



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
2017

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I. IMPORTANT NOTICE AND DEFINITIONS

IMPORTANT NOTICE

The board of Directors, the Supervisory Committee and the Directors, Supervisors and senior management of 麗珠醫藥集團股份有限公司 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 in the 3rd meeting of the 9th session of the Board of the Company. All the Directors attended the 3rd meeting of the 9th session of the Board.

The Group has prepared the financial report in accordance with China Accounting Standards for Business Enterprises. The 2017 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

I. IMPORTANT NOTICE AND DEFINITIONS

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 Shenzhen Stock Exchange, respectively;
"Group"	the Company and its subsidiaries;
"Board"	the board of directors of the Company;
"Director(s)"	director(s) of the Company;
"Supervisory Committee"	the supervisory committee of the Company;
"Supervisor(s)"	supervisor(s) of the Company;
"Shareholder(s)"	shareholder(s) of the Company;
"A Share(s)"	the ordinary shares in the registered capital of the Company with a nominal value of RMB1.00 each, which are listed and traded on the Shenzhen Stock Exchange;
"B Share(s)"	domestically listed foreign shares originally issued by the Company;
"H Share(s)"	the ordinary shares in the registered capital of the Company with a nominal value of RMB1.00 each, which are listed and traded on the Hong Kong Stock Exchange;
"A Shareholder(s)"	holder(s) of A Shares of the Company;
"H Shareholder(s)"	holder(s) of H Shares of the Company;
"Reporting Period" or "Current Period"	the six months from 1 January to 30 June 2017;
"Same Period Last Year" or "Previous Period"	the six months from 1 January to 30 June 2016;
"End of Last Year" or "Beginning of the Reporting Period" or "Beginning of the Period"	31 December 2016;
"End of the Reporting Period" or "End of the Period"	30 June 2017;
"CSRC"	the China Securities Regulatory Commission;
"Shenzhen Stock Exchange"	深圳證券交易所 (the Shenzhen Stock Exchange);
"Hong Kong Stock Exchange"	The Stock Exchange of Hong Kong Limited;

* For identification purpose only

I. IMPORTANT NOTICE AND DEFINITIONS

DEFINITIONS *(continued)*

"China Accounting Standards for Business Enterprises"	Accounting Standards for Business Enterprises – Basic Standard and 38 specific accounting standards issued by the Ministry of Finance of the PRC on 15 February 2006 and the Application Guidance to Accounting Standards for Business Enterprises, Interpretations of Accounting Standards for Business Enterprises and other related requirements subsequently issued;
"the Company Law"	the Company Law of the People's Republic of China;
"Securities Law"	《中華人民共和國證券法》 (the Securities Law of the People's Republic of China) ;
"Shenzhen Listing Rules"	《深圳證券交易所股票上市規則》 (the Stock Listing Rules of the Shenzhen Stock Exchange);
"Hong Kong Listing Rules"	Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited;
"Corporate Governance Code"	the Corporate Governance Code as set out in Appendix 14 of the Hong Kong Listing Rules;
"Model Code"	the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Hong Kong Listing Rules;
"SFO"	the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong);
"Articles of Association"	the "Articles of Association of Livzon Pharmaceutical Group Inc.";
"B-TO-H Share Conversion"	the domestically listed foreign shares (B Shares) of the Company to be converted into H Shares by way of introduction for listing and trading on the Main Board of the Hong Kong Stock Exchange;
"the Restricted A Shares Incentive Scheme"	the Restricted A Shares Incentive Scheme (Revised Draft) considered and approved by the Company at the 2015 First Extraordinary General Meeting;
"Restricted Shares"	A Shares granted to the incentive participants under the Restricted A Shares Incentive Scheme of the Company
"Joincare"	健康元藥業集團股份有限公司Joincare Pharmaceutical Industry Group Co., Ltd.* (Shanghai Stock Exchange stock code: 600380), a joint stock company incorporated in the PRC and listed on the Shanghai Stock Exchange in 2001 and one of the Company's controlling shareholders;
"Baiyeyuan"	深圳市百業源投資有限公司Shenzhen Baiyeyuan Investment Co., Ltd.*;
"Topsino"	天誠實業有限公司(Topsino Industries Limited*);
"Begol"	廣州市保科力貿易公司Guangzhou Begol Trading Holdings Limited*;

