investing and financing activities not involving cash receipts and payment:</b>		
Liabilities converted into capital	<b>0.00</b>	0.00
Convertible bonds due within one year	<b>0.00</b>	0.00
Fixed assets acquired under finance leases	<b>0.00</b>	0.00
<b>3 Net movement in cash and cash equivalents:</b>		
Cash at the end of the year	<b>767,093,403.45</b>	709,114,426.17
Less: Cash at the beginning of the year	<b>709,114,426.17</b>	750,928,733.31
Add: Cash equivalents at the end of the year	<b>0.00</b>	0.00
Less: Cash equivalents at the beginning of the year	<b>0.00</b>	0.00
<b>Net increase in cash and cash equivalents</b>	<b>57,978,977.28</b>	-41,814,307.14

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

**VI. NOTES TO THE COMPONENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS** *(continued)***52. Supplemental information to cash flow statement** *(continued)***(2) Relevant information with respect to acquisition or disposal of subsidiaries and other operating units during the year**

Nil

**(3) Composition of cash and cash equivalents**

Item	Balance at the year end	Balance at the beginning of the year
<b>1 Cash</b>	<b>767,093,403.45</b>	709,114,426.17
Of which: Cash on hand	<b>72,486.40</b>	177,881.98
Bank deposits that are readily available for payment	<b>766,211,133.63</b>	708,388,606.07
Other cash at bank and on hand that are readily available for payment	<b>809,783.42</b>	547,938.12
<b>2 Cash equivalents</b>	<b>0.00</b>	0.00
Of which: Bond investments due within three months	<b>0.00</b>	0.00
<b>3 Cash and cash equivalents at the end of the year</b>	<b>767,093,403.45</b>	709,114,426.17

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

**53. Assets with restricted ownership or right of use**

Total	Gross amount by the year end	Reason for restriction
Pledged assets:		
Other cash fund	31,201,880.29	Deposits for bank acceptance bills and deposits for guarantees
Total	31,201,880.29	



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

**VI. NOTES TO THE COMPONENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS** *(continued)***54. Monetary items in foreign currency**

<b>Item</b>	<b>Amount in foreign currency by year end</b>	<b>Exchange rate</b>	<b>Amount translated into RMB by year end</b>
Cash in foreign currency:			
In which: HKD	8,042,719.82	0.83778	6,738,029.81
Euro	454,365.99	7.0952	3,223,817.57
USD	2,921,811.01	6.4936	18,973,071.97
MOP	594,016.20	0.8133	483,113.38
JPY	318,592,276.00	0.053875	17,164,158.87
Total cash in foreign currency:			46,582,191.60
Trade receivables:			
In which: Euro	57,895.42	7.0952	410,779.58
USD	26,269,732.12	6.4936	170,585,132.49
MOP	760,000.00	0.8133	618,108.00
JPY	6,365,604.00	0.053875	342,946.92
Total trade receivables:			171,956,966.99
Other receivables:			
In which: HKD	397,250.00	0.83778	332,808.11
MOP	418,000.00	0.8133	339,959.40
Total other receivables:			672,767.51
Payables:			
In which: USD	20,556.95	6.4936	133,488.61
Other payables:			
In which: HKD	165,589.31	0.83778	138,727.41
USD	25,360.20	6.4936	164,678.99
Total other payables			303,406.40

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

## VII. CHANGE TO CONSOLIDATION SCOPE

On 16 January 2015, the Company established Lian Hong Kong Limited (麗安香港有限公司) with a registered capital of HKD1 million. This year the Company's range of consolidation includes Lian Hong Kong Limited.

## VIII. EQUITY IN OTHER ENTITIES

### 1. Equity in subsidiaries

#### (1) Group Structure

Name of the subsidiary	Subsidiary Type	Type of legal entity	Place of main business	Place of incorporation	Nature of business	Registered Capital	Percentage of shareholding	Proportion of voting rights	Acquisition method
Ando Development Limited (安滔發展有限公司)	Wholly-owned	Limited company	Hong Kong	Hong Kong	Investment	HKD500,000	100%	100%	Set-up
Lizhu (Hong Kong) Co., Limited (麗珠(香港)有限公司)	Wholly-owned	Limited company	Hong Kong	Hong Kong	Investment	HKD61,000,000	100%	100%	Set-up
Lian Hong Kong Limited (麗安香港有限公司)	Wholly-owned	Limited company	Hong Kong	Hong Kong	Investment	HKD1,000,000	100%	100%	Set-up
Zhuhai Modern Chinese Medicine High Technology Co., Ltd. (珠海現代中藥高科技有限公司)	Wholly-owned	Limited company	Zhuhai	Zhuhai	Provision of services	RMB6,000,000	100%	100%	Set-up
Livzon Group Livzon Pharmaceutical Factory (麗珠集團麗珠製藥廠)	Wholly-owned	Limited company	Zhuhai	Zhuhai	Manufacture of medicine	RMB450,000,000	100%	100%	Set-up
Livzon Group Livzon Pharmaceutical Marketing Co., Ltd. (麗珠集團麗珠醫藥營銷有限公司)	Wholly-owned	Limited company	Zhuhai	Zhuhai	Sales of goods	RMB20,000,000	100%	100%	Set-up
Zhuhai FTZ Livzon Pharmaceutical Trading Co., Ltd. (珠海市麗珠醫藥貿易有限公司)	Wholly-owned	Limited company	Zhuhai	Zhuhai	Sales of goods	RMB60,000,000	100%	100%	Set-up
Shanghai Livzon Pharmaceutical Manufacturing Co., Ltd. (上海麗珠製藥有限公司)	Holding	Limited company	Shanghai	Shanghai	Manufacture of medicine	RMB87,330,000	51%	51%	Set-up
Zhuhai FTZ Livzon Hecheng Pharmaceutical Manufacturing Co., Ltd. (珠海保稅區麗珠合成製藥有限公司)	Wholly-owned	Limited company	Zhuhai	Zhuhai	Manufacture of medicine	RMB128,280,000	100%	100%	Set-up
Zhuhai Livzon Diagnostic Reagents Inc. (珠海麗珠試劑股份有限公司)	Holding	Limited company	Zhuhai	Zhuhai	Manufacture of medicine	RMB46,450,000	51%	51%	Set-up
Datong Livzon Qiyuan Medicine Co., Ltd. (大同麗珠民源藥材有限公司)	Subsidiary of Wholly-owned subsidiary	Limited company	Hunyuan County	Hunyuan County	Crop farming	RMB4,000,000	92.5%	92.5%	Set-up
Longxi Livzon Shenyuan Medicine Co., Ltd. (隴西麗珠參源藥材有限公司)*	Subsidiary of Wholly-owned subsidiary	Limited company	Longxi County	Longxi County	Crop farming	RMB4,000,000	100%	100%	Set-up
Livzon Pharmaceutical Biotechnology Co., Limited (麗珠醫藥生物科技股份有限公司)	Wholly-owned	Limited company	Hong Kong	Hong Kong	Provision of services	HKD10,000	100%	100%	Set-up
Zhuhai Livzon Advertising Co., Ltd. (珠海麗珠廣告有限公司)	Wholly-owned	Limited company	Zhuhai	Zhuhai	Provision of services	RMB1,000,000	100%	100%	Set-up
Zhuhai Livzon Baimegen Biological Materials Co., Ltd. (珠海麗珠一拜阿蒙生物材料有限公司)	Holding	Limited company	Zhuhai	Zhuhai	Manufacture of medicine	RMB12,000,000	82%	82%	Set-up
Zhuhai Livzon Meidaxin Technological Development Co., Ltd. (珠海市麗珠美達信技術開發有限公司)	Wholly-owned	Limited company	Zhuhai	Zhuhai	Provision of services	RMB1,000,000	100%	100%	Set-up
Livzon Group Livzon Medical Research Centre (麗珠集團麗珠醫藥研究所)	Wholly-owned	Limited company	Zhuhai	Zhuhai	Provision of services	RMB10,000,000	100%	100%	Set-up
Jiaozuo Livzon Hecheng Pharmaceutical Manufacturing Co., Ltd. (焦作麗珠合成製藥有限公司)	Wholly-owned	Limited company	Jiaozuo	Jiaozuo	Manufacture of medicine	RMB70,000,000	100%	100%	Set-up
Livzon MABPharm Inc. (珠海市麗珠單抗生物技術有限公司)	Holding	Limited company	Zhuhai	Zhuhai	Provision of services	RMB500,000,000	51%	51%	Set-up

VIII. EQUITY IN OTHER ENTITIES *(continued)*1. Equity in subsidiaries *(continued)*(1) Group Structure *(continued)*

Name of the subsidiary	Subsidiary Type	Type of legal entity	Place of main business	Place of incorporation	Nature of business	Registered Capital	Percentage of shareholding	Proportion of voting rights	Acquisition method
Livzon Group Vaccine Engineering Inc. (麗珠集團疫苗工程股份有限公司)	Holding	Limited company	Zhuhai	Zhuhai	Provision of services	RMB65,000,000	83.85%	83.85%	Set-up
Wenshan Livzon Sangqi Plantation Co., Ltd. (文山麗珠三七種植有限公司)	Holding	Limited company	Wenshan	Wenshan	Crop farming	RMB9,200,000	51%	51%	Set-up
Livzon Group Ningxia Xinbeijiang Pharmaceutical Manufacturing Co., Ltd. (麗珠集團寧夏新北江製藥有限公司)	Holding	Limited company	Pingluo County	Pingluo County	Manufacture of medicine	RMB100,000,000	99.214%	99.214%	Set-up
Livzon Group Ningxia Fuxing Pharmaceutical Manufacturing Co., Ltd. (麗珠集團寧夏福興製藥有限公司)	Wholly-owned	Limited company	Pingluo County	Pingluo County	Manufacture of medicine	RMB100,000,000	100%	100%	Set-up
Companhia de Macau Carason Limitada (澳門嘉安信有限公司)	Subsidiary of Holding Subsidiary	Limited company	Macau	Macau	Sales of goods	MOP100,000	51%	51%	Set-up
Li Zhu (Macau) Limitada (麗珠(澳門)有限公司)	Wholly-owned	Limited company	Macau	Macau	Provision of services	MOP100,000	100%	100%	Set-up
Shanghai Livzon Biotechnology Co., Ltd. (上海麗珠生物科技股份有限公司)	Subsidiary of Holding Subsidiary	Limited company	Shanghai	Shanghai	Provision of services	RMB10,000,000	38.25%	38.25%	Set-up
Zhuhai Livzon Pharmaceutical Industrial Co. Ltd. (珠海市麗珠醫藥工業有限公司)	Wholly-owned	Limited company	Zhuhai	Zhuhai	Provision of services	RMB309,562,400	100%	100%	Set-up
Zhuhai Lihe Medical Diagnostic Product Co., Ltd. (珠海麗禾醫療診斷產品有限公司)	Subsidiary of Holding Subsidiary	Limited company	Zhuhai	Zhuhai	Manufacture of medicine	RMB15,000,000	51%	51%	Set-up
Sichuan Guangda Pharmaceutical Manufacturing Co., Ltd. (四川光大製藥有限公司)	Wholly-owned	Limited company	Pengzhou	Pengzhou	Manufacture of medicine	RMB149,000,000	100%	100%	Consolidated from non-common control
Livzon Group Xinbeijiang Pharmaceutical Manufacturing Inc. (麗珠集團新北江製藥股份有限公司)	Holding	Limited company	Qingyuan	Qingyuan	Manufacture of medicine	RMB134,930,000	92.14%	92.14%	Consolidated from non-common control
Livzon Group Limin Pharmaceutical Manufacturing Factory (麗珠集團利民製藥廠)	Wholly-owned	Limited company	Shaoguan	Shaoguan	Manufacture of medicine	RMB61,560,000	100%	100%	Consolidated from non-common control
Livzon Group Fuzhou Fuxing Pharmaceutical Co., Ltd. (麗珠集團福州福興醫藥有限公司)	Wholly-owned	Limited company	Fuzhou	Fuzhou	Manufacture of medicine	USD41,700,000	100%	100%	Consolidated from non-common control
Gutian Fuxing Pharmaceutical Co., Ltd. (古田福興醫藥有限公司)	Wholly-owned	Limited company	Gutian County	Gutian County	Manufacture of medicine	RMB26,700,000	100%	100%	Consolidated from non-common control

On 2 March 2015, Zhuhai Livzon Pharmaceutical Enterprise Management Co. Ltd. (珠海市麗珠醫藥企業管理有限公司) was renamed as Zhuhai Livzon Pharmaceutical Industrial Co., Ltd. (珠海市麗珠醫藥工業有限公司).

