



丽珠医药  
LIVZON

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

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



*Interim Report*  
**2016**

\* For identification purpose only

# IMPORTANT NOTICE

The board of Directors, the Supervisory Committee and the Directors, Supervisors and senior management of Livzon Pharmaceutical Group Inc.\* guarantee that the information in this interim report (the “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 Report has been considered and approved at the Twenty-eighth meeting of the Eighth Session of the Board of the Company. All Directors have attended the Twenty-eighth meeting of the Eighth Session of the Board.

The Group has prepared a financial report in accordance with China Accounting Standards for Business Enterprises. The 2016 interim financial statements and notes thereof (collectively the “Financial Report”) prepared by the Group according to China Accounting Standards for Business Enterprises have not been audited. This Report has been reviewed by the audit committee of the Company.

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

Mr. Zhu Baoguo (朱保國), the person-in-charge of the Company, Ms. Si Yanxia (司燕霞), the person-in-charge of the Company’s financial affairs (mainly responsible for accounting work), and Ms. Zhuang Jianying (莊健瑩), the person-in-charge of the accounting department, declare that they guarantee the truthfulness, accuracy, and completeness of the Financial Report in the Report.

The 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 outcomes may be substantially different from these statements. Investors should exercise caution that inappropriate reliance on and usage of such information may expose to investment risks.

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

\* For identification purpose only

# CONTENTS

I.	Definitions	3
II.	Company Profile	6
III.	Highlights of Accounting Data and Financial Indicators	9
IV.	Management Discussion and Analysis	11
V.	Changes in Share Capital and Shareholders	30
VI.	Directors, Supervisors and Senior Management	35
VII.	Major Events	38
VIII.	Interim Financial Report (Unaudited)	53
IX.	Documents Available for Inspection	192

## DEFINITIONS

In the 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;
“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;
“Reporting Period” or “Current Period”	the six months from 1 January to 30 June 2016;
“Same Period Last Year” or “Previous Period”	the six months from 1 January to 30 June 2015;
“End of Last Year” or “Beginning of the Period”	31 December 2015;
“End of the Reporting Period” or “End of the Period”	30 June 2016;

\* For identification purpose only

# DEFINITIONS

“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);
“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;

\* For identification purpose only

## DEFINITIONS

“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;
“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; and
“Restricted Shares”	A Shares granted to the incentive participants under the Restricted A Shares Incentive Scheme of the Company.

# COMPANY PROFILE

## COMPANY INFORMATION

	<b>A Shares</b>	<b>H Shares</b>
Stock abbreviation	Livzon Group	Livzon Pharma <sup>Note 1</sup> , 麗珠H代 <sup>Note 2</sup>
Stock code	000513	01513 <sup>Note 1</sup> , 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, 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 is 01513 and the stock abbreviation of which is Livzon Pharma.

*Note 2:* The abbreviation and the stock code are only used by domestic shareholders of original B Shares of the Company in the PRC 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.

\* For identification purpose only

## CONTACT PERSONS AND CONTACT DETAILS

	<b>Secretary to the Board</b>	<b>Representative of securities affairs</b>
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	24 June 2016
Place of registration	Zhuhai Administration for Industry and Commerce of Guangdong Province, 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 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> , <a href="http://www.livzon.com.cn">www.livzon.com.cn</a>
Place where copies of this Report are available:	Secretariat to the Board of the Company



# COMPANY PROFILE

## OTHER RELEVANT INFORMATION

Name and address of the accounting firm externally 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

# HIGHLIGHTS OF ACCOUNTING DATA AND FINANCIAL INDICATORS

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

Amount denominated: RMB

Items	Reporting Period	Same Period Last Year	Change compared with Same Period Last Year (%)
Operating income	<b>3,784,299,658.63</b>	3,115,403,701.91	21.47%
Net profit attributable to shareholders of the Company	<b>409,061,823.40</b>	340,843,355.48	20.01%
Net profit attributable to the shareholders of the Company after deducting the extraordinary gain or loss	<b>363,841,867.64</b>	287,553,436.78	26.53%
Net cash from operating activities	<b>307,923,704.40</b>	233,851,215.94	31.68%
Total profit	<b>520,421,776.33</b>	449,569,149.90	15.76%

Items	At the End of the Reporting Period	At the End of Last Year	Change compared with the End of Last Year (%)
Total assets	<b>8,632,496,104.43</b>	8,077,537,790.41	6.87%
Total liabilities	<b>3,477,094,737.26</b>	3,267,641,046.88	6.41%
Net assets attributable to the shareholders of the Company	<b>4,668,741,945.26</b>	4,346,255,331.26	7.42%
Share capital (share)	<b>396,889,547.00</b>	396,889,547.00	0.00%
Shareholders' equity per share attributable to the shareholders of the Company (RMB per share)	<b>11.76</b>	10.95	7.40%

# HIGHLIGHTS OF ACCOUNTING DATA AND FINANCIAL INDICATORS

## PRINCIPAL FINANCIAL INDICATORS

Amount denominated: RMB

Items	Reporting Period	Same Period Last Year	Change compared with Same Period Last Year (%)
Basic earnings per share	1.04	0.89	16.85%
Diluted earnings per share	1.04	0.88	18.18%
Basic earnings per share after deducting extraordinary gain or loss	0.93	0.75	24.00%
Weighted average return on net assets (%)	8.95%	8.56%	An increase of 0.39 percentage point
Return on equity attributable to the shareholders of the Company (%)	8.76%	8.04%	An increase of 0.72 percentage point
Equity attributable to the shareholders of the Company to total assets ratio (%)	54.08%	53.38%	An increase of 0.70 percentage point

## ITEMS AND AMOUNTS OF EXTRAORDINARY GAINS OR LOSSES

Amount denominated: RMB

Items	Amounts	Explanation
Gains and losses from disposal of non-current assets (including those already written off in the provision for impairment of assets as provided)	5,990,900.63	
Government grants included in the profit or loss for the Current Period (save as those government grants closely associated to the operations of the Company, being entitled at a certain standard amount or certain level in accordance with the national standards)	54,024,145.82	Please refer to "VI 46. Non-operating income" of the Notes to the Financial Report for details of each government grants.
Investment income derived from the holding of financial assets held for trading, gains or losses arising from changes in fair value of financial liabilities held for trading and disposal of financial assets held for trading, financial liabilities held for trading and available-for-sale financial assets (excluding the effective hedging activities of the normal operations of the Company)	-416,854.57	
Other non-operating income and expenses apart from the above	-2,320,404.41	
Less: Effect on income tax	8,067,921.05	
Effect on non-controlling interests (after tax)	3,989,910.66	
<b>Total</b>	<b>45,219,955.76</b>	

# MANAGEMENT DISCUSSION AND ANALYSIS

## OPERATING ACTIVITIES

During the Reporting Period, 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(枸木緣酸鉍鉀)) 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 for Injection (麗福康(注射用伏立康唑)), Mouse Nerve Growth Factor for Injection (麗康樂(注射用鼠神經生長因子)) and Leuprorelin Microspheres for Injection (貝依(注射用亮丙瑞林微球)); bulk medicines and intermediates such as Mevastatin (美伐他汀), Colistin (硫酸粘菌素), Phenylalanine (苯丙氨酸) and Ceftriaxone Sodium (頭孢曲松鈉); and diagnostic reagents such as ELISA HIV Testing Reagent (HIV抗體診斷試劑), MYCOII Testing Reagent (肺炎支原體抗體診斷試劑(被動凝集法)) and TPPA Testing Reagent (梅毒螺旋體抗體診斷試劑(凝集法)).

## BUSINESS REVIEW

During the Reporting Period, the Group reported an operating income of RMB3,784.30 million, representing an increase of 21.47% as compared with RMB3,115.40 million for the Same Period Last Year. Net profit was RMB427.47 million, representing an increase of 14.76% over RMB372.50 million for the Same Period Last Year. Net profit attributable to shareholders of the Company was RMB409.06 million, up by 20.01% as compared with RMB340.84 million for the Same Period Last Year. Excluding extraordinary gains and losses, the Company's net profit attributable to its shareholders generated from principal activities in the first half of 2016 was RMB363.84 million, representing an increase of 26.53% when compared with RMB287.55 million for the Same Period Last Year.

## SEGMENTAL INFORMATION

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

# MANAGEMENT DISCUSSION AND ANALYSIS

## ANALYSIS OF PRINCIPAL ACTIVITIES

### Operating Income and Costs of Principal Activities

	Operating Income	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 (%)
<i>Amount denominated: RMB</i>						
<b>Sector</b>						
Western drug preparation products	1,637,426,578.93	337,483,008.85	79.39%	34.37%	24.83%	An increase of 1.58 percentage points
Chinese drug preparation products	1,050,013,132.87	219,679,530.13	79.08%	12.36%	13.05%	A decrease of 0.13 percentage points
Bulk medicines and intermediates	821,562,312.61	673,287,353.88	18.05%	18.59%	13.99%	An increase of 3.31 percentage point
Diagnostic reagents and equipment	260,039,132.65	110,193,761.88	57.62%	17.59%	13.97%	An increase of 1.34 percentage points
Others	1,425,391.00	4,227,367.73	-196.58%	-74.97%	-75.46%	An increase of 5.99 percentage points
<b>Total</b>	<b>3,770,466,548.06</b>	<b>1,344,871,022.47</b>	<b>64.33%</b>	<b>22.71%</b>	<b>15.02%</b>	<b>An increase of 2.38 percentage points</b>
<b>By product</b>						
Shengqi Fuzheng Injection	822,837,568.24	141,686,067.83	82.78%	15.20%	21.97%	A decrease of 0.96 percentage point
<b>By region</b>						
Domestic	3,426,641,043.21	1,076,728,670.69	68.58%	23.70%	19.19%	An increase of 1.19 percentage points
Overseas	343,825,504.85	268,142,351.78	22.01%	13.63%	0.85%	An increase of 9.88 percentage points

During the Reporting Period, the Group's principal activities generated an operating income of RMB3,770.47 million, representing an increase of RMB697.79 million or 22.71% as compared with RMB3,072.68 million for the Same Period Last Year, among which the sales growth of western drug preparation products increased by 34.37% year-on-year, and the sales growth of bulk medicines and intermediates increased by 18.59% 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 RMB142.21 million with a year-on-year increase of 70.19%; the income from sales of the assisted reproduction product Urofollitropin amounted to RMB287.96 million, representing a year-on-year increase of 57.00%; the income from sales of Leuprorelin Acetate Microspheres for Injection (注射用醋酸亮丙瑞林微球) was RMB193.27 million, up by 42.10% year-on-year; the income from sales of Mouse Nerve Growth Factor for Injection (注射用鼠神經生長因子) amounted to RMB234.54 million with a year-on-year increase of 77.72%. The income and growth of key bulk medicines and intermediates are as follows: the income from sales of Phenylalanine (苯丙氨酸) was RMB115.35 million, up by 27.19% year-on-year; the income from sales of the new drug Lincomycin (林可霉素) was RMB47.38 million. The sales growth of above products was primarily due to continuous progress in marketing reform which improved channel penetration, and accelerated the assembling of sales specialty, and driven by favorable impacts of the state's policies on some key products. Meanwhile, it also reflected an improving product structure of the Group and its increasing competitiveness.

During the Reporting Period, the Group's operating costs of principal activities amounted to RMB1,344.87 million, representing an increase of RMB175.62 million or 15.02% as compared with RMB1,169.25 million for the Same Period Last Year, which was mainly due to income growth and corresponding cost increase.

# MANAGEMENT DISCUSSION AND ANALYSIS

## ANALYSIS OF PRINCIPAL ACTIVITIES *(continued)*

### Operating Income of Principal Activities by Regions

Regions	Amount incurred for the Current Period		<i>Amount denominated: RMB</i> Amount incurred for the Previous Period	
	Operating income	Operating cost	Operating income	Operating cost
Domestic	3,426,641,043.21	1,076,728,670.69	2,770,085,657.74	903,357,860.61
Overseas	343,825,504.85	268,142,351.78	302,592,754.39	265,887,445.16
Total	3,770,466,548.06	1,344,871,022.47	3,072,678,412.13	1,169,245,305.77

### Major customers and suppliers

During the Reporting Period, the sales amount attributable to the five largest customers contributed to 8.25% (Same Period Last Year: 8.07%) of the total operating income of the Group, while the purchase amount from the five largest suppliers of the Group contributed to approximately 35.02% (Same Period Last Year: 35.15%) of the Group's total purchase of raw materials.

#### Major Suppliers of the Company for the Reporting Period

Total purchase amount from top five suppliers <i>(RMB)</i>	311,680,820.32
Percentage of purchase amount from top five suppliers to total purchase in the Current Period (%)	35.02%

#### Top Five Suppliers of the Company for the Reporting Period

No.	Name of supplier	Purchase amount <i>(RMB)</i>	Percentage of purchase amount to total purchase in the Current Period <i>(%)</i>
1	First	123,347,466.11	13.86%
2	Second	66,997,416.23	7.53%
3	Third	59,289,532.43	6.66%
4	Fourth	31,858,825.43	3.58%
5	Fifth	30,187,580.12	3.39%
Total		311,680,820.32	35.02%

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

### Expenses

During the Reporting Period, the Group's three expense items (selling expenses, administrative expenses and financial expenses) amounted to RMB1,839.56 million, representing an increase of RMB372.57 million or 25.40% year-on-year. Details are as follows:

Items	Reporting Period	<i>Amount denominated: RMB</i>	
		Same Period Last Year	Year-on-year change <i>(%)</i>
Selling expenses	1,501,463,348.45	1,169,327,521.08	28.40%
Administrative expenses	329,447,597.85	278,218,601.81	18.41%
Financial expenses	8,694,063.93	19,434,685.02	-55.27%

# MANAGEMENT DISCUSSION AND ANALYSIS

## ANALYSIS OF PRINCIPAL ACTIVITIES *(continued)*

### Expenses *(continued)*

- (1) Selling expenses rose by 28.40% year-on-year, which was mainly due to sales growth and corresponding increase in marketing and promotion expenses;
- (2) Administrative expenses rose by 18.41% year-on-year, which was mainly due to the increase in R&D investment and the additional amortization cost from Restricted A Shares Incentive Scheme as well as the increase in provisions for depreciation expenses arising from transfer of construction in progress, including the administration and research building, to fixed assets;
- (3) Financial expenses decreased by 55.27% year-on-year, which was mainly due to a decrease in the balance of the average loan with lower interest rates.

During the Reporting Period, the total income tax expenses were RMB92.96 million, representing an increase of RMB15.89 million or 20.62% year-on-year, which was mainly due to the increase in revenue and gross profit.

### Research and development expenditure

During the Reporting Period, the Group's expenditures related to research and development amounted to RMB172.26 million (Same Period Last Year: RMB168.47 million), representing an increase of 2.25% year-on-year. The amount accounted for 3.69% (Same Period Last Year: 3.98%) of net assets attributable to shareholders of the Company and 4.55% (Same Period Last Year: 5.41%) of the Group's total operating income for the Reporting Period.

At the End of the Reporting Period, 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, 23 projects have been registered and have begun preclinical studies; 2 projects have been reported to the competent authorities for preclinical studies; 6 projects are undergoing clinical studies and 11 projects have been reported to the competent authorities for production. In respect of biomedicine, a total of 9 new drug projects are being researched, among which, 5 projects have begun preclinical studies; 3 projects have been reported to the competent authorities for clinical studies and 1 project is undergoing clinical studies. In respect of diagnostic reagents, 15 projects have completed laboratory research and development works, of which 3 projects had been submitted for registration inspection and obtained the registration inspection reports, and are undergoing clinical trial; 4 projects have completed trial production and submitted for registration test.

# MANAGEMENT DISCUSSION AND ANALYSIS

## ANALYSIS OF PRINCIPAL ACTIVITIES *(continued)*

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

The progress of major research and development projects during the Reporting Period is as follows: (1) for chemical drugs and Chinese drug preparation products: the application for production of the Ilaprazole Sodium Injection (注射用艾普拉唑鈉) project has been filed to the State Food and Drug Administration and has been accepted; the approval for clinical application has been obtained for Ticagrelor Tablets (替格瑞洛片). (2) for the biopharmaceutical drug preparation products: Phase I clinical research 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) has been completed and we are preparing to submit the application for Phase II/III clinical research; the supplementary documents for new drug clinical application and registration of the Recombinant Biosimilar Human Chorionic Gonadotropin (rhCG) (注射用重組人絨促性素(rhCG)) project have been submitted to CDE (Center for Drug Evaluation of the China Food and Drug Administration); for the Recombinant Human/Mouse Chimeric Anti-CD20 Biosimilar Monoclonal Antibody (重組人鼠嵌合抗CD20單克隆抗體) project, we are preparing the supplementary documents for the registration; for the Anti-HER2 Humanized Monoclonal Antibody for Injection (重組人源化抗HER2單克隆抗體注射液) project, all the on-site examinations for application for research and production have been completed by the Guangdong Food and Drug Administration and samples have been delivered for registration tests and the project has been included in the review list of CDE; 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), Recombinant Anti-PD-L1 Monoclonal Antibody (重組全人抗PD-L1單克隆抗體) and Recombinant Anti-HER2 Domain II Humanised Monoclonal Antibody Cytotoxin Coupling Agent for Injection (注射用重組抗HER2結構域II人源化單抗細胞毒素偶聯劑) are under pre-clinical technical research and development and animal test and research. (3) for the diagnostic reagents: for the joint detection reagents kit of MYCOII IgM and IgG antibody (肺炎支原體IgM·IgG抗體聯檢試劑盒), joint detection reagents kit of MYCOII IgM Antibody, Chlamydia Pneumoniae IgM Antibody (肺炎支原體IgM抗體·肺炎衣原體IgM抗體聯檢試劑盒) and Vaginitis Joint Detection reagents kit (陰道炎聯合檢測試劑盒), the registration examinations have been completed and we have obtained the registration test reports and clinical tests are under preparation; research and development of Voriconazole Itraconazole reagents kit (伏立康唑測定試劑盒), Levetiracetam reagents kit (左乙拉西坦測定試劑盒), Lamotrigine reagents kit (拉莫三秦測定試劑盒) and Oxcarbazepine reagents kit (奧卡西平測定試劑盒) have been completed and registration tests have been submitted and clinical tests will begin upon obtaining registration test reports.

## ANALYSIS OF FINANCIAL CONDITIONS

### Material changes in assets

	30 June 2016	31 December 2015	<i>Amount denominated: RMB</i> Change at End of the Period as compared to Beginning of the Period (%)
Bills receivables	<b>447,397,071.95</b>	343,042,435.08	30.42%
Long-term equity investment	<b>92,530,162.61</b>	68,908,511.07	34.28%
Construction in progress	<b>196,862,180.39</b>	347,248,914.85	-43.31%
Long-term deferred expenses	<b>52,296,796.84</b>	40,023,456.83	30.67%



# MANAGEMENT DISCUSSION AND ANALYSIS

## ANALYSIS OF FINANCIAL CONDITIONS *(continued)*

### Material changes in assets *(continued)*

The reasons for the changes of over 30% as compared to Beginning of the Period in the related items were:

- (1) Bills receivables increased by 30.42% as compared to Beginning of the Period, mainly due to the increase in payment settled by bills;
- (2) Long-term equity investment rose by 34.28% as compared to Beginning of the Period, mainly due to the new investments in AbCyte Therapeutics Inc;
- (3) Construction in progress decreased by 43.31% as compared to Beginning of the Period, which was mainly attributable to that the construction of some workshops was transferred to fixed assets when they were ready for intended use as well as disposal of part of the constructions in progress;
- (4) Long-term deferred expenses grew by 30.67% as compared to Beginning of the Period, mainly due to the increase in expenses of renovation of the plants.

### Material changes in liabilities

	30 June 2016	31 December 2015	Amount denominated: RMB Change at End of the Period as compared to Beginning of the Period (%)
Short-term loans	<b>860,000,000.00</b>	250,000,000.00	244.00%
Interest payables	<b>524,189.89</b>	11,823,945.25	-95.57%
Dividends payables	<b>6,060,057.60</b>	2,531,984.46	139.34%
Non-current liabilities due within one year	<b>400,000.00</b>	400,400,000.00	-99.90%
Treasury shares	<b>157,075,210.20</b>	247,219,957.00	-36.46%

The reasons for the changes of over 30% as compared to Beginning of the Period in the related items were:

- (1) Short-term loans increased by 244.00% as compared to Beginning of the Period, which was mainly due to the increase in note financing and short-term bank loans for the Current Period;
- (2) Interest payables decreased by 95.57% as compared to Beginning of the Period, mainly attributable to repayment of due interest of the loans;
- (3) Dividends payables grew by 139.34% as compared to Beginning of the Period, mainly attributable to the increase in dividends payable to Topsino Industries Limited;
- (4) Non-current liabilities due within one year decreased by 99.90% as compared to Beginning of the Period, mainly due to payment of 2013 First tranche mid-term notes when due;
- (5) Treasury shares decreased by 36.46% as compared to Beginning of the Period, mainly due to the decrease in repurchase obligation confirmed by the issuance of A Shares under the Restricted A Shares Incentive Scheme as a result of the unlock of the first tranche.

# MANAGEMENT DISCUSSION AND ANALYSIS

## ANALYSIS OF FINANCIAL CONDITIONS *(continued)*

### Debt ratio

The Group's debt ratio as at 30 June 2016 and 31 December 2015 is calculated by dividing the Group's total liabilities at each respective date by its total assets. The debt ratio of the Group decreased from 40.45% as at 31 December 2015 to 40.28% as at 30 June 2016.

### Material changes in income statement items

	Current Period	Amount denominated: RMB	
		Same Period Last Year	Year-on-year change (%)
Business taxes and surcharges	<b>48,862,604.54</b>	36,227,296.64	34.88%
Financial expenses	<b>8,694,063.93</b>	19,434,685.02	-55.27%
Asset impairments loss	<b>78,584,389.42</b>	29,296,417.53	168.24%
Gain from changes in fair value	<b>-416,854.57</b>	603,148.18	-169.11%
Investment income	<b>1,684,174.09</b>	3,471,860.08	-51.49%
Non-operating expenses	<b>2,871,052.59</b>	6,155,599.79	-53.36%
Gains and losses of the non-controlling shareholders	<b>18,404,926.37</b>	31,659,698.94	-41.87%

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

- (1) Business taxes and surcharges increased by 34.88% year-on-year, which was mainly due to the increase in turnover tax arising from growing sales and corresponding increase in surcharges based on the amount of the turnover tax;
- (2) Financial expenses decreased by 55.27% year-on-year, which was mainly due to the decrease in the average balance of the loans, coupled with the lower interest rates;
- (3) Asset impairments loss increased by 168.24% year-on-year, which was mainly attributable to provision for impairments as a result of decreasing market value of the shares of the invested overseas companies;
- (4) Gain from changes in fair value decreased by 169.11% year-on-year, which was mainly due to the fluctuation of the fair value of financial assets held for trading at End of the Period;
- (5) Investment income decreased by 51.49% year-on-year, mainly due to the reduced profit of the associates including Guangdong Blue Treasure Pharmaceutical Co. Ltd. (廣東藍寶製藥有限公司);
- (6) Non-operating expenses decreased by 53.36% year-on-year, mainly attributable to the reduced loss of disposal of obsolete facilities as compared to Same Period Last Year;
- (7) Gains and losses of the non-controlling shareholders decreased by 41.87% year-on-year, mainly due to the changes in profit of some non-wholly owned subsidiaries;

# MANAGEMENT DISCUSSION AND ANALYSIS

## ANALYSIS OF FINANCIAL CONDITIONS *(continued)*

### Material changes in cash flow items

	Current Period	Amount denominated: RMB	
		Same Period Last Year	Year-on-year change (%)
Net cash flows from operating activities	<b>307,923,704.40</b>	233,851,215.94	31.68%
Sub-total of cash inflows			
from investing activities	<b>78,247,638.34</b>	12,393,644.39	531.35%
Sub-total of cash outflows			
from investing activities	<b>200,677,206.27</b>	292,153,346.93	-31.31%
Net cash flows from investing activities	<b>-122,429,567.93</b>	-279,759,702.54	56.24%
Net cash flows from financing activities	<b>-51,193,868.37</b>	151,448,127.87	-133.80%
Effect of foreign exchange rate changes			
on cash and cash equivalents	<b>4,146,713.28</b>	-40,235.70	-10,406.05%
Net increase in cash and cash equivalents	<b>138,446,981.38</b>	105,499,405.57	31.23%

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

- (1) Net cash flows from operating activities increased by 31.68% year-on-year, mainly attributable to the increase in sales receipts;
- (2) Sub-total of cash inflows from investing activities increased by 531.35% year-on-year, which was mainly due to the increase in cash recovered from disposal of long-term assets;
- (3) Sub-total of cash outflows from investing activities decreased by 31.31% year-on-year, which was primarily attributable to the reduced investment in project construction;
- (4) Net cash flows from investing activities increased by 56.24% year-on-year, which was mainly due to the increase in cash recovered from disposal of long-term assets and the reduced investment in project construction;
- (5) Net cash flows from financing activities decreased by 133.80% year-on-year, which was mainly attributable to the increase in cash dividend expenses allocated to the shareholders;
- (6) Effect of foreign exchange rate changes on cash and cash equivalents decreased by 10,406.05% year-on-year, which was mainly due to the increase in exchange gains as a result of exchange rate fluctuations;
- (7) Net increase in cash and cash equivalents increased by 31.23% year-on-year, which was mainly attributable to increase in sales receipts, the increase in cash recovered from disposal of long-term assets and the reduced investment in project construction.

# MANAGEMENT DISCUSSION AND ANALYSIS

## ANALYSIS OF FINANCIAL CONDITIONS *(continued)*

### Liquidity and financial resources

As at 30 June 2016, the Group's monetary funds amounted to RMB905.54 million (31 December 2015: RMB798.30 million), primarily arising from cash inflows from operations, notes financing and short-term bank borrowings.

On 30 June 2016, the Group was granted credit facilities by 19 banks of RMB6,470.00 million and HK\$7.00 million, and the unutilized credit facilities were RMB5,335.93 million and HK\$7.00 million, respectively.

Items	As at End of the Reporting Period (30 June 2016)			Amount denominated: RMB As at End of Last Year (31 December 2015)		
	Foreign currency amount	Translation rate	Amount in RMB	Foreign currency amount	Translation rate	Amount in RMB
	Cash on hand:			213,028.68		
– RMB	–	–	173,757.43	–	–	71,706.84
– Euro	109.87	7.375	810.29	109.87	7.0952	779.56
– U.S. dollar	5,800.00	6.6312	38,460.96			
Bank deposits:			904,345,336.13			766,211,133.63
– RMB	–	–	649,253,482.52	–	–	719,629,721.59
– HK dollar	267,953,905.85	0.85467	229,012,164.71	8,042,719.82	0.83778	6,738,029.81
– U.S. dollar	3,518,991.86	6.6312	23,335,138.82	2,921,811.01	6.4936	18,973,071.97
– Japanese Yen	972,767.00	0.064491	62,734.72	318,592,276.00	0.053875	17,164,158.87
– Euro	282,059.87	7.375	2,080,191.54	454,256.12	7.0952	3,223,038.01
– MOP	724,150.00	0.8308	601,623.82	594,016.20	0.8133	483,113.38
Other monetary fund:			982,020.02			32,011,663.71
Total			905,540,384.83			798,295,283.74

As at 30 June 2016, the Group's borrowings from banks amounted to RMB860.00 million (31 December 2015: RMB250.00 million), accounting for 9.96% of total assets (31 December 2015: 3.10%), of which short-term borrowings to mature within one year amounted to RMB860.00 million (31 December 2015: RMB250.00 million), accounting for 9.96% of total assets (31 December 2015: 3.10%) and long-term borrowings to mature after one year amounted to RMB0.00 million (31 December 2015: RMB0.00 million). Repayments of borrowings denominated in RMB and borrowings denominated in Hong Kong dollars during the Reporting Period amounted to RMB250.00 million and HK\$0.00 million, respectively. There was no distinct seasonal demand for each of the above borrowings.

### Capital structure

The Group's capital comprises shareholders' equity and liabilities. As at 30 June 2016, the shareholders' equity amounted to RMB5,155.40 million, the total liabilities being RMB3,477.10 million with total assets of RMB8,632.50 million. Among which, the current liabilities of the Group amounted to RMB3,370.60 million (31 December 2015: RMB3,154.94 million), which increased by 6.84% from the End of Last Year; the total non-current liabilities amounted to RMB106.50 million (31 December 2015: RMB112.70 million), which decreased by 5.51% from the End of Last Year. During the Reporting Period, the Group had repaid liabilities of RMB650.00 million (30 June 2015: RMB655.35 million).

Equity attributable to the shareholders of the Company amounted to RMB4,668.74 million (31 December 2015: RMB4,346.26 million), up by 7.42% from the End of Last Year. Interests attributable to non-controlling shareholders amounted to RMB486.66 million (31 December 2015: RMB463.64 million), which increased by 4.96% from the End of Last Year.

# MANAGEMENT DISCUSSION AND ANALYSIS

## ANALYSIS OF FINANCIAL CONDITIONS *(continued)*

### Capital Commitments

Items	Amount denominated: RMB	
	Balance at End of the Period	Balance at Beginning of the Period
Contracted but not recognized in the financial statements		
– Commitments for purchase and construction of long-term assets	<b>13,819,429.91</b>	51,405,931.81
<b>Total</b>	<b>13,819,429.91</b>	51,405,931.81

### Interest rate

As at 30 June 2016, total interest-bearing bank borrowings and other borrowings amounted to RMB860.00 million (31 December 2015: RMB250.00 million), among which RMB0.00 million carried interest at variable interest rate and RMB860.00 million carried interest at fixed interest rate. The annualized interest rates were 3.150% (principal of RMB270.00 million), 3.210% (principal of RMB80.00 million), 3.300% (principal of RMB80.00 million) and 3.915% (principal of RMB430.00 million), respectively.

The 3-year mid-term notes with an aggregate amount of RMB400.00 million issued by the Group on 29 May 2013 carried interest at a fixed-interest rate (the annualized interest rate being 5.03%) was due and repaid on 30 May 2016.

### Ageing analysis of outstanding liabilities

	Amount denominated: RMB million	
	30 June 2016	31 December 2015
Within one year	<b>1,131.23</b>	949.41
1-2 years	–	–
2-5 years	–	–
Over 5 years	<b>0.70</b>	0.70
<b>Total</b>	<b>1,131.93</b>	950.11

### Gearing ratio

As at 30 June 2016 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 19.75% as at 31 December 2015 and increased to 21.94% as at 30 June 2016.

### Interest Expenses and Capitalisation

	Amount denominated: RMB	
	Reporting Period	Same Period Last Year
Interest expenses <sup>(Note)</sup>	<b>12,725,878.77</b>	19,412,522.79
Capitalised interest	<b>2,020,268.19</b>	6,858,709.34
<b>Total interest expenses</b>	<b>14,746,146.96</b>	26,271,232.13

*Note:* Interest expenses mainly comprised of interests arising from the notes financing, short-term bank borrowings and 3-year mid-term notes issued by the Company.

# MANAGEMENT DISCUSSION AND ANALYSIS

## ANALYSIS OF FINANCIAL CONDITIONS *(continued)*

### Foreign Exchange Risks

Details of foreign exchange risks of the Group are set out in “Note 9. Risks related to financial instruments” to the Financial Report of the Report prepared in accordance with the China Accounting Standards for Business Enterprises.

### Contingent liabilities

As at 30 June 2016, the Group had no significant contingent liabilities.

### Pledge of assets

As at 30 June 2016, the Group has no pledged assets under restrictions.

### Staff, Remuneration, Pension Scheme and Training

As at 30 June 2016, the Group had 6,020 staff members (31 December 2015: 5,913 staff members). The remuneration of the employees was determined by the Group mainly according to the PRC laws and regulations, the Company's economic performance and the market conditions. During the Reporting Period, the total wages, bonuses, allowances, compensation, welfare, housing funds and social insurance paid for the employees by the Group amounted to RMB305.11 million (31 December 2015: RMB502.71 million).

During the Reporting Period, there was no change in the employees remuneration policies. The employees of the Group have participated in the social basic endowment insurance system implemented by the local labor and social security departments. Upon retirement of the employees, the local labor and social security departments are obligated to pay social basic pension to the retired employees. The Group is required to contribute to the social basic old age insurance schemes at a specified rate of the employees' salaries to fund the employee retirement benefits. The sole obligation of the Group with respect to the social basic old age insurance schemes is to make the required contributions under the scheme. There was no change in the details of the retirement benefits. 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 49 in this interim report.

During the first half of 2016, leveraged on the Livzon Business School platform, the Company organized elections for class committee of the MBA and EMBA programs, shared micro-lectures online as well as organized group activities offline on a regular basis. The writing competition under the theme of “Sharing instead of learning quietly (靜靜學不如會分享)” has spread out competition over online learning, and carried out the Group's phase I selection and training of in-house lecturers. At the same time, the Company strived to explore new channels and new models for staff training, developed training systems with external tertiary institutes (such as the Zhougong Program with China Pharmaceutical University and the Elite Training Camp with Beijing Normal University, Zhuhai), participated in forums, exchange programs and lectures in various industries, proactively broadened the view and knowledge for our staff. Internally, the Company focused on fundamental training, mentorship scheme, continuous education and further study, etc.

## Investments

### Establishment of the Joint Venture

On 22 February 2016, Zhuhai Livzon Diagnostics Inc.\* (珠海麗珠試劑股份有限公司) (“Livzon Diagnostics”), the Company's controlling subsidiary, and CYNVENIO BIOSYSTEMS, INC. (“CYNVENIO”) (a U.S. company), entered into 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” (《珠海麗珠聖美醫療診斷技術有限公司合資經營合同》) (the “Joint Venture Agreement”), where Livzon Diagnostics made a cash contribution in the sum of RMB62 million, representing 60% of the registered capital; CYNVENIO made a contribution in the form of valuation of the patent in LiquidBiopsy and relevant technical know-how as well as other intellectual properties in the sum of RMB41,333,333, representing 40% of the registered capital.

\* For identification purpose only

# MANAGEMENT DISCUSSION AND ANALYSIS

## ANALYSIS OF FINANCIAL CONDITIONS *(continued)*

### Investments *(continued)*

#### Establishment of the Joint Venture *(continued)*

On 14 March 2016, Zhuhai Livzon Shengmei Medical Diagnosis Technology Co. Ltd. (珠海麗珠聖美醫療診斷技術有限公司) (“Livzon Shengmei”) completed matters related to the business registration and was thus formally established and will submit application for the registration of ClearID test and LiquidBiopsy to the State Food and Drug Administration as soon as possible pursuant to the Joint Venture Agreement. If the application is successful, Livzon Shengmei will be responsible for the commercialization and sales of the above products in China.

This transaction is beneficial for the Group to further develop and explore the business in cancer genes testing and precise pharmaceutical fields, take advantage of the synergy of cooperation of its biological preparation and diagnostic reagent business, and enhance its research and development capability and the internationalization level of its diagnostic reagent business.