* For identification purpose only

I. IMPORTANT NOTICE AND DEFINITIONS

DEFINITIONS *(continued)*

"Livzon MAB"	珠海市麗珠單抗生物技術有限公司Livzon MABPharm Inc.*;
"Pharmaceutical Factory"	麗珠集團麗珠製藥廠Livzon Group Livzon Pharmaceutical Factory*;
"Hecheng"	珠海保稅區麗珠合成製藥有限公司Zhuhai FTZ Livzon Hecheng Pharmaceutical Manufacturing Co., Ltd.*;
"Livzon Diagnostic Reagents"	珠海麗珠試劑股份有限公司Zhuhai Livzon Diagnostic Reagents Inc.*;
"Jiaozuo Joincare"	焦作健康元生物製品有限公司Jiaozuo Joincare Biological Product Co., Ltd.*;
"Haibin Pharma"	深圳市海濱製藥有限公司Shenzhen Haibin Pharmaceutical Co., Ltd.*;
"Blue Treasure Pharma"	廣東藍寶製藥有限公司Guangdong Blue Treasure Pharmaceutical Co., Ltd.*;
"Weixing"	珠海維星實業有限公司Zhuhai Weixing Shiye Co., Ltd. (formerly named as 珠海市麗珠醫藥工業有限公司Zhuhai Livzon Pharmaceutical Industrial Co. Ltd.), a company incorporated in the PRC with limited liabilities, and was an indirectly wholly-owned subsidiary of the Company before completion of the Disposal;
"Livzon Shengmei"	珠海麗珠聖美醫療診斷技術有限公司Zhuhai Livzon Cynvenio Diagnosis Ltd.*;
"Livzon Gene"	珠海市麗珠基因檢測科技有限公司Zhuhai Livzon Gene Detection Technology Co., Ltd.*;
"the Disposal"	The Company and Pharmaceutical Factory proposed to sell the entire equity interest of Weixing held by the Company and Pharmaceutical Factory to Zhuhai Hengqin Weichuang Fortune Investment Co., Ltd.* (珠海橫琴維創財富投資有限公司) in accordance with the terms and conditions of the Equity Transfer Agreement entered into on 18 April 2017
"China" or "PRC"	the People's Republic of China;
"Hong Kong"	Hong Kong Special Administrative Region of China;
"RMB"	Renminbi, the lawful currency of China;
"HK\$" or "HKD"	Hong Kong dollars, the lawful currency of Hong Kong;
"US\$"	United States dollars, the lawful currency of the United States of America;
"Cninfo"	巨潮資訊網www.cninfo.com.cn;
"Company's website"	the website of the Company, www.livzon.com.cn

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II. COMPANY PROFILE AND PRINCIPAL FINANCIAL INDICATORS

(I). COMPANY PROFILE

	A Shares	H Shares
Stock abbreviation	Livzon Group	Livzon Pharma ^{Note 1} , 麗珠H代 ^{Note 2}
Stock code	000513	01513 ^{Note 1} , 299902 ^{Note 2}
Abbreviation of the changed stocks (if any):	N/A	
Stock exchange	Shenzhen Stock Exchange	The Stock Exchange of Hong Kong Limited
Chinese name of the Company	麗珠醫藥集團股份有限公司	
Abbreviation of Chinese name of the Company	麗珠集團	
English name of the Company	LIVZON PHARMACEUTICAL GROUP INC. *	
Abbreviation of English name of the Company	LIVZON GROUP	
Legal representative of the Company	Zhu Baoguo (朱保國)	
Registered address of the Company in China	Headquarters Building, 38 Chuangye North Road, Jinwan District, Zhuhai City, Guangdong Province, China	
Postal code of the registered address of the Company	519090	
Domestic business address of the Company	Headquarters Building, 38 Chuangye North Road, Jinwan District, Zhuhai City, Guangdong Province, China	
Postal code of the domestic business address of the Company	519090	
Principal place of business in Hong Kong	Room 1301, 13/F., China Evergrande Centre, 38 Gloucester Road, Wanchai, Hong Kong	
Company's website	www.livzon.com.cn	
E-mail	LIVZON_GROUP@livzon.com.cn	