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

**VIII. EQUITY IN OTHER ENTITIES** *(continued)***1. Equity in subsidiaries** *(continued)***(2) Important non-wholly owned subsidiaries**

<b>Name of Subsidiaries</b>	<b>Percentage of shareholdings under non-controlling shareholders</b>	<b>Profit and loss attributable to non-controlling shareholders for the year</b>	<b>Dividend paid to non-controlling shareholders for the year</b>	<b>Equity balance for non-controlling shareholders by the year end</b>
Shanghai Livzon Pharmaceutical Manufacturing Co., Ltd. (上海麗珠製藥有限公司) (consolidated Shanghai Livzon Biotechnology Co., Ltd. (上海麗珠生物科技股份有限公司))	49%	47,728,663.98	10,290,000.00	103,589,441.68
Zhuhai Livzon Diagnostic Reagents Inc. (珠海麗珠試劑股份有限公司) (consolidated Companhia de Macau Carason Limitada (澳門嘉安信有限公司) and Zhuhai Lihe Medical Diagnostic Product Co.Ltd (珠海麗禾醫療診斷產品有限公司))	49%	42,271,436.60	12,250,000.00	178,211,582.73
Livzon MABPharm Inc. (珠海市麗珠單抗生物技術有限公司)	49%	-49,105,429.07	0.00	157,490,488.95
Livzon Group Vaccine Engineering Inc. (麗珠集團疫苗工程股份有限公司)	16.15%	-1,101,286.65	0.00	1,131,134.53
Livzon Group Xinbeijiang Pharmaceutical Manufacturing Inc. (麗珠集團新北江製藥股份有限公司)	7.86%	3,498,911.04	0.00	23,443,723.57



**VIII. EQUITY IN OTHER ENTITIES** *(continued)***1. Equity in subsidiaries** *(continued)***(3) Major accounting information on important non-wholly owned subsidiaries**

Name of subsidiaries	Financial Position by the year end		Financial Position by the beginning of the year	
	Total assets	Net assets	Total assets	Net assets
Shanghai Livzon Pharmaceutical Manufacturing Co., Ltd. (上海麗珠製藥有限公司) (consolidated Shanghai Livzon Biotechnology Co., Ltd. (上海麗珠生物科技有限公司))	<b>342,551,746.62</b>	<b>231,126,961.06</b>	247,078,637.99	169,258,861.90
Zhuhai Livzon Diagnostic Reagents Inc. (珠海麗珠試劑股份有限公司) (consolidated Companhia de Macau Carason Limitada (澳門嘉安信有限公司) and Zhuhai Lihe Medical Diagnostic Product Co.Ltd (珠海麗禾醫療診斷產品有限公司))	<b>543,338,930.56</b>	<b>363,697,107.64</b>	469,993,492.10	302,326,464.60
Livzon MABPharm Inc. (珠海市麗珠單抗生物技術有限公司)	<b>354,956,204.71</b>	<b>321,409,161.10</b>	314,553,681.00	292,432,635.02
Livzon Group Vaccine Engineering Inc. (麗珠集團疫苗工程股份有限公司)	<b>27,691,535.18</b>	<b>7,003,929.00</b>	30,356,175.19	13,823,041.36
Livzon Group Xinbeijiang Pharmaceutical Manufacturing Inc. (麗珠集團新北江製藥股份有限公司)	<b>445,127,533.58</b>	<b>298,266,203.15</b>	371,836,894.22	253,750,795.52

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

**VIII. EQUITY IN OTHER ENTITIES** *(continued)***1. Equity in subsidiaries** *(continued)***(3) Major accounting information on important non-wholly owned subsidiaries** *(continued)*

Name of subsidiaries	Operating results for the year			Operating results for the previous year		
	Revenue	Net profit	Total comprehensive income	Revenue	Net profit	Total comprehensive income
Shanghai Livzon Pharmaceutical Manufacturing Co., Ltd. (上海麗珠製藥有限公司) (consolidated Shanghai Livzon Biotechnology Co., Ltd. (上海麗珠生物科技股份有限公司))	488,362,630.14	82,868,099.16	82,868,099.16	356,668,321.07	42,129,177.68	42,129,177.68
Zhuhai Livzon Diagnostic Reagents Inc. (珠海麗珠試劑股份有限公司) (consolidated Companhia de Macau Carason Limitada (澳門嘉安信有限公司) and Zhuhai Lihe Medical Diagnostic Product Co.Ltd (珠海麗禾醫療診斷產品有限公司))	469,303,734.92	86,268,237.96	86,370,643.04	443,309,860.79	85,603,683.30	85,646,027.10
Livzon MABPharm Inc. (珠海市麗珠單抗生物技術有限公司)	0.00	-100,215,161.37	-100,215,161.37	0.00	-45,476,858.07	-74,668,545.52
Livzon Group Vaccine Engineering Inc. (麗珠集團疫苗工程股份有限公司)	0.00	-6,819,112.36	-6,819,112.36	0.00	-11,922,711.76	-11,922,711.76
Livzon Group Xinbeijiang Pharmaceutical Manufacturing Inc. (麗珠集團新北江製藥股份有限公司)	338,031,128.09	44,515,407.63	44,515,407.63	277,690,271.99	29,353,091.08	29,353,091.08

**VIII. EQUITY IN OTHER ENTITIES** *(continued)***1. Equity in subsidiaries** *(continued)***(3) Major accounting information on important non-wholly owned subsidiaries** *(continued)*

Name of subsidiaries	Cash flow for the year					Cash flow for the previous year				
	cash flow for operating activities	cash flow for investment activities	cash flow for financing activities	Cash and cash equivalents by the beginning of the year	Cash and cash equivalents by the year end	cash flow for operating activities	cash flow for investment activities	cash flow for financing activities	Cash and cash equivalents by the beginning of the year	Cash and cash equivalents by the year end
Shanghai Livzon Pharmaceutical Manufacturing Co., Ltd. (Shanghai Livzon Pharmaceutical Manufacturing Co., Ltd. (上海麗珠製藥有限公司)) (consolidated Shanghai Livzon Biotechnology Co., Ltd. (上海麗珠生物科技股份有限公司))	90,383,492.45	-14,093,610.74	-78,034,287.31	2,613,170.31	868,764.71	4,242,591.11	-8,595,090.80	61,788.38	6,903,881.62	2,613,170.31
Zhuhai Livzon Diagnostic Reagents Inc. (珠海麗珠試劑股份有限公司) (consolidated Companhia de Macau Carason Limitada (澳門嘉安信有限公司) and Zhuhai Lihe Medical Diagnostic Product Co., Ltd. (珠海麗禾醫療診斷產品有限公司))	49,329,793.00	-59,542,369.05	16,773,367.10	27,411,464.87	31,465,881.13	77,324,466.61	-24,126,534.51	-72,891,111.53	48,077,706.94	27,411,464.87
Livzon MABPharm Inc. (珠海市麗珠單抗生物技術有限公司)	-25,390,588.18	-36,335,491.30	61,640,635.97	549,574.37	464,130.86	-43,871,186.42	-152,049,867.92	196,157,123.10	313,585.07	549,574.37
Livzon Group Vaccine Engineering Inc. (麗珠集團疫苗工程股份有限公司)	-1,605,365.58	-726,693.41	2,345,525.37	66,046.83	79,513.21	-6,000,225.02	-1,797,783.27	7,551,806.99	312,248.13	66,046.83
Livzon Group Xinbeijiang Pharmaceutical Manufacturing Inc. (麗珠集團新北江製藥股份有限公司)	70,367,605.23	-42,295,137.35	-32,822,613.32	19,442,411.12	16,730,091.81	112,341,759.91	-10,981,994.15	-97,725,850.36	15,067,394.93	19,442,411.12

**2. Equity interest transfer with changes to proportion of equity ownership for subsidiaries without losing control****(1) Explanation on changes to proportion of equity interest ownership for subsidiaries**

Nil

**(2) Effect of transfer on non-controlling shareholder's equity interests and equity interest attributable to the owners of the Company for the year**

Nil

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

**VIII. EQUITY IN OTHER ENTITIES** *(continued)***3. Equity in associates or joint ventures****(1) Accounting information for non-important associates or joint ventures**

Item	Balance at the year end/ For the year	Balance at the beginning of the year/For the previous year
Associates:		
Total nominal value of investment	68,908,511.07	37,771,892.70
Total amount calculated by percentage of shareholding		
– net profit	6,136,618.37	4,781,707.78
– other comprehensive income	0.00	0.00
– total comprehensive income	6,136,618.37	4,781,707.78

**(2) Explanation of major restriction on capacity of capital transfer from associates or joint ventures to the company**

Nil

**IX. RISKS RELATED TO FINANCIAL INSTRUMENTS****1. Management objectives and policies of risks**

The operation activities of the Company are subject to various financial risks: market risks (mainly including foreign exchange risks and interest rate risks), credit risks and liquidity risks. The Company formulates an overall risk management plan with respect to the unforseeability of the financial market in order to minimise the potential adverse impacts on the financial performance of the Company.

**(1) Foreign exchange risks**

The Company conducts its operation primarily in China. Substantially all of the transactions were denominated and settled in Renminbi. However, the Company still has certain imports and exports businesses regarding bulk medicines and diagnostic reagents and equipment, for which they are settled in U.S. dollar and Japanese Yen. The Company's businesses outside China (mainly in Hong Kong) are settled in Hong Kong dollars. In addition, the Company will have foreign currency loans according to the operating needs. In respect of the above, the Company still exposes to certain foreign exchange risks. Taking into account the foreign exchange risks acceptable by the Company, the Company does not use derivatives to hedge foreign exchange risks. However, as to the foreign exchange risk in loans, the Company shall closely monitor the trend on the exchange rate of Renminbi, and timely adjust the extent of borrowings, so as to reduce its risks to the minimum.