#### Participation in ABCYTE Company

On 3 March 2016, Livzon MABPharm Inc. (珠海市麗珠單抗生物技術有限公司) (“Livzon MABPharm”), the Company’s controlling subsidiary, and AbCyte Therapeutics Inc. (“AbCyte Company”) (a U.S. company), entered into the Purchase Agreement of Series A Preferred Shares. Pursuant to the Purchase Agreement of Series A Preferred Shares, Livzon MABPharm intended to invest 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, and the capital to be invested would be mainly applied into the research and development of antibodies and cell therapy products, as well as the application for antibody patents; and Livzon MABPharm would be prioritized to develop the cell-individualized treatment technology platform researched and developed by AbCyte Company in the PRC. Meanwhile, Livzon MABPharm could exercise its priority to develop the first three antibody projects developed by AbCyte Company in the international market. During the Reporting Period, Livzon MABPharm has completed the subscription of Series A Preferred Shares issued by AbCyte Company this time.

This joint investment is aimed at actively tapping into the cell-individualized treatment technology platform, enlarging the technical field of the Group’s antibody-based drug development platform, and strengthening the Group’s innovative edge in terms of research and development of antibody-based drugs.

# MANAGEMENT DISCUSSION AND ANALYSIS

## CORE COMPETITIVENESS ANALYSIS

The Group targets at becoming a high-end specialty pharmaceutical enterprise integrating R&D, manufacture and sales of specialist medicines. The Group has specified the management philosophy based on “innovation, service, integration and development” while closely monitoring the movements in the industry. Together with continuous exploration and innovation, we aim to enrich and improve our core competitiveness. During the Reporting Period, there were no major changes to the Group’s general core competitiveness, primarily reflected in the following:

### **1. A diversified product mix and a diversified business portfolio**

Our products include drug preparation products, bulk medicines 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 plans its precise pharmaceutical field with a focus on business in relation to gene diagnostic technologies.

### **2. 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 5,000 staff members in the marketing team for various sections. The Group has developed a comprehensive marketing system through detailed management for marketing, strengthening marketing teams as well as strengthening marketing promotion and utilizing resources.

### **3. A mature quality management system**

The Group has established a three-dimensional quality management system which covers manufacture, sales, etc, including full scale of supervision of production quality and sales quality management so as to assure that our products are competitive in respect of safety, stability, effectiveness and speed.

### **4. Strong R&D capabilities and a global R&D vision**

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



# MANAGEMENT DISCUSSION AND ANALYSIS

## INVESTMENT ANALYSIS

### External Equity Investments

#### External Investments

Particulars of external investments		
Amount of investment for the Current Period (RMB)	Amount of investment for the Same Period Last Year (RMB)	Change
84,575,000.00	55,831,500.00	51.48%

Particulars of the investee		
Name of the company	Principal business	Shareholding in the investee attributable to the listed company (%)
AbCyte Therapeutics Inc	New-generation treatment platform for precision tumor-specific individual T cells in the individual platform and relevant R&D of innovative and multi-functional antibody for antibody and cell treatment of tumor and other severe diseases.	20.40%
Zhuhai Livzon Shengmei Medical Diagnosis Technology Co. Ltd. (珠海麗珠聖美醫療診斷技術有限公司)	Engaged in R&D, production and sales of pharmaceutical diagnostic equipment and reagents; development, consultancy, exchange and promotion of the vitro diagnostic technology as well as transfer service of self-owned technologies; maintenance service of pharmaceutical diagnostic equipment; import and export of goods relevant to pharmaceutical diagnostic equipment, reagents, materials and softwares (except for the exclusively operated and managed commodities); research and trail development of pharmaceutical diagnostic technologies; clinical research and data processing services; biopharmaceutical laboratory services; development and services of computer technologies; development of software.	36.06%
Shenzhen City Youbao Technology Co., Ltd (深圳市有寶科技有限公司)	Technology development, technical consultancy and transfer of technologies of pharmaceutical equipment and pharmaceutical products	30.00%

*Note:* Shenzhen City Youbao Technology Co., Ltd (深圳市有寶科技有限公司) was registered with the Nanshan Bureau of the Market Supervision Administration of Shenzhen Municipality on 3 December 2015. The Company's paid-up registered capital was RMB3 million during the Reporting Period.

#### Shareholdings in Financial Institutions

Company names	Company Categories	Initial investment cost (RMB)	Number of shares held at the Beginning of the Period (shares)	Percentage of shares held at the Beginning of the Period	Number of shares held at the End of the Period (shares)	Percentage of shares held at the End of the Period	Carrying amount at the End of the Period (RMB)	Profit or loss for the Current Period (RMB)	Accounting items	Sources of shares
Zhuhai China Resources Bank Co., Ltd. (珠海華潤銀行股份有限公司)	Commercial bank	95,325,760.00	84,936,000	1.5065%	84,936,000	1.5065%	75,325,760.00	-	Financial assets held-for-sale	Investee company
Guangdong Development Bank Co., Ltd. (廣發銀行股份有限公司)	Commercial bank	177,348.84	68,854	0.0004%	68,854	0.0004%	177,348.84	-	Financial assets held-for-sale	Investee company

# MANAGEMENT DISCUSSION AND ANALYSIS

## INVESTMENT ANALYSIS *(continued)*

### External Equity Investments *(continued)*

#### Investment in Securities

Types of securities	Securities codes	Securities abbreviations	Initial investment cost (RMB)	Number of shares held at the Beginning of the Period (Shares)	Number of shares held at the End of the Period (Shares)	Carrying amount at the End of the Period (RMB)	Profit or loss for the Current Period (RMB)	Accounting items	Sources of shares
Shares	00135	Kunlun Energy	4,243,647.64	1,000,000	1,000,000	5,461,341.30	-431,577.30	Financial assets at fair value through profit or loss	Purchased in market
Funds	206001	Penghua Fund	150,000.00	619,573	619,573	823,266.07	14,722.73	Financial assets at fair value through profit or loss	Purchased in market
Total			4,393,647.64	1,619,573	1,619,573	6,284,607.37	-416,854.57	-	-

#### Shareholdings in other listed companies

*Amounts denominated: RMB*

Securities codes	Securities abbreviations	Initial investment amount	Carrying amount at the End of the Period	Profit or loss for the Current Period	Change in the equity attributable to the owner for the Current Period	Accounting items	Sources of shares
000963	Huadong Medicine	39,851.86	6,171,076.60	114,448.75	-1,133,134.18	Available-for-sale financial assets	Investee
EPRS	Epirus	93,254,995.09	-	-16,025,527.16	-	Available-for-sale financial assets	Investee
Total		93,294,846.95	6,171,076.60	-15,911,078.41	-1,133,134.18		

*Note:* On 25 July 2016, Epirus filed a voluntary petition for relief under the Chapter 7 of Title 11 Bankruptcy Code of the United States Code in the United States Bankruptcy Court for the District of Massachusetts. Its assets will be liquidated. The Company has made the impairment provision for the asset pursuant to relevant requirements of the accounting policies.

# MANAGEMENT DISCUSSION AND ANALYSIS

## INVESTMENT ANALYSIS *(continued)*

### Major Subsidiaries and Investee Companies

Company names	Company categories	Industry	Major products or services	Registered capital	Total assets	Net assets	<i>Amount denominated: RMB</i>		
							Operational income	Operational profit	Net profit
Livzon Group Livzon Pharmaceutical Factory (麗珠集團麗珠製藥廠)	Subsidiary	Pharmaceutical	Principally engaged in production and sale of self-made chemical drugs, biochemical drugs, microbiological preparations, antibiotics, etc.	450,000,000.00	2,268,018,455.56	1,745,120,174.40	949,892,270.38	227,792,341.08	227,038,997.31
Sichuan Guangda Pharmaceutical Manufacturing Co., Ltd. (四川光大製藥有限公司)	Subsidiary	Pharmaceutical	Principally engaged in R&D, production and sale of traditional Chinese medicine, major products include Anti-viral Granules, Dexamethasone Oral Paste, etc.	149,000,000.00	758,760,525.61	682,054,461.12	177,874,596.94	53,481,037.48	36,787,092.66
Livzon Group Limin Pharmaceutical Manufacturing Factory (麗珠集團利民製藥廠)	Subsidiary	Pharmaceutical	Principally engaged in production and operation of Chinese drug preparations and pharmaceutical raw materials, etc., major products include Shenqi Fuzheng Injection, Xueshuanlong, etc.	61,561,014.73	724,174,668.29	265,051,184.52	299,830,992.70	114,155,449.28	97,605,411.15
Shanghai Livzon Pharmaceutical Manufacturing Co., Ltd. (上海麗珠製藥有限公司)	Subsidiary	Pharmaceutical	Principally engaged in production of biochemical and polypeptide bulk medicines, major products include biochemical bulk medicines such as Human Menopausal Gonadotropin and Human Chorionic Gonadotropin.	87,328,900.00	375,405,673.51	234,001,736.34	289,044,115.68	65,760,168.68	53,974,775.28
Zhuhai FTZ Livzon Hecheng Pharmaceutical Manufacturing Co., Ltd. (珠海保稅區麗珠合成製藥有限公司)	Subsidiary	Pharmaceutical	Principally engaged in production and operation of chemical bulk medicines, major products include Cefuroxime Sodium, Cefodizime Sodium, Ceftriaxone Sodium, etc.	128,280,000.00	702,438,514.69	247,091,155.50	320,322,601.76	12,051,521.36	10,986,564.13
Livzon Group Xinbeijiang Pharmaceutical Manufacturing Inc. (麗珠集團新北江製藥股份有限公司)	Subsidiary	Pharmaceutical	Principally engaged in sale of bulk medicines, intermediate products and export of related technologies, major products include Pravastatin, Mevastatin, Salinomycin, etc.	134,925,200.00	451,430,171.83	333,466,020.40	187,961,626.29	35,493,039.83	35,199,817.25
Livzon Group Fuzhou Fuxing Pharmaceutical Co., Ltd. (麗珠集團福州福興製藥有限公司)	Subsidiary	Pharmaceutical	Principally engaged in production of 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	489,695,463.83	452,435,125.99	165,231,262.84	18,781,309.99	14,445,503.56
Zhuhai Livzon Diagnostic Reagents Inc. (珠海市麗珠試劑股份有限公司)	Subsidiary	Pharmaceutical	Principally engaged in production and sale of diagnostic reagents, major products include Chlamydia Trachomatis Antigen Diagnostic Kit and ELISA HIV Testing Reagents Kit.	46,450,837.00	588,527,027.75	383,231,481.48	260,148,898.69	50,017,680.72	44,473,659.00
Livzon MABPharm Inc. (珠海市麗珠單抗生物技術有限公司)	Subsidiary	Pharmaceutical	Principally engaged in technological R&D for biopharmaceutical products and antibiotics.	500,000,000.00	272,090,340.55	256,526,013.32	0.00	-71,291,383.95	-64,883,147.78
Livzon Group Fuxing Pharmaceutical Co., Ltd. (麗珠集團寧夏福興製藥有限公司)	Subsidiary	Pharmaceutical	Principally engaged in production and sale of medical intermediates, chemical raw materials	100,000,000.00	711,050,611.01	24,709,900.79	167,858,400.19	3,813,541.58	4,293,589.30

- Note:**
- The scope of the table: Companies included in the above table are subsidiaries and investee companies that with net profit (for each subsidiary) or investment return (for each investee company) accounted for more than 10% of the net profit of the Company.
  - Livzon MABPharm Inc. (珠海市麗珠單抗生物技術有限公司) is our key biopharmaceutical R&D enterprise which currently has no products for sale in market. The loss is mainly due to investment in R&D.
  - During the Reporting Period, Livzon Group Fuxing Pharmaceutical Co., Ltd (麗珠集團寧夏福興製藥有限公司) achieved a turnaround from loss to profit, mainly attributable to the increased gross profit margin as a result of the decrease in purchase prices of major raw materials including glucose.

# MANAGEMENT DISCUSSION AND ANALYSIS

## INVESTMENT ANALYSIS *(continued)*

### Major investments not financed by fund-raising

Amount denominated: RMB'0,000

Project	Total amount of planned investment	Amount of investment during the Reporting Period	Accumulated amount actually invested at the End of the Period	Project progress	Project revenue	Date of Disclosure (if any)	Index of disclosure (if any)
Deeper Development and Industrialization Upgrade of the innovative Ilaprazole product series	45,000.00	764.63	764.63	1.70%	-		
Therapeutic Antibody-based Drugs Research & Development and Industrialization Project <sup>(Note)</sup>	60,000.00	1,425.58	1,425.58	2.38%	-	3 November 2015. 9 March 2016	CNINFO
Construction of Research & Development Platform of sustained release Microsphere Technologies	30,182.00	527.51	527.51	1.75%	-		
<b>Total</b>	<b>135,182.00</b>	<b>2,717.72</b>	<b>2,717.72</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

Explanation of major investments not financed by fund-raising: The above projects were considered and passed on the Twenty-first Meeting of the Eighth Session of the Board and the 2016 second extraordinary general meeting of the Company as the proposed invested projects to be financed by non-public issuance of A shares of the Company. As at the disclosure date of the Report, the implementation of the Company's non-public issuance of A shares has not yet been completed.

*Note:* The total amount invested in the "Therapeutic Antibody-based Drugs Research & Development and Industrialization Project" was RMB600 million. The Company proposed to invest RMB306 million in Livzon MABPharm Inc. (珠海市麗珠單抗生物技術有限公司) ("Livzon MABPharm") by capital increase with funds raised from the non-public issuance of A shares, and Joincare will increase the capital according to its original shareholding proportion.

## DISPOSAL OF ASSETS

Counterparty	Disposed Assets	Date of Disposal	Trading Price (RMB'0,000)	Effect of the Disposal on the Company (RMB'0,000)	The proportion of the net profit from disposal of assets of the listed company to the total net profit	Pricing Principle for disposal of assets	Connected Transaction	Relationships with connected persons (applicable for connected transactions)		
								Full Transfer of property rights in the assets	Full transfer of rights and debts	
Foshan City Nanhai District Longqu Trade Co. Ltd.	Qingyuan Xinteng Enterprise Company Limited (清遠市信騰實業有限公司)	2016/3/14	8,300	427.82	1.05%	Based on market evaluation	No	Not applicable	Yes	Yes

## PROSPECT FOR FUTURE DEVELOPMENT

Along with an aging population and shifting disease spectrum, coupled with improvement in the economic conditions which led to an increase in healthcare demand, as well as the long term support from the Two-Child Policy in terms of population growth, the uptrend in demand of the overall healthcare business which centered on medicine shall continue, bringing the medicine industry to its steady growth phase. With these new developments, the Company shall leverage on the existing basis in reproductive specialized medicines, and continue to enrich its product portfolio and expend its specialized pharmaceutical segments, for example, the anti-tumor auxiliary medicines and the neuropsychiatric medicines. Going forward, the Company shall speed up the plotting of our precise pharmaceutical business so as to realize the collective development of "Biopharmaceutical + gene sequencing", and provide integrated and customized treatment solutions ranging from diagnosis to drug application.

During the second half year of 2016, the Company shall proactively tackle various challenges and opportunities brought by the industry reformation market competitions. The Company shall adhere to the guidelines on future development of "Innovation, Services, Integration and Development", and make efforts in terms of research and development, production, quality control and sales in order to achieve the goal of the share incentive scheme.

# MANAGEMENT DISCUSSION AND ANALYSIS

## PROSPECT FOR FUTURE DEVELOPMENT *(continued)*

The Company's major objectives planned for the second half year of 2016 are as follows:

### **(1) Continue to Deepen the Marketing Reform**

In the second half year of 2016, the Company shall continue to advocate for product channel penetration and establishment of primary healthcare institutions, and initiate development assessment to fill the gap within the market, in order to fully launch the outpatient sales business. The Company shall continue to strengthen the marketing efforts to promote our key products within the academic field as well as to the end-users. Also, we shall actively respond to the taxation reform which shift from sales tax to value-added tax, and the change to the two-vote system. We shall look into the bidding policies of each region, and endeavor to increase the market share of our key products. The Company shall endeavor to: 1. Refine management efforts and implement the accountability system on all levels, so as to enhance the executive power and improve the management structure of our provincial companies; 2. Recruit capable staffers and continue to enhance the construction of the structure of our provincial companies; 3. Emphasis on the performance assessment, so as to enhance the complete sales rate to hospitals of second rank or under; 4. Efficient control over the tail end, to integrate our resources and fully utilize the portable internet gadgets, in order to enhance our working efficiency.

### **(2) Steady Implementation of Research and Development Innovations**

During the second half of 2016, the Group will continue to increase its investments in technological researches, improve the R&D structure and speed up the construction of platforms for developing the innovative technologies of antibiotics as well as sustained-release microspheres, and quicken the research and development progress of our specialist medicines, and advance the efforts towards our precise diagnosis business. The Company shall consistently implement the principle of "focus on the course of research and development and come up with premium products", based on which we shall launch research and development projects, and step up the assessment process of our products under development, and thus expedite the payoff realization and perfect our product structure and business layout. At the same time, the Company shall actively commence the overseas registration process of our Chinese medicines, including the Shengqi Fuzheng Injection (参芪扶正注射液), the international multicenter clinical trial of monoclonal antibodies biopharmaceuticals and consistency assessments on generic drugs.

Furthermore, the Company has raised funds through non-public issuance, in order to invest in the further development of innovative products of the Ilaprazole series (艾普拉唑系列), the construction project of research and development and industrialization of the therapeutic antibody-based drugs, and the construction of research and development platform for the sustained-release microspheres, which would enhance our autonomy and innovation, sustain our competitive edges, and materialize our long term strategic goals of development.

### **(3) Solidifying quality management**

In the second half of 2016, the Group will enforce the risks inspection and supervise rectifications on quality control system of each manufacturing enterprises in order to eliminate significant quality-related incidents or quality-related crises. Simultaneously, we will continue to enhance sales quality control and quality control supervision for scientific researches. We will focus mainly on the following: conduct internal audits and unannounced inspections to subordinate enterprises from time to time, and will continue to enhance GSP daily supervisions, conduct timely and adequate quality survey, handle complains and monitor adverse reactions, so as to avoid risks related to drug policies. The Group will also enforce the EHS auditing. Meanwhile, we will enhance the management system of technologies by strengthening our works on transformation of new products, adjustment of productivity and technological innovation.

# MANAGEMENT DISCUSSION AND ANALYSIS

## PROSPECT FOR FUTURE DEVELOPMENT *(continued)*

### **(4) Speeding up the Relocation of the Head office and Enhancing the Functional Service of the Head Office**

In the second half of 2016, the Company will actively communicate with the Government authorities to speed up the relocation of the head office and accelerate the substitution and disposal of the lands for urban redevelopment. Meanwhile, the Group will further enhance management of the functional departments to improve management efficiency and work quality, which mainly includes the following:

1. The Group will enhance recruitment and management of staffers. A human resources management platform will be established to monitor, assist and facilitate their works, which will focus on inspection of the authorities and duties of the personnel;
2. In respect of fund management, the Group will take active measures in establishing a bank notes pool so as to extend its credit term and leverage on its credit amount, in order to achieve a more flexible credit facilities;
3. The Group will follow up on the implementation of “shift from sales tax to value-added tax”. We will also put forward a satisfying solution to the “two-vote system” through collaboration between departments and speed up the tests for modules and flow of the business system.

### **(5) Steadily Progress in Non-Public Projects and Expedite External Development**

In the second half of 2016, the Company will complete the non-public issuance of shares as soon possible. We will also accelerate our growth by enlarging production scale and optimizing product structure with funds raised from the capital market. Meanwhile, the Company will integrate its internal and external resources while keeping an eye on any investment opportunities in the pharmaceutical industry from home and abroad, so as to strengthen its advantages in the specialist medicine industry, and expedite the exploration and enrich our business related to precision medicines.

## DETAILS OF SUBSEQUENT EVENTS WITH MATERIAL IMPACT ON THE GROUP

Save as disclosed in the Report, there has been no significant event that has impact on the Company since the end of the accounting period.

## OTHER SIGNIFICANT EVENT

Save for such transactions as disclosed herein, 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 Reporting Period.

# CHANGES IN SHARE CAPITAL AND SHAREHOLDERS

## SHARE CAPITAL

During the Reporting Period, the Company had no changes in its share capital. On 30 June 2016, the Company's share capital structure was:

	Before the current change		Increase/Decrease (+,-) due to the current change		After the current change	
	Number	Percentage	Others	Sub-total	Number	Percentage
I. Shares subject to selling restrictions	20,328,396	5.12%	-4,292,985	-4,292,985	16,035,411	4.04%
1 State-owned shares	-	-	-	-	-	-
2 State-owned legal person shares	7,877,256	1.98%	-	-	7,877,256	1.98%
3 Other domestic shares	12,451,140	3.14%	-4,292,985	-4,292,985	8,158,155	2.06%
Of which: Domestic legal person shares	-	-	-	-	-	-
Domestic natural person shares	12,451,140	3.14%	-4,292,985	-4,292,985	8,158,155	2.06%
4 Foreign shares	-	-	-	-	-	-
Of which: Overseas legal person shares	-	-	-	-	-	-
Overseas natural person shares	-	-	-	-	-	-
II. Shares not subject to selling restrictions	376,561,151	94.88%	+4,292,985	+4,292,985	380,854,136	95.96%
1 Ordinary shares denominated in Renminbi	230,969,791	58.19%	+4,292,985	+4,292,985	235,262,776	59.28%
2 Domestically listed foreign shares	-	-	-	-	-	-
3 Overseas listed foreign shares	145,591,360	36.68%	-	-	145,591,360	36.68%
4 Others	-	-	-	-	-	-
III. Total number of shares	396,889,547	100.00%	-	-	396,889,547	100.00%

*Note:* On 28 March 2016, the "Resolution on Granting Shares to be Unlocked during the First Unlocking Period under the Restricted Shares Incentive Scheme of the Company" was being passed at the Twenty-third Meeting of the Eighth Session of the Board and the Twentieth Meeting of the Eighth Session of the Supervisory Committee of the Company. 4,453,176 shares, representing 1.12% of the Company's total share capital, were been unlocked during the First Unlocking Period. According to the authority granted to the Board at the 2015 First Extraordinary General Meeting of the Company, the Company had completed the unlock procedure and related matters for the above shares, with the listing date of such shares being 5 April 2016, resulted in a change in the number of shares. According to the Guidelines of the Shenzhen Stock Exchange for the Standard Operation of Companies Listed on the Main Board, upon completion of this unlock procedure, there are 160,191 locked shares held by the senior management, resulted in an actual increase of 4,292,985 non-restricted shares of the Company.

As at 13 July 2016, the Company made changes to its registered share capital due to repurchase and cancellation of the Restricted Shares under the Restricted A Shares Incentive Scheme, pursuant to which the total share capital decreased by 257,624 A Shares from 396,889,547 shares (of which: 251,298,187 A Shares, 145,591,360 H Shares) to 396,631,923 shares (of which: 251,040,563 A Shares, 145,591,360 H Shares).

# CHANGES IN SHARE CAPITAL AND SHAREHOLDERS

## NUMBER OF SHAREHOLDERS AND DETAILS ON SHAREHOLDINGS

### Number of Shareholders

At the End of the Reporting Period, the Company had a total of 18,006 Shareholders which included 4 H Shareholders (Note 1) and 18,002 A Shareholders. Based on the information that is publicly available to the Company and within the knowledge of the Directors, the public float of the Company has satisfied relevant requirements under the Hong Kong Listing Rules as at the date of this Report.

### Shareholdings of the top ten Shareholders

Name of Shareholder (Full name)	Nature of Shareholder	Class of shares	Shareholding percentage (%)	Number of shares held at the End of the Reporting Period (Share)	Change during the Reporting Period (Share)	Number of shares with selling restrictions (Share)	Pledge or lock up	
							Share status	Number (Share)
HKSCC Nominees Limited <sup>(Note 2)</sup>	Foreign legal person	H Share	36.68%	145,588,370	-	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	-	-	-	-
Guangzhou Begol Trading Corporation	State owned legal person	A Share	1.98%	7,877,256	-	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	-	-	-	-
Everbright Securities Co. Ltd.	Domestic non-state owned legal person	A Share	1.72%	6,828,880	1,633,880	-	-	-
Central Huijin Investment Company Limited	Others	A Share	1.38%	5,487,820	-	-	-	-
China Life Insurance Company Limited – traditional – general insurance product – 005L-CT001 Shen	Others	A Share	1.31%	5,200,006	5,200,006	-	-	-
China Securities Finance Corporation Limited	Others	A Share	1.30%	5,175,605	-621,046	-	-	-
Agricultural Bank of China – Greatwall Anxin Return Mixed Type Securities Investment Fund	Others	A Share	0.71%	2,799,895	799,895	-	-	-
Bank of China Limited – Castrol healthcare equity securities investment fund	Others	A Share	0.60%	2,362,330	1,115,535	-	-	-

### Shareholdings of top ten Shareholders without selling restrictions

Name of Shareholder (Full name)	Number of shares held without selling restriction at End of the Period (Share)	Type of shares	
		Category of shares	Number (Share)
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
Everbright Securities Co. Ltd.	6,828,880	A Shares	6,828,880
Central Huijin Investment Company Limited	5,487,820	A Shares	5,487,820
China Life Insurance Company Limited – traditional – general insurance product – 005L-CT001 Shen	5,200,006	A Shares	5,200,006
China Securities Finance Corporation Limited	5,175,605	A Shares	5,175,605
Agricultural Bank of China – Greatwall Anxin Return Mixed Type Securities Investment Fund	2,799,895	A Shares	2,799,895
Bank of China Limited – Castrol healthcare equity securities investment fund	2,362,330	A Shares	2,362,330
National Social Security Fund 403	2,054,658	A Shares	2,054,658



# CHANGES IN SHARE CAPITAL AND SHAREHOLDERS

## NUMBER OF SHAREHOLDERS AND DETAILS ON SHAREHOLDINGS *(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 and top ten Shareholders

(1) On 2 January 2004, Joicare 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 Joicare; (2) Shenzhen Haibin Pharmaceutical Co., Ltd. (深圳市海濱製藥有限公司) is Joicare's directly and indirectly wholly-owned subsidiary; (3) the Company does not aware whether the other Shareholders mentioned above are related parties or persons acting-in-concert as defined in the Administration Procedures of the Takeover of Listed Companies.

*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 holdings 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 Joicare, 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 7 "Important Matters" of the Report for details).

**As at 30 June 2016, the interests or short positions of the substantial Shareholders and other persons (within the meaning of the SFO), other than Directors, Supervisors or chief executive 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 to the specific class of issued share of the Company	As a percentage to the total issued shares of the Company
<b>Substantial shareholders</b>					
Shenzhen Baiyeyuan Investment Co., Ltd. (深圳市百業源投資有限公司) ("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%
Joicare (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%

# CHANGES IN SHARE CAPITAL AND SHAREHOLDERS

## NUMBER OF SHAREHOLDERS AND DETAILS ON SHAREHOLDINGS *(continued)*

As at 30 June 2016, the interests or short positions of the substantial Shareholders and other persons (within the meaning of the SFO), other than Directors, Supervisors or chief executive 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: *(continued)*

Name of shareholder	Capacity	Number of the Shares interested/ subject to the short position	Position	As a percentage to the specific class of issued share of the Company	As a percentage to the total issued shares of the Company
<b>Other persons</b>					
UBS Group AG	Person having a security interest in shares	1,319,800 H Shares <sup>(6)</sup>	Long position		
	Interest of controlled corporations	8,404,045 H Shares <sup>(6)</sup>	Long position		
		9,723,845 H Shares		6.68%	2.45%
	Interest of controlled corporations	30,000 H Shares <sup>(7)</sup>	Short position	0.02%	0.01%

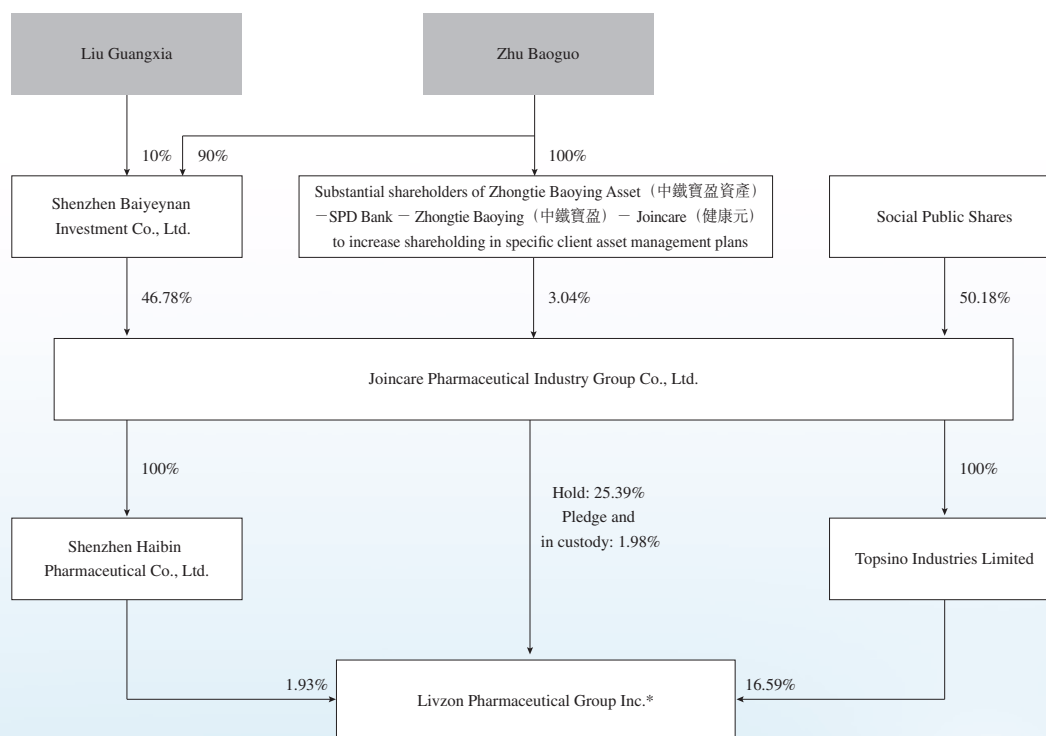
### Notes:

- (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 2004, the share transfer and custody agreement and the share pledge agreement with Joincare (健康元).
- (6) These shares include 1,319,800 shares attributable to security interest and 8,404,045 shares attributable to interest in controlled corporations, among which 4,800 shares are physically delivered derivatives. Interest in controlled corporations is held as to 52,833 shares, 1,410,622 shares, 190,980 shares, 6,718,210 shares, 1,400 shares and 30,000 shares by its wholly-owned entities, namely UBS AG, UBS Asset Management (Hong Kong) Ltd, UBS Asset Management (Singapore) Ltd, UBS Fund Management (Luxembourg) S.A., UBS Fund Management (Switzerland) AG and UBS Securities LLC, respectively.
- (7) These short positions are held by its wholly-owned UBS Securities LLC.

# CHANGES IN SHARE CAPITAL AND SHAREHOLDERS

## CONTROLLING SHAREHOLDER AND ULTIMATE BENEFICIAL OWNER

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



- Notes:
1. Zhu Baoguo (朱保國) is the spouse of Liu Guangxia (劉廣霞).
  2. On 1 February 2016, the first reserved grant under the restricted A shares incentive scheme of Joicare has been registered with Shanghai Branch of China Securities Depository and Clearing Corporation Limited, through which the share capital of Joicare increased by 3,150,000 shares from 1,583,879,292 shares to 1,587,029,292 shares, as such, the shareholding of Shenzhen Baiyeyuan Investment Co., Ltd. (深圳市百業源投資有限公司) in Joicare decreased to 46.78% from 46.87%. Mr. Zhu Baoguo holds 48,277,046 shares in Joicare (健康元) in the form of targeted asset management scheme(s), with a decrease in the proportion to the total share capital of Joicare from 3.05% to 3.04%.

\* For identification purpose only

# DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

## CHANGE OF BIOGRAPHICAL DETAILS OF DIRECTORS AND SUPERVISORS

During the Reporting Period, change of biographical details of Directors and Supervisors during their tenure which require to be disclosed in accordance with Rules 13.51(2) and 13.51B of Hong Kong Listing Rules are set out as follows:

Mr. Xie Yun, the Independent Non-Executive Director of the Company, has been an independent director of Shenzhen Click technology Co., Ltd. (002782.SZ) since 27 May 2016.

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

Name	Position	Type	Date	Reason
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 Reporting Period, there were no changes in shareholdings of Directors, Supervisors and Senior Management of the Company. Details of the shareholdings are as follows:

Name	Position	Number of restricted shares granted (A Shares) as at 30 June 2016	As a percentage to the total issued shares of the Company as at 30 June 2016	Number of Unlocked Restricted Shares (A Shares) during the Current Period <sup>(Note)</sup>
Tao Desheng	Executive Director, Vice Chairman and President	275,990	0.07%	110,396
Yang Daihong	Executive Director, Vice President	176,540	0.04%	70,616
Xu Guoxiang	Vice President	275,990	0.07%	110,396
Lu Wenqi	Vice President	176,540	0.04%	70,616
Si Yanxia	Vice President	110,370	0.03%	44,148
Yang Liang	Secretary to the Board	52,520	0.01%	21,008

*Note:* On 28 March 2016, the Company held a Board meeting and considered and passed the "Resolution on Granting Shares to be Unlocked during the First Unlock-up period under the Restricted A Shares Incentive Scheme of the Company". The unlock-up of part of the Restricted Shares held by the mentioned Directors and senior management who participated in the Restricted A Shares Incentive Scheme was completed during the Reporting Period. According to relevant requirements of the Securities Law of the People's Republic of China, upon completion of the unlock-up, shares not subject to selling restrictions held by the above Directors and senior management were partly locked on a pro-rata basis.

# DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

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

As at 30 June 2016, the interests or short positions of the Directors, Supervisors or chief executive of the Company, in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the 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 <i>(Long position)</i>	As a percentage to the specific class of issued shares of the Company	As a percentage to the total issued shares of the Company
Mr. Zhu Baoguo (朱保國)	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)	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)	Beneficial owner	176,540 A Shares	0.07%	0.04%

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

Name of Director	Name of associated corporation	Capacity	Equity interest (RMB)	As a percentage to the equity interest of associated corporation
Mr. Zhu Baoguo (朱保國)	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%

# DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

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

Notes:

- (1) Joincare (健康元) is 46.78% 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).

## LISTS OF MEMBERS OF THE BOARD AND THE SUPERVISORY COMMITTEE

The Board of the Company comprises eleven Directors which includes three executive Directors, three non-executive Directors and five independent non-executive Directors. As at the date of the Report and during the Current Period, the Directors of the Company are as follows:

### Executive Directors

Mr. Tao Desheng (陶德勝) (*Vice Chairman and President*)  
Mr. Fu Daotian (傅道田) (*Vice President*)  
Mr. Yang Daihong (楊代宏) (*Vice President*)

### Non-executive Directors

Mr. Zhu Baoguo (朱保國) (*Chairman*)  
Mr. Qiu Qingfeng (邱慶豐)  
Mr. Zhong Shan (鍾山)

### Independent Non-executive Directors

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

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

Mr. Wang Maolin (汪卯林) (*Chief Supervisor*)  
Mr. Huang Huamin (黃華敏)  
Mr. Tang Yin (湯胤) (*appointed on 26 February 2016*)  
Mr. Yuan Huasheng (袁華生)  
(*resigned as Supervisor on 20 November 2015 with effect from 26 February 2016*)

# MAJOR EVENTS

## CORPORATE GOVERNANCE

### Highlights

The Company has been constantly optimising its corporate governance structure and strictly observing the Company Law, the Securities Law of the PRC, the Guidelines for Corporate Governance of Listed Companies and the relevant laws and regulations of CSRC, Shenzhen Listing Rules and Hong Kong Listing Rules in doing its business. At the End of the Reporting Period, the corporate governance of the Company is in compliance with requirements for a listed company without any substantial deviation from the requirements of relevant documents of CSRC.