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

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

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II. COMPANY PROFILE AND PRINCIPAL FINANCIAL INDICATORS

(II). CONTACT PERSONS AND CONTACT DETAILS

	Secretary to the Board	Representative of securities affairs
Name	Yang Liang	Wang Shuguang
Address	Headquarters Building, 38 Chuangye North Road, Jinwan District, Zhuhai City, Guangdong Province, China	
Telephone	(0756)8135888	(0756)8135888
Fax	(0756)8886002	(0756)8886002
E-mail	yangliang2014@livzon.com.cn	wangshuguang2008@livzon.com.cn

(III). OTHER INFORMATION

1. CONTACT DETAILS OF THE COMPANY

Whether the registered address of the Company, the business address of the Company and its postal code, the website and the e-mail box address changed during the Reporting Period

☒ Applicable ☐ Not applicable

During the Reporting Period, nothing changed except the Company's principal place of business in Hong Kong.

Principal place of business in Hong Kong	Room 1301, 13/F., China Evergrande Centre, 38 Gloucester Road, Wanchai, Hong Kong
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Date of enquiry through the designated website as disclosed in an interim announcement (if any)	7 April 2017
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Index for enquiry through the designated website as disclosed in an interim announcement (if any)	www.hkexnews.hk, www.livzon.com.cn
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2. INFORMATION DISCLOSURE AND PLACE WHERE COPIES OF THIS REPORT ARE AVAILABLE

Whether the information disclosure and the place where copies of this report are available changed during the Reporting Period

☒ Applicable ☐ Not applicable

During the Reporting Period, nothing changed except that Securities Daily was newly chosen for information disclosure.

Media for information disclosure selected by the Company	China Securities Journal, Securities Times, Securities Daily
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Website for publishing this interim report appointed by the CSRC	www.cninfo.com.cn
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Website for publishing this interim report in HK	www.hkexnews.hk, www.livzon.com.cn
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Place where copies of this interim report are available	The Shenzhen Stock Exchange, Secretariat to the Board of the Company, Principal place of business in Hong Kong of the Company
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II. COMPANY PROFILE AND PRINCIPAL FINANCIAL INDICATORS

(III). OTHER INFORMATION *(continued)*

3. CHANGE IN REGISTRATION DETAILS

Whether the registration details changed during the Reporting Period

☒ Applicable ☐ Not applicable

	Registration date	Registration place	Unified social credit code
Registered at the beginning of the Reporting Period	23 January 2017	Zhuhai Administrative Bureau for Industry and Commerce of Guangdong Province	914404006174883094
Registered at the end of the Reporting Period	23 March 2017	Zhuhai Administrative Bureau for Industry and Commerce of Guangdong Province	914404006174883094
Date of enquiry through the designated website as disclosed in an interim announcement (if any)	A shares: 15 February 2017, 31 March 2017 H shares: 14 February 2017, 30 March 2017		
Index for enquiry through the designated website as disclosed in an interim announcement (if any)	A shares: www.cninfo.com.cn H shares: www.hkexnews.hk, www.livzon.com.cn		

4. OTHER RELEVANT INFORMATION

Whether other relevant information changed during the Reporting Period

☐ Applicable ☒ Not applicable

Accounting Firm Appointed by the Company

Name of accounting firm	Ruihua Certified Public Accountants (LLP)
Address of accounting firm	4/F, Tower 2, No.16, Xisihuanzhong Road, Haidian District, Beijing, the PRC

Authorised Representatives of the Company and institution appointed pursuant to the Hong Kong Listing Rules

Authorised Representatives appointed pursuant to the Hong Kong Listing Rules	Tao Desheng, Yang Liang
Company Secretary, Secretary to the Board	Yang Liang ^{note}
Assistant Company Secretary and Alternate to Authorised Representatives	Cheng Pik Yuk (resigned on 27 June 2017 with effect from 3 July 2017)
Alternate to Authorised Representatives	Yuan Ailing (appointed on 3 July 2017)
Name of H Share Registrar	Tricor Investor Services Limited
Address of H Share Registrar	Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong

Note: Hong Kong Stock Exchange has confirmed that Mr. Yang Liang was qualified to be our Company Secretary under Rule 3.28 of the Hong Kong Listing Rules on 27 June 2017.