**IX. RISKS RELATED TO FINANCIAL INSTRUMENTS** *(continued)***1. Management objectives and policies of risks** *(continued)***(1) Foreign exchange risks** *(continued)*

Financial assets and liabilities in foreign currencies held by the Company expressed in Renminbi are stated below:

(1) 31 December 2015

Amount denominated: RMB'000

Item	HKD item	USD item	Euro item	JPY item	MOP item
Financial assets in foreign currency –					
Cash	6,738.03	18,973.07	3,223.82	17,164.16	483.11
Financial assets measured at fair value, with the change in fair value included in the profit or loss for the year	5,780.68	0.00	0.00	0.00	0.00
Receivables	0.00	170,585.13	410.78	342.95	618.11
Prepayments	0.00	14.74	0.00	0.00	239.61
Other receivables	332.81	0.00	0.00	0.00	339.96
Total:	12,851.52	189,572.94	3,634.60	17,507.11	1,680.79
Financial liabilities in foreign currency –					
Payables	0.00	133.49	0.00	0.00	0.00
Receipts in advance	0.00	1,205.33	0.00	0.00	0.00
Other payables	138.73	164.68	0.00	0.00	0.00
Sub total:	138.73	1,503.50	0.00	0.00	0.00

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

**IX. RISKS RELATED TO FINANCIAL INSTRUMENTS** *(continued)***1. Management objectives and policies of risks** *(continued)***(1) Foreign exchange risks** *(continued)**(2) 31 December 2014*

Amount denominated: RMB '000

Item	HKD item	USD item	Euro item	JPY item	MOP item
Financial assets in foreign currency –					
Cash	5,536.93	15,871.86	212.57	5,407.49	1,831.87
Financial assets measured at fair value, with the change in fair value included in the profit or loss for the year	5,782.42	0.00	0.00	0.00	0.00
Receivables	0.00	119,419.56	0.00	101.41	0.00
Prepayments	0.00	3,338.76	0.00	0.00	0.00
Other receivables	316.50	0.00	0.00	0.00	127.44
<b>Total:</b>	<b>11,635.85</b>	<b>138,630.18</b>	<b>212.57</b>	<b>5,508.90</b>	<b>1,959.31</b>
Financial liabilities in foreign currency –					
Short-term loan	375,920.22	0.00	0.00	0.00	0.00
Payables	0.00	248.40	0.00	0.00	0.00
Receipts in advance	0.00	1,286.22	0.00	0.00	0.00
Interest payables	1,024.16	0.00	0.00	0.00	0.00
Dividend payables	2,517.34	0.00	0.00	0.00	0.00
Other payables	121.69	0.00	0.00	0.00	0.00
<b>Sub total:</b>	<b>379,583.41</b>	<b>1,534.62</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>

As at 31 December 2015, in respect of Group's financial assets and liabilities denominated in Hong Kong dollar, U.S. dollar, Euro, Japanese Yen and Macau dollar, should the value of RMB appreciate or depreciate by 5% against the Hong Kong dollar, U.S. dollar, Euro, Japanese Yen and Macau dollar, and other factors remain unchanged, the Group would be subject to an increase or decrease in profit of RMB11,180,240 (31 December 2014: RMB11,158,560).

**(2) Interest rate risk**

The Company's exposures in interest rate risk are mainly arising from bank borrowings. The bank lending rates are affected by the macro monetary policies of China, so that the Company is facing the risks arising from fluctuation of interest rates in future.

The finance department of the head office of the Company continues to monitor the interest rate level of the Company. The rise in the interest rate will increase the cost of additional interest bearing liability and the interest expense of the Company's outstanding interest bearing liability of which the interest is calculated at floating rate and impose material adverse impact on the financial results of the Company. The management will timely make adjustment based on the updated market conditions. The directors of the Company considers that the future changes in the interest rate will have no material adverse impact on the operating results of the Company.

**IX. RISKS RELATED TO FINANCIAL INSTRUMENTS** *(continued)***1. Management objectives and policies of risks** *(continued)***(3) Credit risk**

Credit risk is primarily attributable to cash and cash equivalents, restricted cash at bank, accounts receivables and other receivables. In respect of cash at banks, they were placed at several banks with good reputations, for which the credit risk was limited. In respect of accounts receivables, the Company shall assess the credit limit granted to customers for credit purpose. Moreover, as the customer base is large, the credit risk on accounts receivables is not concentrated. In respect of the settlement of bills receivables, a lot of bills receivables are used to settle external payments, which significantly limit the balance of bills receivables. Moreover, the balance of bills receivables are quality bills having maturity within three months. Therefore, there should not be any significant credit risk. In addition, the provision made on accounts receivables and other receivables are adequate to manage the credit risk.

**(4) Liquidity risk**

The Company adopts a prudent liquidity risk management, so as to ensure the sufficiency of the sources of monetary funds and liquidity by maintaining adequate monetary funds and reserve of banking facilities so that we can secure credit loans from banks. Apart from indirect financing from banks, a number of financing channels were opened, such as direct financing by inter-bank market including short-term financing bills and medium term financing bills, corporate bonds etc. These instruments can appropriately reduce the effects arising from the scale of financing by inter-bank market and the macromonetary policies of China, which shall secure adequate funds in a flexible manner.

As at the date of balance sheet, cash flows of the financial assets and financial liabilities contracts are presented below by term of maturity:

*(1) 31 December 2015*

Item	Within 1 year	1-2 years	2-5 years	Over 5 years	total
Financial assets –					
Cash	798,295,283.74	0.00	0.00	0.00	798,295,283.74
Financial assets measured at fair value, with the change in fair value included in the profit or loss for the year	6,589,225.34	0.00	0.00	0.00	6,589,225.34
Receivable notes	343,042,435.08	0.00	0.00	0.00	343,042,435.08
Receivables	1,329,985,444.48	0.00	0.00	0.00	1,329,985,444.48
Prepayments	122,297,549.66	0.00	0.00	0.00	122,297,549.66
Other receivables	78,588,719.10	0.00	0.00	0.00	78,588,719.10
Sub total:	2,678,798,657.40	0.00	0.00	0.00	2,678,798,657.40
Financial liabilities –					
Short-term loan	250,000,000.00	0.00	0.00	0.00	250,000,000.00
Bills payables	299,007,801.36	0.00	0.00	0.00	299,007,801.36
Payables	636,752,599.23	0.00	0.00	0.00	636,752,599.23
Receipts in advance	65,255,250.41	0.00	0.00	0.00	65,255,250.41
Interest payables	11,823,945.25	0.00	0.00	0.00	11,823,945.25
Dividend payables	2,531,984.46	0.00	0.00	0.00	2,531,984.46
Other payables	1,287,284,945.74	0.00	0.00	0.00	1,287,284,945.74
Non-current liabilities due within one year	400,400,000.00	0.00	0.00	0.00	400,400,000.00
Long-term loans	0.00	0.00	0.00	700,000.00	700,000.00
Sub total:	2,953,056,526.45	0.00		700,000.00	2,953,756,526.45

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

**IX. RISKS RELATED TO FINANCIAL INSTRUMENTS** *(continued)***1. Management objectives and policies of risks** *(continued)***(4) Liquidity risk** *(continued)**(2) 31 December 2014*

Item	Within 1 year	1-2 years	2-5 years	Over 5 years	total
Financial assets –					
Cash	715,705,603.80	0.00	0.00	0.00	715,705,603.80
Financial assets measured at fair value, with the change in fair value included in the profit or loss for the year	6,423,571.77	0.00	0.00	0.00	6,423,571.77
Receivable notes	305,315,241.79	0.00	0.00	0.00	305,315,241.79
Receivables	1,135,403,623.11	0.00	0.00	0.00	1,135,403,623.11
Prepayments	165,935,012.06	0.00	0.00	0.00	165,935,012.06
Other receivables	62,406,588.47	0.00	0.00	0.00	62,406,588.47
Sub total:	2,391,189,641.00	0.00	0.00	0.00	2,391,189,641.00
Financial liabilities –					
Short-term loan	375,920,221.10	0.00	0.00	0.00	375,920,221.10
Bills payables	352,619,794.63	0.00	0.00	0.00	352,619,794.63
Payables	598,748,939.78	0.00	0.00	0.00	598,748,939.78
Receipts in advance	56,013,777.28	0.00	0.00	0.00	56,013,777.28
Interest payables	17,089,201.23	0.00	0.00	0.00	17,089,201.23
Dividend payables	5,049,329.12	0.00	0.00	0.00	5,049,329.12
Other payables	860,502,818.73	0.00	0.00	0.00	860,502,818.73
Non-current liabilities due within one year	400,000.00	0.00	0.00	0.00	400,000.00
Other current liabilities	300,000,000.00	0.00	0.00	0.00	300,000,000.00
Long-term loans	0.00	65,800,000.00	0.00	700,000.00	66,500,000.00
Bonds payables	0.00	400,000,000.00	0.00	0.00	400,000,000.00
Sub total:	2,566,344,081.87	465,800,000.00	0.00	700,000.00	3,032,844,081.87

**2. Transfer of financial assets****Transferred financial assets that are derecognized but still related to the transferor**

For the year, the Company discounted RMB142,394,750 bank acceptance bills (RMB174,194,850 in 2014). As the main risks (such as interest risks) related to these bank acceptance bills were transferred to the bank, the Company derecognized the undue bank acceptance bills that had been discounted. According to the discount agreement, if such bills are not accepted when due, the bank is entitled to request the Company to honor the unsettled amount. As such, the Company is still involved in discounted bank acceptance bills. On 31 December 2015, the Company has discounted undue bank acceptance bills RMB63,372,820 (31 December 2014: RMB99,753,280).



**X. DISCLOSURE OF FAIR VALUE****1. Assets and liabilities measured at fair value**

Amount denominated: RMB '000

	Fair value at the beginning of the year Measured at fair value level I	Fair value changes in profit or loss for the year	Accumulated fair value changes in equity	Impairment during the year	Fair value at the year end Measured at fair value level I
I. Continuous fair value measurement					
(I) Financial assets measured at fair value, with the change in fair value included in the profit or loss for the year	6,423.57	-182.34	0.00	0.00	6,589.23
1 Financial assets held for trading	6,423.57	-182.34	0.00	0.00	6,589.23
(1) debt instrument investments	0.00	0.00	0.00	0.00	0.00
(2) equity instrument investments	6,423.57	-182.34	0.00	0.00	6,589.23
(3) derivative financial assets	0.00	0.00	0.00	0.00	0.00
2. Financial assets measured designated at fair value, with the change in fair value included in the profit or loss for the year	0.00	0.00	0.00	0.00	0.00
(II) Available-for-sale financial assets	59,149.66	0.00	31,475.90	61,832.39	38,926.78
(1) debt instrument investments	0.00	0.00	0.00	0.00	0.00
(2) equity instrument investments	59,149.66	0.00	31,475.90	61,832.39	38,926.78
(3) Others	0.00	0.00	0.00	0.00	0.00
(III) Total liabilities continuously measured at fair value	0.00	0.00	0.00	0.00	0.00
II. Non-continuous fair value measurement					
(I) Held-for-sale Assets	0.00	0.00	0.00	0.00	0.00
Total assets non-continuously measured at fair value	0.00	0.00	0.00	0.00	0.00
Total liabilities non-continuously measured at fair value	0.00	0.00	0.00	0.00	0.00

**2. Basis of market price for cases continuously measured at fair value level I**

By the closing price of the closed market for the last day of dealings in the year.