### Compliance with the Corporate Governance Code

The Company confirmed that it has strictly complied the principles of the code provisions (“Code Provision”) under the Code on Corporate Governance Practices contained in new Appendix 14 of the Hong Kong Listing Rules throughout the period from 1 January 2016 to 30 June 2016 except for the following derivations:

The Code Provision E.1.2 provides that the Chairman of the Board should attend the annual general meeting. The chairman of the Company, Mr. Zhu Baoguo did not attend the 2015 annual general meeting of the Company as he was in a sudden business trip at that time.

### Compliance with the Model Code for Securities Transactions by Directors of Listed Issuers

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (“Model Code”) as set out in Appendix 10 of the Hong Kong Listing Rules as its own code of conduct regarding the securities transactions by the Company’s Directors and Supervisors. Having made specific enquiries to all of the Directors and Supervisors of the Company, the Company has not been informed of any information which reasonably indicated that each of the Directors and Supervisors had not complied with the standards required by the Model Code throughout the period from 1 January 2016 to 30 June 2016. All Directors and Supervisors have confirmed that they had fully complied with the standards as set out in the Model Code and the Company’s code of conduct throughout the period from 1 January 2016 to 30 June 2016.

### 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.

The Audit Committee has reviewed the unaudited results and interim report of the Group for the six months ended 30 June 2016 and agreed to submit to the Board for consideration.

## CORPORATE GOVERNANCE *(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.

#### **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.

#### **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.



# MAJOR EVENTS

## 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	Settlement method for connected transactions	Date of disclosure	Index of disclosure
Zhuhai Joincare Pharmaceutical Co., Ltd. (珠海健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	0.75	0.0002%	Bank settlement		
Guangdong Blue Treasure Pharmaceutical Co. Ltd. (廣東藍寶製藥有限公司) <sup>(Note)</sup>	Associate	Sale of commodities	Sale of finished goods	Determined by negotiation based on market price	1,474.36	0.3910%	Bank settlement		
Jiaozuo Joincare Pharmaceutical Industry Group Co., Ltd. (焦作健元生物製藥有限公司)	Subsidiary of the controlling shareholder	Sale of commodities	Sale of raw material	Determined by negotiation based on market price	9.71	0.0026%	Bank settlement		
Shenzhen Haibin Pharmaceutical Co., Ltd. (深圳市海濱製藥有限公司)	Subsidiary of the controlling shareholder	Provision of services	Subcontracting charge	Determined by negotiation based on market price	49.32	53.9530%	Bank settlement		
Guangdong Blue Treasure Pharmaceutical Co. Ltd. (廣東藍寶製藥有限公司) <sup>(Note)</sup>	Associate	Provision of services	Water, electricity and power	Determined by negotiation based on market price	283.59	97.8398%	Bank settlement		
Jiaozuo Joincare Pharmaceutical Industry Group Co., Ltd. (焦作健元生物製藥有限公司)	Subsidiary of the controlling shareholder	Procurement of goods	Procurement of raw materials	Determined by negotiation based on market price	12,334.75	13.8576%	Bank settlement		
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	2,304.06	2.5885%	Bank settlement		
Xinxiang Haibin Pharmaceutical Co., Ltd. (新鄉海濱藥業有限公司)	Subsidiary of the controlling shareholder	Procurement of goods	Procurement of raw materials	Determined by negotiation based on market price	0.43	0.0005%	Bank settlement	25 March 2016	Livzon Pharmaceutical Group Inc. Execution of Connected Transactions in the Ordinary Course of Business for 2015 and Connected Transactions in the Ordinary Course of Business for 2016 Announcement (Announcement No.: 2016-31) Published on the website of: Cninfo ( <a href="http://www.cninfo.com.cn">http://www.cninfo.com.cn</a> )
Guangdong Blue Treasure Pharmaceutical Co. Ltd. (廣東藍寶製藥有限公司) <sup>(Note)</sup>	Associate	Procurement of goods	Procurement of raw materials	Determined by negotiation based on market price	9.28	0.0104%	Bank settlement		
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	2.00	0.0022%	Bank settlement		
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 raw materials	Determined by negotiation based on market price	1.17	0.0013%	Bank settlement		
Joincare Pharmaceutical Industry Group Co., Ltd. (健元藥業集團股份有限公司)	Controlling shareholder	Procurement of goods	Procurement of finished goods	Determined by negotiation based on market price	6.19	0.0070%	Bank settlement		
Jiaozuo Joincare Pharmaceutical Industry Group Co., Ltd. (焦作健元生物製藥有限公司)	Subsidiary of the controlling shareholder	Acceptance of services	Water, electricity and power	Determined by negotiation based on market price	406.67	3.5100%	Bank settlement		
Zhuhai Joincare Pharmaceutical Co., Ltd. (珠海健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	8.63	3.0815%	Bank settlement		
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	4.71	1.6818%	Bank settlement		
Joincare Pharmaceutical Industry Group Co., Ltd. (健元藥業集團股份有限公司)	Controlling shareholder	Hiring of assets	Hiring of office premises	Determined by negotiation based on market price	32.95	17.6432%	Bank settlement		
CYNVENIO BIOSYSTEMS, INC. <sup>(Note)</sup>	A company in which Directors are holding position	Procurement of goods	Procurement of diagnostic equipment	Determined by negotiation based on market price	790.00	9.8065%	Bank settlement		
Total					17,718.57	-	-		

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

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

Substantial amount of returned products

Not applicable

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

During the Reporting Period, the total amount of the connected transactions actually conducted in the ordinary course was RMB177.1857 million. Among which, the amount of connected transactions actually conducted between the Company and controlling shareholders and their subsidiaries was RMB151.6134 million, representing 26.07% of the projected amount (RMB581.4734 million) approved by the general meeting of shareholders and the Board of the Company; the amount of connected transactions actually conducted between the Company and Guangdong Blue Treasure Pharmaceutical Co. Ltd. (廣東藍寶製藥有限公司) was RMB17.6723 million, representing 30.99% of the projected amount (RMB57.024 million) approved by the Board of the Company; connected transactions with CYNVENIO BIOSYSTEM, INC. of RMB7.90 million have been considered and approved by the Company's operational management.

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

Not applicable

*Note:* Saved for the connected transactions with Guangdong Blue Treasure Pharmaceutical Co. Ltd. (廣東藍寶製藥有限公司) and CYNVENIO BIOSYSTEMS, INC., other transactions between the Company and the controlling shareholder Joicare and its subsidiaries during the Reporting Period constitute the "continuing connected transactions" under Chapter 14A of the Hong Kong Listing Rules.

### Connected Transactions on Joint External Investment

Co-investor	Relationships with connected parties	Pricing principle of joint investment	Name of the investee company	Principle business of the investee company	Registered capital of the investee company (RMB)	Total assets of the investee company (RMB'0,000)	Net assets of the investee company (RMB'0,000)	Net profit of the investee company (RMB'0,000)
CYNVENIO BIOSYSTEMS, INC.	A Company in which our Director holds a position	Determined by asset appraisal	Zhuhai Livzon Shengmei Medical Diagnosis Technology Co. Ltd. (珠海麗珠聖美醫療診斷技術有限公司)	Engaged in R&D, production and sales of pharmaceutical diagnostic equipment and reagents; development, consultancy, exchange and promotion of the vitro diagnostic technology as well as transfer service of self-owned technologies; maintenance service of pharmaceutical diagnostic equipment; import and export of goods relevant to pharmaceutical diagnostic equipment, reagents, materials and softwares (except for the exclusively operated and managed commodities); research and trail development of pharmaceutical diagnostic technologies; clinical research and data processing services; biopharmaceutical laboratory services; development and services of computer technologies; development of software.	103,333,333.00	10,022.85	10,181.42	-151.91

# MAJOR EVENTS

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

### Creditor's Rights and Debts with Connected Persons

#### Creditors' rights receivable to 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 Current Period (RMB'0,000)	Amount recovered for the Current Period (RMB'0,000)	Balance at the End of the Period (RMB'0,000)
Zhuhai Joicare 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	7.55	10.88	11.14	7.29
Guangdong Blue Treasure Pharmaceutical Co. Ltd. (廣東藍寶製藥有限公司)	Associate	Sale of goods	No	1,741.00	1,725.00	2,039.52	1,426.48
Jiaozuo Joicare Pharmaceutical Industry Group Co., Ltd. (焦作健康元生物製品有限公司)	Subsidiary of the controlling shareholder	Sale of goods	No	-	11.36	11.36	-
Zhuhai Joicare 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	3.31	0.03	-	3.34
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	5.00	5.00	0.83
Guangdong Blue Treasure Pharmaceutical Co. Ltd. (廣東藍寶製藥有限公司)	Associate	Provision of services	No	116.78	324.13	348.18	92.73
Shenzhen Haibin Pharmaceutical Co., Ltd. (深圳市海濱製藥有限公司)	Subsidiary of the controlling shareholder	Subcontracting charge	No	48.97	62.02	87.37	23.62
Effect of connected creditor's rights on the operating results and financial position of the Company		The connected creditor's rights 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)*

### Creditor's Rights and Debts with Connected Persons *(continued)*

#### Debts payable to 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 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	11,927.79	14,357.28	10,917.42	15,367.65
Shenzhen Haibin Pharmaceutical Co., Ltd. (深圳市海濱製藥有限公司)	Subsidiary of the controlling shareholder	Procurement of goods	601.84	2,698.05	2,068.64	1,231.25
Xinxiang Haibin Pharmaceutical Co., Ltd. (新鄉海濱藥業有限公司)	Subsidiary of the controlling shareholder	Procurement of goods	-	0.50	0.50	-
Health Pharmaceutical (China) Co., Ltd. (健康藥業(中國)有限公司)	Subsidiary of the controlling shareholder	Procurement of goods	-	1.37	-	1.37
Guangdong Blue Treasure Pharmaceutical Co. Ltd. (廣東藍寶製藥有限公司)	Associate	Procurement of goods	6.56	10.86	17.42	-
Jincare Pharmaceutical Industry Group Co., Ltd. (健康元藥業集團股份有限公司)	Controlling shareholder	Procurement of goods, hiring of assets	-	40.19	7.24	32.95
Shenzhen Taitai Pharmaceutical Co., Ltd. (深圳太太藥業有限公司)	Subsidiary of the controlling shareholder	Procurement of goods	-	2.34	2.34	-
Jiaozuo Jincare Pharmaceutical Industry Group Co., Ltd. (焦作健康元生物製品有限公司)	Subsidiary of the controlling shareholder	Water, electricity and power, etc	71.23	524.22	-	595.45
EPIRUS SWITZERLAND GmbH	A company in which Directors are holding position	Research and development funding	949.55	-	479.32	470.23
Topsino Industries Limited (天誠實業有限公司)	Subsidiary of the controlling shareholder	Dividend payable	-	333.73	-	333.73
CYNVENIO BIOSYSTEMS, INC.	A company in which Directors are holding position	Procurement of diagnostic equipment	-	790.00	790.00	-

Effect of connected debts on the operating results and financial position of the Company

The connected debts mainly arose from ordinary course of business of the Company and distribution of dividends. There is no significant effect on the operating results and financial position of the Company.

# MAJOR EVENTS

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

### **Other major connected transactions**

The Group had no other major connected transactions during the Reporting Period.

## **CONNECTED TRANSACTIONS DEFINED IN HONG KONG LISTING RULES**

### **Connected Persons**

As Joincare is the controlling shareholder of the Company, and Livzon MABPharm Inc. (“Livzon MABPharm”) is held by the Company and Joincare as to 51% and 49%, respectively, Joincare and Livzon MABPharm 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**

On 16 May 2016, in order to meet the needs of the operations and development of Livzon MABPharm, the Company’s controlling subsidiary, the Board approved the Company to provide joint liability guarantee for credit line of up to RMB50,000,000 or equivalent in foreign currency from Bank of Communications C., Ltd., Zhuhai Branch applied by Livzon MABPharm. On the same day, Joincare provided “Letter of Undertaking for Counter Guarantee”, pursuant to which it undertook to provide a counter guarantee for 49% of the obligation of the Company under the guarantee provided to Livzon MABPharm and the guarantee period of which would be expired on the expiry date of the Company’s obligation under the guarantee. Therefore, the risks exposed by the Company for the guarantee is under control, the guarantee will not impact continued viability of the Company and is in the interests of the Company as a whole.

On 22 June 2016, the Company and Bank of Communications C., Ltd., Zhuhai Branch formally entered into a guarantee agreement.

Considering that Livzon MABPharm is a connected person of the Company, therefore, the provision of guarantee constitutes a connected transaction of the Company under Chapter 14A of the Hong Kong Listing Rules. As one of the applicable percentage ratios in respect of the provision by the Company of joint liability guarantee for credit line of up to RMB50 million is more than 0.1% but less than 5%, provision of guarantee is subject to the reporting and announcement requirements but exempt from the independent shareholders’ approval requirement under the Hong Kong Listing Rules.

### **Continuing Connected Transactions**

Please refer to “Connected Transactions in the Ordinary Course of Business” on Page 40 of this Report for transactions actually occurred between the Group and the controlling shareholder Joincare and its subsidiaries which constitute the “continuing connected transactions” under Chapter 14A of the Hong Kong Listing Rules during the Reporting Period (except for Guangdong Blue Treasure Pharmaceutical Co. Ltd. (廣東藍寶製藥有限公司) and CYNVENIO BIOSYSTEMS, INC.).

## MAJOR CONTRACTS AND ITS ENFORCEMENT

### Custody, hiring and leasing matters

During the Reporting Period, the Company had no custody, contracting or leasing of other companies' assets which generated 10% or more of total profit of the Company for the Current Period.

### Guarantees

During the Reporting Period, the Company had no guarantee provided for companies other than its subsidiaries. The total guarantee for its subsidiaries amounted to RMB8.8786 million. For the details, please refer to the relevant content in Note 11. Related party transactions as set out in the Financial Report in the Report.

### Other major contracts

During the Reporting Period, the Company did not enter into any other major contracts.

### Other material transactions

During the Reporting Period, the Company did not enter into any other material transactions.

## USE OF CAPITALS OF THE LISTED COMPANY FOR NON-OPERATIONAL PURPOSE BY CONTROLLING SHAREHOLDERS AND ITS RELATED PARTIES

During the Reporting Period, the Company has no use of capitals for non-operational purpose by controlling shareholders and its related parties.

## PUNISHMENT AND RECTIFICATION

During the Reporting Period, the Company was not a subject of punishment nor required to do any rectification.

## MATTERS OF COMMITMENTS

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

**Covenantors:** Shenzhen Baiyeyuan Investment Co., Ltd. (深圳市百業源投資有限公司), Joicare, 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:

# MAJOR EVENTS

## MATTERS OF COMMITMENTS *(continued)*

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

- “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.
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.

## MATTERS OF COMMITMENTS *(continued)*

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

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.
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.



# MAJOR EVENTS

## MATTERS OF COMMITMENTS *(continued)*

### Undertakings during Implementation of Non-public Issuance of A Shares Project

**Covenants:** Joicare and Mr. Zhu Baoguo (朱保國)

**Date of undertakings and their duration:** 8 March 2016; Up to the completion date of the execution of remedial measures of this non-public issuance.

**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.

**Covenants:** 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), Guo Guoqing (郭國慶), 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; Up to the completion date of the execution of remedial measures of this non-public issuance.

#### 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

**Convenantor:** Joicare

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

**Details of the Undertakings:** “1. Joicare 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 Joicare 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 Reporting Period, the Convenantor 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 Joicare, 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 Joicare Pharmaceutical Industry Group Co., Ltd. (焦作健康元生物製品有限公司), another wholly-owned subsidiary of Joicare. 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 Reporting Period, Joicare, 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 RESTRICTED A SHARES INCENTIVE SCHEME

The Restricted A Shares Incentive Scheme was considered, approved and authorized by the 2015 First Extraordinary General Meeting, the 2015 First Class Meeting of H Shareholders and the 2015 First Class Meeting of A Shareholders held on 13 March 2015. The Company implemented the Restricted A Shares Incentive Scheme and approved 27 March 2015 as the date of the first grant and 12 November 2015 as the date of the reserved grant respectively, and 8,660,400 Restricted Shares were granted to the incentive participants under the first grant and 1,285,700 Restricted Shares were granted to the incentive participants under the reserved grant, respectively.

# MAJOR EVENTS

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

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

On 28 March 2016, as the Twenty-third Meeting of the Eighth Session of the Board considered and approved, the Company processed the matters regarding the unlocking of the first unlocking period under the First Grant of the Restricted A Shares Incentive Scheme. The number of unlocked Restricted Shares was 4,453,176, representing 1.12% of the Company's total share capital with the listing date of such shares being 5 April 2016. Meanwhile, 32,500 Restricted Shares granted to Incentive Participants in the First Grant who no longer satisfy the incentive conditions have been repurchased and the cancellation has been completed on 13 July 2016.

On 16 May 2016, as the Twenty-sixth Meeting of the Eighth Session of the Board considered and approved, the Company repurchased 215,124 Restricted Shares under the first grant and 10,000 Restricted Shares under the reserved grant that no longer satisfy the unlocking conditions under the Restricted A Shares Incentive Scheme. On 13 July 2016, the cancellation of the repurchased shares has been completed.

Please refer to the announcements dated 28 March 2016, 29 March 2016, 31 March 2016, 16 May 2016 and 13 July 2016 for relevant details.

## THE NON-PUBLIC ISSUANCE OF A SHARES

The Company's plan for non-public issuance of A shares ("the Issuance") was considered and approved by the 2015 Third Extraordinary General Meeting held on 21 December 2015. The Company determined the issue price of the Issuance to be no less than RMB45.03 per share, the number of issuance of no more than 32,374,417 (inclusive) shares. The final issue price will be determined by auction 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. 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. Shares subscribed by the investors cannot be transferred during the twelve months from the completion date of the Issuance. Upon expiry of the lock up period, shares issued under the Issuance shall be listed on the Shenzhen Stock Exchange.

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 of the the Issuance 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 "Feedback"). The Company and the relevant intermediate agencies were required to make illustration and explanation in respect of relevant issues in writing.

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

In view of the substantial changes to the domestic securities market and in order to ensure the success of the Issuance, on 8 March 2016, the Board considered and passed the adjustments to the number of issuance, pricing methods and issue price of the plan of the Issuance. The issuance 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 rest of the plan of the Issuance remains unchanged (the "Adjustment Plan"). The Adjustment Plan is required to be submitted to the general meeting of the Company to be considered and approved.

Due to the above reasons, the Company has subsequently 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.

On 25 April 2016, the Company convened the 2016 Second Extraordinary General Meeting to consider and approve the Adjustment Plan and relevant resolutions. Meanwhile, the Company has completed the explanation and analysis on the issues related to the Issuance according to the requirements of the Feedback and performed relevant approval procedures, and disclosed the reply to the Feedback on the same day. The Company continues to carry on the related work of the Issuance and timely submitted application to CSRC in relation to the restoration of the examination of the application documents regarding of the Issuance the Issuance.

On 10 May 2016, the Company received the "Notice of the Application for Administrative Permission for Restoration of Examination Process" (No. 160060) from CSRC, in which CSRC considered that the Company had met the requirements of the restoration of examination process and decided to restore the examination of the application for administrative permission.

On 11 May 2016, the Company disclosed the "Supplemental Explanation of Livzon Pharmaceutical Group Inc.\* regarding the Investment Projects Financed by the Proceeds from the Non-public Issuance of A Shares" according to the relevant requirements of CSRC.

On 18 May 2016, the Issue Review Committee of CSRC (中國證監會發行審核委員會) reviewed and approved the application for the Issuance.

On 15 June 2016, in view of the completion of the 2015 cash dividend distribution of A shares, the Company made adjustments to the floor price and the number of shares to be issued as follows: the floor price has been adjusted from "no lower than 38.36 RMB/share" to "no lower than 37.86 RMB/share", and the number of shares to be issued has been adjusted from "no more than 38,000,000 (inclusive) shares" to "no more than 38,500,000 (inclusive) shares". No change, other than the adjustments above mentioned, has been made to other matters covered in the plan of the Issuance.

On 1 August 2016, the Company received "Approval in Relation to the Non-public Issuance of Shares by Livzon Pharmaceutical Group Inc." (Zheng Jian Xu Ke [2016] No. 1524) from the CSRC. The Company will handle relevant matters of this Issuance within the prescribed period in accordance with the requirements of the approval.

\* For identification purpose only

# MAJOR EVENTS

## REPURCHASE, SALE OR REDEMPTION OF SECURITIES

In view of that 14 original Incentive Participants under the First Grant of the Restricted A Shares Incentive Scheme and one original Incentive Participant under the Reserved Grant have resigned, pursuant to the provisions of "13. Handling unusual changes to the Company/Incentive Participants" under the Restricted A Shares Incentive Scheme, the Company has proposed to repurchase and cancel the 257,624 Restricted Shares granted but still locked-up as held by the 15 resigned Incentive Participants.

On 11 July 2016, the Company has repurchased 247,624 Restricted A Shares under the First Grant at the price of RMB19.308 per share and 10,000 Restricted A Shares under the Reserved Grant at the price of RMB24.61 per share, respectively, on the Shenzhen Stock Exchange, totaling 257,624 Restricted A Shares (the "Repurchased A Shares") (the "Repurchase"). The aggregate purchase price paid for the Repurchase was RMB5,027,224.20. Pursuant to the Repurchase, the Repurchased A Shares have been cancelled on 13 July 2016.

Save as disclosed above, throughout the period from 1 January 2016 to 30 June 2016, neither the Company nor any of its subsidiaries repurchased, sold or redeemed any of the listed securities of the Company.

## DIVIDENDS

On 27 May 2016, the Company convened the annual general meeting for 2015 to consider and approve a distribution plan by which a cash dividend of RMB5 (tax included) (the "Cash Dividend") per 10 shares would be paid to all Shareholders based on 396,889,547 shares of the total share capital of the Company as at 31 December 2015 with a total amount of Cash Dividend of RMB198,444,773.5. The Company completed the payment of the Cash Dividend of A Shares and H Shares on 15 June 2016 and 30 June 2016, respectively.

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2016. The Company did not pay any dividend during the six months ended 30 June 2015.

# CONSOLIDATED BALANCE SHEET

Prepared by : Livzon Pharmaceutical Group Inc.			Amount denominated: RMB
<b>Item</b>	<b>Notes</b>	<b>2016.6.30</b>	<b>2015.12.31</b>
<b>Current assets:</b>			
Cash at bank and in hand	VI.1	<b>905,540,384.83</b>	798,295,283.74
Financial assets at fair value through profit or loss	VI.2	<b>6,284,607.37</b>	6,589,225.34
Derivative financial assets			
Bills receivables	VI.3	<b>447,397,071.95</b>	343,042,435.08
Accounts receivables	VI.4	<b>1,602,653,235.14</b>	1,256,094,264.14
Prepayments	VI.5	<b>120,508,246.59</b>	122,297,549.66
Interest receivables			
Dividends receivables			
Other receivables	VI.6	<b>61,923,793.71</b>	67,649,763.66
Inventories	VI.7	<b>1,035,807,509.06</b>	983,915,770.14
Classified as held-for-sale assets			
Non-current assets due within one year			
Other current assets			
<b>Total current assets</b>		<b>4,180,114,848.65</b>	3,577,884,291.76
<b>Non-current assets:</b>			
Available-for-sale financial assets	VI.8	<b>146,866,585.44</b>	179,622,286.76
Held-to-maturity investments			
Long-term receivables			
Long-term equity investments	VI.9	<b>92,530,162.61</b>	68,908,511.07
Investment properties			
Fixed assets	VI.10	<b>3,386,045,120.75</b>	3,323,765,437.26
Construction in progress	VI.11	<b>196,862,180.39</b>	347,248,914.85
Construction supplies	VI.12	<b>90,598.29</b>	72,208.40
Fixed assets to be disposed			
Bearer biological assets			
Oil and gas assets			
Intangible assets	VI.13	<b>274,796,977.67</b>	259,474,188.00
Development costs	VI.14	<b>14,500,451.14</b>	13,252,992.01
Goodwill	VI.15	<b>103,040,497.85</b>	103,040,497.85
Long-term deferred expenses	VI.16	<b>52,296,796.84</b>	40,023,456.83
Deferred tax asset	VI.17	<b>117,258,983.86</b>	104,338,481.98
Other non-current assets	VI.18	<b>68,092,900.94</b>	59,906,523.64
<b>Total non-current assets</b>		<b>4,452,381,255.78</b>	4,499,653,498.65
<b>Total assets</b>		<b>8,632,496,104.43</b>	8,077,537,790.41

# CONSOLIDATED BALANCE SHEET

Prepared by : Livzon Pharmaceutical Group Inc.			Amount denominated: RMB
Item	Notes	2016.6.30	2015.12.31
<b>Current liabilities:</b>			
Short-term loans	VI.19	<b>860,000,000.00</b>	250,000,000.00
Financial liabilities at fair value through profit or loss			
Derivatives financial liabilities			
Bills payables	VI.20	<b>270,832,083.12</b>	299,007,801.36
Accounts payables	VI.21	<b>649,083,875.68</b>	636,752,599.23
Receipts in advance	VI.22	<b>54,438,636.07</b>	65,255,250.41
Employee benefits payables	VI.23	<b>51,060,743.69</b>	71,848,597.13
Taxes payables	VI.24	<b>147,036,499.60</b>	130,034,879.53
Interest payables	VI.25	<b>524,189.89</b>	11,823,945.25
Dividends payables	VI.26	<b>6,060,057.60</b>	2,531,984.46
Other payables	VI.27	<b>1,331,166,209.39</b>	1,287,284,945.74
Classified as held-for-sale liabilities			
Non-current liabilities due within one year	VI.28	<b>400,000.00</b>	400,400,000.00
Other current liabilities			
<b>Total current liabilities</b>		<b>3,370,602,295.04</b>	3,154,940,003.11
<b>Non-current liabilities:</b>			
Long-term loans	VI.29	<b>700,000.00</b>	700,000.00
Notes payables	VI.30		
Of which: Preferred shares			
Perpetual bonds			
Long-term payables			
Long-term employee benefits payables			
Special payables			
Accrued liabilities			
Deferred gain	VI.31	<b>90,605,661.37</b>	99,558,739.98
Deferred tax liabilities	VI.17	<b>15,186,780.85</b>	12,442,303.79
Other non-current liabilities			
<b>Total non-current liabilities</b>		<b>106,492,442.22</b>	112,701,043.77
<b>Total liabilities</b>		<b>3,477,094,737.26</b>	3,267,641,046.88
<b>Shareholders' equity:</b>			
Share capital	VI.32	<b>396,889,547.00</b>	396,889,547.00
Other equities			
Of which: Preferred shares			
Perpetual bonds			
Capital reserve	VI.33	<b>415,608,715.50</b>	395,709,350.15
Less: Treasury shares	VI.34	<b>157,075,210.20</b>	247,219,957.00
Other consolidated earnings	VI.35	<b>-10,927,775.90</b>	-12,753,227.85
Special reserve			
Surplus reserve	VI.36	<b>546,610,551.66</b>	546,610,551.66
General risks provision			
Unallocated earnings	VI.37	<b>3,477,636,117.20</b>	3,267,019,067.30
Total equity attributable to shareholders of the parent company		<b>4,668,741,945.26</b>	4,346,255,331.26
Non-controlling interests		<b>486,659,421.91</b>	463,641,412.27
<b>Total shareholders' equity</b>		<b>5,155,401,367.17</b>	4,809,896,743.53
<b>Total liabilities and shareholders' equity</b>		<b>8,632,496,104.43</b>	8,077,537,790.41

Legal representatives:  
Zhu Baoguo

Principal in charge of  
accounting work: Si Yanxia

Name of the accounting firm's  
principal: Zhuang Jianying

(The accompanying notes form part of the financial statements)

# CONSOLIDATED INCOME STATEMENT

Prepared by : Livzon Pharmaceutical Group Inc.		Amount denominated: RMB	
Item	Notes	For the Current Period	For the Previous Period
<b>I. Total operating income</b>		<b>3,784,299,658.63</b>	3,115,403,701.91
Of which: Operating income	VI.38	<b>3,784,299,658.63</b>	3,115,403,701.91
<b>II. Total operating costs</b>		<b>3,322,367,543.86</b>	2,742,109,208.65
Of which: Operating costs	VI.38	<b>1,355,315,539.67</b>	1,209,604,686.57
Business taxes and surcharges	VI.39	<b>48,862,604.54</b>	36,227,296.64
Selling expenses	VI.40	<b>1,501,463,348.45</b>	1,169,327,521.08
Administrative expenses	VI.41	<b>329,447,597.85</b>	278,218,601.81
Financial expenses	VI.42	<b>8,694,063.93</b>	19,434,685.02
Impairment loss	VI.43	<b>78,584,389.42</b>	29,296,417.53
Add: Gains from changes in fair value ("–" represents losses)	VI.44	<b>–416,854.57</b>	603,148.18
Investment income ("–" represents losses)	VI.45	<b>1,684,174.09</b>	3,471,860.08
Of Which: Income from investment in associates and jointly controlled entities		<b>1,046,651.54</b>	3,043,875.80
<b>III. Operating profit ("–" represents losses)</b>		<b>463,199,434.29</b>	377,369,501.52
Add: Non-operating income	VI.46	<b>60,093,394.63</b>	78,355,248.17
Of which: Profit from disposal of non-current assets		<b>5,735,970.45</b>	91,024.32
Less: Non-operating expenses	VI.47	<b>2,871,052.59</b>	6,155,599.79
Of which: Losses from disposal of non-current assets		<b>217,369.82</b>	4,889,806.85
<b>IV. Total Profit     ("–" represents total losses)</b>		<b>520,421,776.33</b>	449,569,149.90
Less: Income tax expenses	VI.48	<b>92,955,026.56</b>	77,066,095.48
<b>V. Net profit ("–" represents net losses)</b>		<b>427,466,749.77</b>	372,503,054.42
Net profit attributable to the shareholders of the parent company		<b>409,061,823.40</b>	340,843,355.48
Profit or loss from non-controlling interests		<b>18,404,926.37</b>	31,659,698.94
<b>VI. Other comprehensive net     income after taxation</b>	VI.49	<b>1,855,202.22</b>	1,429,339.46
Other comprehensive net income after taxation attributable to the shareholders of the parent company		<b>1,825,451.95</b>	1,304,760.40
(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			



# CONSOLIDATED INCOME STATEMENT

Prepared by : Livzon Pharmaceutical Group Inc.		Amount denominated: RMB	
Item	Notes	For the Current Period	For the Previous Period
(II) Other comprehensive income items subsequently to be re-classified as profit or loss		<b>1,825,451.95</b>	1,304,760.40
1. Other comprehensive income portions subsequently to be reclassified 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>-1,133,134.18</b>	1,596,703.06
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>2,958,586.13</b>	-291,942.66
6. Others			
Other comprehensive net income after taxation attributable to non-controlling interests		<b>29,750.27</b>	124,579.06
<b>VII. Total comprehensive income</b>		<b>429,321,951.99</b>	373,932,393.88
Total comprehensive income attributable to the shareholders of the parent company		<b>410,887,275.35</b>	342,148,115.88
Total comprehensive income attributable to non-controlling interests		<b>18,434,676.64</b>	31,784,278.00
<b>VIII. Earnings per share:</b>			
(I) Basic earnings per share	XVIII.2	<b>1.04</b>	0.89
(II) Diluted earnings per share	XVIII.2	<b>1.04</b>	0.88

Legal representatives:  
Zhu Baoguo

Principal in charge of  
accounting work: Si Yanxia

Name of the accounting firm's  
principal: Zhuang Jianying

(The accompanying notes form part of the financial statements)

# CONSOLIDATED CASH FLOW STATEMENT

Prepared by : Livzon Pharmaceutical Group Inc.		Amount denominated: RMB	
Item	Notes	For the Current Period	For the Previous Period
<b>I. Cash flows from operating activities:</b>			
Cash received from sale of goods and rendering of services		<b>3,511,468,937.29</b>	3,021,666,214.04
Refund of taxes		<b>22,986,914.48</b>	28,639,328.12
Cash received relating to other operating activities	VI.50	<b>84,125,713.82</b>	104,064,500.18
<b>Sub-total of cash inflows from operating activities</b>		<b>3,618,581,565.59</b>	3,154,370,042.34
Cash paid for purchasing goods and services		<b>938,862,776.69</b>	926,414,744.78
Cash paid to and for employees		<b>301,912,677.49</b>	257,463,315.10
Cash paid for all types of taxes		<b>534,217,034.36</b>	417,092,697.87
Cash paid relating to other operating activities	VI.50	<b>1,535,665,372.65</b>	1,319,548,068.65
<b>Sub-total of cash outflows from operating activities</b>		<b>3,310,657,861.19</b>	2,920,518,826.40
<b>Net cash flows from operating activities</b>		<b>307,923,704.40</b>	233,851,215.94
<b>II. Cash flows from investing activities:</b>			
Cash received from disposal of investments		<b>165,222.25</b>	427,984.28
Cash received from return on investments		<b>572,667.31</b>	31,700.00
Net cash received from disposal of fixed assets, intangible assets and other long-term assets		<b>62,999,265.69</b>	11,933,960.11
Net cash received from disposal of subsidiaries and other operating entities		<b>14,510,483.09</b>	12,393,644.39
Cash received relating to other investing activities	VI.50	<b>178,102,206.27</b>	227,930,964.17
<b>Sub-total of cash inflows from investing activities</b>		<b>22,575,000.00</b>	55,831,500.00
Cash paid for acquisition of fixed assets, intangible assets and other long-term assets		<b>8,390,882.76</b>	292,153,346.93
Cash paid for acquisition of investments		<b>200,677,206.27</b>	-279,759,702.54
Net cash paid for acquisition of subsidiaries and other operating entities		<b>178,102,206.27</b>	227,930,964.17
Cash paid relating to other investing activities	VI.50	<b>22,575,000.00</b>	55,831,500.00
<b>Sub-total of cash outflows from investing activities</b>		<b>200,677,206.27</b>	292,153,346.93
<b>Net cash flows from investing activities</b>		<b>-122,429,567.93</b>	-279,759,702.54

# CONSOLIDATED CASH FLOW STATEMENT

Prepared by : Livzon Pharmaceutical Group Inc.			Amount denominated: RMB
Item	Notes	For the Current Period	For the Previous Period
<b>III. Cash flows from financing activities:</b>			
Cash received from investors			218,242,080.00
Of which: Cash received from non-controlling shareholders of subsidiaries			
Cash received from borrowings		<b>860,000,000.00</b>	656,000,000.00
Cash received from issue of financing bills			
Cash received relating to other financing activities	VI.50	<b>1,007,821.00</b>	
<b>Sub-total of cash inflows from financing activities</b>		<b>861,007,821.00</b>	874,242,080.00
Cash repayments of borrowings		<b>650,000,000.00</b>	655,348,900.00
Cash paid for dividends, profit distributions or interest		<b>257,174,465.17</b>	67,445,052.13
Of which: Dividends and profits paid to non-controlling shareholders of subsidiaries		<b>31,850,000.00</b>	22,540,000.00
Cash paid relating to other financing activities	VI.50	<b>5,027,224.20</b>	
<b>Sub-total of cash outflows from financing activities</b>		<b>912,201,689.37</b>	722,793,952.13
<b>Net cash flows from financing activities</b>		<b>-51,193,868.37</b>	151,448,127.87
<b>IV. Effect of foreign exchange rate changes on cash and cash equivalents</b>		<b>4,146,713.28</b>	-40,235.70
<b>V. Net increase in cash and cash equivalents</b>		<b>138,446,981.38</b>	105,499,405.57
Add: Cash and cash equivalents at the Beginning of the Period		<b>767,093,403.45</b>	709,114,426.17
<b>VI. Cash and cash equivalents at the End of the Period</b>		<b>905,540,384.83</b>	814,613,831.74