II. COMPANY PROFILE AND PRINCIPAL FINANCIAL INDICATORS

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

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

✓ YES ☐ NO

Amount denominated: RMB

Items	Current Period	Same Period Last Year	Change of the Reporting Period compared with Same Period Last Year (%)
Operating income	4,274,758,446.48	3,784,299,658.63	12.96%
Net profit attributable to shareholders of the Company	504,002,522.78	409,061,823.40	23.21%
Net profit attributable to the shareholders of the Company after deducting the extraordinary gain or loss	455,267,463.54	363,841,867.64	25.13%
Net cash from operating activities	447,380,853.65	307,923,704.40	45.29%
Total profit	664,640,227.12	520,421,776.33	27.71%

Items	At the End of the Reporting Period	At the Beginning of the Reporting Period	Change at the End of the Reporting Period compared with the Beginning of the Reporting Period (%)
Total assets	15,538,115,223.39	10,529,262,952.41	47.57%
Total liabilities	8,049,127,196.36	3,423,624,448.86	135.11%
Net assets attributable to the shareholders of the Company	6,857,402,951.90	6,505,987,404.43	5.40%
Share capital	425,562,592.00	425,730,126.00	-0.04%
Shareholders' equity per share attributable to the Shareholders of the Company	16.11	15.28	5.43%

Items	Current Period	Same Period Last Year	Change of the Reporting Period compared with Same Period Last Year (%)
Basic earnings per share	1.19	1.04	14.42%
Diluted earnings per share	1.19	1.04	14.42%
Basic earnings per share after deducting extraordinary gain or loss	1.08	0.93	16.13%
Weighted average return on net assets (%)	7.42%	8.95%	Decrease by 1.53 percentage points
Return on equity attributable to shareholders of the Company (%)	7.35%	8.76%	Decrease by 1.41 percentage points
Equity attributable to shareholders of the Company to total assets ratio (%)	44.13%	54.08%	Decrease by 9.95 percentage points

II. COMPANY PROFILE AND PRINCIPAL FINANCIAL INDICATORS

(IV). SIGNIFICANT ACCOUNTING DATA AND FINANCIAL INDICATORS PREPARED IN ACCORDANCE WITH THE CHINA ACCOUNTING STANDARDS FOR BUSINESS ENTERPRISES *(continued)*

Amount denominated: RMB

Items	Adjustment to Figures of Previous Period		
	Amount before adjustment	Adjustment	Amount after adjustment
Taxes and surcharges	48,862,604.54	11,131,638.48	59,994,243.02
Administration fee	329,447,597.85	-11,131,638.48	318,315,959.37

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

The total share capital of the Company as at the trading day immediately preceding disclosure (shares)	553,231,369
Fully diluted earnings per share based on the most updated share capital (RMB/share)	0.91

(V). DIFFERENCES IN ACCOUNTING DATA UNDER DOMESTIC AND FOREIGN ACCOUNTING STANDARDS

1. Difference in net profit and net assets in financial report disclosed in accordance with International Accounting Standard and China Accounting Standard

☐ Applicable ☒ Not applicable

During the Reporting Period, there is no difference in net profit and net assets in financial report disclosed in accordance with International Accounting Standard and China Accounting Standard.

2. Difference in net profit and net assets in financial report disclosed according to Foreign Accounting Standards and China Accounting Standard

☐ Applicable ☒ Not applicable

During the Reporting Period, there is no difference in net profit and net assets in financial report disclosed according to Foreign Accounting Standards and China Accounting Standard.