**3. Fairs value of financial assets and liabilities not measured at fair value**

Nil

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

**XI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS****1. Status of parent company of the Company**

Name of parent company	Related party relationship	Type of entity	Place of incorporation	Legal representative	Nature of business
Joincare Pharmaceutical Industry Group Co., Ltd. (健康元藥業集團股份有限公司)	Controlling shareholder	Joint stock companies with Limited liabilities (listed)	Shenzhen	Zhu Baoguo	Production of oral liquid, drugs and healthcare food
Name of parent company	Registered capital	Percentage of the Company's shareholding held by the parent company (%)	Percentage of the Company's voting rights held by the parent company (%)	The ultimate controlling party of the Company	Unified Social Credit Code
Joincare Pharmaceutical Industry Group Co., Ltd. (健康元藥業集團股份有限公司)	1,587,029,292	25.39	25.39	Zhu Baoguo	91440300618874367T

**Notes to the parent company of the Company**

As of 31 December 2015, the Company's parent company and its subsidiaries held a total of 182,159,367 shares in the Company, representing 45.90% of the total share capital of the Company. Among the shares of the Company held by Joincare Pharmaceutical Industry Group Co., Ltd. (健康元藥業集團股份有限公司), of which 7,877,256 legal person shares were held in the name of Guangzhou Begol Trading Corporation (廣州保科力貿易公司) and the transfer procedures for these shares were not completed. The transfer procedures for other shares were completed.

**2. The Company's subsidiaries**

Please refer to note VIII.1. Interests the Company's subsidiaries.

**3. Joint ventures and associates of the Company**

Please refer to note VIII.3 Interests in joint ventures and associates.

**4. Other related parties of the Company**

Name of other related parties	Relationship with the Company	Organisation code/ Unified Social Credit Code
Shenzhen Haibin Pharmaceutical Co., Ltd. (深圳市海濱製藥有限公司)	A company controlled by the holding company of the Company	61885517-4
Xinxiang Haibin Pharmaceutical Co., Ltd. (新鄉海濱藥業有限公司)	A company controlled by the holding company of the Company	76489454-2
Jiaozuo Joincare Pharmaceutical Industry Group Co., Ltd. (焦作健康元生物製品有限公司)	A company controlled by the holding company of the Company	77512952-0
Zhuhai Joincare Pharmaceutical Co., Ltd. (珠海健康元生物醫藥有限公司)	A company controlled by the holding company of the Company	75788087-1
Health Pharmaceutical (China) Co., Ltd. (健康藥業(中國)有限公司)	A company controlled by the holding company of the Company	61749891-0
Shenzhen Taitai Pharmaceutical Co., Ltd. (深圳太太藥業有限公司)	A company controlled by the holding company of the Company	91440300741217151R
Shenzhen Taitai Gene Engineering Co., Ltd. (深圳太太基因工程有限公司)	A company controlled by the holding company of the Company	73308333-3
Topsino Industries Limited (天誠實業有限公司)	A company controlled by the holding company of the Company	
Guangzhou Joincare Respiratory Drugs Engineering Technology Co., Ltd. (廣州健康元呼吸藥物工程技術有限公司)	A company controlled by the holding company of the Company	34751653-2
EPIRUS SWITZERLAND GmbH	A subsidiary of the company in which Directors are holding position	

**XI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS** (continued)**5. Related party transactions****(1) Related party transactions relating to purchase of goods/receipt of services**

Related party	Related party transaction description	Pricing basis and decision making procedures of the related party transactions	For the year		For the previous year	
			Amount	Percentage of similar transactions (%)	Amount	Percentage of similar transactions (%)
Guangdong Blue Treasure Pharmaceutical Co. Ltd. (廣東藍寶製藥有限公司)	Raw materials	The market price	588,124.79	0.03	515,449.50	0.03
Shenzhen Haibin Pharmaceutical Co., Ltd. (深圳市海濱製藥有限公司)	Raw materials	The market price	27,566,307.86	1.52	12,269,846.16	0.77
Xinxiang Haibin Pharmaceutical Co., Ltd. (新鄉海濱藥業有限公司)	Raw materials	The market price	0.00	0.00	262,478.63	0.02
Shenzhen Taitai Gene Engineering Co., Ltd. (深圳太太基因工程有限公司)	Low-valued consumables	The market price	8,547.01	0.00	42,735.04	0.00
Health Pharmaceutical (China) Co., Ltd. (健康藥業(中國)有限公司)	Raw materials	The market price	139,474.36	0.01	248,292.31	0.02
Joincare Pharmaceutical Industry Group Co., Ltd. (健康元藥業集團股份有限公司)	Finished Product	The market Price	37,974.62	0.00	0.00	0.00
Shenzhen Taitai Pharmaceutical Co., Ltd. (深圳太太藥業有限公司)	Raw Materials	The market Price	14,918.80	0.00	0.00	0.00
Jiaozuo Joincare Pharmaceutical Industry Group Co., Ltd. (焦作健康元生物製品有限公司)	Raw materials	The market price	266,408,030.77	14.71	224,993,163.26	14.11
Total Purchased Products			294,763,378.21	16.27	238,331,964.90	14.95
Joincare Pharmaceutical Industry Group Co., Ltd. (焦作健康元生物製品有限公司)	Water and Power	The market Price	1,341,939.39	0.53	0.00	0.00
Total Services Received			1,341,939.39	0.53	0.00	0.00

**(2) Related party transactions relating to sales of goods/provision of services**

Related party	Related party transaction description	Pricing principles and decision making procedures of the related party transactions	For the year		For the previous year	
			Amount	Percentage of similar transactions (%)	Amount	Percentage of similar transactions (%)
Zhuhai Joincare Pharmaceutical Co., Ltd. (珠海健康元生物醫藥有限公司)	Finished goods	The market price	7,433.69	0.00	14,910.95	0.00
Guangdong Blue Treasure Pharmaceutical Co. Ltd. (廣東藍寶製藥有限公司)	Finished goods	The market price	39,525,309.83	0.61	27,661,838.03	0.51
Jiaozuo Joincare Pharmaceutical Industry Group Co., Ltd. (焦作健康元生物製品有限公司)	Raw materials	The market price	0.00	0.00	121,163.09	0.00
Guangzhou Joincare Respiratory Drugs Engineering Technology Co., Ltd. (廣州健康元呼吸藥物工程技術有限公司)	Raw Materials	The market price	94,017.09	0.00	0.00	0.00
Sales of goods in aggregate			39,626,760.61	0.61	27,797,912.07	0.51
Guangdong Blue Treasure Pharmaceutical Co. Ltd. (廣東藍寶製藥有限公司)	Electricity and power	The market price	5,734,854.62	90.63	5,282,144.99	93.86
Zhuhai Joincare Pharmaceutical Co., Ltd. (珠海健康元生物醫藥有限公司)	Electricity and power	The market price	543,182.96	8.58	301,606.95	5.36
Provision of services in aggregate			6,278,037.58	99.21	5,583,751.94	99.22
Shenzhen Haibin Pharmaceutical Co., Ltd.	Processing Fee	The market price	1,510,810.08	56.06	0.00	0.00
Provision of services in aggregate			1,510,810.08	56.06	0.00	0.00

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

**XI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS** *(continued)***5. Related party transactions** *(continued)***(3) Related party leases***1 The Company as lessor*

Name of lessee	Class of leased assets	Lease income recognised for the year	Lease income recognised for the previous year
Zhuhai Joicare Pharmaceutical Co., Ltd. (珠海健康元生物醫藥有限公司)	Plant & buildings	361,820.65	528,082.06
Health Pharmaceutical (China) Co., Ltd. (健康藥業(中國)有限公司)	Plant & buildings	99,948.00	99,948.00

*2 The Company as lessee*

Name of lessor	Class of leased assets	Leasing expenses recognised for the year	Lease expenses recognised for the previous year
Joicare Pharmaceutical Industry Group Co., Ltd. (健康元藥業集團股份有限公司)	Plant & buildings	658,944.00	658,944.00
Jiaozuo Joicare Pharmaceutical Industry Group Co., Ltd. (焦作健康元生物製品有限公司)	Plant & buildings	36,000.00	42,000.00

**(4) Asset Transfer and Debt Arrangement of Connected Parties**

Connect Party	Content of Connected Transaction	This Year	Last Year
Jiaozuo Joicare Pharmaceutical Industry Group Co., Ltd. (焦作健康元生物製品有限公司)	Sales of Equipment	6,885,299.14	0.00
Jiaozuo Joicare Pharmaceutical Industry Group Co., Ltd. (焦作健康元生物製品有限公司)	Sales of Equipment	2,607,934.77	0.00

**(5) Related party guarantees**

During the reporting period, the details on the bank loans of subsidiaries guaranteed by the Company were set out as follow (RMB0000):

Name of guaranteed party	Actual date of event (Signing date of the Agreement)	Balances at the end of the year	Actual guaranteed amount	Guaranteed amount	Type of guarantee	Period of guarantee
Zhuhai Livzon Diagnostic Reagents Inc. (珠海麗珠試劑股份有限公司)	11/9/2015	0.00	0.00	4,000.00	Joint obligation guarantee	4/8/2015 – 3/8/2016 Bank of China, Zhuhai Branch (中國銀行珠海分行)
Zhuhai Livzon Diagnostic Reagents Inc. (珠海麗珠試劑股份有限公司)	31/12/2014	0.00	0.00	2,597.44 (USD400.00)	Joint obligation guarantee	31/12/2014 – 31/12/2015 Standard Chartered Bank, Zhuhai Branch (渣打銀行 珠海分行)



**XI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS** *(continued)***5. Related party transactions** *(continued)***(5) Related party guarantees** *(continued)*

Name of guaranteed party	Actual date of event (Signing date of the Agreement)	Balances at the end of the year	Actual guaranteed amount	Guaranteed amount	Type of guarantee	Period of guarantee
Zhuhai Livzon Pharmaceutical Trade Co., Ltd. (珠海麗珠醫藥貿易有限公司)	12/12/2014	0.00	0.00	1,000.00	Joint obligation guarantee	12/12/2014 – 12/12/2015 Bank of Communication, Zhuhai Branch (交通銀行 珠海分行)
Livzon Group Livzon Pharmaceutical Factory (麗珠集團麗珠製藥廠)	29/4/2015	0.00	0.00	20,000.00	Joint obligation guarantee	29/4/2015 – 29/4/2016 China Agricultural Bank, Zhuhai Branch (農業銀行 珠海分行)
Livzon Group Livzon Pharmaceutical Factory (麗珠集團麗珠製藥廠)	12/12/2014	0.00	0.00	9,000.00	Joint obligation guarantee	2014.12.12-2015.12.12 Bank of Communication, Zhuhai Branch (交通銀行 珠海分行)
Livzon Group Livzon Pharmaceutical Factory (麗珠集團麗珠製藥廠)	6/7/2015	0.00	0.00	12,000.00	Joint obligation guarantee	2015.7.6-2016.7.2 Industrial and Commercial Bank of China, Zhuhai Branch (工 商銀行珠海分行)
Livzon Group Livzon Pharmaceutical Factory (麗珠集團麗珠製藥廠)	4/8/2015	0.00	0.00	10,000.00	Joint obligation guarantee	2015.8.4-2016.8.3 Bank of China, Zhuhai Branch (中 國銀行珠海分行)
Livzon Group Livzon Pharmaceutical Factory (麗珠集團麗珠製藥廠)	24/6/2014	0.00	0.00	37,000.00	Joint obligation guarantee	2014.6.24-2016.6.24 China Resources Bank, Zhuhai Branch (華潤銀行珠海分 行)
Livzon Group Livzon Pharmaceutical Factory (麗珠集團麗珠製藥廠)	31/5/2015	0.00	13,140.00	40,000.00	Joint obligation guarantee	2015.5.31-2016.5.31 HSBC China/HSBC HK (滙豐中國 /滙豐香港)
Livzon Group Livzon Pharmaceutical Factory (麗珠集團麗珠製藥廠)	26/3/2015	0.00	0.00	16,000.00	Joint obligation guarantee	2015.3.26-2016.3.26 Xiamen International Bank, Zhuhai Branch (廈 門國際銀行珠海分行)
Livzon Group Livzon Pharmaceutical Factory (麗珠集團麗珠製藥廠)	15/12/2014	0.00	0.00	22,727.60 (USD3,500.00)	Joint obligation guarantee	2014.12.15-2015.11.24 Australia and New Zealand Banking, Singapore Branch (澳新銀行新加坡分行)
Livzon Group Livzon Pharmaceutical Factory (麗珠集團麗珠製藥廠)	31/12/2014	0.00	0.00	25,974.40 (USD4,000.00)	Joint obligation guarantee	2014.12.31-2015.12.31 Citibank, Shenzhen Branch (花旗銀行深圳分 行)
Total actual amount guaranteed for loans of subsidiaries during the reporting period				13,140.00		
Balance of total amount guaranteed for loans of subsidiaries during the end of the reporting period				0.00		