Legal representatives:  
Zhu Baoguo

Principal in charge of  
accounting work: Si Yanxia

Name of the accounting firm's  
principal: Zhuang Jianying

(The accompanying notes form part of the financial statements)

# CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

Amount denominated: RMB

Items	For the Current Year										Total shareholders' equity			
	Share capital	Preferred Shares	Other Equities	Capital reserve	Reserve for Treasury Shares	Other Comprehensive Income	Special Reserve	Surplus Reserve	General risks provision	Retained earnings		Non-controlling interest		
I. Balance at the end of last year	36,885,541.00			36,739,291.15	267,214,957.00	-41,752,227.25	546,100,551.56	3,187,918,673.20	212,694,714.74	-33,328,619.31	451,471,464.27	2,170,545,833.83	386,941,962.07	4,086,471,258.00
II. Add effects of changes in accounting policies														
III. Changes in equity for the Current Year														
(I) Issue of new shares														
(II) Shareholder contributions and increase of capital														
(III) Other														
(IV) Appropriation of profit														
(V) Distribution to shareholders														
(VI) Other														
(VII) Acquisition of special income														
(VIII) Disposal of special income														
(IX) Other														
IV. Balance at the end of the Current Year	36,885,541.00			36,739,291.15	267,214,957.00	-41,752,227.25	546,100,551.56	3,187,918,673.20	212,694,714.74	-33,328,619.31	451,471,464.27	2,170,545,833.83	386,941,962.07	4,086,471,258.00

Legal representatives:  
Zhu Baoguo

Principal in charge of  
accounting work: Si Yanxia

Name of the accounting firm's  
principal: Zhuang Jianying

(The accompanying notes form part of the financial statements)

# BALANCE SHEET

Prepared by : Livzon Pharmaceutical Group Inc.		Amount	
Item	Notes	2016.6.30	denominated: RMB 2015.12.31
<b>Current assets:</b>			
Cash at bank and on hand		<b>543,826,198.16</b>	694,156,636.07
Financial assets at fair value through profit or loss			
Derivative financial assets			
Bills receivables		<b>325,798,521.95</b>	249,484,247.50
Accounts receivables	XVII.1	<b>850,856,878.81</b>	662,518,994.54
Prepayments		<b>11,471,111.00</b>	9,546,100.48
Interest receivables			
Dividends receivables		<b>321,919,928.73</b>	
Other receivables	XVII.2	<b>1,516,033,467.85</b>	1,585,385,721.95
Inventories		<b>234,573,524.38</b>	168,357,913.47
Classified as held-for-sale assets			
Non-current assets due within one year			
Other current assets			
<b>Total current assets</b>		<b>3,804,479,630.88</b>	3,369,449,614.01
<b>Non-current assets:</b>			
Available-for-sale financial assets		<b>146,366,585.44</b>	147,699,684.48
Held-to-maturity investments			
Long-term receivables			
Long-term equity investments	XVII.3	<b>2,028,497,868.64</b>	2,026,142,377.51
Investment properties			
Fixed assets		<b>60,507,200.22</b>	63,844,093.19
Construction in progress			
Construction supplies			
Fixed assets to be disposed			
Bearer biological assets			
Oil and gas assets			
Intangible assets		<b>22,023,447.58</b>	28,496,294.11
Development costs		<b>14,500,451.14</b>	13,252,992.01
Goodwill			
Long-term deferred expenses		<b>120,000.00</b>	180,000.00
Deferred tax assets		<b>20,759,759.88</b>	21,492,844.45
Other non-current assets		<b>12,160,000.00</b>	12,292,055.00
<b>Non-Total current assets</b>		<b>2,304,935,312.90</b>	2,313,400,340.75
<b>Total assets</b>		<b>6,109,414,943.78</b>	5,682,849,954.76

# BALANCE SHEET

Prepared by : Livzon Pharmaceutical Group Inc.		Amount
<b>Item</b>	<b>Notes</b>	denominated: RMB
		2015.12.31
<b>Current liabilities:</b>		
Short-term loans	<b>860,000,000.00</b>	250,000,000.00
Financial liabilities at fair value through profit and loss		
Derivative financial liabilities		
Bills payables	<b>265,095,415.49</b>	330,374,507.17
Accounts payables	<b>737,431,186.47</b>	429,038,759.87
Receipts in advance	<b>12,677,342.24</b>	16,427,440.17
Employee benefits payables	<b>7,421,430.43</b>	7,548,051.22
Taxes payables	<b>94,636,040.69</b>	103,953,327.71
Interest payables	<b>524,189.89</b>	11,823,945.25
Dividends payables	<b>3,548,247.60</b>	20,174.46
Other payables	<b>2,008,770,490.09</b>	2,343,751,581.54
Classified as held-for-sale liabilities		
Non-current liabilities due within one year		400,000,000.00
Other current liabilities		
<b>Total current liabilities</b>	<b>3,990,104,342.90</b>	3,892,937,787.39
<b>Non-current liabilities:</b>		
Long-term loans		
Notes payables		
of which: preferred shares		
perpetual bonds		
Long-term payables		
Long-term employee benefits payables		
Special payables		
Accrued liabilities		
Deferred income	<b>23,306,074.36</b>	23,223,982.36
Deferred tax liabilities	<b>3,848,958.51</b>	3,684,688.37
Other non-current liabilities		
<b>Total non-current liabilities</b>	<b>27,155,032.87</b>	26,908,670.73
<b>Total liabilities</b>	<b>4,017,259,375.77</b>	3,919,846,458.12
<b>Shareholders' equity:</b>		
Share capital	<b>396,889,547.00</b>	396,889,547.00
Other equity instruments		
of which: preferred shares		
perpetual bonds		
Capital reserve	<b>537,136,023.85</b>	517,236,658.50
Less: Treasury shares	<b>157,075,210.20</b>	247,219,957.00
Other comprehensive income	<b>7,430,806.04</b>	8,563,940.22
Special reserve		
Surplus reserve	<b>341,647,498.08</b>	341,647,498.08
General risks provision		
Retained earnings	<b>966,126,903.24</b>	745,885,809.84
<b>Total shareholders' equity</b>	<b>2,092,155,568.01</b>	1,763,003,496.64
<b>Total liabilities and shareholders' equity</b>	<b>6,109,414,943.78</b>	5,682,849,954.76

Legal representatives:  
Zhu Baoguo

Principal in charge of  
accounting work: Si Yanxia

Name of the accounting firm's  
principal: Zhuang Jianying

(The accompanying notes form part of the financial statements)

# INCOME STATEMENT

Prepared by: Livzon Pharmaceutical Group Inc.			Amount denominated: RMB	
Item	Notes	For the Current Period	For the Previous Period	
<b>I. Operating income</b>	XVII.4	<b>2,315,400,043.19</b>	1,800,904,158.50	
Less: Operating costs	XVII.4	<b>1,173,286,453.29</b>	836,425,990.10	
Business taxes and surcharges	XVII.5	<b>22,354,930.17</b>	17,836,046.40	
Selling expenses		<b>963,730,130.20</b>	767,731,874.74	
Administrative expenses		<b>122,959,837.84</b>	97,522,198.76	
Financial expenses		<b>-10,276,818.33</b>	-16,467,172.11	
Impairment loss		<b>12,693,154.15</b>	8,434,795.33	
Add: Gains from changes in fair value ("—" represents losses)				
Investment income ("—" represents losses)	XVII.6	<b>353,239,868.61</b>	21,414,401.12	
Of which: Gains from investment in associates and joint ventures		<b>-644,508.87</b>	676,416.84	
<b>II. Operating profit ("—" represents losses)</b>		<b>383,892,224.48</b>	110,834,826.40	
Add: Non-operating income		<b>41,241,142.77</b>	45,966,798.72	
of which: proceeds from disposal of non-current assets		<b>5,921.77</b>	6,085.00	
Less: Non-operating expenses		<b>47,404.88</b>	58,754.56	
of which: Losses from disposal of non-current assets		<b>47,404.88</b>	58,754.56	
<b>III. Total profit ("—" represents total losses)</b>		<b>425,085,962.37</b>	156,742,870.56	
Less: Income tax expenses		<b>6,400,095.47</b>	17,328,660.14	
<b>IV. Net profit ("—" represents net losses)</b>		<b>418,685,866.90</b>	139,414,210.42	

# INCOME STATEMENT

Prepared by: Livzon Pharmaceutical Group Inc.		Amount denominated: RMB	
Item	Notes	For the Current Period	For the Previous Period
<b>V.</b>	<b>Other comprehensive income after tax, net</b>	<b>-1,133,134.18</b>	1,468,560.58
(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>-1,133,134.18</b>	1,468,560.58
	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>-1,133,134.18</b>	1,468,560.58
	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		
	6. Others		
<b>VI.</b>	<b>Total comprehensive income</b>	<b>417,552,732.72</b>	140,882,771.00

Legal representatives:  
Zhu Baoguo

Principal in charge of  
accounting work: Si Yanxia

Name of the accounting firm's  
principal: Zhuang Jianying

(The accompanying notes form part of the financial statements)



# CASH FLOW STATEMENT

Prepared by : Livzon Pharmaceutical Group Inc.		Amount denominated: RMB	
Item	Notes	For the Current Period	For the Previous Period
<b>I. Cash flows from operating activities:</b>			
Cash received from sale of goods and rendering of services		<b>2,391,571,605.55</b>	1,964,520,707.65
Refund of taxes			
Cash received relating to other operating activities		<b>65,819,106.59</b>	56,997,900.02
<b>Sub-total of cash inflows from operating activities</b>		<b>2,457,390,712.14</b>	2,021,518,607.67
Cash paid for purchasing goods and services		<b>1,132,535,456.34</b>	881,351,695.77
Cash paid to and for employees		<b>50,824,933.41</b>	46,129,985.87
Cash paid for all types of taxes		<b>200,079,396.20</b>	150,378,957.74
Cash paid relating to other operating activities		<b>979,598,141.27</b>	858,251,971.98
<b>Sub-total of cash outflows from operating activities</b>		<b>2,363,037,927.22</b>	1,936,112,611.36
<b>Net cash flows from operating activities</b>		<b>94,352,784.92</b>	85,405,996.31
<b>II. Cash flows from investing activities:</b>			
Cash received from disposal of investments		<b>31,964,448.75</b>	20,737,984.28
Cash received from return on investments			
Net cash received from disposal of fixed assets, intangible assets and other long-term assets		<b>166,500.00</b>	31,000.00
Cash received relating to other investing activities			
<b>Sub-total of cash inflows from investing activities</b>		<b>32,130,948.75</b>	20,768,984.28
Cash paid for acquisition of fixed assets, intangible assets and other long-term assets		<b>7,757,412.55</b>	7,433,212.32
Cash paid for acquisition of investments		<b>3,000,000.00</b>	55,831,500.00
Cash paid relating to other investing activities			
<b>Sub-total of cash outflows from investing activities</b>		<b>10,757,412.55</b>	63,264,712.32
<b>Net cash flows from investing activities</b>		<b>21,373,536.20</b>	-42,495,728.04

# CASH FLOW STATEMENT

Prepared by : Livzon Pharmaceutical Group Inc.		Amount denominated: RMB	
Item	Notes	For the Current Period	For the Previous Period
<b>III. Cash flows from financing activities:</b>			
Cash received from investors			218,242,080.00
Borrowings received from subsidiaries		<b>568,872,360.33</b>	573,459,529.68
Cash received from borrowings		<b>430,000,000.00</b>	154,600,000.00
Cash received from issue of bonds			
Cash received relating to other financing activities		<b>1,007,821.00</b>	
<b>Sub-total of cash inflows from financing activities</b>		<b>999,880,181.33</b>	946,301,609.68
Cash repayments of borrowings		<b>400,000,000.00</b>	457,204,700.00
Cash paid for dividends, profit distributions or interest		<b>216,363,731.81</b>	32,312,721.54
Advances to subsidiaries			
Cash paid relating to other financing activities		<b>632,885,689.92</b>	390,956,173.44
<b>Sub-total of cash outflows from financing activities</b>		<b>1,249,249,421.73</b>	880,473,594.98
<b>Net cash flows from financing activities</b>		<b>-249,369,240.40</b>	65,828,014.70
<b>IV. Effect of foreign exchange rate changes on cash and cash equivalents</b>		<b>3,878.57</b>	10,211.62
<b>V. Net increase in cash and cash equivalents</b>		<b>-133,639,040.71</b>	108,748,494.59
Add: Cash and cash equivalents at the Beginning of the Period		<b>677,465,238.87</b>	611,630,017.65
<b>VI. Cash and cash equivalents at the End of the Period</b>		<b>543,826,198.16</b>	720,378,512.24

Legal representatives:  
Zhu Baoguo

Principal in charge of  
accounting work: Si Yanxia

Name of the accounting firm's  
principal: Zhuang Jianying

(The accompanying notes form part of the financial statements)



# NOTES TO INTERIM FINANCIAL REPORT (UNAUDITED)

For the period from 1 January 2016 to 30 June 2016

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

In 1993, pursuant to Yue Zheng Jian Fa Zi [1993] No. 001 document (粵證監發字[1993]001號文) issued by Guangdong Securities Regulatory Commission (廣東省證券監督管理委員會), Shen Ren Yin Fu Zi [1993] No. 239 document (深人銀複字[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 (中國證券監督管理委員會), 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.

# NOTES TO INTERIM FINANCIAL REPORT (UNAUDITED)

For the period from 1 January 2016 to 30 June 2016

## 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. On 3 August 2006, the procedures for the transfer of the 38,917,518 domestic legal person shares to Joincare were completed.

As at 31 December 2012, Joincare 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.

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 eighth meeting (27 March 2015) of the eighth 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.

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 Rui Hua Yan Zi [2015]40030017 issued 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.

# NOTES TO INTERIM FINANCIAL REPORT (UNAUDITED)

For the period from 1 January 2016 to 30 June 2016

## I. COMPANY STATUS *(continued)*

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

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

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 Rui Hua Yan Zi [2015]40030023 issued by Ruihua issued by Ruihua Certified Public Accountants.

Pursuant to “the Resolution on Repurchase and Cancellation of Locked Restricted Shares Granted to Incentive Participants No Longer Satisfying the Conditions for Incentive” considered and approved by the 23rd Board Meeting of the 8th Session of the Board (28 March 2016) and the 26th Board Meeting of the 8th Session of the Board (16 May 2016), 257,624 shares were repurchased. This capital reduction was validated and confirmed by Capital Verification Report Rui Hua Yan Zi [2016]40030011 issued by Ruihua issued by Ruihua Certified Public Accountants.

### 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 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).

# NOTES TO INTERIM FINANCIAL REPORT (UNAUDITED)

For the period from 1 January 2016 to 30 June 2016

## 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 have been approved and published by the Board meeting on 19 August 2016.

Please refer to note. VIII "Equity in other entities" for names of subsidiaries included into the consolidation in January to June 2016. One subsidiary is added and one subsidiary is disposed 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 30 June 2016 and the results and cash flow of the Company for January to June 2016. 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.

# NOTES TO INTERIM FINANCIAL REPORT (UNAUDITED)

For the period from 1 January 2016 to 30 June 2016

## IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

*(continued)*

### 2. Business cycle

The Company regards twelve months as a business cycle and regards such business cycle as a liquidity classification standard of 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 period as incurred.

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

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



# NOTES TO INTERIM FINANCIAL REPORT (UNAUDITED)

For the period from 1 January 2016 to 30 June 2016

## IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

*(continued)*

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

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

For the business combinations involving enterprises not under common control, the cost arising from the business combination includes the fair value of the assets transferred, liabilities incurred or assumed, and equity securities issued by the acquirer for the acquisition of controlling interests in the acquiree at the acquisition date, and such intermediary costs as audit, legal service and appraisal consultation costs and other administrative expenses arising from the business combination are recognised in profit or loss for the 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 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 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 period.

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

# NOTES TO INTERIM FINANCIAL REPORT (UNAUDITED)

For the period from 1 January 2016 to 30 June 2016

## IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

*(continued)*

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

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

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

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

### 5. Preparation of consolidated financial statements

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

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

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

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

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

# NOTES TO INTERIM FINANCIAL REPORT (UNAUDITED)

For the period from 1 January 2016 to 30 June 2016

## IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

*(continued)*

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

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

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

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

The shareholders' equity of the subsidiaries and the share in the net profit or loss for the 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 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 different between the sum of the consideration acquired due to the disposal of the equity and the fair value of the remaining equity and the Company's share in the net assets of the original subsidiary calculated on an on-going basis from the acquisition date based on the original shareholding proportion is recognised in the investment income for the 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.

# NOTES TO INTERIM FINANCIAL REPORT (UNAUDITED)

For the period from 1 January 2016 to 30 June 2016

## IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

*(continued)*

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

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

Where the Company disposes of the equity investment in the subsidiary through several transactions until the Company loses control, it shall be determined whether such transactions are a basket of transactions. Where the terms, conditions and economic impacts of various transactions involved in the disposal of the equity investment in the subsidiary satisfy one or several of the following circumstances, such several transactions shall be normally deemed as a basket of transactions in accounting treatment: 1. Such transactions are entered into simultaneously or upon the consideration of the mutual impacts; 2. No complete commercial result will be realised without such transactions as a whole; 3. The occurrence of one transaction depends on the occurrence of at least another transaction; 4. One transaction is not economical independently but economical together with other transactions. In case no basket of transactions is constituted, each transaction is subject to the accounting treatment separately based on the applicable principles stipulated in "Partial disposal of the long-term equity investment in subsidiaries without losing control" (note IV 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 period when the control is lost.

### 6. Cash and Cash Equivalents

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

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

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

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

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

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

# NOTES TO INTERIM FINANCIAL REPORT (UNAUDITED)

For the period from 1 January 2016 to 30 June 2016

## IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

*(continued)*

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

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

Non-monetary items denominated in foreign currencies that are measured at historical cost are translated to functional currency using the foreign exchange rate at the transaction date. Non-monetary items denominated in foreign currencies that are measured at fair value are translated using the foreign exchange rate at the date the fair value is determined; the resulting exchange differences are dealt with as the change in fair value (including the change in exchange rate) and recognised in profit or loss for the 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 period if the monetary item denominated in foreign currency is effectively constituted in relation to the net investment in the overseas operation.

The financial statements in foreign currency of the overseas operation are translated to the financial statements in RMB by the following methods: The assets and liabilities of foreign operations are translated to the functional currency at the spot exchange rates at the balance sheet date. Items under shareholders’ equity, excluding “retained earnings”, are translated to functional currency at the spot exchange rates at the transaction dates. The income and expenses of foreign operation are translated to the functional currency at the rates that approximate the spot exchange rates at the transaction dates. The non-distributed profits at the beginning of the year is the non-distributed profits at the end of the 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 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.

# NOTES TO INTERIM FINANCIAL REPORT (UNAUDITED)

For the period from 1 January 2016 to 30 June 2016

## IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

*(continued)*

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

#### (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.

#### (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 period.

# NOTES TO INTERIM FINANCIAL REPORT (UNAUDITED)

For the period from 1 January 2016 to 30 June 2016

## 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 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 period.

##### 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.

# NOTES TO INTERIM FINANCIAL REPORT (UNAUDITED)

For the period from 1 January 2016 to 30 June 2016

## 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 *(continued)*

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 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 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

At the End of the Reporting Period, the Company inspects the carrying amount of the other financial assets other than the financial assets at fair value through profit or loss on each balance sheet, 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.

##### 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 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.



# NOTES TO INTERIM FINANCIAL REPORT (UNAUDITED)

For the period from 1 January 2016 to 30 June 2016

## IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

*(continued)*

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

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

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

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 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 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.

#### (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 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 period.

# NOTES TO INTERIM FINANCIAL REPORT (UNAUDITED)

For the period from 1 January 2016 to 30 June 2016

## IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

*(continued)*

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

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

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 derecognised; 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.

#### (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 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 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 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.

# NOTES TO INTERIM FINANCIAL REPORT (UNAUDITED)

For the period from 1 January 2016 to 30 June 2016

## 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 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.

# NOTES TO INTERIM FINANCIAL REPORT (UNAUDITED)

For the period from 1 January 2016 to 30 June 2016

## 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**

<b>on individual provision basis</b>	<b>Amount of more than 10% of the balance of receivables</b>
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.

- 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.

# NOTES TO INTERIM FINANCIAL REPORT (UNAUDITED)

For the period from 1 January 2016 to 30 June 2016

## IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(continued)

### 9. Receivables (continued)

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

- 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.

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 the 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.

# NOTES TO INTERIM FINANCIAL REPORT (UNAUDITED)

For the period from 1 January 2016 to 30 June 2016

## IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

*(continued)*

### 10. Inventories *(continued)*

#### **(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 period.

### 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 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.

# NOTES TO INTERIM FINANCIAL REPORT (UNAUDITED)

For the period from 1 January 2016 to 30 June 2016

## IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

*(continued)*

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

#### (1) Determination of investment cost *(continued)*

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

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

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

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

##### 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 period and the cost of the long-term equity investment is adjusted if the initial investment cost of the long-term equity investment is lower than the Company's share in the fair value of the identifiable net value of the investee at the time of investment.

For long-term equity investment accounted for using equity method, return on investment and other comprehensive income are 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 is 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.

# NOTES TO INTERIM FINANCIAL REPORT (UNAUDITED)

For the period from 1 January 2016 to 30 June 2016

## 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)*

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 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.

##### 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 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.



# NOTES TO INTERIM FINANCIAL REPORT (UNAUDITED)

For the period from 1 January 2016 to 30 June 2016

## IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

*(continued)*

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

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

Joint control is the contractually agreed sharing of control over an 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 period.

#### (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 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 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.

# NOTES TO INTERIM FINANCIAL REPORT (UNAUDITED)

For the period from 1 January 2016 to 30 June 2016

## IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

*(continued)*

### 12. Investment Properties *(continued)*

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 period.

### 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 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.

# NOTES TO INTERIM FINANCIAL REPORT (UNAUDITED)

For the period from 1 January 2016 to 30 June 2016

## 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.

### 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.

# NOTES TO INTERIM FINANCIAL REPORT (UNAUDITED)

For the period from 1 January 2016 to 30 June 2016

## IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

*(continued)*

### 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 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.
- (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.

# NOTES TO INTERIM FINANCIAL REPORT (UNAUDITED)

For the period from 1 January 2016 to 30 June 2016

## IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

*(continued)*

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

- (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.

### 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 Reporting Period 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 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 period.

# NOTES TO INTERIM FINANCIAL REPORT (UNAUDITED)

For the period from 1 January 2016 to 30 June 2016

## 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 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.

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.

# NOTES TO INTERIM FINANCIAL REPORT (UNAUDITED)

For the period from 1 January 2016 to 30 June 2016

## IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

*(continued)*

### 17. Intangible Assets *(continued)*

#### (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;
- 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.

# NOTES TO INTERIM FINANCIAL REPORT (UNAUDITED)

For the period from 1 January 2016 to 30 June 2016

## IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

*(continued)*

### 17. Intangible Assets *(continued)*

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

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 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 within one year in the Reporting Period and the subsequent amortisation periods. 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.

### 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.



# NOTES TO INTERIM FINANCIAL REPORT (UNAUDITED)

For the period from 1 January 2016 to 30 June 2016

## IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

*(continued)*

### 19. Impairment of Non-fixed Non-financial Assets *(continued)*

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.

### 20. Employee compensation

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

Short-term employee compensation includes 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 provides services to the Company, the Company recognizes 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 includes 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 the date that the Company recognizes 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 accounts for the wage and social insurance payables incurred from the date the relative employee ceases 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.

# NOTES TO INTERIM FINANCIAL REPORT (UNAUDITED)

For the period from 1 January 2016 to 30 June 2016

## 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.

### 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.

# NOTES TO INTERIM FINANCIAL REPORT (UNAUDITED)

For the period from 1 January 2016 to 30 June 2016

## IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

*(continued)*

### 22. Share-based payments *(continued)*

#### (1) Accounting treatment for share-based payments *(continued)*

##### 1 *Equity-settled share-based payments (continued)*

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.

#### (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.

# NOTES TO INTERIM FINANCIAL REPORT (UNAUDITED)

For the period from 1 January 2016 to 30 June 2016

## IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

*(continued)*

### 22. Share-based payments *(continued)*

#### (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).

### 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.

# NOTES TO INTERIM FINANCIAL REPORT (UNAUDITED)

For the period from 1 January 2016 to 30 June 2016

## IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

*(continued)*

### 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.

#### (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 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 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. If a government grant is measured at its nominal amount, it is directly included in the profit and loss for the period.

#### (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 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 period; and the grant is to be directly recognised in profit or loss for the period in case of no related deferred income.

# NOTES TO INTERIM FINANCIAL REPORT (UNAUDITED)

For the period from 1 January 2016 to 30 June 2016

## 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.

# NOTES TO INTERIM FINANCIAL REPORT (UNAUDITED)

For the period from 1 January 2016 to 30 June 2016

## 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 period are recognised as income tax expenses or incomes in the profit or loss for the 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

### 28. Other Comprehensive Income

The Company stipulates that the gains and losses not recognised in profit or loss for the 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;



# NOTES TO INTERIM FINANCIAL REPORT (UNAUDITED)

For the period from 1 January 2016 to 30 June 2016

## IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

*(continued)*

### 28. Other Comprehensive Income *(continued)*

- (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 the period by the straight-line method in various periods within the term of lease. Initial direct costs are recognised in profit or loss for the period. Contingent rent is recognised in profit or loss for the 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 the 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 the 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 the period directly at the time of occurrence. Contingent rent is recognised in profit or loss for the period when actually taking place.

#### (3) The Company books finance leases as a lessee

On the commencement date of the term of lease, the fair value of the leased asset on the commencement date of the lease or the present value of the minimum lease payment, whichever is the lower, is recognised as the cost of the leased asset; the minimum lease payment is recognised as the cost of long-term receivables; and the difference is the unrecognised financing costs. In addition, the initial direct costs attributable to leases and arising in the course of lease negotiations and conclusion of lease contracts are also recognised in the value of the leased asset. The balance of the minimum lease payment less the unrecognised financing costs is presented in long-term liabilities and long-term liabilities due within one year.

Unrecognised financing costs are calculated and recognised as the financing costs for the period by the effective interest rate method. Contingent rent is recognised in profit or loss for the period when actually taking place.

# NOTES TO INTERIM FINANCIAL REPORT (UNAUDITED)

For the period from 1 January 2016 to 30 June 2016

## IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

*(continued)*

### 29. Leases *(continued)*

#### (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 the period by the effective interest rate method. Contingent rent is recognised in profit or loss for the period when actually taking place.

### 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.

### 31. Change of significant accounting policies, accounting estimates and correction to accounting errors

#### (1) Change of accounting policy

Nil.

#### (2) Change of accounting estimates and correction to accounting errors

Nil.

# NOTES TO INTERIM FINANCIAL REPORT (UNAUDITED)

For the period from 1 January 2016 to 30 June 2016

## 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), Lian (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) have been reapplied for the recognition of high and new technology enterprises the during the Current Period; other companies were all recognised as high and new technology enterprises in 2014 for a valid period of three years.
Other subsidiaries	25%	

# NOTES TO INTERIM FINANCIAL REPORT (UNAUDITED)

For the period from 1 January 2016 to 30 June 2016

## 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), 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) have reapplied for the recognition of high and new technology enterprise during the period: Shanghai Livzon Biotechnology Co., Ltd. (上海麗珠生物科技有限公司) was granted the certificate of high and new technology enterprise in February 2016, 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 period.

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

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) and Lian (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 period.

# NOTES TO INTERIM FINANCIAL REPORT (UNAUDITED)

For the period from 1 January 2016 to 30 June 2016

## VI. NOTES TO THE COMPONENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS

### 1. Cash at bank and in hand

Item	Balance at the End of the Period	Balance at the beginning of the year
Cash in hand	<b>213,028.68</b>	72,486.40
Bank deposits	<b>904,345,336.13</b>	766,211,133.63
Other cash at bank and in hand	<b>982,020.02</b>	32,011,663.71
Total	<b>905,540,384.83</b>	798,295,283.74
In which: total overseas deposit	<b>229,821,738.69</b>	5,944,040.29

- (1) Other cash at bank and on hand are mainly deposits for investments, security for bank acceptance bills and guarantee.
- (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 End of the Period	Balance at the beginning of the year
Deposits under bank acceptance bills	<b>0.00</b>	22,455,390.29
Letter of guarantee	<b>0.00</b>	8,746,490.00
Total	<b>0.00</b>	31,201,880.29

### 2. Financial assets at fair value through profit or loss

#### (1) Classification

Item	Balance at the End of the Period	Balance at the beginning of the year
Financial assets at fair value through profit or loss	<b>6,284,607.37</b>	6,589,225.34
Of which: Shares	<b>5,461,341.30</b>	5,780,682.00
Funds	<b>823,266.07</b>	808,543.34

The Company's financial assets measured at fair value, with the change in fair value included in the profit or loss for the period were listed for trading on Shenzhen Stock Exchange and Hong Kong Stock Exchange. The fair value was determined based on the closing price on the last trading date in the Reporting Period.

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

# NOTES TO INTERIM FINANCIAL REPORT (UNAUDITED)

For the period from 1 January 2016 to 30 June 2016

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

### 3. Bills receivables

#### (1) Classification of bills receivables

Type	Balance at the End of the Period	Balance at the beginning of the year
Bank acceptance bills	447,306,631.95	342,877,975.08
Short-term commercial papers	90,440.00	164,460.00
Total	447,397,071.95	343,042,435.08

(2) At the end of this period, no bills receivables of the Company were pledged.

#### (3) Endorsed or discounted receivable bills not yet mature by the date of balance sheet

Item	Recognised amount by the End of the Period	Unrecognised amount by the End of the Period
Bank acceptance bills not yet mature but already endorsed	148,110,052.95	0.00
Bank acceptance bills not yet mature but already discounted	0.00	0.00

(4) There was no bills transferred into account receivables for non-performance by the issuer by the End of the Period.

(5) For the Current Period, the Company discounted RMB0.00 bank acceptance bills (RMB43,943,010 in the Previous Period). As the main risks (such as interest risks) related to these bank acceptance bills were transferred to the bank, the Company derecognized the undue bank acceptance bills that had been discounted. The discounted fee was RMB0.00 (RMB634,440 in the Previous Period).

# NOTES TO INTERIM FINANCIAL REPORT (UNAUDITED)

For the period from 1 January 2016 to 30 June 2016

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

### 4. Accounts receivables

#### (1) Accounts receivables disclosed by types

Type	Balance at the End of the Period				Carrying Value
	Gross amount		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	1,696,017,525.50	99.97	93,364,290.36	5.50	1,602,653,235.14
Accounts receivables that are individually insignificant but impairment provided on an individual basis	561,871.41	0.03	561,871.41	100.00	0.00
<b>Total</b>	<b>1,696,579,396.91</b>	<b>100.00</b>	<b>93,926,161.77</b>	<b>5.54</b>	<b>1,602,653,235.14</b>

Type	Balance at the beginning of the year				Carrying Value
	Gross amount		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	1,329,418,573.07	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
<b>Total</b>	<b>1,329,985,444.48</b>	<b>100.00</b>	<b>73,891,180.34</b>	<b>5.56</b>	<b>1,256,094,264.14</b>

# NOTES TO INTERIM FINANCIAL REPORT (UNAUDITED)

For the period from 1 January 2016 to 30 June 2016

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

### 4. Accounts receivables *(continued)*

#### (1) Accounts receivables disclosed by types *(continued)*

1 *Accounts receivables in the portfolio with provision for bad debts made using the ageing analysis method*

Ageing	Balance at the End of the Period		
	Account receivables	Provision for bad debts	Percentage (%)
Within 1 year	1,656,363,955.67	82,818,197.78	5.00
1 to 2 years	21,897,038.39	1,313,822.31	6.00
2 to 3 years	8,511,566.71	1,702,313.34	20.00
3 to 4 years	5,021,452.35	3,515,016.64	70.00
4 to 5 years	2,085,720.82	1,877,148.73	90.00
Over 5 years	2,137,791.56	2,137,791.56	100.00
<b>Total</b>	<b>1,696,017,525.50</b>	<b>93,364,290.36</b>	

2 *As at the End of the Period, ageing analysis of accounts receivables that are individually insignificant but impairment provided on an individual basis*

Accounts receivables description	Gross amount	Provision for bad debts	Percentage (%)	Reason for provision made
Loans	561,871.41	561,871.41	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.

#### (2) The ageing analysis of accounts receivables (based on dates of recognition of accounts receivables)

Item	Balance at the End of the Period		Balance at the beginning of the year	
	Amount	Percentage (%)	Amount	Percentage (%)
1 to 90 days	<b>1,402,788,697.20</b>	<b>82.68</b>	1,103,414,629.39	82.96
91 to 180 days	<b>186,402,650.27</b>	<b>10.99</b>	137,056,779.67	10.30
181 days to 1 year	<b>67,172,608.20</b>	<b>3.96</b>	51,715,602.48	3.89
1 to 2 years	<b>21,897,038.39</b>	<b>1.29</b>	23,121,028.26	1.74
2 to 3 years	<b>8,511,566.71</b>	<b>0.50</b>	6,743,252.97	0.51
3 to 4 years	<b>5,021,452.35</b>	<b>0.30</b>	4,121,072.72	0.31
4 to 5 years	<b>2,085,720.82</b>	<b>0.12</b>	1,562,134.20	0.12
Over 5 years	<b>2,699,662.97</b>	<b>0.16</b>	2,250,944.79	0.17
<b>Total</b>	<b>1,696,579,396.91</b>	<b>100.00</b>	1,329,985,444.48	100.00

(3) Provisions for bad debts made for the period were RMB20,328,523.87; no provision for bad debts was recovered or reversed.



# NOTES TO INTERIM FINANCIAL REPORT (UNAUDITED)

For the period from 1 January 2016 to 30 June 2016

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

### 4. Accounts receivables (continued)

#### (4) Actual write-off of accounts receivables for the Current Period

Item	Amount written-off
Receivables actually written off	294,378.78

In which: Important written-off receivables

Name of Unit	Nature of accounts receivables	Amount written off	Reason for write off	Procedure of write off taken place at	Related party transactions
Shanghai Probe Biotech Co., Ltd. (上海探針生物技術有限公司)	loans	195,634.50	Not recoverable	the 22nd Meeting for the 8th Board of the Company	No

(5) The total of account receivables with five largest amount by creditors was RMB257,669,223.42, or 15.19% of the total account receivables by the period end, total provision for bad debts by the period end was RMB12,883,461.17.