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

☐ Applicable ☒ Not applicable

II. COMPANY PROFILE AND PRINCIPAL FINANCIAL INDICATORS

(VI). ITEMS AND AMOUNTS OF EXTRAORDINARY GAINS OR LOSSES

✓ Applicable ☐ Not applicable

<i>Amount denominated: RMB</i>	
Items	Amount
Gains or losses from disposal of non-current assets (including the written-off part of asset depreciation reserves withdrawn)	-7,017,747.76
Government grants included in gains or losses for the current period (excluding those government subsidies closely related to corporate business, fixed in accordance with the national standard or enjoyed quantitatively)	70,870,480.62
Gains or losses from discretionary investment or asset management	4,310,498.10
Gains or losses on fair value change of held-for-trading financial assets and liabilities and investment gain from disposal of held-for-trading financial assets and liabilities and available-for-sale financial assets, excluding effective hedging business relating to the ordinary operation business of the Company	733,944.14
Other non-operating incomes and expenses (excluding items mentioned above)	-2,411,600.27
Less: effect of income tax	10,289,554.86
Effect of minority interests (after tax)	7,460,960.73
Total	48,735,059.24

For items of extraordinary gains or losses defined in “Notice on Explanation of Information Disclosure of Companies Publicly Issuing Securities No.1 – Extraordinary Gains or Losses”, and items of extraordinary gains or losses illustrated in “Notice on Explanation of Information Disclosure of Companies Publicly Issuing Securities No.1 – Extraordinary Gains or Losses” defined as items of recurring gains or losses, the Company shall provide the reasons

☐ Applicable ✓ Not applicable

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

(VII). CHANGES OF SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND CORRECTION OF ACCOUNTING ERRORS

Changes in accounting policies were attributable to the implementation of new accounting standards for business enterprises.

On 28 April 2017, the MOF issued Accounting Standards for Business Enterprises No. 42 – non-current assets and disposal groups classified as held for sale and discontinued operation with its Decree of Caikuai [2017] No.13, implemented since 28 May 2017. On 10 May 2017, the MOF issued Accounting Standards for Business Enterprises No. 16 – Government Grants (Revised in 2017) with its Decree of Caikuai [2017] No.15, implemented since 12 June 2017. As resolved in the 3rd meeting of the ninth session of the Board of the Company, the Company commenced the two accounting standards above at the time as required by the MOF.

III. SUMMARY OF ACTIVITIES

(I). PRINCIPAL ACTIVITIES ENGAGED DURING THE PERIOD

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(枸橼酸鉍鉀)) products, Anti-viral Granules (抗病毒顆粒), Urofollitropin for Injection (麗申寶(注射用尿促卵泡素)), Menotropins for Injection (樂寶得(注射用尿促性素)), Ilaprazole (Ilaprazole Enteric Coated Tablet) (壹麗安(艾普拉唑腸溶片)), Voriconazole 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 Leuporelin 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(被動凝聚法)) and TPPA Testing Reagent (梅毒螺旋體抗體診斷試劑(凝聚法)).

(II). MATERIAL CHANGES IN MAJOR ASSETS

1. Material changes in major assets

Major assets	Details for material changes
Equity assets	An increase of 0.22%, no material changes for this period
Fixed assets	A decrease of 2.37%, no material changes for this period
Intangible assets	A decrease of 7.03%, no material changes for this period
Construction in progress	A decrease of 15.76%, no material changes for this period
Cash at bank and on hand	An increase of 229.98%, mainly due to amount received from the transfer of the equity interest in a subsidiary proposed to be transferred
Bills receivable	An increase of 69.25%, mainly due to the Company changed the circulation way of bills according to the Company's daily demand for fund in the Period, so as to hold the bills receivables until maturity for collection
Prepayments	An increase of 35.90%, mainly due to the increase in material purchase amount prepaid
Other receivables	An increase of 43.71%, mainly due to the increase in advance to staff
Non-current assets held for sale or assets in disposal group held for sale	Mainly due to reclassification of the equity interest in a subsidiary proposed to be transferred according to Accounting Standards for Business Enterprises No. 42 – Held-for-sale Non-current Assets, Disposal Group and Discontinued Operation
Other current assets	A decrease of 59.74%, mainly due to that we bought principal-guaranteed financial products with idle raised proceeds which were redeemed in the Period
Development expenditure	An increase of 49.09%, mainly due to the increase in expenditure at the development stage of recombinant biosimilar human chorionic gonadotropin (rhCG) for injection (注射用重組人絨促性素(rhCG)), a R&D project, in the Period
Other non-current assets	An increase of 80.26%, mainly due to the prepayment for the proposed buying of fund products