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

**XI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS** *(continued)***5. Related party transactions** *(continued)***(6) Remuneration of key management personnel**1 *Directors', supervisors' and senior management's remuneration disclosed as follows***2015**

Unit: RMB'0,000

	Fees	Salaries, allowances and benefits in kind	Social insurance, pensions and others	Total in 2015
<b>Directors:</b>				
Zhu Baoguo (朱保國)	9.00	0.00	0.00	9.00
Tao Desheng (陶德勝)	7.20	98.25	11.67	117.12
Yang Daihong (楊代宏)	7.20	88.93	11.53	107.66
Fu Daotian (傅道田)	7.20	96.46	3.79	107.45
Qiu Qingfeng (邱慶豐)	7.20	0.00	0.00	7.20
Zhong Shan (鐘山)	7.20	0.00	0.00	7.20
<b>Independent Directors:</b>				
Xu Yanjun (徐焱軍)	9.60	0.00	0.00	9.60
Guo Guoqing (郭國慶)	9.60	0.00	0.00	9.60
Wang Xiaojun (王小軍)	9.60	0.00	0.00	9.60
Zhong Zhuhun (鄭志華)	4.80	0.00	0.00	4.80
Xie Yun (謝耘)	4.80	0.00	0.00	4.80
Yang Bin (楊斌)	4.80	0.00	0.00	4.80
Yu Xiong (俞雄)	1.60	0.00	0.00	1.60
<b>Supervisors:</b>				
Wang Maolin (汪卯林)	4.20	40.87	8.37	53.44
Yuan Huasheng (袁華生)	3.30	0.00	0.00	3.30
Huang Huamin (黃華敏)	3.60	0.00	0.00	3.60
<b>Other senior management:</b>				
Xu Guoxiang (徐國祥)	0.00	97.68	12.05	109.73
Lu Wenqi (陸文岐)	0.00	90.67	5.49	96.16
Si Yanxia (司燕霞)	0.00	70.86	9.44	80.30
Yang Liang (楊亮)	0.00	30.68	7.40	38.08
<b>Total</b>	<b>100.90</b>	<b>614.40</b>	<b>69.74</b>	<b>785.04</b>

Mr. Zheng Zhihua (鄭志華) and Mr. Xie Yun (謝耘) were appointed on 26 June 2015.

Mr. Yu Xiong (俞雄) resigned on 27 February 2015; Mr. Yang Bin retired on 26 June 2015.

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

**XI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS** (continued)**5. Related party transactions** (continued)**(5) Remuneration of key management personnel** (continued)

1 Directors', supervisors' and senior management's remuneration disclosed as follows (continued)

2014

Unit: RMB'0,000

	Fees	Salaries, allowances and benefits in kind	Social insurance, pensions and others	Total in 2014
<b>Directors:</b>				
Zhu Baoguo (朱保國)	9.00	0.00	0.00	9.00
Liu Guangxia (劉廣霞)	4.80	0.00	0.00	4.80
Tao Desheng (陶德勝)	7.20	79.06	10.45	96.71
Fu Daotian (傅道田)	3.60	58.93	3.57	66.10
Yang Daihong (楊代宏)	1.20	75.06	10.36	86.62
Qiu Qingfeng (邱慶豐)	7.20	0.00	0.00	7.20
Zhong Shan (鐘山)	7.20	0.00	0.00	7.20
An Ning (安寧)	1.28	9.48	2.70	13.46
<b>Independent Directors:</b>				
Luo Xiaosong (羅曉松)	4.80	0.00	0.00	4.80
Yang Bin (楊斌)	9.60	0.00	0.00	9.60
Guo Guoqing (郭國慶)	9.60	0.00	0.00	9.60
Wang Xiaojun (王小軍)	9.60	0.00	0.00	9.60
Yu Xiong (俞雄)	9.60	0.00	0.00	9.60
Xu Yanjun (徐焱軍)	4.80	0.00	0.00	4.80
<b>Supervisors:</b>				
Wang Maolin (汪卯林)	3.90	29.48	7.20	40.58
Yuan Huasheng (袁華生)	3.90	0.00	0.00	3.90
Huang Huamin (黃華敏)	3.60	0.00	0.00	3.60
<b>Other senior management:</b>				
Xu Guoxiang (徐國祥)	0.00	80.58	10.84	91.42
Lu Wenqi (陸文岐)	0.00	76.67	5.49	82.16
Si Yanxia (司燕霞)	0.00	52.94	8.52	61.46
Li Rucai (李如才)	0.00	32.76	7.18	39.94
Yang Liang (楊亮)	0.00	23.29	6.30	29.59
<b>Total</b>	<b>100.88</b>	<b>518.25</b>	<b>72.61</b>	<b>691.74</b>

Mr. Yang Liang (楊亮先生) was appointed on 24 June 2014; Mr. Fu Daotian (傅道田先生), Mr. Xu Yanjun (徐焱軍先生) and Ms. Si Yanxia (司燕霞女士) were appointed on 30 June 2014; Mr. Yang Daihong (楊代宏先生) was appointed on 24 October 2014.

Mr. An Ning (安寧先生) resigned on 5 March 2014; Mr. Li Rucai (李如才先生) resigned on 24 June 2014; Mr. Luo Xiaosong (羅曉松先生) resigned on 30 June 2014; Ms. Liu Guangxia resigned on 21 August 2014.

During the reporting period, no remuneration was paid by the Company to any director and supervisor as an inducement to join or upon joining the Company or as compensation for loss of office. There was no arrangement under which any director and supervisor waived any remuneration.

**XI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS** *(continued)***5. Related party transactions** *(continued)***(6) Remuneration of key management personnel** *(continued)**2 Individuals with highest emoluments*

The emoluments of three and three of the five highest paid individuals were directors of the Company for the year 2014 and 2015, respectively. The rest were senior management of the company (two and two for the year 2014 and 2015, respectively). Their remuneration were already disclosed in note. XI 5(6) "Remuneration of key management personnel".

**(7) Other affiliated transactions**

On 15 May 2014, it was resolved in the general meeting of Livzon MABPharm Inc. (珠海市麗珠單抗生物技術有限公司) that its registered capital would be increased to RMB500 million. The initial increased capital of RMB100 million was paid on 27 May 2014. The second installment of increased capital of RMB100 million was paid by the Company (contributing RMB51 million) and Joicare Pharmaceutical Industry Group Co., Ltd. (健康元藥業集團股份有限公司) (contributing RMB49 million) respectively on 1 December 2015, with the original contribution ratio unchanged.

In accordance with the New Collaboration Compound Supplement to the Collaboration Agreement by and between Epirus Switzerland GmbH and Livzon Mabpharm Inc. (Epirus瑞士有限公司—珠海市麗珠單抗生物技術有限公司新合作化合物的補充合作協議), both parties cooperate on the clinical research and commercialization of a new biosimilar compound which may be used as immunosuppressive for treatment of Rheumatoid arthritis, Polyarthritis and Idiopathic Arthritis. Epirus will pay to Livzon Mabpharm Inc. a total of USD4.5 million as pre-clinical development funding. This year, USD1.5 million has been received.

**6. Amounts due from/to related parties****(1) Amounts due from related parties and prepayments**

Item	Related parties	Balance at the year end		Balance at the beginning of the year	
		Balance	Provision for bad debts	Gross amount	Provision for bad debts
Accounts receivables	Guangdong Blue Treasure Pharmaceutical Co. Ltd. (廣東藍寶製藥有限公司)	17,410,000.00	870,500.00	10,676,640.00	533,832.00
Accounts receivables	Zhuhai Joicare Pharmaceutical Co., Ltd. (珠海健康元生物醫藥有限公司)	75,483.35	3,774.17	16,079.67	803.98
Sub-total		17,485,483.35	874,274.17	10,692,719.67	534,635.98
Other receivables	Zhuhai Joicare Pharmaceutical Co., Ltd. (珠海健康元生物醫藥有限公司)	33,134.76	1,656.73	30,287.80	1,514.39
Other receivables	Health Pharmaceutical (China) Co., Ltd. (健康藥業(中國)有限公司)	8,329.00	416.45	8,329.00	416.45
Other receivables	Shenzhen Haibin Pharmaceutical Co., Ltd. (深圳市海濱製藥有限公司)	489,659.30	24,482.97	0.00	0.00
Other receivables	Jiaozuo Joicare Pharmaceutical Industry Group Co., Ltd. (焦作健康元生物製品有限公司)	0.00	0.00	50,005.81	3,000.35
Other receivables	Guangdong Blue Treasure Pharmaceutical Co. Ltd. (廣東藍寶製藥有限公司)	1,167,760.25	58,388.01	876,332.29	43,816.61
Sub-total		1,698,883.31	84,944.16	964,954.90	48,747.80



**XI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS** *(continued)***6. Amounts due from/to related parties** *(continued)***(2) Amounts due to related parties and receipts in advance**

Name of item	Related parties	Balance at the year end	Balance at the beginning of the year
Payables	Guangdong Blue Treasure Pharmaceutical Co. Ltd. (廣東藍寶製藥有限公司)	65,656.41	44,132.00
Payables	Shenzhen Taitai Gene Engineering Co., Ltd. (深圳太太基因工程有限公司)	0.00	5,000.00
Payables	Shenzhen Haibin Pharmaceutical Co., Ltd. (深圳市海濱製藥有限公司)	6,018,360.00	0.00
Payables	Health Pharmaceutical (China) Co., Ltd. (健康藥業(中國)有限公司)	0.00	55,530.00
Payables	Jiaozuo Joincare Pharmaceutical Industry Group Co., Ltd. (焦作健康元生物製品有限公司)	119,277,932.00	84,243,191.79
Sub total		125,361,948.41	84,347,853.79
Other payables	Jiaozuo Joincare Pharmaceutical Industry Group Co., Ltd. (焦作健康元生物製品有限公司)	712,335.59	54,482.17
Other payables	EPIRUS SWITZERLAND GmbH	9,495,450.00	0.00
Sub total		10,207,785.59	54,482.17
Dividend payables	Topsino Industries Limited (天誠實業有限公司)	0.00	2,517,344.66
Sub total		0.00	2,517,344.66

**XII. SHARE PAYMENT****1. General Information of Share payment**

Item	Relevant Content
Total equity instruments granted during the current period by the Company (share)	9,946,100
Total equity instruments exercised during the current period by the Company (share)	—
Total equity instruments of the Company expired during the period (share)	93,080
Range of exercise price of share option of the Company outstanding and remaining term of contract as the End of the Period	—
Range of exercise price of other equity instruments of the Company and remaining term of contract as at the End of the Period	—

Pursuant to "Livzon Pharmaceutical Group Inc. Restricted Shares Incentive Scheme (Revised Draft)" and its summary considered and approved by the 2015 First Extraordinary Shareholders' Meeting of the Company and the resolution of the 8th meeting (27 March 2015) of the 8th session of the board of directors, the Company first granted 8,660,400 Restricted Shares to 458 Incentive Participants at the price of RMB25.20 per share with 27 March 2015 as the date of grant. The Restricted Shares under the first grant were listed on 14 April 2015.