(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.

### 5. Prepayments

#### (1) Ageing analysis of prepayments was as follows

Ageing	Balance at the End of the Period		Balance at the beginning of the year	
	Amount	Percentage (%)	Amount	Percentage (%)
Within 1 year	110,752,684.00	91.91	109,801,612.93	89.78
1 to 2 years	7,886,536.95	6.54	8,101,147.18	6.63
2 to 3 years	718,656.05	0.60	1,763,020.66	1.44
Over 3 years	1,150,369.59	0.95	2,631,768.89	2.15
Total	120,508,246.59	100.00	122,297,549.66	100.00

(2) The total of prepayments with five largest amount by receiver of prepayments was RMB51,335,481.20, or 42.60% of the prepayments by the period end.

# NOTES TO INTERIM FINANCIAL REPORT (UNAUDITED)

For the period from 1 January 2016 to 30 June 2016

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

### 6. Other receivables

#### (1) Other receivables presented by types

Type	Balance at the End of the Period				
	Gross amount		Provision for bad debts		Carrying value
	Amount	Percentage (%)	Amount	Percentage (%)	
Other receivables that are 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	72,288,397.43	98.97	10,364,603.72	14.34	61,923,793.71
Other receivables that are individually insignificant but impairment provided on an individual basis	750,092.17	1.03	750,092.17	100.00	0.00
<b>Total</b>	<b>73,038,489.60</b>	<b>100.00</b>	<b>11,114,695.89</b>	<b>15.22</b>	<b>61,923,793.71</b>

Type	Balance at the beginning of the year				
	Gross amount		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
<b>Total</b>	<b>78,588,719.10</b>	<b>100.00</b>	<b>10,938,955.44</b>	<b>13.92</b>	<b>67,649,763.66</b>

# NOTES TO INTERIM FINANCIAL REPORT (UNAUDITED)

For the period from 1 January 2016 to 30 June 2016

## 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 in the portfolio with provision for bad debts made using the ageing analysis method*

Ageing	Balance at the End of the Period		
	Other receivables	Provision for bad debts	Percentage (%)
Within 1 year	59,351,685.36	2,967,584.24	5.00
1 to 2 years	2,833,205.25	169,992.33	6.00
2 to 3 years	3,435,331.44	687,066.30	20.00
3 to 4 years	396,162.90	277,314.04	70.00
4 to 5 years	93,656.71	84,291.04	90.00
Over 5 years	6,178,355.77	6,178,355.77	100.00
<b>Total</b>	<b>72,288,397.43</b>	<b>10,364,603.72</b>	

- 2 *As at the End of the Period, 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	750,092.17	750,092.17	100.00	Not expected to be recoverable

- (2) Provisions for bad debts made for the Current Period was RMB169,303.01; no provision for bad debts was recovered or reversed.
- (3) No other receivables were written off during the Current Period

# NOTES TO INTERIM FINANCIAL REPORT (UNAUDITED)

For the period from 1 January 2016 to 30 June 2016

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

### 6. Other receivables *(continued)*

#### (4) Other receivables with five largest amount by creditors by the period end

Name of unit	Nature of receivables	Balance at the End of the Period	Ageing	Proportion to receivables at the End of the Period (%)	Provision for bad debts at the End of the Period
Tax refunds on exports	Tax refunds on exports	12,869,071.11	Within 1 year	17.62	643,453.56
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	6.85	5,000,000.00
Guangdong Blue Treasure Pharmaceutical Co. Ltd. (廣東藍寶製藥有限公司)	Energy and power	927,268.60	Within 1 year	1.27	46,363.43
Guangdong Power Grid Corporation Shaoguan Power supply Bureau (廣東電網公司韶關供電局)	Deposit	500,000.00	Within 1 year	0.68	25,000.00
Hunan China Sun Pharmaceutical Machinery Co., Ltd. (湖南千山製藥機械股份有限公司)	Current account	467,863.25	2-3 years	0.64	93,572.65
<b>Total</b>	—	<b>19,764,202.96</b>	—	<b>27.06</b>	<b>5,808,389.64</b>

(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.

# NOTES TO INTERIM FINANCIAL REPORT (UNAUDITED)

For the period from 1 January 2016 to 30 June 2016

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

### 7. Inventories

#### (1) Classification of inventories

Item	Balance at the End of the Period		
	Gross amount	Provision for diminution in value	Carrying amount
Raw materials	220,214,797.27	391,803.08	219,822,994.19
Packaging materials	34,709,319.54	15,670.25	34,693,649.29
Goods in process	229,945,885.91	7,402,473.25	222,543,412.66
Finished goods	509,297,840.05	20,550,347.12	488,747,492.93
Sub-contracting materials	532,233.36	0.00	532,233.36
Low-value consumables	2,970,805.27	0.00	2,970,805.27
Goods in transit	3,767,087.15	0.00	3,767,087.15
Consumable biological assets	6,633,431.29	0.00	6,633,431.29
Proprietary semi-finished goods	56,096,402.92	0.00	56,096,402.92
<b>Total</b>	<b>1,064,167,802.76</b>	<b>28,360,293.70</b>	<b>1,035,807,509.06</b>

Item	Balance at the beginning of the year		
	Gross amount	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-value 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
<b>Total</b>	<b>1,006,123,103.69</b>	<b>22,207,333.55</b>	<b>983,915,770.14</b>

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.

# NOTES TO INTERIM FINANCIAL REPORT (UNAUDITED)

For the period from 1 January 2016 to 30 June 2016

## 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 Current Period			Decrease during the Current Period		Balance at the End of the Period
		Provision	Other	Reversed	Written off		
Raw materials	664,451.17	2,092.22	0.00	253,456.18	21,284.13		391,803.08
Packaging materials	9,615.19	6,055.06	0.00	0.00	0.00		15,670.25
Work in progress	4,168,968.75	4,181,215.89	0.00	375,481.13	572,230.26		7,402,473.25
Finished goods	17,364,298.44	12,998,929.13	0.00	1,972,399.61	7,840,480.84		20,550,347.12
Total	22,207,333.55	17,188,292.30	0.00	2,601,336.92	8,433,995.23		28,360,293.70

#### (3) Reason for provision and write-off for diminution in value of inventories

Item	Basis for provision for diminution in value of inventories	Reason for reversal provision for diminution in value of inventories during the Current Period	Reason for write off provision for diminution in value of inventories during the Current Period
Raw materials	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	Sale of finished goods

### 8. Available-for-sale financial assets

#### (1) Status of available-for-sale financial assets

Item	Balance at the End of the Period			Balance at the beginning of the year		
	Gross amount	Impairment provision	Carrying value	Gross amount	Impairment provision	Carrying value
Available-for-sale equity instruments	260,721,580.53	113,854,995.09	146,866,585.44	262,054,679.57	82,432,392.81	179,622,286.76
Of which: measured at fair value	99,426,071.69	93,254,995.09	6,171,076.60	100,759,170.73	61,832,392.81	38,926,777.92
measured at cost	161,295,508.84	20,600,000.00	140,695,508.84	161,295,508.84	20,600,000.00	140,695,508.84

#### (2) Available-for-sale financial assets measured by fair value at the End of the Period

Classification of available-for-sale financial assets	Available-for-sale equity instruments
Cost of equity instruments	93,294,846.95
Fair value	6,171,076.60
Change in fair value accrued through other comprehensive income	5,211,541.04
Accrued impairment provision	93,254,995.09

Available-for-sale equity instruments measured at fair value by the end of the period were listed on Shenzhen Stock Exchange, the fair value of which were determined based on the closing price for the last day of dealing in the reporting period; as the available-for-sale equity instruments listed on NASDAQ in the United State has applied for liquidation and reorganization, thus the fair value of which has dropped to zero.

# NOTES TO INTERIM FINANCIAL REPORT (UNAUDITED)

For the period from 1 January 2016 to 30 June 2016

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

### 8. Available-for-sale financial assets (continued)

#### (3) Available-for-sale financial assets measured by cost at the End of the Period

Investee	Gross amount			Impairment provision			At the End of the Period	Proportion of equity holding in investee (%)	Cash dividend for the Current Period
	At the beginning of the year	Increase during the Current Period	Decrease during the Current Period	At the beginning of the year	Increase during the Current Period	Decrease during the Current Period			
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	0.0004	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	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	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	20,000,000.00	1.5065	0.00
Ruiheng Medical Technology Investment Co., Ltd. (瑞恒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	5.681	0.00
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	4.55	0.00
CYNVENIO BIOSYSTEMS, INC	58,442,400.00	0.00	0.00	58,442,400.00	0.00	0.00	0.00	13.64	0.00
Total	161,295,508.84	0.00	0.00	161,295,508.84	20,600,000.00	0.00	20,600,000.00	-	0.00

#### (4) Movement in impairment for available-for-sale financial assets for the Current Period

Categorised available-for-sale financial assets	Available-for-sale equity instruments	Total
Provision for Impairment at the beginning of the year	82,432,392.81	82,432,392.81
Provision for Impairment for the Current Period	31,422,602.28	31,422,602.28
In which: transferred from other comprehensive income	0.00	0.00
Decrease during the Current Period	0.00	0.00
In which: transferred upon increase in fair value after the period	0.00	0.00
Provision for Impairment by the End of the Period	113,854,995.09	113,854,995.09

# NOTES TO INTERIM FINANCIAL REPORT (UNAUDITED)

For the period from 1 January 2016 to 30 June 2016

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

### 9. Long-term equity investments

Investee	Balance at the beginning of the year	Change during the Current Period				Other equity changes
		Investment acquired	Investment disposed of	Investment profit and loss by 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)	44,648,346.21	0.00	0.00	2,541,834.73	0.00	0.00
Jiangsu Nike Medical Equipment Co., Ltd. (江蘇尼科醫療器械有限公司)	24,439,327.70	0.00	0.00	-407,004.80	0.00	0.00
Shenzhen City Youbao Technology Co., Ltd (深圳市有寶科技有限公司)	-179,162.84	3,000,000.00	0.00	-802,356.23	0.00	0.00
AbCyte Therapeutics Inc.	0.00	19,575,000.00	0.00	-285,822.16	0.00	0.00
<b>Total</b>	<b>70,108,511.07</b>	<b>22,575,000.00</b>	<b>0.00</b>	<b>1,046,651.54</b>	<b>0.00</b>	<b>0.00</b>

Investee	Change during the Current Period			Balance at the End of the Period	Impairment provision at the End of the Period
	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	47,190,180.94	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	24,032,322.90	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	2,018,480.93	0.00
AbCyte Therapeutics Inc.	0.00	0.00	0.00	19,289,177.84	0.00
<b>Total</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>93,730,162.61</b>	<b>1,200,000.00</b>

In March 2016, Livzon MABPharm Inc. (珠海市麗珠單抗生物技術有限公司) had contributed USD3.00 million, representing 40% of the registered capital of AbCyte Therapeutics Inc.



# NOTES TO INTERIM FINANCIAL REPORT (UNAUDITED)

For the period from 1 January 2016 to 30 June 2016

## 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	Increase for the Current Period	Decrease for the Current Period	Balance at the End of the Period
I. Total cost at book:	5,177,170,636.39	240,878,946.83	11,500,672.93	<b>5,406,548,910.29</b>
Including: Plant & buildings	2,668,190,178.64	110,928,419.75	2,086,212.81	<b>2,777,032,385.58</b>
Machinery & equipment	2,162,807,058.78	110,724,983.91	4,733,868.57	<b>2,268,798,174.12</b>
Motor vehicles	62,795,751.26	2,254,292.50	2,090,395.45	<b>62,959,648.31</b>
Electronic devices and others	283,377,647.71	16,971,250.67	2,590,196.10	<b>297,758,702.28</b>
II. Accumulated depreciation:	1,762,312,512.76	171,291,939.54	7,349,329.12	<b>1,926,255,123.18</b>
Including: Plant & buildings	661,822,185.55	65,032,487.37	437,246.39	<b>726,417,426.53</b>
Machinery & equipment	884,884,538.24	86,223,926.15	3,259,559.14	<b>967,848,905.25</b>
Motor vehicles	34,593,421.41	4,249,273.02	1,637,838.59	<b>37,204,855.84</b>
Electronic devices and others	181,012,367.56	15,786,253.00	2,014,685.00	<b>194,783,935.56</b>
III. Total fixed assets net carrying amount:	3,414,858,123.63			<b>3,480,293,787.11</b>
Including: Plant & buildings	2,006,367,993.09			<b>2,050,614,959.05</b>
Machinery & equipment	1,277,922,520.54			<b>1,300,949,268.87</b>
Motor vehicles	28,202,329.85			<b>25,754,792.47</b>
Electronic devices and others	102,365,280.15			<b>102,974,766.72</b>
IV. Total provision for impairment:	91,092,686.37	3,247,837.98	91,857.99	<b>94,248,666.36</b>
Including: Plant & buildings	47,170,482.25	0.00	78,229.08	<b>47,092,253.17</b>
Machinery & equipment	42,771,404.31	3,236,395.73	3,420.56	<b>46,004,379.48</b>
Motor vehicles	83,051.46	0.00	0.00	<b>83,051.46</b>
Electronic devices and others	1,067,748.35	11,442.25	10,208.35	<b>1,068,982.25</b>
V. Total fixed assets carrying amount:	3,323,765,437.26			<b>3,386,045,120.75</b>
Including: Plant & buildings	1,959,197,510.84			<b>2,003,522,705.88</b>
Machinery & equipment	1,235,151,116.23			<b>1,254,944,889.39</b>
Motor vehicles	28,119,278.39			<b>25,671,741.01</b>
Electronic devices and others	101,297,531.80			<b>101,905,784.47</b>

During the Current Period, the amount of depreciation was RMB171,291,939.54 (RMB137,686,654.73 in the Previous Period). During the Current Period, construction in progress transferred to cost of fixed assets was RMB150,132,125.74 (RMB94,520,248.53 in the Previous Period).

#### (2) As at the End of the Period, temporarily idle fixed assets

Item	Cost	Accumulated depreciation	Provision for impairment	Carrying amount	Remarks
Plant & buildings	22,502,027.98	11,303,421.20	0.00	11,198,606.78	
Machinery & equipment	53,203,351.24	38,916,135.35	1,320,900.00	12,966,315.89	
Electronic devices and others	18,311,829.46	17,095,087.41	537.00	1,216,205.05	
Total	94,017,208.68	67,314,643.96	1,321,437.00	25,381,127.72	

# NOTES TO INTERIM FINANCIAL REPORT (UNAUDITED)

For the period from 1 January 2016 to 30 June 2016

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

### 10. Fixed assets *(continued)*

(3) The Company has no fixed assets leased in under finance leases.

#### (4) Fixed assets leased out under operating leases

Item	Carrying amount at the End of the Period
Plant and building	1,526,899.94
Electronic devices and others	37,270,927.87
<b>Total</b>	<b>38,797,827.81</b>

#### (5) Fixed assets with pending certificates for ownership at the End of the Period

Item	Carrying amount	Reason for pending certificates for ownership
Plant & buildings	990,912,388.19	In progress

### 11. Construction in progress

#### (1) Construction in progress status

Item	Balance at the End of the Period			Balance at the beginning of the year		
	Gross amount	Provision for impairment	Carrying amount	Gross amount	Provision for impairment	Carrying amount
Construction of new production plants	147,458,074.94	0.00	147,458,074.94	252,195,979.46	0.00	252,195,979.46
Installation of equipment	30,520,203.84	0.00	30,520,203.84	77,728,082.13	0.00	77,728,082.13
Technology upgrade	6,588,221.74	0.00	6,588,221.74	4,144,916.71	0.00	4,144,916.71
Workshop modification	12,075,205.87	0.00	12,075,205.87	12,959,462.55	0.00	12,959,462.55
Others	220,474.00	0.00	220,474.00	220,474.00	0.00	220,474.00
<b>Total</b>	<b>196,862,180.39</b>	<b>0.00</b>	<b>196,862,180.39</b>	<b>347,248,914.85</b>	<b>0.00</b>	<b>347,248,914.85</b>

# NOTES TO INTERIM FINANCIAL REPORT (UNAUDITED)

For the period from 1 January 2016 to 30 June 2016

## 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 Current Period	Transferred to fixed asset for the Current Period	Other deduction	Balance at the End of the Period
Construction of new production plants	336,828,342.36	252,195,979.46	51,846,637.18	77,388,079.02	79,196,462.68	147,458,074.94
Installation of equipment	33,704,092.75	77,728,082.13	19,046,415.64	57,112,363.93	9,141,930.00	30,520,203.84
Technology upgrade	6,588,221.74	4,144,916.71	12,244,952.44	9,154,042.66	647,604.75	6,588,221.74
Workshop modification	12,075,205.87	12,959,462.55	5,593,383.45	6,477,640.13	0.00	12,075,205.87
Others	1,500,000.00	220,474.00	0.00	0.00	0.00	220,474.00
<b>Total</b>	<b>390,695,862.72</b>	<b>347,248,914.85</b>	<b>88,731,388.71</b>	<b>150,132,125.74</b>	<b>88,985,997.43</b>	<b>196,862,180.39</b>

Categories of project	Accumulated amount of the interest capitalised as at the End of the Period	Including: interest capitalised for the Current Period	Interest capitalised rate for the Current Period (%)	Percentage of cost incurred over budgeted amount (%)	Construction progress	Sources of funds
Construction of new production plants	2,918,830.29	2,020,268.19	4.35	43.78	Completion of some projects	Borrowings and self-funding
Installation of equipment	0.00	0.00	0.00	90.55	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	10.00	Completion of some projects	Self-funding
Others	0.00	0.00	0.00	14.70	Completion of some projects	Self-funding
<b>Total</b>	<b>2,918,830.29</b>	<b>2,020,268.19</b>				

Other deduction refers to asset disposal and the transfer of long-term deferred expenses.

#### (3) As at the End of the Period, 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 Current Period	Transferred to fixed asset for the Current Period	Other deduction	Balance at the End of the Period
Construction of new production plants	1,105,838.20	2,020,268.19	128,652.10	78,624.00	2,918,830.29

### 12. Construction supplies

Item	Balance at the End of the Period	Balance at the beginning of the year
Specialised equipment	90,598.29	72,208.40

# NOTES TO INTERIM FINANCIAL REPORT (UNAUDITED)

For the period from 1 January 2016 to 30 June 2016

## 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	Increase for the Current Period	Decrease for the Current Period	Balance at the End of the Period
I. Total cost:	471,058,000.63	73,605,597.22	37,505,788.18	<b>507,157,809.67</b>
Land use rights	262,249,617.67	30,344,200.16	37,505,788.18	<b>255,088,029.65</b>
Technical know-how	178,750,734.98	42,737,333.00	0.00	<b>221,488,067.98</b>
Software	30,033,647.98	524,064.06	0.00	<b>30,557,712.04</b>
Trademark rights	24,000.00	0.00	0.00	<b>24,000.00</b>
II. Accumulated depreciation:	209,221,985.80	15,311,422.63	3,363,570.16	<b>221,169,838.27</b>
Land use rights	64,450,971.22	4,268,046.72	3,363,570.16	<b>65,355,447.78</b>
Technical know-how	122,692,519.19	9,059,445.18	0.00	<b>131,751,964.37</b>
Software	22,054,495.39	1,983,930.73	0.00	<b>24,038,426.12</b>
Trademark rights	24,000.00	0.00	0.00	<b>24,000.00</b>
III. Total net carrying value of intangible assets:	261,836,014.83			<b>285,987,971.40</b>
Land use rights	197,798,646.45			<b>189,732,581.87</b>
Technical know-how	56,058,215.79			<b>89,736,103.61</b>
Software	7,979,152.59			<b>6,519,285.92</b>
Trademark rights	0.00			<b>0.00</b>
IV. Total provision for impairment:	2,361,826.83	8,829,166.90	0.00	<b>11,190,993.73</b>
Land use rights	981,826.94	0.00	0.00	<b>981,826.94</b>
Technical know-how	1,379,999.89	8,829,166.90	0.00	<b>10,209,166.79</b>
Software	0.00	0.00	0.00	<b>0.00</b>
Trademark rights	0.00	0.00	0.00	<b>0.00</b>
V. Carrying amount of intangible assets	259,474,188.00			<b>274,796,977.67</b>
Land use rights	196,816,819.51			<b>188,750,754.93</b>
Technical know-how	54,678,215.90			<b>79,526,936.82</b>
Software	7,979,152.59			<b>6,519,285.92</b>
Trademark rights	0.00			<b>0.00</b>

Amortisation for the Current Period is RMB15,311,422.63 (RMB10,608,444.28 in the Previous Period).

# NOTES TO INTERIM FINANCIAL REPORT (UNAUDITED)

For the period from 1 January 2016 to 30 June 2016

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

### 13. Intangible assets (continued)

(2) Intangible assets with pending certificates for ownership were as follows:

Item	Carrying amount	Reason for pending certificates for ownership
Land use rights	4,855,038.74	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.

### 14. Development costs

Item	Balance at the beginning of the year	Increase for the Current Period	Decrease for the Current Period		Balance at the End of the Period
			Recognised in profit or loss	Recognised as intangible assets	
Expensing costs:	0.00	117,885,714.09	117,885,714.09	0.00	0.00
Capitalised expenses:	13,252,992.01	1,247,459.13	0.00	0.00	14,500,451.14
In which: western drug preparation	13,252,992.01	1,247,459.13	0.00	0.00	14,500,451.14
Total	13,252,992.01	119,133,173.22	117,885,714.09	0.00	14,500,451.14

### 15. Goodwill

(1) Total goodwill value at book

Name of investee or the matter of goodwill arisen	Balance at the beginning of the year	Increase for the Current Period	Decrease for the Current Period	Balance at the End of the Period
Livzon Group Livzon Pharmaceutical Factory (麗珠集團麗珠製藥廠)	47,912,269.66	0.00	0.00	47,912,269.66
Sichuan Guangda Pharmaceutical Manufacturing Co., Ltd. (四川光大製藥有限公司)	13,863,330.24	0.00	0.00	13,863,330.24
Livzon Group Fuzhou Fuxing Pharmaceutical Co., Ltd. (麗珠集團福州福興醫藥有限公司)	46,926,155.25	0.00	0.00	46,926,155.25
Livzon Group Xinbeijiang Pharmaceutical Manufacturing Inc. (麗珠集團新北江製藥股份有限公司)	7,271,307.03	0.00	0.00	7,271,307.03
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

# NOTES TO INTERIM FINANCIAL REPORT (UNAUDITED)

For the period from 1 January 2016 to 30 June 2016

## 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	Increase for the Current Period	Decrease for the Current Period	Balance at the End of the Period
Livzon Group Fuzhou Fuxing Pharmaceutical Co., Ltd. (麗珠集團福州福興醫藥有限公司)	11,200,000.00	0.00	0.00	11,200,000.00
Livzon Group Xinbeijiang Pharmaceutical Manufacturing Inc. (麗珠集團新北江製藥股份有限公司)	7,271,307.03	0.00	0.00	7,271,307.03
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
Total	18,759,063.15	0.00	0.00	18,759,063.15

#### (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.

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.

# NOTES TO INTERIM FINANCIAL REPORT (UNAUDITED)

For the period from 1 January 2016 to 30 June 2016

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

### 16. Long-term deferred expenses

Item	Balance at the beginning of the year	Increase for the Current Period	Amortisation for the Current Period	Other decrease	Balance at the End of the Period	Reason for other decrease
Overhaul costs of fixed assets	2,853,243.81	679,046.49	904,487.65	0.00	<b>2,627,802.65</b>	
Renovation costs of offices	15,751,030.35	3,184,969.39	1,227,403.39	0.00	<b>17,708,596.35</b>	
Renovation costs of plants	13,503,861.04	10,902,418.89	107,050.16	0.00	<b>24,299,229.77</b>	
Share of costs for public utilities	81,250.02	1,350,000.00	179,249.94	0.00	<b>1,252,000.08</b>	
Resin and filler	5,968,677.84	495,623.37	1,880,599.85	0.00	<b>4,583,701.36</b>	
Others	1,865,393.77	271,546.67	311,473.81	0.00	<b>1,825,466.63</b>	
<b>Total</b>	<b>40,023,456.83</b>	<b>16,883,604.81</b>	<b>4,610,264.80</b>	<b>0.00</b>	<b>52,296,796.84</b>	

### 17. Deferred tax assets/Deferred tax liabilities

#### (1) Breakdown of deferred tax assets

Item	Balance at the End of the Period		Balance at the beginning of the year	
	Deductible temporary difference	Deferred tax assets	Deductible temporary difference	Deferred tax assets
Deductible temporary difference arising from provision for impairment	<b>184,627,924.04</b>	<b>28,176,725.32</b>	180,085,772.58	27,447,005.41
Deductible temporary difference arising from amortisation of intangible assets	<b>0.00</b>	<b>0.00</b>	16,498.33	2,474.75
Deductible temporary difference arising from accrued expenses	<b>134,157,465.55</b>	<b>20,123,619.85</b>	110,039,069.54	16,505,860.45
Deductible temporary difference arising from tax losses carried forward	<b>54,258,579.74</b>	<b>8,138,786.97</b>	58,907,279.16	8,836,091.88
Deductible temporary difference arising from deferred income	<b>51,237,424.45</b>	<b>7,685,613.67</b>	53,129,897.41	7,969,484.61
Deductible temporary difference arising from gains from unrealized intra-company transactions	<b>333,549,887.22</b>	<b>50,032,483.09</b>	254,420,737.12	38,163,110.57
Deductible temporary difference arising from share incentive cost	<b>26,996,766.43</b>	<b>3,101,754.96</b>	36,089,000.00	5,414,454.31
<b>Total</b>	<b>784,828,047.43</b>	<b>117,258,983.86</b>	692,688,254.14	104,338,481.98

# NOTES TO INTERIM FINANCIAL REPORT (UNAUDITED)

For the period from 1 January 2016 to 30 June 2016

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

### 17. Deferred tax assets/Deferred tax liabilities *(continued)*

#### (2) Breakdown of deferred tax liabilities

Item	Balance at the End of the Period		Balance at the beginning of the year	
	Taxable temporary difference	Taxable temporary difference	Taxable temporary difference	Taxable temporary difference
Taxable temporary difference arising from financial assets held for trading	673,266.07	98,781.50	658,543.34	98,781.50
Taxable temporary difference arising from available-for-sale financial assets	8,742,124.74	1,311,318.71	10,075,223.78	1,511,283.57
Taxable temporary difference arising from long-term equity investments under in equity method	25,128,775.67	3,769,316.35	23,796,301.97	3,569,445.29
Taxable temporary difference arising from accelerated depreciation of fixed assets	66,592,296.49	10,007,364.29	48,295,157.43	7,262,793.43
<b>Total</b>	<b>101,136,462.97</b>	<b>15,186,780.85</b>	82,825,226.52	12,442,303.79

#### (3) Breakdown of deferred tax assets not recognised

Item	Balance at the End of the Period	Balance at the beginning of the year
Deductible temporary difference	208,240,206.37	109,628,369.67
Deductible loss	283,125,387.65	239,234,455.81
<b>Total</b>	<b>491,365,594.02</b>	348,862,825.48

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

Year	Balance at the End of the Period	Balance at the beginning of the year	Remarks
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	59,349,854.93	59,410,126.67	
2020	77,937,496.02	86,397,169.60	
2021	50,657,283.41	0.00	
Indefinite	21,733,616.41	19,980,022.66	
<b>Total</b>	<b>283,125,387.65</b>	239,234,455.81	



# NOTES TO INTERIM FINANCIAL REPORT (UNAUDITED)

For the period from 1 January 2016 to 30 June 2016

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

### 18. Other non-current assets

Item	Balance at the End of the Period	Balance at the beginning of the year
Prepayment for acquisition of land use rights	22,959,755.70	20,425,185.00
Prepayment for acquisition of project and equipment	4,471,269.60	5,919,463.00
Prepayment for acquisition of technical know-how	40,661,875.64	33,561,875.64
Total	text-align: right;">68,092,900.94	text-align: right;">59,906,523.64

### 19. Short-term loans

#### (1) Classification of short-term loans

Item	Balance at the End of the Period	Balance at the beginning of the year
Loans on credit	860,000,000.00	250,000,000.00
Total	text-align: right;">860,000,000.00	text-align: right;">250,000,000.00

(2) There were no past due short-term loans that were unpaid in the ending balance.

### 20. Bills payables

Type	Balance at the End of the Period	Balance at the beginning of the year
Bank acceptance bills	270,832,083.12	299,007,801.36

The amount of RMB270,832,038.12 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)

Item	Balance at the End of the Period	Balance at the beginning of the year
1 to 90 days	446,973,363.86	391,502,813.19
91 to 180 days	85,602,570.06	76,598,394.01
181 days to 1 year	84,678,609.01	100,632,550.47
1 to 2 years	9,947,949.14	29,128,330.58
Over 2 years	21,881,383.61	38,890,510.98
Total	text-align: right;">649,083,875.68	text-align: right;">636,752,599.23

# NOTES TO INTERIM FINANCIAL REPORT (UNAUDITED)

For the period from 1 January 2016 to 30 June 2016

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

### 21. Accounts payables *(continued)*

#### (2) Important payables ageing over 1 year

Item	Balance at the End of the Period	Reason for non-payment or non-transfer
Guangdong Jian'an Changsheng Engineering Co., Ltd. (廣東建安昌盛工程有限公司)	4,111,696.32	Holdback
ABC Building Systems (China) Co., Ltd (美建建築系統(中國)有限公司)	3,190,338.65	
Total	7,302,034.97	

### 22. Receipts in advance

#### (1) Presentation of receipts in advance

Item	Balance at the End of the Period	Balance at the beginning of the year
Within 1 year	26,668,625.09	43,057,773.86
Over 1 year	27,770,010.98	22,197,476.55
Total	54,438,636.07	65,255,250.41

#### (2) Large sum of receipts in advance over one year

Item	Balance at the End of the Period	Reason for not being charged
Guangdong Province Center for Disease Control and Prevention (廣東省疾病預防控制中心)	6,528,970.89	The customer has not required the delivery of goods
Heilongjiang Province Center for Disease Control and Prevention (黑龍江省疾病控制中心)	2,886,670.50	The customer has not required the delivery of goods
Total	9,415,641.39	

# NOTES TO INTERIM FINANCIAL REPORT (UNAUDITED)

For the period from 1 January 2016 to 30 June 2016

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

### 23. Employee benefits payables

#### (1) Presentation of salary payables

Item	Balance at the beginning of the year	Increase for the Current Period	Decrease for the Current Period	Balance at the End of the Period
I. Short-term salary	71,705,655.76	263,097,325.48	283,927,541.63	<b>50,875,439.61</b>
II. Post-resignation benefits – designated provision	142,941.37	21,996,254.93	21,953,892.22	<b>185,304.08</b>
III. Dismiss benefits	0.00	99,673.40	99,673.40	<b>0.00</b>
IV. Other benefits due within 1 year	0.00	91,014.10	91,014.10	<b>0.00</b>
Total	71,848,597.13	285,284,267.91	306,072,121.35	<b>51,060,743.69</b>

#### (2) Presentation of short-term salary

Item	Balance at the beginning of the year	Increase for the Current Period	Decrease for the Current Period	Balance at the End of the Period
1. Salaries, bonuses, allowances and subsidies	69,256,444.58	234,934,747.78	254,517,504.54	<b>49,673,687.82</b>
2. Employee welfare	1,772,375.34	11,205,432.75	12,142,431.04	<b>835,377.05</b>
3. Social insurance	68,101.70	8,931,858.42	8,925,089.43	<b>74,870.69</b>
Of which: Medical insurances	50,740.19	7,614,015.38	7,601,291.14	<b>63,464.43</b>
Work-related injury insurances	13,207.83	764,470.51	767,151.24	<b>10,527.10</b>
Maternity insurances	4,153.68	553,372.53	556,647.05	<b>879.16</b>
4. Housing funds	260,770.30	7,560,737.64	7,572,367.94	<b>249,140.00</b>
5. Labour union fees and employee education fees	347,963.84	464,548.89	770,148.68	<b>42,364.05</b>
6. Short-term compensated absence	0.00	0.00	0.00	<b>0.00</b>
7. Short-term profit distribution plan – Performance-linked bonuses of subsidiaries	0.00	0.00	0.00	<b>0.00</b>
Total	71,705,655.76	263,097,325.48	283,927,541.63	<b>50,875,439.61</b>

#### (3) Presentation of designated provision

Item	Balance the beginning of the year	Increase for the Current Period	Decrease for the Current Period	Balance at the End of the Period
1. Basic pension insurance	132,907.04	20,675,906.90	20,639,545.74	<b>169,268.20</b>
2. Unemployment insurance	10,034.33	1,320,348.03	1,314,346.48	<b>16,035.88</b>
Total	142,941.37	21,996,254.93	21,953,892.22	<b>185,304.08</b>

# NOTES TO INTERIM FINANCIAL REPORT (UNAUDITED)

For the period from 1 January 2016 to 30 June 2016

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

### 24. Taxes payables

<b>Item</b>	<b>Balance at the End of the Period</b>	Balance at the beginning of the year
Value added tax	<b>6,753,503.75</b>	-17,720,385.49
Business tax	<b>0.00</b>	32,921.70
Urban maintenance and construction tax	<b>5,859,985.16</b>	4,827,251.64
Enterprise income tax	<b>114,984,487.93</b>	125,093,660.77
Property tax	<b>3,950,649.64</b>	4,418,116.16
Land use tax	<b>1,236,994.45</b>	1,834,686.81
Individual income tax	<b>8,630,944.05</b>	5,863,466.96
Stamp duty	<b>182,055.50</b>	1,259,358.85
Education surcharges	<b>5,004,769.27</b>	4,039,147.84
Flood prevention fee	<b>125,210.33</b>	285,782.33
Others	<b>307,899.52</b>	100,871.96
<b>Total</b>	<b>147,036,499.60</b>	130,034,879.53

### 25. Interest payables

<b>Item</b>	<b>Balance at the End of the Period</b>	Balance at the beginning of the year
Interest for medium-term bills	<b>0.00</b>	11,823,945.25
Interest for short-term loans	<b>524,189.89</b>	0.00
<b>Total</b>	<b>524,189.89</b>	11,823,945.25

# NOTES TO INTERIM FINANCIAL REPORT (UNAUDITED)

For the period from 1 January 2016 to 30 June 2016

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

### 26. Dividends payables

Item	Balance at the End of the Period	Balance at the beginning of the year	Reason for outstanding over 1 year
Dividends on ordinary shares	<b>3,548,247.60</b>	20,174.46	Not yet paid
Qingyuan Xinbeijiang (Group) Company (清遠新北江企業(集團)公司)	<b>1,200,710.00</b>	1,200,710.00	Not yet paid
Other legal persons and individual shares of subsidiaries	<b>1,051,300.00</b>	1,051,300.00	Not yet paid
Staff shares of subsidiaries	<b>259,800.00</b>	259,800.00	Not yet paid
<b>Total</b>	<b>6,060,057.60</b>	2,531,984.46	

### 27. Other payables

#### (1) Breakdown of other payables

Item	Balance at the End of the Period	Balance at the beginning of the year
Within 1 year	<b>1,217,529,762.57</b>	1,165,075,389.28
Over 1 year	<b>113,636,446.82</b>	122,209,556.46
<b>Total</b>	<b>1,331,166,209.39</b>	1,287,284,945.74

#### (2) The breakdown of accruals included in balances was as follows:

Item	Balance at the End of the Period	Balance at the beginning of the year	Reason for outstanding
Utilities expenses	<b>7,061,747.59</b>	4,918,521.09	Not yet paid
Research expenses	<b>4,198,992.01</b>	572,648.40	Not yet paid
Business promotion expenses	<b>792,133,253.39</b>	612,157,797.84	Not yet paid
Advertising expenses	<b>295,143.66</b>	294,147.66	Not yet paid
Business meeting expenses	<b>20,102,093.30</b>	31,737,907.19	Not yet paid
Auditing and information disclosure expenses	<b>5,877,994.81</b>	5,054,490.76	Not yet paid
Segment operating expenses	<b>14,440,946.07</b>	20,871,386.46	Not yet paid
Others	<b>37,310,037.22</b>	38,724,576.72	Not yet paid
<b>Total</b>	<b>881,420,208.05</b>	714,331,476.12	

# NOTES TO INTERIM FINANCIAL REPORT (UNAUDITED)

For the period from 1 January 2016 to 30 June 2016

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

### 28. Non-current liabilities due within one year

Item	<b>Balance at the End of the Period</b>	Balance at the beginning of the year
Long-term loans due within one year (Note VI.29)	<b>400,000.00</b>	400,000.00
Bonds payables due within one year (Note VI.30)	<b>0.00</b>	400,000,000.00
Total	<b>400,000.00</b>	400,400,000.00

Of which : changes in bonds payables due within one 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 Current Period	Interest paid for the Current Period	Interest payables at the End of the Period	Balance at the End of the Period
13 Livzon MTN1	400,000,000.00	29 May 2013	3 years	400,000,000.00	11,823,945.25	8,296,054.75	20,120,000.00	0.00	0.00

### 29. Long-term loans

#### (1) Classification of long-term loans

Item	<b>Balance at the End of the Period</b>	Balance at the beginning of the year
Loans on credit	<b>1,100,000.00</b>	1,100,000.00
Guarantee loans	<b>0.00</b>	0.00
Less: Long-term loans due within one year (Note VI.28)	<b>400,000.00</b>	400,000.00
Total	<b>700,000.00</b>	700,000.00

As at 30 June 2016, there was no overdue long-term loans that were unpaid.