2. Major foreign assets

☐ Applicable ☒ Not applicable

III. SUMMARY OF ACTIVITIES

(III). CORE COMPETITIVENESS ANALYSIS

During the reporting period, the Group continued to adhere to the development target of becoming a high-end specialty pharmaceutical enterprise with the core business philosophy of “Transformation and Upgrade, Regularize development” to constantly improve the efficiency of its management and governance standards, thereby steadily pushing forward the development of its businesses. During the reporting period, there were no major changes in the Group’s general core competitiveness, which was primarily reflected in the following:

1. Diversified product mix and business portfolio.

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

2. Comprehensive marketing system and professional marketing team.

The Group implemented lean management of marketing and constantly improved its marketing system, optimized its incentive assessment mechanism and strengthened marketing efforts within the academic field as well as to end-users. Through optimization of resources allocation, a more complete marketing system has been gradually established. The Group had more than 9,000 staff members who served in the marketing teams of its various segments and provided professional sales services. The Group has a marketing network covering the majority of leading medical institutions, chain drugstores, disease control centres and health authorities across China.

3. Proven quality management system.

The Group has established a three-dimensional quality management system covering production quality, scientific research and sales of products. During the reporting period, the Group continuously improved its quality management level to facilitate the sound operation of the quality management system, thereby effectively ensuring the safety and stability of products in various areas of the Group.

4. Strong R&D capabilities and global R&D vision.

The Group has strong R&D capabilities and global R&D vision in areas such as chemical drugs, drug preparation products for traditional Chinese medicine, biopharmaceutical drugs and diagnostic reagent. By proactively introducing experts and innovative talents from home and abroad, exerting greater efforts in research and development and developing overseas strategic alliances, the Group has established a clear R&D products management pipeline with a focus on specialized products portfolio of anti-tumor, assisted reproduction, gastrointestinal and neurological drugs, which further enhanced its R&D competitiveness.

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

(I). SUMMARY

2017 is a year full of opportunities and challenges for the pharmaceutical industry. As the reform of the national healthcare system kept deepening, the adjustment and revision of the medical insurance drug catalogue, acceleration of drug approval, continuous development of consistency evaluation of generic drugs and the in-depth implementation of the two-invoice system began to take effect on the pharmaceutical industry. In the first half of 2017, the industry grew at a slightly higher rate as compared to 2016. Data on industrial enterprises above designated size from the National Bureau of Statistics of China showed that operating income of principal activities of the whole pharmaceutical industry registered a year-on-year growth of 12.6% and the profit registered a year-on-year growth of 15.9% in the first half of 2017.

During the Reporting Period, the Group recorded an operating income of RMB4,274.76 million, representing an increase of 12.96% as compared with RMB3,784.30 million of the Same Period Last Year. Net profit was RMB550.39 million, representing an increase of 28.76% as compared with RMB427.47 million of the Same Period Last Year. Net profit attributable to shareholders of the Company was RMB504.00 million, representing an increase of 23.21% as compared with RMB409.06 million of 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 2017 was RMB455.27 million, representing an increase of 25.13% as compared with RMB363.84 million of the Same Period Last Year.

In the first half of 2017, the Group adhered to the management principle of "Transformation and upgrading for standardized development" as it enhanced management efficiency and standardized governance on an ongoing basis. The Group also steadily promoted its various businesses and expedited marketing development, which led to satisfactory progress. The main tasks of the Group included:

1. Drug preparation business - strengthening marketing compliance and in-depth market development

In the first half of 2017, the Group adopted the sales strategy to "widen environment, establish mechanism, emphasize on responsibilities and tighten assessments". It optimized the setting up of the marketing system and stepped up the marketing efforts within the academic field and to the end-users, thereby promoting product penetration and team building for primary healthcare institutions.