The 16th meeting (27 October 2015) of the 8th session of the board of directors of the Company passed the Proposal on Repurchase and Deregistration of the Authorized Restricted Shares Not Yet Unlocked whose Incentive Participants Are No Longer Qualified, the Company has repurchased 93,080 shares at the price of RMB19.308 per share.

Pursuant to the 18th meeting of the 8th session of the board of directors of the Company which passed the Proposal on Matters Related to Granting Reserved Restricted Shares to Incentive Participants, the Company granted 1,285,700 Restricted Shares to 177 Incentive Participants at the price of RMB24.61 per share with 12 November 2015 as the date of grant. The Restricted Shares under this grant were listed on 31 December 2015.

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

**XII. SHARE PAYMENT** *(continued)***2. Equity settled share-based payments**

Item	Relevant Content
Determination on Fair Value of Equity Instruments as the Date of Grant	Black-Scholes Model
Basis for Determining Quantity of Exercisable Equity Instruments	—
Reasons for Significant Discrepancies Between Estimate of Current and Previous Year	Nil
Accumulated Amount of Shares Settled in Equity Included in Capital Reserve	36,089,000.00
Total Expense Recognized for Equity Settled Share-Based Payments for this Year	36,089,000.00

**3. Cash settled share-based payments**

Nil

**XIII. COMMITMENTS AND CONTINGENCIES****1. Significant commitments****(1) Capital commitments**

Item	Balance at the year end	Balance at the beginning of the year
Contracted but not recognised in the financial statements		
– Commitments in relation to acquisition of long-term assets	<b>51,405,931.81</b>	218,289,661.35
Total	<b>51,405,931.81</b>	218,289,661.35

**(2) Operating lease commitments**

As at the balance sheet date, the Company signed the non-cancellable operating leases as follows:

Item	Balance at the year end	Balance at the beginning of the year
Minimum lease payments under non-cancellable operating leases payable:		
Within 1 year	<b>5,332,489.64</b>	4,709,290.11
1 to 2 years	<b>3,354,957.20</b>	1,302,476.40
2 to 3 years	<b>836,378.00</b>	736,556.20
Over 3 years	<b>699,873.00</b>	1,357,725.00
Total	<b>10,223,697.84</b>	8,106,047.71

**XIII. COMMITMENTS AND CONTINGENCIES** *(continued)***1. Significant commitments** *(continued)***(3) Other commitments**

In 2005, the Company entered into a licencing and supply agreement with LG Life Science Ltd. of Korea (hereinafter referred to as "LG Life Science") regarding the relevant licence on the intellectual property rights of Gemifloxacin Mesylate, payment for the licences of injection and tablets for mesylate gemifloxacin at USD1 million each. As at 31 December 2006, such amounts were settled in full. It was provided in the agreement that:

Within the first five business years upon the agreement became effective, if the net sales volume of the above tablet products of the Company reached 1,500,000 packets (3 tablets in each packet), LG Life Science shall pay a rebate to the Company of USD500,000 (net of tax) within two months after the Company submitted its net sales certificate to LG Life Science. At the same time, within the valid period of the agreement (as of the end of 2015), the Company shall pay licence fee to LG Life Science of 1.5% on the net sales amount (net of tax) within 30 days after the end of each quarter. Licence fee was paid according to the provisions of the agreement since the sales began in 2008.

Within the first five business years upon the agreement became effective, the Company shall pay licence fee of the above injection products to LG Life Science of 10% on the net sales amount (net of tax) within 30 days after the end of each quarter. From the sixth business year until the expiry of the agreement (as of the end of 2019), the Company shall pay licence fee to LG Life Science of 6% on the net sales amount (net of tax) within 30 days after the end of each quarter.

In September 2015, the aforesaid agreement is terminated upon friendly consultation of both sides.

**(4) Performance of previous commitments**

The Company has duly performed the capital expenditure commitments and the operating lease commitments dated as at 31 December 2014 and the other commitments.

**2. Contingencies**

As at the date of the balance sheet, there was no significant contingencies that required to be disclosed by the Company.

#### XIV. POST BALANCE SHEET DATE EVENTS

1. On 24 March 2016, the Company held the 22nd Meeting of the 8th Board and passed the resolution of 2015 annual profit distribution plan, under which the parent's undistributed profit available for distribution to shareholders in 2015 was RMB745,885,809.84 with reference to the net profit of RMB331,380,673.90 realised by the parent in 2015 less the statutory reserve fund of RMB33,138,067.39 set aside at 10% as per applicable regulations, plus the opening undistributed profit of RMB478,081,428.53 and further minus the dividends of RMB30,438,225.20 paid under 2014 annual profit distribution plan.

Considering the capital demands due to its operations, the Board proposed the 2015 profit distribution plan for the Company: based on the Company's total share capital of 396,889,547 shares as at the end of the year to distribute a cash dividend of RMB5 for every 10 shares held to all the shareholders of the Company. It is expected that the Company will pay RMB198,444,773.5 on profit distribution. The remaining undistributed profit is to be carried forward to the next year. No distribution of shares and no transfer of capital reserve into share capital will be undertaken by the Company for the year.

The above mentioned profit distribution plan shall be submitted to the annual general meeting of 2015 for examination and approval.

2. On 28 January 2016, Livzon MABPharm Inc. and AbCyte Therapeutics Inc. ("AbCyte Company") have entered into an Investment Framework Agreement (the "Framework Agreement"). Pursuant to the Framework Agreement, Livzon MABPharm Inc. invests USD3 million to subscribe 30,000,000 Series A Preferred Shares issued by AbCyte Company, which constitute 40% of all issued shares of AbCyte Company. As of the Reporting Date, Livzon MABPharm Inc. has paid USD3 million for investment.
3. On 22 February 2016, Zhuhai Livzon Diagnostic Reagents Inc. (珠海麗珠試劑股份有限公司) and Cynvenio Biosystems, Inc. have entered into a Joint Venture Contract of Zhuhai Livzon Shengmei Medical Diagnosis Technology Co. Ltd. (珠海麗珠聖美醫療診斷技術有限公司). The registered capital of the joint venture company amounts to RMB103,333,333, among which Zhuhai Livzon Diagnostic Reagents Inc. contributes RMB62 million in cash, constituting 60% of the registered capital, and Cynvenio Biosystems, Inc. contributes RMB41,333,333 by means of intellectual properties (converted into price upon assessment) such as LiquidBiopsy patent and relevant franchised technologies, constituting 40% of the registered capital.

As at the date of this report, there is no other non-adjusting post balance sheet event that should be disclosed by the Company.



## XV. OTHER SIGNIFICANT MATTERS

The seventeenth meeting of the eighth session of the board of directors of the Company and the third Extraordinary Shareholders' Meeting in 2015 passed the proposal on matters related to non-public issuance of A shares of the Company. Pursuant to proposals such as the Proposal on Plan of Non-public Issuance of A shares of the Company and Proposal on Contingency Plan of Non-public Issuance of A Shares of the Company, the total amount of fund proposed to be raised from this non-public issuance of A shares of the Company does not exceed RMB1,457,820,000 and the issuance price of shares is no less than 90% of the average price of shares of the Company for the 20 transaction days prior to the base day for pricing (22 December 2015), i.e. no less than RMB45.03 per share. The Company proposes to issue to no more than 10 particular participants A shares for a limit not exceeding the limit of fund raised for this issuance divided by the minimum subscription price, i.e. not exceeding 32,374,417 (inclusive). Between the base day for pricing and the issuance date, if the Company's share capital changes due to dividend distribution, bonus shares, conversion of capital reserve into share capital or other ex-rights or ex-dividends event, the maximum number of A shares to be issued will be adjusted accordingly.

As at the date of the balance sheet, saved as disclosed above, there is no other major events to be disclosed by the Company.

## XVI. NET CURRENT ASSETS AND TOTAL ASSETS LESS CURRENT LIABILITIES

### 1. Net current assets

Item	Balance at the year end	Balance at the beginning of the year
Current assets	3,577,884,291.76	3,165,882,214.19
Less: Current liabilities	3,154,940,003.11	2,669,170,450.88
Net current assets	422,944,288.65	496,711,763.31

### 2. Total assets less current liabilities

Item	Balance at the year end	Balance at the beginning of the year
Total assets	8,077,537,790.41	7,302,605,055.90
Less: Current liabilities	3,154,940,003.11	2,669,170,450.88
Total assets less current liabilities	4,922,597,787.30	4,633,434,605.02

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

## XVII. NOTES TO THE KEY COMPONENTS OF PARENT COMPANY FINANCIAL STATEMENTS

### 1. Accounts receivables

#### (1) Accounts receivables presented by types

Type	Balance at the year end				
	Balance		Provision for bad debts		Carrying value
	Amount	Percentage (%)	Amount	Percentage (%)	
Accounts receivables that are individually significant and impairment provided on an individual basis	0.00	0.00	0.00	0.00	0.00
Accounts receivables assessed for impairment collectively	699,156,636.77	100.00	36,637,642.23	5.24	662,518,994.54
Accounts receivables that are individually insignificant but impairment provided on an individual basis	0.00	0.00	0.00	0.00	0.00
Total	699,156,636.77	100.00	36,637,642.23	5.24	662,518,994.54

Type	Balance at the beginning of the year				
	Balance		Provision for bad debts		Carrying value
	Amount	Percentage (%)	Amount	Percentage (%)	
Accounts receivables that are individually significant and impairment provided on an individual basis	0.00	0.00	0.00	0.00	0.00
Accounts receivables assessed for impairment collectively	626,400,204.46	100.00	32,914,877.50	5.25	593,485,326.96
Accounts receivables that are individually insignificant but impairment provided on an individual basis	0.00	0.00	0.00	0.00	0.00
Total	626,400,204.46	100.00	32,914,877.50	5.25	593,485,326.96

## XVII. NOTES TO THE KEY COMPONENTS OF PARENT COMPANY FINANCIAL STATEMENTS *(continued)*

### 1. Accounts receivables *(continued)*

#### (1) Accounts receivables presented by types *(continued)*

Accounts receivables for which provisions for bad debts has been made using the ageing analysis method in the portfolio

Ageing	Balance at the year end		
	Amount	Provision for bad debts	Provision Percentage (%)
Within 1 year	689,830,740.49	34,491,537.03	5.00
1 to 2 years	5,800,179.71	348,010.78	6.00
2 to 3 years	1,793,246.03	358,649.21	20.00
3 to 4 years	729,159.16	510,411.41	70.00
4 to 5 years	742,775.80	668,498.22	90.00
Over 5 years	260,535.58	260,535.58	100.00
Total	699,156,636.77	36,637,642.23	

- (2) Provisions for bad debts made for the year was RMB4,885,986.24; no provision for bad debts was recovered or reversed.