# NOTES TO INTERIM FINANCIAL REPORT (UNAUDITED)

For the period from 1 January 2016 to 30 June 2016

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

### 29. Long-term loans (continued)

#### (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 End of the Period		Balance at the beginning of the year	
					Foreign amount	Local currency amount	Foreign amount	Local currency amount
Fuzhou Bureau of Finance	Indefinite	Indefinite	RMB	Interest-free	–	700,000.00	–	700,000.00
Total						700,000.00		700,000.00

### 30. Notes payables

Item	Balance at the End of the Period	Balance at the beginning of the year
Bond payables	0.00	400,000,000.00
Less : bonds payables due within one year (Note VI.28)	0.00	400,000,000.00
Total	0.00	0.00

### 31. Deferred income

Item	Balance at the beginning of the year	Increase for the Current Period	Decrease for the Current Period	Balance at the End of the Period	Reason
Government grant	99,558,739.98	1,090,000.00	10,043,078.61	90,605,661.37	

Of which, items related to government grant :

Liabilities	Balances at the beginning of the year	Amount of new additional subsidy for the Current Period	Recognised in non-operating income for the Current Period	Other changes	Balances at the End of the Period	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)	7,831,374.86	0.00	1,000,000.02	0.00	6,831,374.84	Related to assets
	5,909,273.68	0.00	374,064.90	0.00	5,535,208.78	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)	13,677,640.24	0.00	4,155,482.36	0.00	9,522,157.88	Related to assets
2014 Strategic Emerging Industries (Sustained Release Microsphere) (2014年戰略性新興產業(緩釋微球))	2,000,000.00	0.00	0.00	0.00	2,000,000.00	Related to income

# NOTES TO INTERIM FINANCIAL REPORT (UNAUDITED)

For the period from 1 January 2016 to 30 June 2016

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

### 31. Deferred income *(continued)*

Liabilities	Balances at the beginning of the year	Amount of new additional subsidy for the Current Period	Recognised in non-operating income for the Current Period	Other changes	Balances at the End of the Period	Related to assets/ Related to income
Research and standardization of testing methods of Sulphur dioxide residue in Chinese medicines	0.00	90,000.00	1,968.00	0.00	88,032.00	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)	3,749,999.97	0.00	250,000.02	0.00	3,499,999.95	Related to assets
2013 Provincial Technology Special Fund (2013年度省級科技專項資金)	533,829.27	0.00	38,523.04	0.00	495,306.23	Related to assets
Demonstration Project on the Application of Solar Photovoltaic Architecture (太陽能光電建築應用示範項目)	4,790,166.54	0.00	350,500.02	0.00	4,439,666.52	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)	2,575,345.86	0.00	97,182.90	0.00	2,478,162.96	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)	394,367.00	0.00	197,202.00	0.00	197,165.00	Related to assets
Shenqi Fuzheng Injection (參芪扶正注射液)	1,029,987.68	0.00	0.00	0.00	1,029,987.68	Related to assets
	964,070.19	0.00	1,579.00	0.00	962,491.19	Related to income
Financial Grant for the Quality Control Technologies of Shenqi (參芪質量控制技術財政撥款)	659,726.00	0.00	208,332.00	0.00	451,394.00	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)	7,845,718.94	0.00	4,361.00	0.00	7,841,357.94	Related to assets



# NOTES TO INTERIM FINANCIAL REPORT (UNAUDITED)

For the period from 1 January 2016 to 30 June 2016

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

### 31. Deferred income (continued)

Liabilities	Balances at the beginning of the year	Amount of new additional subsidy for the Current Period	Recognised in non-operating income for the Current Period	Other changes	Balances at the End of the Period	Related to assets/ 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
Construction of High-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)	25,015.00	0.00	25,015.00	0.00	0.00	Related to assets
Power-Saving of Lighting Pump Fan and Air-conditioning System (照明水泵風機及空調系統節電)	17,515.00	0.00	17,515.00	0.00	0.00	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	212,527.55	Related to assets
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)	12,077.62	0.00	9,793.62	0.00	2,284.00	Related to assets
	3,958.38	0.00	3,958.38	0.00	0.00	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)	2,222.28	0.00	2,222.28	0.00	0.00	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)	80,000.00	0.00	0.00	0.00	80,000.00	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))	7,602,935.19	0.00	1,412,749.67	0.00	6,190,185.52	Related to assets
	675,769.44	0.00	44,150.68	0.00	631,618.76	Related to income

# NOTES TO INTERIM FINANCIAL REPORT (UNAUDITED)

For the period from 1 January 2016 to 30 June 2016

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

### 31. Deferred income (continued)

Liabilities	Balances at the beginning of the year	Amount of new additional subsidy for the Current Period	Recognised in non-operating income for the Current Period	Other changes	Balances at the End of the Period	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 Fund (產業振興扶持資金)	9,393,500.00	0.00	579,000.00	0.00	8,814,500.00	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)	2,348,800.00	0.00	0.00	0.00	2,348,800.00	Related to assets
Government Grant for Industrial Transformation (工業轉型政府扶持資金)	1,558,333.33	0.00	124,999.98	0.00	1,433,333.35	Related to assets
New Industrialisation Development Grant (新型工業化發展獎金)	3,004,166.67	0.00	150,000.00	0.00	2,854,166.67	Related to assets
Subsidy for Industrial Project (工業項目貼息補助)	1,566,666.67	0.00	100,000.02	0.00	1,466,666.65	Related to assets
Five Goods and One New Supporting Funds (五優一新扶持資金)	900,000.00	0.00	49,999.98	0.00	850,000.02	Related to assets
Set-up and research fund for post-doc station (博士後建站和科研補貼)	92,878.00	0.00	0.00	0.00	92,878.00	Related to income
New R&D Institution Subsidy (新型研發機構補助)	2,625,774.62	1,000,000.00	844,478.74	0.00	2,781,295.88	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)	1,000,000.00	0.00	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)	1,000,000.00	0.00	0.00	0.00	1,000,000.00	Related to assets
Zhuhai Strategic Emerging Industries Special Funds (珠海市戰略性新興產業專項資金)	3,330,000.00	0.00	0.00	0.00	3,330,000.00	Related to assets
Funds for R&D and commercialisation of innovative drug of Ilaprazole series (艾普拉唑系列創新藥物研發及產業化項目資金)	5,600,000.00	0.00	0.00	0.00	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)	2,400,000.00	0.00	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)	2,295,100.00	0.00	0.00	0.00	2,295,100.00	Related to income
<b>Total</b>	<b>99,558,739.98</b>	<b>1,090,000.00</b>	<b>10,043,078.61</b>	<b>0.00</b>	<b>90,605,661.37</b>	

# NOTES TO INTERIM FINANCIAL REPORT (UNAUDITED)

For the period from 1 January 2016 to 30 June 2016

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

### 32. Share capital

#### January to June 2016

Item	Balance at the beginning of the year		Changes for the Current Period (+ -)					Balance at the End of the Period	
	Amount	Percentage (%)	Issue of new shares	Number of bonus shares	Reserve fund 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	7,877,256	1.98	0.00	0.00	0.00	0.00	0.00	7,877,256	1.98
3. Other domestic shares	12,451,140	3.14	0.00	0.00	0.00	-4,292,985	-4,292,985	8,158,155	2.06
<i>Of which: Domestic legal person shares</i>	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
<i>Domestic natural person shares</i>	12,451,140	3.14	0.00	0.00	0.00	-4,292,985	-4,292,985	8,158,155	2.06
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
Shares subject to selling restrictions in aggregate	20,328,396	5.12	0.00	0.00	0.00	-4,292,985	-4,292,985	16,035,411	4.04
<b>II. Shares not subject to selling restrictions</b>									
1. Ordinary shares denominated in Renminbi	230,969,791	58.19	0.00	0.00	0.00	4,292,985	4,292,985	235,262,776	59.28
2. Domestically listed foreign shares (B-share)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
3. Overseas listed foreign shares (H-share)	145,591,360	36.68	0.00	0.00	0.00	0.00	0.00	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	376,561,151	94.88	0.00	0.00	0.00	4,292,985	4,292,985	380,854,136	95.96
<b>III. Total number of shares</b>	396,889,547	100.00	0.00	0.00	0.00	0.00	0.00	396,889,547	100.00

On 28 March 2016, the "Resolution on Granting Shares to be Unlocked during the First Unlocking Period under the Restricted Shares Incentive Scheme of the Company" was passed at the Twenty-third Meeting of the Eighth Session of the Board of the Company. 4,453,176 shares, representing 1.12% of the Company's total share capital, were unlocked during the First Unlocking Period. According to the authority granted to the Board at the 2015 First Extraordinary General Meeting of the Company, the Company had completed the unlock procedure and related matters for the above shares, with the listing date of such shares being 5 April 2016, resulting in a change in the number of shares. According to the Guidelines of the Shenzhen Stock Exchange for the Standard Operation of Companies Listed on the Main Board, upon completion of this unlock procedure, there are 160,191 locked shares held by the senior management, resulting in an actual increase of 4,292,985 non-restricted shares of the Company.

# NOTES TO INTERIM FINANCIAL REPORT (UNAUDITED)

For the period from 1 January 2016 to 30 June 2016

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

### 32. Share capital (continued)

January to June 2015

Item	Balance at the Beginning of the Period		Change during the Current Period (+ -)					Balance at the End of the Period	
	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	0.00	0.00	0.00	6,059,428	1.99
3. Other domestic shares	0.00	0.00	0.00	0.00	0.00	8,660,400	0.00	8,660,400	2.85
<i>Of which: Domestic legal person shares</i>	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
<i>Domestic natural person shares</i>	0.00	0.00	0.00	0.00	0.00	8,660,400	0.00	8,660,400	2.85
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
Shares subject to selling restrictions in aggregate	6,059,428	2.05	0.00	0.00	0.00	8,660,400	0.00	14,719,828	4.84
<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	58.37
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	0.00	0.00	0.00	111,993,354	36.79
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	0.00	0.00	0.00	289,662,424	95.16
<b>III. Total number of shares</b>	<b>295,721,852</b>	<b>100.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>8,660,400</b>	<b>0.00</b>	<b>304,382,252</b>	<b>100.00</b>

### 33. Capital reserve

January to June 2016

Item	Balance at the beginning of the year	Increase for the Current Period	Decrease for the Current Period	Balance at the End of the Period
Capital premiums	339,139,167.39	28,991,598.92	0.00	<b>368,130,766.31</b>
Other capital reserve	56,570,182.76	19,792,166.43	28,884,400.00	<b>47,477,949.19</b>
<b>Total</b>	<b>395,709,350.15</b>	<b>48,783,765.35</b>	<b>28,884,400.00</b>	<b>415,608,715.50</b>

Increase in share premium during the period represents: 1. The releasing conditions of the Restricted Shares have been fulfilled, and the corresponding withdrawal of share incentive expenses RMB28,884,400.00 is transferred from other capital reserve to the share premium reserve; 2. The transferred amount from clearing up the odd lot of shares of RMB107,198.92.

The increase in other capital reserve for the Current Period was attributable to the provision of share incentive expenses.

# NOTES TO INTERIM FINANCIAL REPORT (UNAUDITED)

For the period from 1 January 2016 to 30 June 2016

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

### 33. Capital reserve *(continued)*

#### January to June 2015

Item	At the Beginning of the Period	Increase for the Current Period	Decrease for the Current Period	At the End of the Period
Capital premiums	192,213,531.98	209,581,680.00	0.00	<b>401,795,211.98</b>
Other capital reserve	20,481,182.76	11,734,244.22	0.00	<b>32,215,426.98</b>
Total	212,694,714.74	221,315,924.22	0.00	<b>434,010,638.96</b>

The increase in capital premiums for the Current Period was attributable to the increase in capital premiums caused by vesting of Restricted Shares.

The increase in other capital reserve for the Current Period was attributable to the provision of share incentive expenses.

### 34. Treasury shares

Item	Balances at the beginning of the period	Increase for the period	Decrease for the period	Balances at the end of the period
Repurchase arising from the Share Incentive Scheme	247,219,957.00	0.00	90,144,746.80	<b>157,075,210.20</b>
Total	247,219,957.00	0.00	90,144,746.80	<b>157,075,210.20</b>

The decrease in our repurchase obligation during the period represents: 1. 4,453,176 Restricted Shares from the first batch has fulfilled the releasing conditions, resulting in a corresponding decrease in our repurchase obligation of RMB86,231,552.00; 2. Cash dividends allocated to the holders of Restricted Shares, resulting in a decrease in Treasury Shares of RMB3,913,194.80.

# NOTES TO INTERIM FINANCIAL REPORT (UNAUDITED)

For the period from 1 January 2016 to 30 June 2016

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

### 35. Other comprehensive income

January to June 2016

Item	Balance at the beginning of the year	For the Current Period					Balance at the End of the Period
		Amount incurred before income tax for the Current Period	Less: amount recognised in other comprehensive income in Previous Period transferred to profit or loss for the Current Period	Less: income tax expenses	Attributable to the parent company after tax	Attributable to the 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	-12,753,227.85	1,655,237.36	0.00	-199,964.86	1,825,451.95	29,750.27	-10,927,775.90
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	6,344,675.22	-1,333,099.04	0.00	-199,964.86	-1,133,134.18	0.00	5,211,541.04
Held-to-maturity investment to be reclassified 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	-21,317,168.07	2,988,336.40	0.00	0.00	2,958,586.13	29,750.27	-18,358,581.94
Others	2,219,265.00	0.00	0.00	0.00	0.00	0.00	2,219,265.00
Total of other comprehensive income	-12,753,227.85	1,655,237.36	0.00	-199,964.86	1,825,451.95	29,750.27	-10,927,775.90

# NOTES TO INTERIM FINANCIAL REPORT (UNAUDITED)

For the period from 1 January 2016 to 30 June 2016

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

### 35. Other comprehensive income (continued)

January to June 2015

Item	Balance at the beginning of the year	Amount incurred before income tax for the Current Period	Less: amount recognised in other comprehensive income in Previous Period transferred to profit or loss for the Current Period	For the Current Period			Balance at the End of 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	1,772,250.47	0.00	342,911.01	1,304,760.40	124,579.06	-32,022,049.91
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	2,062,731.36	0.00	342,911.01	1,596,703.06	123,117.29	-9,230,550.47
Held-to-maturity investment to be reclassified 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	-290,480.89	0.00	0.00	-291,942.66	1,461.77	-22,791,499.44
Others	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Total of other comprehensive income	-33,326,810.31	1,772,250.47	0.00	342,911.01	1,304,760.40	124,579.06	-32,022,049.91

# NOTES TO INTERIM FINANCIAL REPORT (UNAUDITED)

For the period from 1 January 2016 to 30 June 2016

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

### 36. Surplus reserve

#### January to June 2016

Item	Balance at the beginning of the year	Increase for the Current Period	Decrease for the Current Period	Balance at the End of the Period
Statutory surplus reserve	379,022,231.26	0.00	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	546,610,551.66	0.00	0.00	<b>546,610,551.66</b>

#### January to June 2015

Item	Balance at the Beginning of the Period	Increase for the Current Period	Decrease for the Current Period	Balance at the End of the Period
Statutory surplus reserve	345,884,163.87	0.00	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	513,472,484.27	0.00	0.00	<b>513,472,484.27</b>



# NOTES TO INTERIM FINANCIAL REPORT (UNAUDITED)

For the period from 1 January 2016 to 30 June 2016

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

### 37. Retained earnings

#### (1) Movement in retained earnings

Item	For the Current Period	For the Previous Period	Allocation or appropriation proportion
Retained earnings for the previous year before adjustment	<b>3,267,019,067.30</b>	2,707,954,326.83	
Add: Adjusted retained earnings at the beginning of the year	<b>0.00</b>	0.00	
Retained earnings at the beginning of the year after adjustment	<b>3,267,019,067.30</b>	2,707,954,326.83	
Add: Net earnings attributable to the shareholders of the parent company for the Current Period	<b>409,061,823.40</b>	340,843,355.48	
Less: Appropriation to statutory surplus reserve	<b>0.00</b>	0.00	10%
Appropriation to discretionary surplus reserve	<b>0.00</b>	0.00	
Dividends payable to ordinary shares	<b>198,444,773.50</b>	30,438,225.20	
Dividends of ordinary shares capitalised	<b>0.00</b>	0.00	
Retained earnings at the End of the Period	<b>3,477,636,117.20</b>	3,018,359,457.11	

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.

# NOTES TO INTERIM FINANCIAL REPORT (UNAUDITED)

For the period from 1 January 2016 to 30 June 2016

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

### 37. Retained earnings *(continued)*

#### (2) Notes to appropriation of profits

Item	Unit: RMB'000	
	For the Current Period	For the Previous Period
Dividends :		
Final dividends in respect of the year 2015 paid during the year (Note 1)	194,916.70	—
Final dividends in respect of the year 2014 paid during the year (Note 2)	—	30,438.23
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 396,889,547 shares of the Company at the end of the year. The profit distribution plan was approved on the general meeting held on 27 May 2016, and payment of RMB194,916,700 was made in June 2016.

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.

### 38. Operating income and operating cost

Item	For the Current Period		For the Previous Period	
	Income	Cost	Income	Cost
Principal activities	3,770,466,548.06	1,344,871,022.47	3,072,678,412.13	1,169,245,305.77
Other activities	13,833,110.57	10,444,517.20	42,725,289.78	40,359,380.80
Total	3,784,299,658.63	1,355,315,539.67	3,115,403,701.91	1,209,604,686.57

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 is presented.

# NOTES TO INTERIM FINANCIAL REPORT (UNAUDITED)

For the period from 1 January 2016 to 30 June 2016

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

### 39. Business taxes and surcharges

Item	For the Current Period	For the Previous Period
Urban maintenance and construction tax	<b>24,921,415.08</b>	19,263,518.11
Education surcharges	<b>19,968,871.17</b>	15,306,463.71
Flood prevention fee	<b>1,202,301.58</b>	1,418,596.47
Business tax	<b>2,770,016.71</b>	170,900.78
Others	<b>0.00</b>	67,817.57
<b>Total</b>	<b>48,862,604.54</b>	36,227,296.64

The basis of calculations for various business taxes and surcharges taxes is disclosed in note V. Taxation.

### 40. Selling expenses

Item	For the Current Period	For the Previous Period
Marketing and promotional expenses	<b>1,389,651,866.96</b>	1,066,940,484.35
Staff salaries	<b>51,206,527.51</b>	45,634,482.50
Transportation costs	<b>26,142,404.61</b>	23,385,945.96
Travelling expenses and entertainment	<b>14,342,573.36</b>	10,901,567.33
Business meeting expenses	<b>7,010,645.79</b>	8,943,972.58
Others	<b>13,109,330.22</b>	13,521,068.36
<b>Total</b>	<b>1,501,463,348.45</b>	1,169,327,521.08

### 41. Administrative expenses

Item	For the Current Period	For the Previous Period
Research and development costs	<b>117,885,714.09</b>	106,418,074.44
Staff salaries	<b>51,925,434.54</b>	39,012,461.56
Share incentive expenses	<b>19,792,166.43</b>	11,734,244.22
Depreciation and amortisation	<b>30,049,956.04</b>	21,617,589.87
Loss on suspension of operations	<b>25,955,331.57</b>	28,184,675.91
Tax expenses	<b>11,131,638.48</b>	10,170,597.57
Auditor Remuneration	<b>1,641,509.39</b>	867,924.49
Others	<b>71,065,847.31</b>	60,213,033.75
<b>Total</b>	<b>329,447,597.85</b>	278,218,601.81

# NOTES TO INTERIM FINANCIAL REPORT (UNAUDITED)

For the period from 1 January 2016 to 30 June 2016

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

### 42. Financial expenses

<b>Item</b>	<b>For the Current Period</b>	For the Previous Period
Interest expenses	<b>12,725,878.77</b>	19,412,522.79
Less: Interest income	<b>2,797,130.94</b>	4,943,394.84
Exchange (gains)/losses	<b>-3,222,370.51</b>	2,206,431.15
Bank charges	<b>1,987,686.61</b>	2,759,125.92
<b>Total</b>	<b>8,694,063.93</b>	19,434,685.02

### 43. Impairment loss

<b>Item</b>	<b>For the Current Period</b>	For the Previous Period
Provision for bad debts	<b>20,497,826.88</b>	12,660,938.36
Provision for diminution in value of inventories	<b>14,586,955.38</b>	16,359,529.40
Provision for impairment of fixed assets	<b>3,247,837.98</b>	275,949.77
Provision for Intangible assets	<b>8,829,166.90</b>	0.00
Provision for impairment of available-for-sale financial assets	<b>31,422,602.28</b>	0.00
<b>Total</b>	<b>78,584,389.42</b>	29,296,417.53

### 44. Gains from changes in fair value

<b>Sources of gains from changes in fair value</b>	<b>For the Current Period</b>	For the Previous Period
Financial assets at fair value through profit or loss	<b>-416,854.57</b>	603,148.18
Of which: Shares	<b>-431,577.30</b>	441,694.40
Funds	<b>14,722.73</b>	161,453.78

# NOTES TO INTERIM FINANCIAL REPORT (UNAUDITED)

For the period from 1 January 2016 to 30 June 2016

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

### 45. Investment Income

Item	For the Current Period	For the Previous Period
Long-term equity investments income under equity method	<b>1,046,651.54</b>	3,043,875.80
Investment income generated from disposal of long-term equity investments	<b>472,300.00</b>	0.00
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>50,773.80</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	<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>114,448.75</b>	427,984.28
In which: investment income generated from available-for-sale financial assets measured at fair value during its holding period	<b>114,448.75</b>	84,234.28
Investment income generated from disposal of available-for-sale financial assets investments	<b>0.00</b>	0.00
Income generated from revaluation of remaining equity measured at fair value upon loss of control	<b>0.00</b>	0.00
<b>Total</b>	<b>1,684,174.09</b>	3,471,860.08

### 46. Non-operating income

Item	For the Current Period	For the Previous Period	Recognised as extraordinary gains or losses for the Current Period
Gains on disposal of non-current assets in aggregate	<b>5,735,970.45</b>	91,024.32	5,735,970.45
Of which: Gains on disposal of fixed assets	<b>636,605.36</b>	91,024.32	636,605.36
Income from scraps	<b>48,884.47</b>	256,048.76	48,884.47
Government grants (as detailed in the table below : Table for breakdown of government grants)	<b>54,024,145.82</b>	77,741,011.20	54,024,145.82
Compensation income	<b>6,866.57</b>	90,438.48	6,866.57
Others	<b>277,527.32</b>	176,725.41	277,527.32
<b>Total</b>	<b>60,093,394.63</b>	78,355,248.17	60,093,394.63

# NOTES TO INTERIM FINANCIAL REPORT (UNAUDITED)

For the period from 1 January 2016 to 30 June 2016

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

### 46. Non-operating income *(continued)*

Of which, government grants included in profit and loss for the Current Period:

Item	For the Current Period	For the Previous Period	Related to assets/ Related to income
Fund for the 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資金)	<b>4,155,482.36</b>	933,190.74	Related to assets
	<b>0.00</b>	110,428.34	Related to income
NDRC Ilaprazole Project (發改委艾普拉唑項目)	<b>1,000,000.02</b>	1,000,000.02	Related to assets
	<b>374,064.90</b>	374,064.90	Related to income
Financial Subsidy	<b>450,000.00</b>	0.00	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)	<b>0.00</b>	22,000,000.00	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))	<b>0.00</b>	11,010,000.00	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)	<b>0.00</b>	3,000,000.00	Related to income
R&D and Commercialization of Mouse Nerve Growth Factor for Injection (注射用鼠神經生長因子研發及產業化)	<b>250,000.02</b>	1,000,000.01	Related to assets
Fund for Entrepreneurial Team (創業團隊經費)	<b>0.00</b>	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)	<b>38,523.04</b>	0.00	Related to assets
	<b>0.00</b>	0.00	Related to income
Research and standardization of testing methods of Sulphur dioxide residue in Chinese medicines	<b>1,968.00</b>	0.00	Related to income

# NOTES TO INTERIM FINANCIAL REPORT (UNAUDITED)

For the period from 1 January 2016 to 30 June 2016

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

### 46. Non-operating income (continued)

Item	For the Current Period	For the Previous Period	Related to assets/ Related to income
Deferred Income Carried Forward from Astragalus GAP Projects (結轉黃芪GAP項目遞延收益)	<b>4,361.00</b>	1,174,755.60	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專案)	<b>197,202.00</b>	197,202.00	Related to assets
Interest Discount Fund for Promoting Imports (進口貼息資金)	<b>695,526.00</b>	88,000.00	Related to income
Subsidy from Pengzhou Industry, Information and Technology Bureau (彭州市工業和資訊化局補貼)	<b>0.00</b>	400,000.00	Related to income
Subsidy from Chengdu Enterprise Technology Centre, Subsidy for Enterprise's Re-employment Contribution (成都市企業技術中心補貼·企業爭先創優再就業補貼)	<b>0.00</b>	301,469.80	Related to income
Special Fund for Industrial Technology R&D (產業技術研究與研發專項資金)	<b>0.00</b>	600,000.00	Related to income
Non-PVC Bag Improvement Project (非PVC袋裝改造項目)	<b>97,182.90</b>	97,182.90	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)	<b>208,332.00</b>	208,332.00	Related to assets
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)	<b>350,500.02</b>	350,500.02	Related to assets
Electricity Incentive Fund (用電獎勵資金)	<b>0.00</b>	1,980.00	Related to income
Subsidies for high and new technology enterprises and high and new technology products	<b>210,000.00</b>	0.00	Related to income
Construction of High-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)	<b>25,015.00</b>	49,998.00	Related to assets
Export Credit Insurance Subsidies (出口信保補貼)	<b>359,420.00</b>	143,700.00	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)	<b>17,515.00</b>	34,998.00	Related to assets
Experimental Studies on Anti-viral Granules Against Avian Influenza Virus (抗病毒顆粒的抗禽流感實驗研究)	<b>0.00</b>	32,000.00	Related to income

# NOTES TO INTERIM FINANCIAL REPORT (UNAUDITED)

For the period from 1 January 2016 to 30 June 2016

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

### 46. Non-operating income *(continued)*

Item	For the Current Period	For the Previous Period	Related to assets/ Related to income
Research and development funds for acarbose manufacturing projects	<b>320,000.00</b>	0.00	Related to income
Research funds for provincial manufacturing collaboration projects	<b>0.00</b>	400,000.00	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)	<b>0.00</b>	250,000.00	Related to income
Zhuhai special matching funds to expand imports (珠海市擴大進口專項配套資金)	<b>0.00</b>	48,685.00	Related to income
Shenqi Fuzheng Injection (參芪扶正注射液)	<b>0.00</b>	26,026.12	Related to assets
	<b>1,579.00</b>	0.00	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)	<b>0.00</b>	200,000.00	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)	<b>9,418.00</b>	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)	<b>1,300,000.00</b>	100,000.00	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)	<b>37,250,960.00</b>	29,730,000.00	Related to income
Supplementary Funding from the National Chinese Traditional Medicine Modern Engineering Research Center	<b>780,000.00</b>	0.00	Related to income
Provincial development funds for the service and trade industry	<b>1,000,000.00</b>	0.00	Related to income
Funds for biomedicine export transformation before the logo design and application for registration of projects	<b>300,000.00</b>	0.00	Related to income
Patent (Intellectual Property) Support Fund (專利(知識產權)資助資金)	<b>500,000.00</b>	0.00	Related to income
Energy Subsidy from Fuqing Municipal Bureau of Economics and Trade (福清經貿局能源補助款)	<b>0.00</b>	200,000.00	Related to income



# NOTES TO INTERIM FINANCIAL REPORT (UNAUDITED)

For the period from 1 January 2016 to 30 June 2016

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

### 46. Non-operating income (continued)

Item	For the Current Period	For the Previous Period	Related to assets/ 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)	0.00	500,000.00	Related to income
Research and Development Fee Subsidy Fund (研究開發費補助資金)	114,600.00	1,604,900.00	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)	9,793.62	9,793.62	Related to assets
Research and development of sugar and electrolyte mixed injections (混合糖電解質注射液的研製開發)	3,958.38	3,958.38	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)	2,222.28	28,333.32	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)	100,000.02	100,000.02	Related to assets
Government grant for industry transformation (工業轉型政府扶持資金)	124,999.98	99,999.96	Related to assets
New Industrialization Development Grant (新型工業化發展獎金)	150,000.00	100,000.02	Related to assets
Government Industry Encouragement Fund (政府產業振興扶持資金)	579,000.00	557,500.00	Related to assets
Five Goods and One New Supporting Funds (五優一新扶持資金)	49,999.98	0.00	Related to assets
Employment Assurance and Re-employment Subsidy (企業穩崗及再就業補貼)	170,421.60	0.00	Related to income
New Scientific Research Institution Subsidy (新型科研機構補助資金)	844,478.74	438,800.00	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))	1,412,749.67	0.00	Related to assets
	44,150.68	0.00	Related to income
Others	520,721.61	85,212.43	Related to income
<b>Total</b>	<b>54,024,145.82</b>	<b>77,741,011.20</b>	

# NOTES TO INTERIM FINANCIAL REPORT (UNAUDITED)

For the period from 1 January 2016 to 30 June 2016

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

### 47. Non-operating expenses

Item	For the Current Period	For the Previous Period	Recognised as extraordinary gains or losses for the Current Period
Losses on disposal of non-current assets	217,369.82	4,889,806.85	217,369.82
Of which: Losses on disposal of fixed assets	217,369.82	4,889,806.85	217,369.82
Retirement of fixed assets	73,400.67	0.00	73,400.67
Charitable donation expenses	0.00	29,383.31	0.00
Others	2,580,282.10	1,236,409.63	2,580,282.10
<b>Total</b>	<b>2,871,052.59</b>	<b>6,155,599.79</b>	<b>2,871,052.59</b>

### 48. Income tax expenses

#### (1) Breakdown of income tax expenses

Item	For the Current Period	For the Previous Period
Current income tax calculated according to tax laws and relevant rules	102,931,086.52	75,575,169.75
Include: Income tax on domestic enterprises	102,928,372.11	75,496,862.32
Income tax on Hong Kong and Macau enterprises	2,714.41	78,307.43
Adjustment of deferred income tax	-9,976,059.96	1,490,925.73
<b>Total</b>	<b>92,955,026.56</b>	<b>77,066,095.48</b>

#### (2) The relationships between income tax expenses and total profit are as follows

Item	For the Current Period	For the Previous Period
Profit before tax	520,421,776.33	449,569,149.90
Income tax calculated at statutory tax rates	130,105,444.08	112,392,287.48
Tax effect of different rates applicable to subsidiaries	-14,106,859.27	412,415.12
Effect of tax deduction	-49,092,258.44	-46,811,331.82
Effect of non-deductible expenses	-1,322,477.20	95,055.99
Credit (charge) on temporary differences on which deferred tax assets are not recognised for the year	11,670,538.33	2,588,996.06
Deductible losses of deferred tax assets that are not recognised for the year	12,872,624.72	9,202,294.18
Use of deductible losses of deferred tax assets that are not recognised in the previous year	-1,394,303.02	0.00
Others	4,222,317.36	-813,621.53
<b>Total</b>	<b>92,955,026.56</b>	<b>77,066,095.48</b>

# NOTES TO INTERIM FINANCIAL REPORT (UNAUDITED)

For the period from 1 January 2016 to 30 June 2016

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

### 49. Other comprehensive income details

Please refer to note VI. 35 for details.

### 50. Notes to cash flow statement item

#### (1) Cash received relating to other operating activities

Item	For the Current Period	For the Previous Period
Government grants	45,071,067.21	85,170,347.23
Interest income	2,797,130.94	4,943,394.84
Default payment and penalty income	6,866.57	144,746.08
Income from scraps	48,884.47	256,048.76
Deposits under guarantees for letter of credit	16,691,397.20	0.00
Transfer of funds and others	19,510,367.43	13,549,963.27
Total	84,125,713.82	104,064,500.18

#### (2) Cash paid relating to other operating activities

Item	For the Current Period	For the Previous Period
Office expenses	13,910,159.02	14,503,728.63
Travelling expenses	13,613,044.39	13,984,309.32
Entertainment expenses	11,998,647.03	9,469,351.63
Transportation fees	27,944,411.81	31,103,815.04
Advertising expenses	128,403.77	3,222,552.90
Business meeting expenses	19,586,507.44	17,910,199.36
Auditing and information disclosure fees	4,494,656.30	3,228,065.68
Consultancy fees	6,286,004.68	6,692,870.99
Research and development costs	40,664,692.43	57,430,329.82
Bank charges	1,987,686.61	2,759,125.92
Business promotion expenses	1,354,482,428.68	1,113,781,916.19
Deposits under guarantees for letter of credit and bank acceptance bills	0.00	5,465,490.00
Other expenses paid and current account	40,568,730.49	39,996,313.17
Total	1,535,665,372.65	1,319,548,068.65

# NOTES TO INTERIM FINANCIAL REPORT (UNAUDITED)

For the period from 1 January 2016 to 30 June 2016

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

### 50. Notes to cash flow statement item *(continued)*

#### (3) Cash received relating to other investing activities

<b>Item</b>	<b>For the Current Period</b>	For the Previous Period
Deposits under guarantees	<b>14,510,483.09</b>	11,933,960.11

#### (4) Cash paid relating to other investing activities

<b>Item</b>	<b>For the Current Period</b>	For the Previous Period
Deposits under guarantees	<b>0.00</b>	8,390,882.76

#### (5) Cash received relating to other financing activities

<b>Item</b>	<b>For the Current Period</b>	For the Previous Period
Collection and advance payment of individual income tax	<b>1,007,821.00</b>	0.00

#### (6) Cash paid relating to other financing activities

<b>Item</b>	<b>For the Current Period</b>	For the Previous Period
Repurchase of shares	<b>5,027,224.20</b>	0.00

# NOTES TO INTERIM FINANCIAL REPORT (UNAUDITED)

For the period from 1 January 2016 to 30 June 2016

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

### 51. Supplemental information to cash flow statement

#### (1) Information about reconciliation of net profit to cash flow from operating activities

Item	For the Current Period	For the Previous Period
<b>1 Reconciliation of net profit to cash flow from operating activities:</b>		
<b>Net profit</b>	<b>427,466,749.77</b>	372,503,054.42
Add: Provision for impairment of assets	<b>78,584,389.42</b>	29,296,417.53
Depreciation of fixed assets, amortisation of oil and gas assets, depreciation of productive biological assets biological assets	<b>171,291,939.54</b>	137,686,654.73
Amortisation of intangible assets	<b>15,311,422.63</b>	10,608,444.28
Amortisation of long-term deferred expenses	<b>4,610,264.80</b>	5,006,798.28
Losses on disposal of fixed assets, intangible assets and other long-term assets ("–" represents gains)	<b>–5,518,600.63</b>	4,798,782.53
Losses on retirement of fixed assets ("–" represents gains)	<b>73,400.67</b>	0.00
Losses from changes in fair value ("–" represents gains/income)	<b>416,854.57</b>	–603,148.18
Financial expenses ("–" represents gains/income)	<b>8,579,165.49</b>	16,051,106.29
Investments losses ("–" represents gains)	<b>–1,684,174.09</b>	–3,471,860.08
Decrease in deferred tax assets ("–" represents increase)	<b>–12,920,501.88</b>	92,085.91
Increase in deferred tax liabilities ("–" represents decrease)	<b>2,944,441.92</b>	1,398,839.82
Decrease in inventories ("–" represents increase)	<b>–66,478,694.30</b>	–128,847,737.86
Decrease in trade receivables ("–" represents increase)	<b>–448,903,435.51</b>	–268,512,054.16
Increase in trade payables ("–" represents decrease)	<b>114,358,315.57</b>	57,843,832.43
Others	<b>19,792,166.43</b>	0.00
<b>Net cash flows from operating activities</b>	<b>307,923,704.40</b>	233,851,215.94
<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 Period	<b>905,540,384.83</b>	814,613,831.74
Less: Cash at the beginning of the year	<b>767,093,403.45</b>	709,114,426.17
Add: Cash equivalents at the End of the Period	<b>0.00</b>	0.00
Less: Cash equivalents at the beginning of the year	<b>0.00</b>	0.00
Net increase in cash and cash equivalents	<b>138,446,981.38</b>	105,499,405.57

#### (2) Net Cash Payment for Acquisition of Subsidiaries during the Current Period

Nil

# NOTES TO INTERIM FINANCIAL REPORT (UNAUDITED)

For the period from 1 January 2016 to 30 June 2016

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

### 51. Supplemental information to cash flow statement *(continued)*

#### (3) Net Cash Amount from Disposal of Subsidiaries during the Period

Item	Amount
Cash or cash equivalent received during the period from disposal of subsidiaries during the period	
From: Qingyuan Xinteng Enterprise Company Limited (清遠市信騰實業有限公司)	63,000,000.00
Reduced by: Cash and cash equivalent held by the Company on the date of losing the controlling interest	
From: Qingyuan Xinteng Enterprise Company Limited (清遠市信騰實業有限公司)	734.31
Adding: Cash and cash equivalent received during the period from disposal of subsidiaries during the previous period	
From: Qingyuan Xinteng Enterprise Company Limited (清遠市信騰實業有限公司)	0.00
<b>Net cash received from disposal of subsidiaries</b>	<b>62,999,265.69</b>

#### (4) Composition of cash and cash equivalents

Item	For the Current Period	For the Previous Period
<b>1 Cash</b>	<b>905,540,384.83</b>	814,613,831.74
Of which: Cash on hand	<b>213,028.68</b>	211,139.13
Bank deposits that are readily available for payment	<b>904,345,336.13</b>	813,785,054.91
Other cash at bank and on hand that are readily available for payment	<b>982,020.02</b>	617,637.70
<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 Period</b>	<b>905,540,384.83</b>	814,613,831.74

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

### 52. Assets with restricted ownership or right of use

Nil.

# NOTES TO INTERIM FINANCIAL REPORT (UNAUDITED)

For the period from 1 January 2016 to 30 June 2016

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

### 53. Monetary items in foreign currency

Item	Amount in foreign currency by the End of the Period	Exchange rate	Amount translated into RMB by the End of the Period
Cash in foreign currency :			
In which: HKD	268,717,625.39	0.85467	229,664,892.89
Euro	282,169.74	7.375	2,081,001.83
USD	3,524,791.86	6.6312	23,373,599.78
MOP	724,150.00	0.8308	601,623.82
JPY	972,767.00	0.064491	62,734.72
Total cash in foreign currency			255,783,853.04
Trade receivables :			
In which: USD	28,397,703.92	6.6312	188,310,854.23
MOP	232,039.88	0.8308	192,778.73
JPY	13,199,865.00	0.064491	851,272.49
Total trade receivables			189,354,905.45
Other receivables :			
In which: HKD	399,250.63	0.85467	341,227.54
MOP	418,000.00	0.8308	347,274.40
Total other receivables			688,501.94
Payables :			
In which: USD	20,556.95	6.6312	136,317.25
Dividend payables:			
In which: HKD	3,904,724.79	0.85467	3,337,251.14
Other payables :			
In which: HKD	165,589.31	0.85467	141,524.22
USD	8,957.38	6.6312	59,398.18
Total other payables			200,922.40

# NOTES TO INTERIM FINANCIAL REPORT (UNAUDITED)

For the period from 1 January 2016 to 30 June 2016

## VII. CHANGE TO CONSOLIDATION SCOPE

### 1. Disposal of subsidiaries

Details of once disposal for the ceased control arising from investment to subsidiaries

Name of subsidiary	Amount of disposal for equity	Disposal ratio (%)	Mode of disposal	Time of control ceases	Recognition	Differences arising from disposal amount and portion of net assets held by disposal investment for the range of consolidated financial statements
Qingyuan Xinteng Enterprise Company Limited	83,000,000.00	100.00	Transfer	14 March 2016	Assets transferred	472,300.00

Name of subsidiary	Ratio of the remaining equity (%)	Book value of the remaining equity at the date of ceased control	Fair value of the remaining equity at the date of ceased control	Gain or loss arising from the remaining equity remeasured at fair value	Recognition and assumption for fair value	Profit or loss arising from transformation of other comprehensive income which is related to equity investment
Qingyuan Xinteng Enterprise Company Limited	0.00	0.00	0.00	0.00	—	0.00

### 2. Change to Consolidation Scope for other reasons

On 22 February 2016, Zhuhai Livzon Diagnostics Inc. and CYNVENIO BIOSYSTEMS, INC. entered into the "Zhuhai Livzon Shengmei Medical Diagnosis Technology Co., Ltd. Joint Venture Operation Agreement". The registered capital of the joint venture is RMB103,333,333. Livzon Diagnostics made a cash contribution in the sum of RMB62,000,000, representing 60% of the registered capital; CYNVENIO BIOSYSTEMS, INC. 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. Zhuhai Livzon Shengmei Medical Diagnosis Technology Co., Ltd. was added to the consolidation scope of current period.



# NOTES TO INTERIM FINANCIAL REPORT (UNAUDITED)

For the period from 1 January 2016 to 30 June 2016

## VIII. EQUITY IN OTHER ENTITIES

### 1. Equity in subsidiaries

#### (1) Group Structure

Name of the subsidiary	Subsidiary Type	Type of legal entity	Principal place of business	Place of registration	Nature of business	Registered capital	Percentage of shareholding	Proportion of voting rights	Acquisition method
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
Li An (Hong Kong) Co., Ltd. (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	Zhuha	Zhuha	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	Zhuha	Zhuha	Provision of services	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	Zhuha	Zhuha	Sales of goods	RMB20,000,000	100%	100%	Set-up
Zhuhai Livzon Pharmaceutical Trading Co., Ltd. (珠海市麗珠醫藥貿易有限公司)	Wholly-owned	Limited company	Zhuha	Zhuha	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	Zhuha	Zhuha	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	Zhuha	Zhuha	Manufacture of medicine	RMB46,450,000	51%	51%	Set-up
Zhuhai Livzon Shengmei Medical Diagnosis Technology Co. Ltd. (珠海麗珠聖美醫療診斷技術有限公司)	Subsidiary of Holding	Limited company	Zhuha	Zhuha	Manufacture of medicine	RMB103,333,300	36.06%	36.06%	Set-up
Datong Livzon Qiyuan Medicine Co., Ltd. (大同麗珠芪源藥材有限公司)	Subsidiary of Wholly-owned subsidiary	Limited company	Hunyuan County	Hunyuan County	Crop farming	RMB4,000,000	92.5%	92.5%	Set-up
Longxi Livzon Shenyuan Medicine Co., Ltd. (龍西麗珠參源藥材有限公司)	Subsidiary of Wholly-owned subsidiary	Limited company	Longxi Count	Longxi Count	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	Zhuha	Zhuha	Provision of services	RMB1,000,000	100%	100%	Set-up
Zhuhai Livzon Baiameng Biological Materials Co., Ltd. (珠海麗珠一拜阿蒙生物材料有限公司)	Holding	Limited company	Zhuha	Zhuha	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	Zhuha	Zhuha	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	Zhuha	Zhuha	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	Zhuha	Zhuha	Provision of services	RMB500,000,000	51%	51%	Set-up
Livzon Group Vaccine Engineering Inc. (麗珠集團疫苗工程股份有限公司)	Holding	Limited company	Zhuha	Zhuha	Provision of services	RMB65,000,000	83.85%	83.85%	Set-up

# NOTES TO INTERIM FINANCIAL REPORT (UNAUDITED)

For the period from 1 January 2016 to 30 June 2016

## VIII. EQUITY IN OTHER ENTITIES *(continued)*

### 1. Equity in subsidiaries *(continued)*

#### (1) Group Structure *(continued)*

Name of the subsidiary	Subsidiary Type	Type of legal entity	Principal place of business	Place of registration	Nature of business	Registered capital	Percentage of shareholding	Proportion of voting rights	Acquisition method
Wenshan Livzon Sangji 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 (澳門喜安信有限公司)	Subsidiary of Holding	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	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	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 noncommon control
Livzon Group Xinbeijiang Pharmaceutical Manufacturing Inc. (麗珠集團新北江製藥股份有限公司)	Holding	Limited company	Qingyuan	Qingyuan	Manufacture of medicine	RMB134,930,000	92.14%	92.14%	Consolidated from noncommon control
Livzon Group Limin Pharmaceutical Manufacturing Factory (麗珠集團利民製藥廠)	Wholly-owned	Limited company	Shaoguan	Shaoguan	Manufacture of medicine	RMB61,560,000	100%	100%	Consolidated from noncommon control
Livzon Group Fuzhou Fuxing Pharmaceutical Co., Ltd. (麗珠集團福州福興醫藥有限公司)	Wholly-owned	Limited company	Fuzhou	Fuzhou	Manufacture of medicine	USD41,700,000	100%	100%	Consolidated from noncommon 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 noncommon control

# NOTES TO INTERIM FINANCIAL REPORT (UNAUDITED)

For the period from 1 January 2016 to 30 June 2016

## VIII. EQUITY IN OTHER ENTITIES *(continued)*

### 1. Equity in subsidiaries *(continued)*

#### (2) Important non-wholly owned subsidiaries

Name of Subsidiaries	Percentage of shareholdings of non-controlling shareholders	Profit and loss attributable to non-controlling shareholders for the Current Period	Dividend paid to non-controlling shareholders for the Current Period	Equity balance for non-controlling shareholders by the End of the Period
Shanghai Livzon Pharmaceutical Manufacturing Co., Ltd. (上海麗珠製藥有限公司) (consolidated Shanghai Livzon Biotechnology Co., Ltd. (上海麗珠生物科技有限公司))	49%	30,780,058.55	24,500,000.00	109,869,500.23
Zhuhai Livzon Diagnostic Reagents Inc. (珠海麗珠試劑股份有限公司) (consolidated Companhia de Macau Carason Limitada (澳門嘉安信有限公司), Zhuhai Lihe Medical Diagnostic Product Co. Ltd (珠海麗禾醫療診斷產品有限公司), and Zhuhai Livzon Shengmei Medical Diagnosis Technology Co., Ltd. (珠海麗珠聖美醫療診斷技術有限公司))	49%	20,886,700.64	12,250,000.00	228,211,366.64
Livzon MABPharm Inc. (珠海市麗珠單抗生物技術有限公司)	49%	-31,792,742.41	0.00	125,697,746.54
Livzon Group Vaccine Engineering Inc. (麗珠集團疫苗工程股份有限公司)	16.15%	-2,042,495.84	0.00	-911,361.31
Livzon Group Xinbeijiang Pharmaceutical Manufacturing Inc. (麗珠集團新北江製藥股份有限公司)	7.86%	2,766,705.64	0.00	26,210,429.21

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

Name of subsidiaries	Financial Position by the End of the Period		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))	375,405,673.51	234,001,736.34	342,551,746.62	231,126,961.06
Zhuhai Livzon Diagnostic Reagents Inc. (珠海麗珠試劑股份有限公司) (consolidated Companhia de Macau Carason Limitada (澳門嘉安信有限公司), Zhuhai Lihe Medical Diagnostic Product Co. Ltd (珠海麗禾醫療診斷產品有限公司) and Zhuhai Livzon Shengmei Medical Diagnosis Technology Co., Ltd. (珠海麗珠聖美醫療診斷技術有限公司))	588,527,027.75	383,231,481.48	543,338,930.56	363,697,107.64
Livzon MABPharm Inc. (珠海市麗珠單抗生物技術有限公司)	272,090,340.55	256,526,013.32	354,956,204.71	321,409,161.10
Livzon Group Vaccine Engineering Inc. (麗珠集團疫苗工程股份有限公司)	14,594,391.59	-5,643,104.09	27,691,535.18	7,003,929.00
Livzon Group Xinbeijiang Pharmaceutical Manufacturing Inc. (麗珠集團新北江製藥股份有限公司)	451,430,171.83	333,466,020.40	445,127,533.58	298,266,203.15

# NOTES TO INTERIM FINANCIAL REPORT (UNAUDITED)

For the period from 1 January 2016 to 30 June 2016

## 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. (合併上海麗珠生物科技股份有限公司))	289,044,115.68	53,974,775.28	53,974,775.28	231,659,300.84	34,742,406.25	34,742,406.25
Zhuhai Livzon Diagnostic Reagents Inc. (珠海麗珠試劑股份有限公司) (consolidated Companhia de Macau Carason Limitada (合併澳門嘉安信有限公司), Zhuhai Lihe Medical Diagnostic Product Co. Ltd. (珠海麗禾醫療診斷產品有限公司) and Zhuhai Livzon Shengmei Medical Diagnosis Technology Co., Ltd. (珠海麗珠聖美醫療診斷技術有限公司))	260,148,898.69	44,473,659.00	44,534,373.84	221,654,366.20	40,382,748.44	40,385,731.64
Livzon MABPharm Inc. (珠海市麗珠單抗生物技術有限公司)	0.00	-64,883,147.78	-64,883,147.78	0.00	-5,080,320.44	-4,829,060.67
Livzon Group Vaccine Engineering Inc. (麗珠集團疫苗工程股份有限公司)	0.00	-12,647,033.09	-12,647,033.09	0.00	-5,177,339.12	-5,177,339.12
Livzon Group Xinbeijiang Pharmaceutical Manufacturing Inc. (麗珠集團新北江製藥股份有限公司)	187,961,626.29	35,199,817.25	35,199,817.25	186,434,565.72	23,094,773.45	23,094,773.45

# NOTES TO INTERIM FINANCIAL REPORT (UNAUDITED)

For the period from 1 January 2016 to 30 June 2016

## 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 Current Period					Cash flow for the Previous Period				
	cash flow for operating activities	cash flow for investment activities	cash flow for financing activities	Cash and cash equivalents by the beginning of the year	Cash and cash equivalents by the End of the Period	cash flow for operating activities	cash flow for investment activities	cash flow for financing activities	Cash and cash equivalents by the beginning of the year	Cash and cash equivalents by the End of the Period
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. (合併上海麗珠生物科技有限公司), Zhuhai Livzon Diagnostic Reagents Inc. (珠海麗珠試劑 股份有限公司) (consolidated Companhia de Macau Carason Limitada (澳門嘉安信有限公司), Zhuhai Lihe Medical Diagnostic Product Co. Ltd (珠海麗禾醫療 診斷產品有限公司) and Zhuhai Livzon Shengmei Medical Diagnosis Technology Co., Ltd. (珠海麗珠聖美醫療 診斷技術有限公司)	50,229,605.43	-4,929,825.09	-44,504,957.34	868,764.71	1,663,587.71	39,262,355.35	-5,907,021.45	-34,413,346.18	2,613,170.31	1,555,158.03
Livzon MABPharm Inc. (珠海市 麗珠單抗生物技術有限公司)	-13,882,830.69	-31,376,508.71	74,077,223.66	31,465,881.13	60,928,334.77	-38,924,509.16	-40,269,230.71	79,042,014.40	27,411,464.87	24,970,186.89
Livzon Group Vaccine Engineering Inc. (麗珠集團疫苗工程股份有限公司)	-43,665,035.44	-39,124,763.44	83,344,029.82	464,130.86	1,018,361.80	-5,512,055.68	-12,784,696.03	18,231,830.33	549,574.37	484,652.99
Livzon Group Xinbeijiang Pharmaceutical Manufacturing Inc. (麗珠集團新北江製藥股份有限公司)	-689,094.03	-191,469.97	845,103.70	79,513.21	44,052.91	-619,932.22	-23,000.00	3,291,271.30	66,046.83	2,714,385.91
	-21,644,318.15	57,860,310.62	-25,737,185.88	16,730,091.81	27,270,947.05	13,156,523.50	-9,785,382.72	-17,866,974.45	19,442,411.12	6,422,977.72

### 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 of 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 period

Nil.

### 3. Equity in associates or joint ventures

#### (1) Summarized Accounting information for non-important associates or joint ventures

Item	Balance at the End of the Period/ For the Current Period	Balance for the Previous Period/For the Previous Period
Associates :		
Total nominal value of investment	92,530,162.61	68,908,511.07
Total amount calculated by percentage of shareholding		
– net profit	1,046,651.54	3,043,875.80
– other comprehensive income	0.00	0.00
– total comprehensive income	1,046,651.54	3,043,875.80

#### (2) Explanation of major restriction on capacity of capital transfer from associates or joint ventures to the Company

Nil.

# NOTES TO INTERIM FINANCIAL REPORT (UNAUDITED)

For the period from 1 January 2016 to 30 June 2016

## 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 unforeseeability of the financial market in order to minimise the potential adverse impacts on the financial performance of the Company.

#### (1) Foreign exchange risks

The Company conducts its operation primarily in China. Substantially all of the transactions were denominated and settled in Renminbi. However, the Company still has certain imports and exports businesses regarding bulk medicines and diagnostic reagents 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.

Financial assets and liabilities in foreign currencies held by the Company expressed in Renminbi are stated below:

(1) 30 June 2016

Amount denominated: RMB'000

Item	HKD item	USD item	Euro item	JPY item	MOP item
Financial assets in foreign currency –					
Cash	229,664.89	23,373.60	2,081.00	62.73	601.62
Financial assets measured at fair value, with the change in fair value included in the profit or loss for the period	5,461.34	0.00	0.00	0.00	0.00
Receivables	0.00	188,310.85	0.00	851.27	192.78
Prepayments	127.04	204.31	0.00	0.00	967.01
Other receivables	341.23	0.00	0.00	0.00	347.27
Sub total :	235,594.50	211,888.76	2,081.00	914.00	2,108.68
Financial liabilities in foreign currency –					
Payables	0.00	136.32	0.00	0.00	0.00
Receipts in advance	0.00	961.21	0.00	0.00	413.39
Dividend payables	3,337.25	0.00	0.00	0.00	0.00
Other payables	141.52	59.40	0.00	0.00	0.00
Sub total:	3,478.77	1,156.93	0.00	0.00	413.39

# NOTES TO INTERIM FINANCIAL REPORT (UNAUDITED)

For the period from 1 January 2016 to 30 June 2016

## IX. RISKS RELATED TO FINANCIAL INSTRUMENTS *(continued)*

### 1. Management objectives and policies of risks *(continued)*

#### (1) Foreign exchange risks *(continued)*

(2) 30 June 2015

Amount denominated: RMB'000

Item	HKD item	USD item	Euro item	JPY item	MOP item
Financial assets in foreign currency –					
Cash	11,231.01	9,369.88	4,270.82	6,294.72	606.15
Financial assets measured at fair value, with the change in fair value included in the profit or loss for the period	6,222.13	0.00	0.00	0.00	0.00
Receivables	0.00	138,544.38	0.00	541.77	591.36
Prepayments	0.00	7,750.82	0.00	0.00	0.00
Other receivables	44.86	0.00	0.00	0.00	452.85
Sub total:	17,498.00	155,665.08	4,270.82	6,836.49	1,650.36
Financial liabilities in foreign currency –					
Short-term loan	190,472.97	0.00	0.00	0.00	0.00
Payables	0.00	229.61	0.00	0.00	0.00
Receipts in advance	0.00	1,866.34	0.00	0.00	0.00
Interest payables	15.69	0.00	0.00	0.00	0.00
Dividend payables	13,714.49	0.00	0.00	0.00	0.00
Other payables	123.08	35.93	0.00	0.00	0.00
Sub total:	204,326.23	2,131.88	0.00	0.00	0.00

As at 30 June 2016, 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 approximately RMB22,376,890 (30 June 2015: approximately RMB1,026,870).

#### (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.

# NOTES TO INTERIM FINANCIAL REPORT (UNAUDITED)

For the period from 1 January 2016 to 30 June 2016

## 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) 30 June 2016

Item	Within 1 year	1-2 years	2-5 years	Over 5 years	total
Financial assets –					
Cash	905,540,384.83	0.00	0.00	0.00	905,540,384.83
Financial assets measured at fair value, with the change in fair value included in the profit or loss for the period	6,284,607.37	0.00	0.00	0.00	6,284,607.37
Receivable notes	447,397,071.95	0.00	0.00	0.00	447,397,071.95
Receivables	1,696,579,396.91	0.00	0.00	0.00	1,696,579,396.91
Prepayments	120,508,246.59	0.00	0.00	0.00	120,508,246.59
Other receivables	73,038,489.60	0.00	0.00	0.00	73,038,489.60
Sub total:	3,249,348,197.25	0.00	0.00	0.00	3,249,348,197.25
Financial liabilities –					
Short-term loan	860,000,000.00	0.00	0.00	0.00	860,000,000.00
Bills payables	270,832,083.12	0.00	0.00	0.00	270,832,083.12
Payables	649,083,875.68	0.00	0.00	0.00	649,083,875.68
Receipts in advance	54,438,636.07	0.00	0.00	0.00	54,438,636.07
Interest payables	524,189.89	0.00	0.00	0.00	524,189.89
Dividend payables	6,060,057.60	0.00	0.00	0.00	6,060,057.60
Other payables	1,331,166,209.39	0.00	0.00	0.00	1,331,166,209.39
Non-current liabilities due within one year	400,000.00	0.00	0.00	0.00	400,000.00
Long-term loans	0.00	0.00	0.00	700,000.00	700,000.00
Sub total:	3,172,505,051.75	0.00	0.00	700,000.00	3,173,205,051.75



# NOTES TO INTERIM FINANCIAL REPORT (UNAUDITED)

For the period from 1 January 2016 to 30 June 2016

## IX. RISKS RELATED TO FINANCIAL INSTRUMENTS *(continued)*

### 1. Management objectives and policies of risks *(continued)*

#### (4) Liquidity risk *(continued)*

(2) 30 June 2015

Item	Within 1 year	1-2 years	2-5 years	Over 5 years	total
Financial assets –					
Cash	823,127,422.02	0.00	0.00	0.00	823,127,422.02
Financial assets measured at fair value, with the change in fair value included in the profit or loss for the period	7,024,741.35	0.00	0.00	0.00	7,024,741.35
Bills receivables	319,929,380.23	0.00	0.00	0.00	319,929,380.23
Receivables	1,311,691,300.74	0.00	0.00	0.00	1,311,691,300.74
Prepayments	211,698,211.05	0.00	0.00	0.00	211,698,211.05
Other receivables	90,769,348.21	0.00	0.00	0.00	90,769,348.21
Sub total:	2,764,240,403.60	0.00	0.00	0.00	2,764,240,403.60
Financial liabilities –					
Short-term loans	746,472,973.30	0.00	0.00	0.00	746,472,973.30
Bills payables	298,655,014.96	0.00	0.00	0.00	298,655,014.96
Payables	715,492,349.95	0.00	0.00	0.00	715,492,349.95
Receipts in advance	40,181,298.59	0.00	0.00	0.00	40,181,298.59
Interest payables	6,048,204.19	0.00	0.00	0.00	6,048,204.19
Dividend payables	35,486,724.64	0.00	0.00	0.00	35,486,724.64
Other payables	878,489,411.18	0.00	0.00	0.00	878,489,411.18
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:	3,121,225,976.81	0.00	0.00	700,000.00	3,121,925,976.81

### 2. Transfer of financial assets

#### Transferred financial assets that are derecognized but still related to the transferor

For the Current Period, the Company discounted RMB0.00 bank acceptance bills (Previous Period: RMB43,943,010). 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 30 June 2016, the Company has discounted undue bank acceptance bills RMB0.00 (30 June 2015: RMB17,251,610).

# NOTES TO INTERIM FINANCIAL REPORT (UNAUDITED)

For the period from 1 January 2016 to 30 June 2016

## 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 Current Period	Accumulated fair value changes in equity	Impairment during the Current Period	Fair value at the End of the Period 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 period	6,589.23	-416.85	0.00	0.00	6,284.61
1. Financial assets held for trading	6,589.23	-416.85	0.00	0.00	6,284.61
(1) debt instrument investments	0.00	0.00	0.00	0.00	0.00
(2) equity instrument investments	6,589.23	-416.85	0.00	0.00	6,284.61
(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 period	0.00	0.00	0.00	0.00	0.00
(II) Available-for-sale financial assets	38,926.78	0.00	-1,133.13	31,422.60	6,171.08
1. debt instrument investments	0.00	0.00	0.00	0.00	0.00
2. equity instrument investments	38,926.78	0.00	-1,133.13	31,422.60	6,171.08
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 Reporting Period.

### 3. Fairs value of financial assets and liabilities not measured at fair value

Nil.

# NOTES TO INTERIM FINANCIAL REPORT (UNAUDITED)

For the period from 1 January 2016 to 30 June 2016

## 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 registration	Legal representative	Nature of business
Joincare Pharmaceutical Industry Group Co., Ltd. (健康元藥業集團股份有限公司)	Controlling shareholder	Joint stock companies with limited liabilities (listed)	Shenzhen	Zhu Baoguo	Production of oral liquid, drugs and healthcare food
		Percentage of the entity's shareholding held by the parent company (%)	Percentage of the entity's voting rights held by the parent company (%)	The ultimate controlling party of the entity	Organisation 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 30 June 2016, 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 these shares, 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 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.

# NOTES TO INTERIM FINANCIAL REPORT (UNAUDITED)

For the period from 1 January 2016 to 30 June 2016

## XI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS *(continued)*

### 4. Other related parties of the Company

Name of other related parties	Relationship with the Company	Organisation code
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	91440300618855174Y
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	914404006174989103
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	
CYNVENIO BIOSYSTEMS, INC.	A company which a Director of the Company serves	

# NOTES TO INTERIM FINANCIAL REPORT (UNAUDITED)

For the period from 1 January 2016 to 30 June 2016

## 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 Current Period		For the Previous Period	
			Amount	Percentage of the amount of the transaction of the same category (%)	Amount	Percentage of the amount of the transaction of the same category (%)
Guangdong Blue Treasure Pharmaceutical Co. Ltd. (廣東藍寶製藥有限公司)	Raw materials	The market price	92,786.32	0.01	107,362.91	0.01
Shenzhen Haibin Pharmaceutical Co., Ltd. (深圳市海濱製藥有限公司)	Raw materials	The market price	23,040,598.29	2.59	14,432,358.97	1.59
Xinxiang Haibin Pharmaceutical Co., Ltd. (新鄉海濱藥業有限公司)	Raw materials	The market price	4,273.50	0.00	0.00	0.00
Shenzhen Taitai Gene Engineering Co., Ltd. (深圳太太基因工程有限公司)	Low-value consumables	The market price	0.00	0.00	8,547.01	0.00
Health Pharmaceutical (China) Co., Ltd. (健康藥業(中國)有限公司)	Raw materials	The market price	11,666.67	0.00	139,474.36	0.02
Joincare Pharmaceutical Industry Group Co., Ltd. (健康元藥業集團股份有限公司)	Finished goods	The market price	61,900.93	0.01	37,974.62	0.00
Shenzhen Taitai Pharmaceutical Co., Ltd. (深圳太太藥業有限公司)	Raw materials	The market price	20,000.00	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	123,347,466.11	13.86	145,045,318.18	16.00
<b>Total purchase of goods</b>			<b>146,578,691.82</b>	<b>16.47</b>	<b>159,771,036.05</b>	<b>17.62</b>
Jiaozuo Joincare Pharmaceutical Industry Group Co., Ltd. (焦作健康元生物製品有限公司)	Electricity and power	The market price	4,066,665.23	3.51	552,780.62	100.00
<b>Receipt of services in aggregate</b>			<b>4,066,665.23</b>	<b>3.51</b>	<b>552,780.62</b>	<b>100.00</b>

# NOTES TO INTERIM FINANCIAL REPORT (UNAUDITED)

For the period from 1 January 2016 to 30 June 2016

## XI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS *(continued)*

### 5. Related party transactions *(continued)*

#### (2) Related party transactions relating to sales of goods/provision of services

Related party	Related party transaction description	Pricing principles and decision making procedures of the related party transactions	For the Current Period		For the Previous Period	
			Amount	Percentage of the amount of the transaction of the same category (%)	Amount	Percentage of the amount of the transaction of the same category (%)
Zhuhai Joicare Pharmaceutical Co., Ltd. (珠海健康元生物醫藥有限公司)	Finished goods	The market price	7,460.45	0.00	1,293.66	0.00
Guangdong Blue Treasure Pharmaceutical Co. Ltd. (廣東藍寶製藥有限公司)	Finished goods	The market price	14,743,589.74	0.39	18,237,685.90	0.59
Jiaozuo Joicare Pharmaceutical Industry Group Co., Ltd. (焦作健康元生物製品有限公司)	Raw materials	The market price	97,095.38	0.00	0.00	0.00
Sales of goods in aggregate			14,848,145.57	0.39	18,238,979.56	0.59
Guangdong Blue Treasure Pharmaceutical Co. Ltd. (廣東藍寶製藥有限公司)	Electricity and power	The market price	2,835,901.18	97.84	2,764,469.83	39.81
Zhuhai Joicare Pharmaceutical Co., Ltd. (珠海健康元生物醫藥有限公司)	Electricity and power	The market price	0.00	0.00	384,976.96	5.54
Provision of services in aggregate			2,835,901.18	97.84	3,149,446.79	45.35
Shenzhen Haibin Pharmaceutical Co., Ltd. (深圳市海濱製藥有限公司)	Processing Fee	The market price	493,234.57	53.96	0.00	0.00
Provision of services in aggregate			493,234.57	53.96	0.00	0.00

#### (3) Related party leases

##### 1 The Company as lessor

Name of lessee	Class of leased assets	Lease income recognised for the Current Period	Lease income recognised for the Previous Period
Zhuhai Joicare Pharmaceutical Co., Ltd. (珠海健康元生物醫藥有限公司)	Plant & buildings	86,274.11	195,524.85
Health Pharmaceutical (China) Co., Ltd. (健康藥業(中國)有限公司)	Plant & buildings	47,145.28	49,974.00

##### 2 The Company as lessee

Name of lessor	Class of leased assets	Lease income recognised for the Current Period	Lease expenses recognised for the Previous Period
Joicare Pharmaceutical Industry Group Co., Ltd. (健康元藥業集團股份有限公司)	Plant & buildings	329,472.00	329,472.00

# NOTES TO INTERIM FINANCIAL REPORT (UNAUDITED)

For the period from 1 January 2016 to 30 June 2016

## XI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS *(continued)*

### 5. Related party transactions *(continued)*

#### (4) Related party asset transfers and debt restructuring

Related party	Related party transaction description	For the Current Period	For the Previous Period
Jiaozuo Joincare Pharmaceutical Industry Group Co., Ltd. (焦作健康元生物製品有限公司)	Sales of equipment	0.00	5,533,333.33
CYNVENIO BIOSYSTEMS, INC.	Procurement of equipment	7,899,972.21	0.00

#### (5) Related party guarantees

1 During the Reporting Period, the details on the bank loans of subsidiaries guaranteed by the Company were set out as follow (RMB',000):

Name of guaranteed party	Date of occurrence (Signing date of the Agreement)	Balances at the End of the Period	Actual guaranteed amount	Guaranteed amount	Type of guarantee	Period of guarantee
Livzon MABPharm Inc. (珠海市麗珠單抗生物技術有限公司)	22/6/2016	887.66	887.66	5,000.00	Joint obligation guarantee	22/6/2016 – 22/6/2019 Bank of Communication, Zhuhai Branch (交通銀行珠海分行)
Total actual amount guaranteed for loans of subsidiaries during the Reporting Period				887.66		
Balance of total amount guaranteed for loans of subsidiaries during the End of the Reporting Period				887.66		

#### 2 Guarantee provided to the Company by connected party

Joincare Pharmaceutical Industry Group Co., Ltd., the other shareholder of Livzon MABPharm Inc. has provided a "Letter of Undertaking for Counter Guarantee", pursuant to which it has undertaken to provide a joint liability guarantee for 49% of the obligation of the Company under the guarantee granted to Livzon MABPharm Inc. and the guarantee period of which will be expired on the expiry date of the Company's obligation thereunder.