#### (3) Receivables written off during the year

Item	Amount written-off
Accounts receivables actually written off	1,163,221.51

In which: Important written-off receivables

Name of Unit	Nature of accounts receivables	Amount written off	Reason for written off	Procedure of written off taken place at	Related party transactions
國藥控股韶關有限公司	Sales of goods	380,620.90	Not recoverable	the 7th Meeting for the 8th Board of the Company	No
濟南萬禾醫藥有限公司	Sales of goods	199,000.00	Not recoverable		No
Total		579,620.90			

- (4) The total of account receivables with five largest amount by creditors was RMB72,470,335.27, or 10.37% of the total account receivables by the year end, total provision for bad debts by the year end was RMB3,623,516.77.
- (5) The Company has no derecognized receivables out of transfer of financial assets.
- (6) The Company has no assets or liabilities formed by its continuous involvement of transferring receivables.

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

**XVII. NOTES TO THE KEY COMPONENTS OF PARENT COMPANY FINANCIAL STATEMENTS** *(continued)***2. Other receivables****(1) Other receivables presented by types**

Type	Balance at the year end				
	Balance		Provision for bad debts		Carrying value
	Amount	Percentage (%)	Amount	Percentage (%)	
Other receivables that are individually significant and impairment provided on an individual basis	0.00	0.00	0.00	0.00	0.00
Other receivables that are assessed for impairment collectively	18,935,070.08	1.19	6,355,029.48	33.56	12,580,040.60
Receivables from each company in the scope of combination	1,572,805,681.35	98.81	0.00	0.00	1,572,805,681.35
Other receivables that are individually insignificant but impairment provided on an individual basis	0.00	0.00	0.00	0.00	0.00
<b>Total</b>	<b>1,591,740,751.43</b>	<b>100.00</b>	<b>6,355,029.48</b>	<b>0.40</b>	<b>1,585,385,721.95</b>

Type	Balance at the beginning of the year				
	Balance		Provision for bad debts		Carrying value
	Amount	Percentage (%)	Amount	Percentage (%)	
Other receivables that are individually significant and impairment provided on an individual basis	0.00	0.00	0.00	0.00	0.00
Other receivables that are assessed for impairment collectively	16,447,123.60	1.11	6,048,304.49	36.77	10,398,819.11
Receivables from each company in the scope of combination	1,470,389,075.70	98.89	0.00	0.00	1,470,389,075.70
Other receivables that are individually insignificant but impairment provided on an individual basis	0.00	0.00	0.00	0.00	0.00
<b>Total</b>	<b>1,486,836,199.30</b>	<b>100.00</b>	<b>6,048,304.49</b>	<b>0.41</b>	<b>1,480,787,894.81</b>



## XVII. NOTES TO THE KEY COMPONENTS OF PARENT COMPANY FINANCIAL STATEMENTS *(continued)*

### 2. Other receivables *(continued)*

#### (1) Other receivables presented by types *(continued)*

- 1 Other receivables for which provision for bad debts has been made using the ageing analysis method in the portfolio

Ageing	Balance at the year end		
	Amount	Provision for bad debts	Provision Percentage (%)
Within 1 year	11,446,025.05	572,301.25	5.00
1 to 2 years	1,647,016.66	98,821.01	6.00
2 to 3 years	113,231.56	22,646.31	20.00
3 to 4 years	197,383.00	138,168.10	70.00
4 to 5 years	83,210.00	74,889.00	90.00
Over 5 years	5,448,203.81	5,448,203.81	100.00
Total	18,935,070.08	6,355,029.48	

- 2 Receivables from each company in the scope of combination

Other receivables description	Carrying amount	Provision for bad debts	Percentage of provision (%)	Reason
Current account	1,572,805,681.35	0.00	0.00	The debtor is a subsidiary of the Company and no provision for bad debts.

- (2) Provisions for bad debts made for the year was RMB306,724.99; no provision for bad debts was recovered or reversed.
- (3) No other receivables were written off during the year.

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

**XVII. NOTES TO THE KEY COMPONENTS OF PARENT COMPANY FINANCIAL STATEMENTS** *(continued)***2. Other receivables** *(continued)***(4) Status of other receivables due from top five customers as at the year end**

Name of unit	Nature or description	Balance at the year end	Term	Proportion to total balance of other receivables at the year end (%)	Balance of provision for bad debts at the year end
Livzon Group Ningxia Xinbeijiang Pharmaceutical Manufacturing Co., Ltd. (麗珠集團寧夏新北江製藥有限公司)	Current account	617,982,364.29	Within 1 year	38.82	0.00
Livzon Group Ningxia Fuxing Pharmaceutical Manufacturing Co., Ltd. (麗珠集團寧夏福興製藥有限公司)	Current account	569,386,940.66	Within 1 year	35.77	0.00
Zhuhai FTZ Livzon Hecheng Pharmaceutical Manufacturing Co., Ltd. (珠海保稅區麗珠合成製藥有限公司)	Current account	166,910,648.72	Within 1 year	10.49	0.00
Ando Development Limited (安滔發展有限公司)	Current account	123,857,335.92	Within 1 year	7.78	0.00
Livzon Group Fuzhou Fuxing Pharmaceutical Co., Ltd. (麗珠集團福州福興醫藥有限公司)	Current account	20,379,177.13	Within 1 year	1.28	0.00
Total	—	1,498,516,466.72	—	94.14	0.00

**(5)** The Company has no derecognized other receivables out of transfer of financial assets.**(6)** The Company has no assets and liabilities formed by its continuous involvement of transferring other receivables.**3. Long-term equity investments****(1) Classification of long-term equity investments**

Item	Balance at the year end			Balance at the beginning of the year		
	Balance	Provision for impairment	Carrying amount	Gross amount	Provision for impairment	Carrying amount
Investments in subsidiaries	2,010,431,664.98	18,471,307.03	1,991,960,357.95	1,724,490,564.98	18,471,307.03	1,706,019,257.95
Investments in associates and joint ventures	35,382,019.56	1,200,000.00	34,182,019.56	9,593,753.92	1,200,000.00	8,393,753.92
Total	2,045,813,684.54	19,671,307.03	2,026,142,377.51	1,734,084,318.90	19,671,307.03	1,714,413,011.87

## XVII. NOTES TO THE KEY COMPONENTS OF PARENT COMPANY FINANCIAL STATEMENTS *(continued)*

### 3. Long-term equity investments *(continued)*

#### (2) Investment in subsidiaries

Investee	Balance at the beginning of the year	Increase during the year	Decrease during the year	Balance at the year end	Provision for impairment for the year	Balance of provision for impairment at the year end
Zhuhai Livzon Baimeing Biological Materials Co., Ltd. (珠海麗珠-拜阿蒙生物材料有限公司)	3,934,721.95	0.00	0.00	<b>3,934,721.95</b>	0.00	0.00
Zhuhai Livzon Meidaxin Technological Development Co., Ltd. (珠海市麗珠美達信技術開發有限公司)	800,000.00	0.00	0.00	<b>800,000.00</b>	0.00	0.00
Livzon Group Livzon Pharmaceutical Factory (麗珠集團麗珠製藥廠)	361,060,443.85	0.00	0.00	<b>361,060,443.85</b>	0.00	0.00
Sichuan Guangda Pharmaceutical Manufacturing Co., Ltd. (四川光大製藥有限公司)	170,872,457.35	0.00	0.00	<b>170,872,457.35</b>	0.00	0.00
Shanghai Livzon Pharmaceutical Manufacturing Co., Ltd. (上海麗珠製藥有限公司)	31,438,404.00	0.00	0.00	<b>31,438,404.00</b>	0.00	0.00
Zhuhai Modern Chinese Medicine High Technology Co., Ltd. (珠海現代中藥高科技有限公司)	4,539,975.00	0.00	0.00	<b>4,539,975.00</b>	0.00	0.00
Livzon Group Livzon Medical Research Centre (麗珠集團麗珠醫藥研究所)	6,004,000.00	0.00	0.00	<b>6,004,000.00</b>	0.00	0.00
Lizhu (Hong Kong) Co., Limited (麗珠(香港)有限公司)	64,770,100.01	0.00	0.00	<b>64,770,100.01</b>	0.00	0.00
Ando Development Limited (安滔發展有限公司)	534,050.00	0.00	0.00	<b>534,050.00</b>	0.00	0.00
Livzon Group Xinbeijiang Pharmaceutical Manufacturing Inc. (麗珠集團新北江製藥股份有限公司)	116,446,982.80	0.00	0.00	<b>116,446,982.80</b>	0.00	7,271,307.03
Zhuhai Livzon Diagnostic Reagents Inc. (珠海麗珠試劑股份有限公司)	2,896,800.00	0.00	0.00	<b>2,896,800.00</b>	0.00	0.00
Livzon Group Livzon Pharmaceutical Marketing Ltd. (麗珠集團麗珠醫藥行銷有限公司)	12,008,000.00	0.00	0.00	<b>12,008,000.00</b>	0.00	0.00

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

**XVII. NOTES TO THE KEY COMPONENTS OF PARENT COMPANY FINANCIAL STATEMENTS** *(continued)***3. Long-term equity investments** *(continued)***(2) Investment in subsidiaries** *(continued)*

Investee	Balance at the beginning of the year	Increase during the year	Decrease during the year	Balance at the year end	Provision for impairment for the year	Balance of provision for impairment at the year end
Livzon Group Limin Pharmaceutical Manufacturing Factory (麗珠集團利民製藥廠)	184,301,219.52	0.00	0.00	184,301,219.52	0.00	0.00
Zhuhai Livzon Pharmaceutical Trading Co., Ltd. (珠海市麗珠醫藥貿易有限公司)	40,020,000.00	0.00	0.00	40,020,000.00	0.00	0.00
Livzon Group Fuzhou Fuxing Pharmaceutical Co., Ltd. (麗珠集團福州福興醫藥有限公司)	280,769,410.50	0.00	0.00	280,769,410.50	0.00	11,200,000.00
Livzon MABPharm Inc. (珠海市麗珠單抗生物技術有限公司)	204,000,000.00	51,000,000.00	0.00	255,000,000.00	0.00	0.00
Livzon Group Vaccine Engineering Inc. (麗珠集團疫苗工程股份有限公司)	54,500,000.00	0.00	0.00	54,500,000.00	0.00	0.00
Livzon Group Ningxia Fuxing Pharmaceutical Manufacturing Co., Ltd. (麗珠集團寧夏福興製藥有限公司)	90,000,000.00	0.00	0.00	90,000,000.00	0.00	0.00
Livzon Group Ningxia Xinbeijiang Pharmaceutical Manufacturing Co., Ltd. (麗珠集團寧夏新北江製藥有限公司)	90,000,000.00	0.00	0.00	90,000,000.00	0.00	0.00
Wenshan Livzon Sanqi Plantation Co., Ltd. (文山麗珠三七種植有限公司)	4,694,000.00	0.00	0.00	4,694,000.00	0.00	0.00
Zhuhai Livzon Pharmaceutical Enterprise Management Co., Ltd. (珠海市麗珠醫藥企業管理有限公司)	900,000.00	234,941,100.00	0.00	235,841,100.00	0.00	0.00
Total	1,724,490,564.98	285,941,100.00	0.00	2,010,431,664.98	0.00	18,471,307.03