# NOTES TO INTERIM FINANCIAL REPORT (UNAUDITED)

For the period from 1 January 2016 to 30 June 2016

## 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*

**January – June 2016**

*Unit: RMB'0,000*

	Fees	Salaries, allowances and benefits in kind	Social insurance, pensions and others	January 2016 – June 2016
<b>Directors:</b>				
Zhu Baoguo (朱保國)	4.50	0.00	0.00	4.50
Tao Desheng (陶德勝)	3.60	34.36	4.48	42.44
Yang Daihong (楊代宏)	3.60	31.17	4.48	39.25
Fu Daotian (傅道田)	3.60	35.51	1.87	40.98
Qiu Qingfeng (邱慶豐)	3.60	0.00	0.00	3.60
Zhong Shan (鍾山)	3.60	0.00	0.00	3.60
<b>Independent Directors:</b>				
Xu Yanjun (徐焱軍)	4.80	0.00	0.00	4.80
Guo Guoqing (郭國慶)	4.80	0.00	0.00	4.80
Wang Xiaojun (王小軍)	4.80	0.00	0.00	4.80
Zheng Zhihua (鄭志華)	4.80	0.00	0.00	4.80
Xie Yun (謝耘)	4.80	0.00	0.00	4.80
<b>Supervisors:</b>				
Wang Maolin (汪卯林)	2.10	15.03	4.32	21.45
Tang Yin (湯胤)	1.20	0.00	0.00	1.20
Huang Huamin (黃華敏)	1.80	0.00	0.00	1.80
<b>Other senior management:</b>				
Xu Guoxiang (徐國祥)	0.00	25.98	4.50	30.48
Lu Wenqi (陸文岐)	0.00	32.08	1.57	33.65
Si Yanxia (司燕霞)	0.00	23.60	4.40	28.00
Yang Liang (楊亮)	0.00	11.45	3.86	15.31
<b>Total</b>	<b>51.60</b>	<b>209.18</b>	<b>29.48</b>	<b>290.26</b>

Mr. Tang Yin was appointed on 26 February 2016, while Mr. Zheng Zhihua and Mr. Xie Yun were appointed on 26 June 2015.

Mr. Yu Xiong has resigned on 27 February 2015, and Mr. Yang Bin has retired on 26 June 2015, while Mr. Yuan Huasheng has resigned on 20 November 2015.



# NOTES TO INTERIM FINANCIAL REPORT (UNAUDITED)

For the period from 1 January 2016 to 30 June 2016

## XI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS *(continued)*

### 5. Related party transactions *(continued)*

#### (6) Remuneration of key management personnel *(continued)*

1 Directors', Supervisors' and senior management's remuneration disclosed as follows *(continued)*

January – June 2015

Unit: RMB'0,000

	Fees	Salaries, allowances and benefits in kind	Social insurance, pensions and others	Total in January – June 2015
<b>Directors:</b>				
Zhu Baoguo (朱保國)	4.50	0.00	0.00	4.50
Tao Desheng (陶德勝)	3.60	23.16	5.70	32.46
Fu Daotian (傅道田)	3.60	19.12	1.89	24.61
Yang Daihong (楊代宏)	3.60	23.16	5.62	32.38
Qiu Qingfeng (邱慶豐)	3.60	0.00	0.00	3.60
Zhong Shan (鍾山)	3.60	0.00	0.00	3.60
<b>Independent Directors:</b>				
Yang Bin (楊斌)	4.80	0.00	0.00	4.80
Guo Guoqing (郭國慶)	4.80	0.00	0.00	4.80
Wang Xiaojun (王小軍)	4.80	0.00	0.00	4.80
Yu Xiong (俞雄)	1.60	0.00	0.00	1.60
Xu Yanjun (徐焱軍)	4.80	0.00	0.00	4.80
<b>Supervisors:</b>				
Wang Maolin (汪卯林)	2.10	12.50	3.97	18.57
Yuan Huasheng (袁華生)	1.80	0.00	0.00	1.80
Huang Huamin (黃華敏)	1.80	0.00	0.00	1.80
<b>Other senior management:</b>				
Xu Guoxiang (徐國祥)	0.00	25.35	5.84	31.19
Lu Wenqi (陸文岐)	0.00	23.99	2.75	26.74
Si Yanxia (司燕霞)	0.00	16.00	4.60	20.60
Yang Liang (楊亮)	0.00	8.83	3.48	12.31
<b>Total</b>	<b>49.00</b>	<b>152.11</b>	<b>33.85</b>	<b>234.96</b>

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.

# NOTES TO INTERIM FINANCIAL REPORT (UNAUDITED)

For the period from 1 January 2016 to 30 June 2016

## 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 January – June 2015 and January – June 2016, respectively. The rest were senior management of the company (two and two for January – June 2015 and January – June 2016, respectively). Their remuneration were already disclosed in note. XI.5.(6) "Remuneration of key management personnel".

#### (7) Other affiliated transactions

- 1 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.
- 2 On 22 February 2016, Zhuhai Livzon Diagnostics Inc. and CYNVENIO BIOSYSTEMS, INC. entered into the "Zhuhai Livzon Shengmei Medical Diagnosis Technology Co., Ltd. Joint Venture Operation Agreement". The registered capital of the joint venture is RMB103,333,333. Livzon Diagnostics made a cash contribution in the sum of RMB62,000,000, representing 60% of the registered capital; CYNVENIO BIOSYSTEMS, INC. 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.

# NOTES TO INTERIM FINANCIAL REPORT (UNAUDITED)

For the period from 1 January 2016 to 30 June 2016

## XI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS *(continued)*

### 6. Amounts due from/to related parties

#### (1) Amounts due from related parties and prepayments

Name of item	Related parties	Balance at the End of the Period		Balance at the beginning of the year	
		Gross amount	Provision for bad debts	Gross amount	Provision for bad debts
Accounts receivables	Guangdong Blue Treasure Pharmaceutical Co. Ltd. (廣東藍寶製藥有限公司)	14,264,800.00	713,240.00	17,410,000.00	870,500.00
Accounts receivables	Zhuhai Joincare Pharmaceutical Co., Ltd. (珠海健康元生物醫藥有限公司)	72,931.49	3,646.57	75,483.35	3,774.17
<b>Sub-total</b>		<b>14,337,731.49</b>	<b>716,886.57</b>	17,485,483.35	874,274.17
Other receivables	Zhuhai Joincare Pharmaceutical Co., Ltd. (珠海健康元生物醫藥有限公司)	33,414.76	1,670.74	33,134.76	1,656.73
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 (深圳市海濱製藥有限公司)	236,166.69	11,808.33	489,659.30	24,482.97
Other receivables	Guangdong Blue Treasure Pharmaceutical Co. Ltd. (廣東藍寶製藥有限公司)	927,268.60	46,363.43	1,167,760.25	58,388.01
<b>Sub-total</b>		<b>1,205,179.05</b>	<b>60,258.95</b>	1,698,883.31	84,944.16

#### (2) Amounts due to related parties and receipts in advance

Name of item	Related parties	Balance at the End of the Period	Balance at the beginning of the year
Payables	Guangdong Blue Treasure Pharmaceutical Co. Ltd. (廣東藍寶製藥有限公司)	0.00	65,656.41
Payables	Shenzhen Haibin Pharmaceutical Co., Ltd. (深圳市海濱製藥有限公司)	12,312,500.00	6,018,360.00
Payables	Health Pharmaceutical (China) Co., Ltd. (健康藥業(中國)有限公司)	13,650.00	0.00
Payables	Jiaozuo Joincare Pharmaceutical Industry Group Co., Ltd. (焦作健康元生物製品有限公司)	153,676,466.80	119,277,932.00
<b>Sub-total</b>		<b>166,002,616.80</b>	125,361,948.41
Other payables	Joincare Pharmaceutical Industry Group Co., Ltd. (健康元藥業集團股份有限公司)	329,472.00	0.00
Other payables	Jiaozuo Joincare Pharmaceutical Industry Group Co., Ltd. (焦作健康元生物製品有限公司)	5,954,542.43	712,335.59
Other payables	EPIRUS SWITZERLAND GmbH	4,702,298.85	9,495,450.00
<b>Sub-total</b>		<b>10,986,313.28</b>	10,207,785.59
Dividend payables	Topsino Industries Limited (天誠實業有限公司)	3,337,251.14	0.00
<b>Sub-total</b>		<b>3,337,251.14</b>	0.00

# NOTES TO INTERIM FINANCIAL REPORT (UNAUDITED)

For the period from 1 January 2016 to 30 June 2016

## XII. SHARE-BASED PAYMENT

### 1. General information about share-based payments

Item	Relevant description
Total equity instruments granted during the Current Period by the Company (share)	–
Total equity instruments exercised during the Current Period by the Company (share)	4,453,176
Total equity instruments of the Company expired during the period (share)	–
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	Note

Note 1: Pursuant to “Livzon Pharmaceutical Group Inc. Restricted Shares Incentive Scheme (Revised Draft)” and its summary considered and approved by the 2015 First Extraordinary Shareholders’ Meeting of the Company and the resolution of the eighth meeting (27 March 2015) of the eighth session of the Board of directors, the Company first granted 8,660,400 Restricted Shares to 458 Incentive Participants at the price of RMB25.20 per share with 27 March 2015 as the date of grant. The lock-up period is 12 months from the date of the granting of the Restricted Shares and the unlock-up period is 36 months thereafter. During the unlock-up period, participants may, subject to unlocking conditions of the scheme being satisfied, apply for unlocking the subject shares in 3 tranches, representing 40%, 30% and 30% of the total number of granted Restricted Shares for the period of 12 months to 24 months from the date of granting (the First unlock-up period), 24 months to 36 months from the date of granting (the Second unlock-up period) and 36 months to 48 months from the date of granting (the Third unlock-up period), respectively. Unlocking conditions are as follows:

Unlock-up period	Target level of performance assessment
The First Unlock-up period	Net profit attributable to the shareholders of the listed companies and net profit attributable to the shareholders of the listed companies (net of non-recurring profit or loss) should be no less than the average of the three latest accounting years before the date of granting and cannot be negative. Based on the net profit of 2014, the growth rate of net profit for 2015 is no less than 15%;
The Second Unlock-up period	Based on the net profit of 2014, the growth rate of net profit for 2016 is no less than 38%;
The Third Unlock-up period	Based on the net profit of 2014, the growth rate of net profit for 2017 is no less than 73%.

On 14 August 2015, the Company completed the 2014 Equity Distribution. According to the Incentive Scheme, adjustments were made to the number of Restricted Shares under the initial grant and repurchase price according to the adjustment methods of the number of shares granted and the price upon the transfer of capital reserves into the share capital, bonus issues and share sub-divisions. The number of the Restricted Shares of the first grant after the adjustments was 11,258,520 and the repurchase price of the first grant after the adjustments was RMB19.308 per share. On 27 October 2015, the 16th Board Meeting of the 8th Session of the Board, considered and approved “the Resolution on Repurchase and Cancellation of Locked Restricted Shares Granted to Incentive Participants No Longer Satisfying the Conditions for Incentive”. Since 7 incentive participants in the initial grant of restricted incentive shares no longer satisfy the incentive conditions, the Company repurchased and cancelled 93,080 Restricted Shares at the price of RMB19.308 per share in accordance with relevant requirements of the Company’s incentive scheme. Upon completion of the repurchase, the number of incentive participants of the initial grant of Restricted Shares was adjusted from 458 to 451.

On 28 March 2016, the Twenty-third Meeting of the Eighth Session of the Board and of the Company considered and passed the “Resolution on Granting Shares to be Unlocked during the First Unlock-up period under the Restricted Shares Incentive Scheme of the Company” and the “Resolution on Repurchase and Cancellation of the Restricted Shares Granted but Not Yet Unlocked to Incentive Participants Who Are No Longer Qualified”. Given that 1 incentive participant of the initial grant of Restricted Shares no longer satisfies incentive conditions, the Company repurchased and cancelled 32,500 Restricted Shares at the price of RMB19.308 per share in accordance with relevant requirements of the Company’s incentive scheme. The remaining 450 incentive participants have satisfied the unlocking conditions with 4,453,176 Restricted Shares unlocked and listed in the first tranche.

# NOTES TO INTERIM FINANCIAL REPORT (UNAUDITED)

For the period from 1 January 2016 to 30 June 2016

## XII. SHARE-BASED PAYMENT *(continued)*

### 1. General information about share-based payments *(continued)*

Note 2: Pursuant to the 18th meeting of the 8th session of the board of directors of the Company which considered and passed the "Proposal on Matters Related to Granting Reserved Restricted Shares to Incentive Participants" on 12 November 2015, the Company granted 1,285,700 Restricted Shares to 177 Incentive Participants at the price of RMB24.61 per share with 12 November 2015 as the date of grant. The lock-up period for the Restricted Shares under this grant was 12 months since the date of granting and its unlock-up period was 36 months from the locking. During the unlock-up period, participants may, subject to unlocking conditions stipulated by the scheme being satisfied, apply for unlocking the subject shares in 3 tranches, representing 40%, 30% and 30% of the total number of granted Restricted Shares since 12 months to 24 months from the date of granting (the First unlock-up period), 24 months to 36 months from the date of granting (the Second unlock-up period) and 36 months to 48 months from the date of granting (the Third unlock-up period), respectively. Unlocking conditions are as follows:

Unlock-up period	Target level of performance assessment
The First Unlock-up period	Based on the net profit of 2014, the growth rate of net profit for 2015 is no less than 15%;
The Second Unlock-up period	Based on the net profit of 2014, the growth rate of net profit for 2016 is no less than 38%;
The Third Unlock-up period	Based on the net profit of 2014, the growth rate of net profit for 2017 is no less than 73%;

On 16 May 2016, the 26th Board Meeting of the 8th Session of the Board, considered and passed "the Resolution on Repurchase and Cancellation of Locked Restricted Shares Granted to Incentive Participants No Longer Satisfying the Conditions for Incentive". Since 13 incentive participants in the initial grant of restricted incentive shares and 1 incentive participant from the reserved grant of incentive shares no longer satisfy the incentive conditions, the Company repurchased and cancelled 215,124 Restricted Shares at RMB19.308 per share from the 13 incentive participants from the initial grant of restricted incentive shares and 10,000 Restricted Shares at RMB24.61 per share from the incentive participant from the reserved grant of incentive shares in accordance with the relevant requirements of the Company's incentive scheme, totaling 225,124 shares repurchased. Upon completion of the repurchase, the number of incentive participants of the initial grant of Restricted Shares and the reserved grant of incentive shares were adjusted from 450 to 437 and 177 to 176, respectively.

### 2. Equity settled share-based payments

Item	Relevant description
Determination on fair value of equity instruments as the date of grant	Black-Scholes Model
Basis for determination of quantity of exercisable equity instruments	–
Reasons for significant discrepancies between estimate of current and previous period	Nil
Accumulated amount of equity settled share-based payments included in capital reserve	55,881,166.43
Total expense recognized for equity settled share-based payments for the Current Period	19,792,166.43

### 3. Cash settled share-based payments

Nil.

# NOTES TO INTERIM FINANCIAL REPORT (UNAUDITED)

For the period from 1 January 2016 to 30 June 2016

## XIII. COMMITMENTS AND CONTINGENCIES

### 1. Significant commitments

#### (1) Capital commitments

<b>Item</b>	<b>Balance at the End of the Period</b>	<b>Balance at the beginning of the year</b>
Contracted but not recognised in the financial statements		
– Commitments in relation to acquisition of long-term assets	<b>13,819,429.91</b>	51,405,931.81
<b>Total</b>	<b>13,819,429.91</b>	51,405,931.81

#### (2) Operating lease commitments

As at the balance sheet date, the Company signed the non-cancellable operating leases as follows:

<b>Item</b>	<b>Balance at the End of the Period</b>	<b>Balance at the beginning of the year</b>
Minimum lease payments under non-cancellable operating leases payable:		
Within 1 year	<b>7,731,508.48</b>	5,332,489.64
1 to 2 years	<b>2,402,641.50</b>	3,354,957.20
2 to 3 years	<b>732,980.00</b>	836,378.00
Over 3 years	<b>411,855.00</b>	699,873.00
<b>Total</b>	<b>11,278,984.98</b>	10,223,697.84

#### (3) Other commitments

Nil.

#### (4) Performance of previous commitments

The Company has duly performed the capital expenditure commitments and the operating lease commitments dated as at 31 December 2015 and the other commitments.

### 2. Contingencies

As at the balance sheet date, there were no significant contingencies required to be disclosed by the Company.

# NOTES TO INTERIM FINANCIAL REPORT (UNAUDITED)

For the period from 1 January 2016 to 30 June 2016

## XIV. POST BALANCE SHEET DATE EVENTS

1. On 13 July 2016, the Company repurchased and cancelled 257,624 Restricted Shares, and completed the cancellation procedures with the Shenzhen Branch of China Securities Depository and Clearing Corporation Limited. The registered capital of the Company was changed to RMB396,631,923.
2. The China Securities Regulatory Commission issued the "Approval in relation to the Non-public Issuance of Shares by Livzon Pharmaceutical Group Inc." (Zheng Jian Xu Ke [2016] No. 1524), pursuant to which the Company is approved to make non-public issuance of no more than 38,500,000 new shares. As at the reporting date, the non-public issuance of new shares is ongoing.

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

As at the balance sheet date, there are no other major events required to be disclosed by the Company.

## XVI. NET CURRENT ASSETS AND TOTAL ASSETS LESS CURRENT LIABILITIES

### 1. Net current assets

Item	Balance at the End of the Period	Balance at the beginning of the year
Current assets	<b>4,180,114,848.65</b>	3,577,884,291.76
Less: Current liabilities	<b>3,370,602,295.04</b>	3,154,940,003.11
Net current assets	<b>809,512,553.61</b>	422,944,288.65

### 2. Total assets less current liabilities

Item	Balance at the End of the Period	Balance at the beginning of the year
Total assets	<b>8,632,496,104.43</b>	8,077,537,790.41
Less: Current liabilities	<b>3,370,602,295.04</b>	3,154,940,003.11
Total assets less current liabilities	<b>5,261,893,809.39</b>	4,922,597,787.30

# NOTES TO INTERIM FINANCIAL REPORT (UNAUDITED)

For the period from 1 January 2016 to 30 June 2016

## XVII. NOTES TO THE KEY COMPONENTS OF PARENT COMPANY FINANCIAL STATEMENTS

### 1. Accounts receivables

#### (1) Accounts receivables disclosed by types

Type	Balance at the End of the Period				Carrying value
	Gross amount		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	0.00
Accounts receivables assessed for impairment collectively	898,124,570.59	100.00	47,267,691.78	5.26	850,856,878.81
Accounts 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>898,124,570.59</b>	<b>100.00</b>	<b>47,267,691.78</b>	<b>5.26</b>	<b>850,856,878.81</b>

Type	Balance at the beginning of the year				Carrying value
	Gross amount		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	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
<b>Total</b>	<b>699,156,636.77</b>	<b>100.00</b>	<b>36,637,642.23</b>	<b>5.24</b>	<b>662,518,994.54</b>

Accounts receivables in the portfolio with provision for bad debts made using the ageing analysis method

Ageing	Balance at the End of the Period		
	Accounts receivables	Provision for bad debts	Provision Percentage (%)
Within 1 year	890,039,742.34	44,501,987.12	5.00
1 to 2 years	3,043,453.96	182,607.24	6.00
2 to 3 years	2,582,327.87	516,465.57	20.00
3 to 4 years	1,028,612.60	720,028.82	70.00
4 to 5 years	838,307.86	754,477.07	90.00
Over 5 years	592,125.96	592,125.96	100.00
<b>Total</b>	<b>898,124,570.59</b>	<b>47,267,691.78</b>	

(2) Provision for bad debts made for the period was RMB10,728,793.83; no provision for bad debts was recovered or reversed.

#### (3) Receivables written off during the Current Period

Item	Amount written-off
Accounts receivables actually written off	98,744.28



# NOTES TO INTERIM FINANCIAL REPORT (UNAUDITED)

For the period from 1 January 2016 to 30 June 2016

## XVII. NOTES TO THE KEY COMPONENTS OF PARENT COMPANY FINANCIAL STATEMENTS *(continued)*

### 1. Accounts receivables *(continued)*

- (4) The total of account receivables with five largest amount by creditors was RMB110,893,556.02, or 12.35% of the total account receivables by the End of the Period, total provision for bad debts by the End of the Period was RMB5,544,677.80.
- (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.

### 2. Other receivables

#### (1) Other receivables disclosed by types

Type	Balance at the End of the Period				
	Gross amount		Provision for bad debts		Carrying value
	Amount	Percentage (%)	Amount	Percentage (%)	
Other receivables that are 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	16,347,204.74	1.07	6,389,962.90	39.09	9,957,241.84
Receivables from each company in the scope of combination	1,506,076,226.01	98.93	0.00	0.00	1,506,076,226.01
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>1,522,423,430.75</b>	<b>100.00</b>	<b>6,389,962.90</b>	<b>0.42</b>	<b>1,516,033,467.85</b>

Type	Balance at the beginning of the year				
	Gross amount		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>

# NOTES TO INTERIM FINANCIAL REPORT (UNAUDITED)

For the period from 1 January 2016 to 30 June 2016

## XVII. NOTES TO THE KEY COMPONENTS OF PARENT COMPANY FINANCIAL STATEMENTS (continued)

### 2. Other receivables (continued)

#### (1) Other receivables disclosed by types (continued)

1 Other receivables in the portfolio with provision for bad debts made using the ageing analysis method

Ageing	Balance at the End of the Period		
	Other receivable	Provision for bad debts	Provision Percentage (%)
Within 1 year	8,462,519.07	423,125.95	5.00
1 to 2 years	1,143,217.42	68,593.05	6.00
2 to 3 years	952,549.24	190,509.85	20.00
3 to 4 years	242,622.20	169,835.54	70.00
4 to 5 years	83,983.00	75,584.70	90.00
Over 5 years	5,462,313.81	5,462,313.81	100.00
Total	16,347,204.74	6,389,962.90	

2 Receivables from each company in the scope of combination

Other receivables description	Carrying amount	Provision for bad debts	Percentage of provision (%)	Result
Current account	1,506,076,226.01	0.00	0.00	The debtor is a subsidiary of the Company and no provision for bad debts is made.

(2) Provision for bad debts made for the Current Period was RMB34,933.42; no provision for bad debts was recovered or reversed.

(3) No other receivables were written off during the Current Period.

#### (4) Status of other receivables due from top five customers as at the End of the Period

Name of unit	Nature of receivables	Balance at the End of the Period	Term	Proportion to total balance of other receivables at the End of the Period (%)	Balance of provision for bad debts at the End of the Period
Livzon Group Ningxia Fuxing Pharmaceutical Manufacturing Co., Ltd. (麗珠集團寧夏福興製藥有限公司)	Current account	617,088,031.09	Within 1 year	40.53	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)	Current account	523,806,437.98	Within 1 year	34.41	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	175,767,799.82	Within 1 year	11.54	0.00
Ando Development Limited (安滔發展有限公司)	Current account	123,858,335.92	Within 1 year	8.14	0.00
Jiaozuo Livzon Hecheng Pharmaceutical Manufacturing Co., Ltd. (焦作麗珠合成製藥有限公司)	Current account	21,818,638.93	Within 1 year	1.43	0.00
Total	—	1,462,339,243.74	—	96.05	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.

# NOTES TO INTERIM FINANCIAL REPORT (UNAUDITED)

For the period from 1 January 2016 to 30 June 2016

## XVII. NOTES TO THE KEY COMPONENTS OF PARENT COMPANY FINANCIAL STATEMENTS (continued)

### 3. Long-term equity investments

#### (1) Classification of long-term equity investments

Item	Balance at the End of the Period			Balance at the beginning of the year		
	Gross amount	Provision for impairment	Carrying 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	2,010,431,664.98	18,471,307.03	1,991,960,357.95
Investments in associates and joint ventures	37,737,510.69	1,200,000.00	36,537,510.69	35,382,019.56	1,200,000.00	34,182,019.56
Total	2,048,169,175.67	19,671,307.03	2,028,497,868.64	2,045,813,684.54	19,671,307.03	2,026,142,377.51

#### (2) Investment in subsidiaries

Investee	Balance at the beginning of the year	Increase during the Current Period	Decrease during the Current Period	Balance at the End of the Period	Provision for impairment for the Current Period	Balance of provision for impairment at the End of the Period
Zhuhai Livzon Baiameng Biological Materials Co., Ltd. (珠海麗珠-拜阿蒙生物材料有限公司)	3,934,721.95	0.00	0.00	3,934,721.95	0.00	0.00
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	800,000.00	0.00	0.00
Livzon Group Livzon Pharmaceutical Factory (麗珠集團麗珠製藥廠)	361,060,443.85	0.00	0.00	361,060,443.85	0.00	0.00
Sichuan Guangda Pharmaceutical Manufacturing Co., Ltd. (四川光大製藥有限公司)	170,872,457.35	0.00	0.00	170,872,457.35	0.00	0.00
Shanghai Livzon Pharmaceutical Manufacturing Co., Ltd. (上海麗珠製藥有限公司)	31,438,404.00	0.00	0.00	31,438,404.00	0.00	0.00
Zhuhai Modern Chinese Medicine High Technology Co., Ltd. (珠海現代中藥高科技有限公司)	4,539,975.00	0.00	0.00	4,539,975.00	0.00	0.00
Livzon Group Livzon Medical Research Centre (麗珠集團麗珠醫藥研究所)	6,004,000.00	0.00	0.00	6,004,000.00	0.00	0.00
Lizhu (Hong Kong) Co., Limited (麗珠(香港)有限公司)	64,770,100.01	0.00	0.00	64,770,100.01	0.00	0.00
Ando Development Limited (安滔發展有限公司)	534,050.00	0.00	0.00	534,050.00	0.00	0.00
Livzon Group Xinbeijiang Pharmaceutical Manufacturing Inc. (麗珠集團新北江製藥股份有限公司)	116,446,982.80	0.00	0.00	116,446,982.80	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	2,896,800.00	0.00	0.00
Livzon Group Livzon Pharmaceutical Marketing Co., Ltd. (麗珠集團麗珠醫藥營銷有限公司)	12,008,000.00	0.00	0.00	12,008,000.00	0.00	0.00
Livzon Group Limin Pharmaceutical Manufacturing Factory (麗珠集團利民製藥廠)	184,301,219.52	0.00	0.00	184,301,219.52	0.00	0.00
Zhuhai Livzon Pharmaceutical Trading Co., Ltd. (珠海市麗珠醫藥貿易有限公司)	40,020,000.00	0.00	0.00	40,020,000.00	0.00	0.00
Livzon Group 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)	255,000,000.00	0.00	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 Industrial Co., Ltd. (珠海市麗珠醫藥工業有限公司)	235,841,100.00	0.00	0.00	235,841,100.00	0.00	0.00
Total	2,010,431,664.98	0.00	0.00	2,010,431,664.98	0.00	18,471,307.03

# NOTES TO INTERIM FINANCIAL REPORT (UNAUDITED)

For the period from 1 January 2016 to 30 June 2016

## 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

Investee	Change during the Current Period					Other equity changes
	Balance at the beginning of the year	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)	9,921,854.70	0.00	0.00	564,852.16	0.00	0.00
Jiangsu Nike Medical Equipment Co., Ltd. (江蘇尼科醫療器械有限公司)	24,439,327.70	0.00	0.00	-407,004.80	0.00	0.00
Shenzhen City Youbao Technology Co., Ltd (深圳市有寶科技有限公司)	-179,162.84	3,000,000.00	0.00	-802,356.23	0.00	0.00
<b>Total</b>	<b>35,382,019.56</b>	<b>3,000,000.00</b>	<b>0.00</b>	<b>-644,508.87</b>	<b>0.00</b>	<b>0.00</b>

Investee	Change during the Current Period			Balance at the End of the Period	Balance of provision for impairment at the End of the Period
	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	10,486,706.86	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	24,032,322.90	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	2,018,480.93	0.00
<b>Total</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>37,737,510.69</b>	<b>1,200,000.00</b>

#### 4. Operating income and operating cost

Item	For the Current Period		For the Previous Period	
	Income	Cost	Income	Cost
Principal activities	<b>2,314,831,984.42</b>	<b>1,173,284,371.36</b>	1,800,038,383.36	836,395,494.98
Other activities	<b>568,058.77</b>	<b>2,081.93</b>	865,775.14	30,495.12
<b>Total</b>	<b>2,315,400,043.19</b>	<b>1,173,286,453.29</b>	1,800,904,158.50	836,425,990.10

# NOTES TO INTERIM FINANCIAL REPORT (UNAUDITED)

For the period from 1 January 2016 to 30 June 2016

## XVII. NOTES TO THE KEY COMPONENTS OF PARENT COMPANY FINANCIAL STATEMENTS *(continued)*

### 5. Business taxes and surcharges

Item	For the Current Period	For the Previous Period
Urban maintenance and construction tax	<b>11,362,996.08</b>	10,178,380.34
Education surcharges	<b>8,116,409.85</b>	7,270,271.70
Flood prevention fee	<b>303,311.90</b>	387,394.36
Business tax	<b>2,572,212.34</b>	0.00
Total	<b>22,354,930.17</b>	17,836,046.40

### 6. Investment income

Item	For the Current Period	For the Previous Period
Long-term equity investment income under cost method	<b>353,769,928.73</b>	20,310,000.00
Long-term equity investment income under equity method	<b>-644,508.87</b>	676,416.84
Investment income generated from disposal of long-term equity investments	<b>0.00</b>	0.00
Investment income generated from financial assets measured at fair value, with the change in fair value included in the profit or loss for the period 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 period	<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>114,448.75</b>	427,984.28
In which: investment income generated from available-for-sale financial assets measured at fair value during its holding period	<b>114,448.75</b>	84,234.28
Investment income generated from disposal of available-for-sale financial assets investments	<b>0.00</b>	0.00
Income generated from revaluation of remaining equity measured at fair value upon loss of control	<b>0.00</b>	0.00
Total	<b>353,239,868.61</b>	21,414,401.12

# NOTES TO INTERIM FINANCIAL REPORT (UNAUDITED)

For the period from 1 January 2016 to 30 June 2016

## XVII. NOTES TO THE KEY COMPONENTS OF PARENT COMPANY FINANCIAL STATEMENTS *(continued)*

### 7. Supplemental information to cash flow statement

Item	For the Current Period	For the Previous Period
<b>(1) Reconciliation of net profit to cash flow from operating activities :</b>		
Net profit	<b>418,685,866.90</b>	139,414,210.42
Add: Provision for impairment of assets	<b>12,693,154.15</b>	8,434,795.33
Depreciation of fixed assets, amortisation of oil and gas assets, depreciation of productive biological assets	<b>6,127,393.58</b>	7,722,996.13
Amortisation of intangible assets	<b>6,679,957.65</b>	4,677,163.54
Amortisation of long-term deferred expenses	<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>41,483.11</b>	52,669.56
Losses on retirement of fixed assets ("–" represents gains/income)	<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>–12,168,336.76</b>	13,488,785.38
Investments losses ("–" represents gains/income)	<b>–353,239,868.61</b>	–21,414,401.12
Decrease in deferred tax assets ("–" represents increase)	<b>733,084.57</b>	–2,737,656.47
Increase in deferred tax liabilities ("–" represents decrease)	<b>364,235.00</b>	431,263.95
Decrease in inventories ("–" represents increase)	<b>–68,145,037.81</b>	–7,762,711.06
Decrease in trade receivables ("–" represents increase)	<b>152,453,498.57</b>	–321,684,483.88
Increase in trade payables ("–" represents decrease)	<b>–89,724,811.86</b>	264,723,364.53
Others	<b>19,792,166.43</b>	0.00
<b>Net cash flows from operating activities</b>	<b>94,352,784.92</b>	85,405,996.31
<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 corporate 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 Period	<b>543,826,198.16</b>	720,378,512.24
Less: Cash at the beginning of the year	<b>677,465,238.87</b>	611,630,017.65
Add: Cash equivalents at the End of the Period	<b>0.00</b>	0.00
Less: Cash equivalents at the beginning of the year	<b>0.00</b>	0.00
Net increase in cash and cash equivalents	<b>–133,639,040.71</b>	108,748,494.59

# NOTES TO INTERIM FINANCIAL REPORT (UNAUDITED)

For the period from 1 January 2016 to 30 June 2016

## XVIII. SUPPLEMENTAL INFORMATION

### 1. Breakdown of extraordinary gains or losses

Item	For the Current Period	For the Previous Period
Gains or losses from the disposal of non-current assets	<b>5,990,900.63</b>	-4,798,782.53
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>54,024,145.82</b>	77,741,011.20
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 for the period arising from business combination under common control from the beginning of the year 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 Company	<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 Company)	<b>-416,854.57</b>	1,031,132.46
Reversal of provision for impairment of receivables that are individually tested for impairment	<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 of investment properties subsequently measured under the fair value model	<b>0.00</b>	0.00
Effect of one-off adjustment made according to the laws and regulations regarding taxation and accounting to profit or loss for the period	<b>0.00</b>	0.00
Custodian fee income from entrusted operation	<b>0.00</b>	0.00

# NOTES TO INTERIM FINANCIAL REPORT (UNAUDITED)

For the period from 1 January 2016 to 30 June 2016

## XVIII. SUPPLEMENTAL INFORMATION *(continued)*

### 1. Breakdown of extraordinary gains or losses *(continued)*

Item	For the Current Period	For the Previous Period
Other non-operating income and expenditures apart from the above	-2,320,404.41	-742,580.29
Items of gains or losses meeting the definition of extraordinary gains or losses	0.00	0.00
Sub-total	57,277,787.47	73,230,780.84
Effect of income tax	8,067,921.05	7,931,319.73
Effect of non-controlling interests (after tax)	3,989,910.66	12,009,542.41
Total	text-align: right;">45,219,955.76	text-align: right;">53,289,918.70

Note: Figure "+" in the items of extraordinary gains or losses represents revenue and income, while figure "-" represents loss or expense.

Items of extraordinary gains or losses are recognized by the Company in accordance with "Notice on Explanation of Information Disclosure of Companies Publicly Issuing Securities No. 1 – Extraordinary Gains or Losses" (CSRC Notice [2008] No. 43).

### 2. Rate of return on net assets and earnings per share

#### January – June 2016

Profit for the Reporting Period	Weighted average rate of return on net assets	Earnings per share (RMB/share)	
		Basic earnings per share	Diluted earnings per share
Net profit attributable to shareholders of ordinary shares of the Company	8.95%	1.04	1.04
Net profit attributable to shareholders of ordinary shares of after deducting extraordinary gains or losses	7.96%	0.93	0.93

#### January – June 2015

Profit for the Reporting Period	Weighted average rate of return on net assets	Earnings per share (RMB/share)	
		Basic earnings per share	Diluted earnings per share
Net profit attributable to shareholders of ordinary shares of the Company	8.56%	0.89	0.88
Net profit attributable to shareholders of ordinary shares after deducting extraordinary gains or losses	7.22%	0.75	0.74



## DOCUMENTS AVAILABLE FOR INSPECTION

- (I) They include a copy of the 2016 interim report of the Company which is signed by the legal representative.
- (II) They include the the Company's unaudited financial report for the six months ended 30 June 2016 prepared in accordance with the China Accounting Standards for Business Enterprises which is signed and sealed by the legal representative, the person-in-charge of the Company's financial affairs (mainly responsible for accounting work), the person-in-charge of the accounting department (accounting supervisor).
- (III) They include the original copies of all of the documents and announcements of the Company which have been disclosed in the designated newspaper as approved by CSRC during the Reporting Period.
- (IV) They include both English and Chinese versions of the 2016 interim report of the Company published on the website of Hong Kong Exchanges and Clearing Limited.

**Livzon Pharmaceutical Group Inc.**  
**Zhu Baoguo**  
*Chairman*

19 August 2016



丽珠医药  
LIVZON

[www.livzon.com.cn](http://www.livzon.com.cn)

*Livzon,*  
*Cultivate Nourished Lives*