## XVII. NOTES TO THE KEY COMPONENTS OF PARENT COMPANY FINANCIAL STATEMENTS *(continued)*

### 3. Long-term equity investments *(continued)*

#### (3) Investment in associates and joint ventures *(continued)*

Investee	Balance at the beginning of the year	Change during the year				Other equity changes
		Investment acquired	Investment disposed of	Investment profit and loss on the equity method	Adjustment in other comprehensive income	
Associates						
Livzon Medical Electronic Equipment (Plant) Co., Ltd. (麗珠醫用電子設備(廠)有限公司)	1,200,000.00	0.00	0.00	0.00	0.00	0.00
Guangdong Blue Treasure Pharmaceutical Co. Ltd. (廣東藍寶製藥有限公司)	8,393,753.92	0.00	0.00	1,528,100.78	0.00	0.00
Jiangsu Nike Medical Equipment Co., Ltd. (江蘇尼科醫療器械有限公司)	0.00	25,000,000.00		-560,672.30	0.00	0.00
Shenzhen City Youbao Technology Co., Ltd (深圳市有寶科技有限公司)	0.00	0.00	0.00	-179,162.84	0.00	0.00
Total	9,593,753.92	25,000,000.00	0.00	788,265.64	0.00	0.00

Investee	Change during the year			Balance at the year end	Balance of provision for impairment at the year end
	Cash dividend or profit distribution announced	Impairment provision	Others		
Associates					
Livzon Medical Electronic Equipment (Plant) Co., Ltd. (麗珠醫用電子設備(廠)有限公司)	0.00	0.00	0.00	1,200,000.00	1,200,000.00
Guangdong Blue Treasure Pharmaceutical Co. Ltd. (廣東藍寶製藥有限公司)	0.00	0.00	0.00	9,921,854.70	0.00
Jiangsu Nike Medical Equipment Co., Ltd. (江蘇尼科醫療器械有限公司)	0.00	0.00	0.00	24,439,327.70	0.00
Shenzhen City Youbao Technology Co., Ltd (深圳市有寶科技有限公司)	0.00	0.00	0.00	-179,162.84	0.00
Total	0.00	0.00	0.00	35,382,019.56	1,200,000.00

### 4. Operating income and operating cost

Item	For the year		For the previous year	
	Income	Cost	Income	Cost
Principal activities	3,857,872,044.93	1,843,586,621.69	3,107,022,168.59	1,386,499,168.87
Other activities	1,422,344.60	52,871.71	1,856,336.59	96,333.52
Total	3,859,294,389.53	1,843,639,493.40	3,108,878,505.18	1,386,595,502.39

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

**XVII. NOTES TO THE KEY COMPONENTS OF PARENT COMPANY FINANCIAL STATEMENTS** *(continued)***5. Business taxes and surcharges**

<b>Item</b>	<b>For the year</b>	For the previous year
Urban maintenance and construction tax payable	<b>21,026,107.49</b>	18,166,531.96
Education surcharges payable	<b>14,991,760.53</b>	12,976,094.30
Flood prevention fee payable	<b>838,712.03</b>	688,480.73
Business Tax	<b>1,607,961.01</b>	0.00
<b>Total</b>	<b>38,464,541.06</b>	31,831,106.99

**6. Investment income**

<b>Item</b>	<b>For the year</b>	For the previous year
Long-term equity investments income under cost method	<b>20,310,000.00</b>	17,850,000.00
Long-term equity investments income under equity method	<b>788,265.64</b>	1,078,882.36
Investment income generated from disposal of long-term equity investments	<b>0.00</b>	-1,523,045.66
Investment income generated from financial assets measured at fair value, with the change in fair value included in the profit or loss for the year during its holding period	<b>0.00</b>	0.00
Investment income generated from disposal of financial assets measured at fair value, with the change in fair value included in the profit or loss for the year	<b>0.00</b>	0.00
Investment income generated from held-to-maturity investments during its holding period	<b>0.00</b>	0.00
Investment income generated from available-for-sale assets during its holding period	<b>427,984.28</b>	64,091.30
In which: investment income generated from available-for-sale financial assets measured at fair value during its holding period	<b>84,234.28</b>	64,091.30
Investment income generated from disposal of available-for-sale financial assets investments	<b>0.00</b>	3,364,181.22
When without control, income generated from revaluation of remaining equity measured at fair value	<b>0.00</b>	0.00
<b>Total</b>	<b>21,526,249.92</b>	20,834,109.22

## XVII. NOTES TO THE KEY COMPONENTS OF PARENT COMPANY FINANCIAL STATEMENTS *(continued)*

### 7. Supplemental information to income statement

Item	For the year	For the previous year
<b>(1) Reconciliation of net profit to cash flow from operating activities:</b>		
<b>Net profit</b>	<b>331,380,673.90</b>	122,755,373.01
Add: Provision for impairment of assets	<b>10,392,882.38</b>	386,925.46
Depreciation of fixed assets, amortisation of oil and gas assets, depreciation of productive biological assets biological assets	<b>15,688,817.06</b>	15,331,700.61
Amortisation of intangible assets	<b>11,852,001.23</b>	7,778,874.63
Amortisation of long-term expense	<b>60,000.00</b>	60,000.00
Losses on disposal of fixed assets, intangible assets and other long-term assets ("—" represents gains/income)	<b>-218,783,454.65</b>	-72,265.86
Losses on write-off of fixed assets	<b>0.00</b>	0.00
Losses from changes in fair value ("—" represents gains/income)	<b>0.00</b>	0.00
Financial expenses ("—" represents gains/income)	<b>-30,246,318.78</b>	-19,475,063.67
Investments losses ("—" represents gains/income)	<b>-21,526,249.92</b>	-20,834,109.22
Decrease in deferred tax assets ("—" represents increase)	<b>-9,449,943.00</b>	4,649,781.58
Increase in deferred tax liabilities ("—" represents decrease)	<b>472,734.92</b>	1,700,669.88
Decrease in inventories ("—" represents increase)	<b>-34,517,107.32</b>	-36,115,682.30
Decrease in trade receivables ("—" represents increase)	<b>-242,083,121.36</b>	-138,691,558.60
Increase in trade payables ("—" represents decrease)	<b>89,511,521.34</b>	459,315,802.63
Others	<b>36,089,000.00</b>	0.00
<b>Net cash flows from operating activities</b>	<b>-61,158,564.20</b>	396,790,448.15
<b>(2) Significant investing and financing activities not involving cash receipts and payment:</b>		
Liabilities converted into capital	<b>0.00</b>	0.00
Convertible bonds due within one year	<b>0.00</b>	0.00
Fixed assets acquired under finance leases	<b>0.00</b>	0.00
<b>(3) Net movement in cash and cash equivalents:</b>		
Cash at the end of the year	<b>677,465,238.87</b>	611,630,017.65
Less: Cash at the beginning of the year	<b>611,630,017.65</b>	605,176,378.73
Add: Cash equivalents at the end of the year	<b>0.00</b>	0.00
Less: Cash equivalents at the beginning of the year	<b>0.00</b>	0.00
<b>Net increase in cash and cash equivalents</b>	<b>65,835,221.22</b>	6,453,638.92

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

## XVIII. SUPPLEMENTAL INFORMATION

## 1. Breakdown of extraordinary gains or losses

Item	For the year	For the previous year
Gains or losses from the disposal of non-current assets	<b>-4,005,495.80</b>	-999,029.93
Ultra vires or without official approval documents, or incidental tax rebate or relief	<b>0.00</b>	0.00
Government grants included in the profit or loss for the period, save as those government grants closely associated to the normal operation of the Group, complying with the policies and regulations of China, being entitled at a certain standard amount or certain level	<b>127,679,776.28</b>	66,827,495.36
Funds utilisation fees collected from non-financial enterprises included in the profit or loss for the period	<b>0.00</b>	0.00
The gain from the excess of the fair value of identifiable net assets attributable to the investee at acquisition over the investment costs of the Group for its subsidiaries, associates and joint ventures	<b>0.00</b>	0.00
Gains or losses from the exchange of non-monetary assets	<b>0.00</b>	0.00
Gains or losses from investments on trust or asset management	<b>0.00</b>	0.00
Provision for impairment as a result of force majeure factors, such as natural disasters	<b>0.00</b>	0.00
Gains or losses from debt restructuring	<b>0.00</b>	0.00
Corporate reorganisation expenses, such as expenditures for staff dormitory, and business combination expenses	<b>0.00</b>	0.00
Gains or losses from transaction with transaction price not at fair value over the part at fair value	<b>0.00</b>	0.00
Net gains or losses of subsidiaries arising from business combination under common control from the beginning of the period to the date of combination	<b>0.00</b>	0.00
Gains or losses arising from contingent matters not related to the normal operation of the Group	<b>0.00</b>	0.00
Investment income derived from the holding of financial assets held for trading, gains or losses arising from changes in fair value of financial liabilities held for trading and disposal of financial assets held for trading, financial liabilities held for trading and available-for-sale financial assets (excluding the hedging activities of the normal operation of the Group)	<b>-182,343.23</b>	-1,497,131.42
Reversal of impairment of receivables on individual basis	<b>0.00</b>	0.00
Gains or losses from external entrusted loans	<b>0.00</b>	0.00
Gains or losses from changes in fair value on investment properties under the fair value model	<b>0.00</b>	0.00
One-off adjustment in profit or loss for the period according to the laws and regulations regarding taxation and accounting	<b>0.00</b>	0.00
Entrust fee income from entrusted operation	<b>0.00</b>	0.00
Other non-operating income and expenditures apart from the above	<b>-8,552,063.55</b>	1,688,027.35
Items of gains or losses as defined meeting the definition of extraordinary gains or losses	<b>0.00</b>	0.00
Sub-total	<b>114,939,873.70</b>	66,019,361.36
Effect of income tax	<b>14,326,733.64</b>	9,666,588.14
Effect of non-controlling interests (after tax)	<b>16,336,387.58</b>	3,405,813.53
Total	<b>84,276,752.48</b>	52,946,959.69



**XVIII. SUPPLEMENTAL INFORMATION** *(continued)***1. Breakdown of extraordinary gains or losses** *(continued)*

Note: Figures “+” in the extraordinary gains or losses represents by revenue and income, while “-” represents loss or expenses.

According to the “Notice on Explanation of Information Disclosure of Companies Publicly Issuing Securities No. 1 – Extraordinary Gains or Losses” (CSRC Notice [2008] No. 43), the Company shall be governed by its provisions and recognised the extraordinary gains or losses.

**2. Rate of return on net assets and earnings per share****2015**

	Weighted average rate of return on net assets	Earnings per share (RMB/share)	
		Basic earnings per share	Diluted earnings per share
<b>Profit for the reporting period</b>			
Net profit attributable to shareholders of ordinary shares	15.51%	1.62	1.60
Net profit attributable to shareholders of ordinary shares after deducting extraordinary gains or losses	13.41%	1.40	1.39

**2014**

	Weighted average rate of return on net assets	Earnings per share (RMB/share)	
		Basic earnings per share	Diluted earnings per share
<b>Profit for the reporting period</b>			
Net profit attributable to shareholders of ordinary shares	14.66%	1.34	1.34
Net profit attributable to shareholders of ordinary shares after deducting extraordinary gains or losses	13.15%	1.20	1.20

Please see note VI.51 for the calculation basic earnings per share and diluted earnings per share.

- (1) They include the audited financial reports of the Company for the twelve months ended 31 December 2015, which has been signed and sealed by the legal representative, person-in-charge of the accounting affairs (head of accounting affairs) and head of the accounting department, and which was prepared in accordance with the China Accounting Standards for Business Enterprises.
- (2) They include the original copy of the auditors' report which is sealed by the accounting firm and signed and sealed by the certified public accountant.
- (3) They include the original copies of the documents and announcements of the Company which have been disclosed in the designated newspaper as approved by CSRC during the year.
- (4) 2015 Annual Report of the Company both in English and Chinese versions published at the website of Hong Kong Exchanges and Clearing Limited.

**Livzon Pharmaceutical Group Inc.**  
**Zhu Baoguo**  
*Chairman*

24 March 2016

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