Major tasks of the Group included: firstly, it set up the primary healthcare sales department to facilitate product coverage and sales to medical institutions below grade two; secondly, it carried out nationwide promotion campaign targeting hospitals with low sales of key products to boost sales; thirdly, it optimized the logistics network across the country to ensure compliance and delivery efficiency, with the view of reducing the turnover of trade receivables; fourthly, it refined the marketing assessment of non-prescription drugs and strengthened product promotion; fifthly, it moved forward with the new round of national medical insurance reform, which resulted in the admission of six new products in the national "medical insurance drug catalogue", while actively responded to the revision of the provincial medical insurance drug catalogue; sixthly, it enhanced the revaluation of certain products after their launch and the related extended development that aimed at increasing clinical indications.

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

(I). SUMMARY *(continued)*

2. Bulk medicines and intermediates business - improving operation management and promoting sales and international certification

In early 2017, the bulk medicines business division of the Group was formed by the merger of the former fermented and bulk medicines business division and Zhuhai FTZ Livzon Hecheng Pharmaceutical Manufacturing Co., Ltd.* (珠海保稅區麗珠合成製藥有限公司). Strived to “maintain safe environment, ensure good quality and cut cost” as its main objectives, the bulk medicines business division strengthened the monitoring and supervision over its subsidiaries.

During the Reporting Period, the main work our bulk medicines business division had done included: Firstly, it established a goal to tackle problems on key product variety, reinforced assessment on its project cost, promoted the upgrading and reform of its core technology, advanced its technology and reduced cost; Secondly, it promoted the building of its research and development system, established two research and development teams (i.e. strain cultivation team and bulk medicines research & development team) and enhanced the development of its featured and competitive products; Thirdly, it improved its sales market's composition, striving to cover middle and high end of the market besides the low end, and expanded its cooperation with well-known pharmaceutical enterprises at both home and abroad; Fourthly, it continued to enhance the safety, environmental and quality level of its manufacturing subsidiaries, as well as pursued the international registration and accreditation for its bulk medicines.

As of the end of the Period, 10 products from bulk medicines manufacturing subsidiaries of the Group had passed the on-site examination for international certification, five products had passed the on-site examination of FDA and 17 international accreditation certificates had been obtained.

3. Precise medicine - expediting planning and achieving progress in clinical research and development

Leveraging the synergy between biological preparations and diagnostic reagent business in the field of precise medicine, the Group took initiatives and planned for the “patient-oriented” customized medical business. The precise medicine industrial chain comprising “Livzon Reagents (麗珠試劑) + Livzon MAB (麗珠單抗) + Livzon Shengmei (麗珠聖美) + Livzon Gene (麗珠基因)” began to take shape.

Livzon Reagents: It further increased capital and talent investment to research of self-produced products, accelerated research of molecular diagnostics, chemical fluorescence and other projects under research, optimized the research management procedure, enhanced efficacy of existing products, actively pushed forward the reform of the marketing system and the change of revenue generated from the evaluation mechanism, and improved the building of its own marketing team. In the first half of 2017, proportion of revenue generated from self-produced products kept increasing, in particular, the proportion of traditional diagnostic reagents for infectious diseases and respiratory diseases recorded significant growth.

Livzon MAB: During the Reporting Period, it continued to optimize talent succession planning and introduced six talents with overseas experience to take charge of the pharmaceutical, quality, production process, BD and other departments. Currently, the Company has 12 projects under research in the biopharmaceutical field and has commenced the selection, evaluation and business negotiation process of several new drug projects.

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

(I). SUMMARY *(continued)*

3. Precise medicine - expediting planning and achieving progress in clinical research and development *(continued)*

Livzon Shengmei: During the Reporting Period, it actively promoted domestic production of equipment and accessories as well as reagents. It performed comprehensive internal review based on the GMP and GSP quality system for medical device, which provided support to the orderly implementation of quality control. Meanwhile, it spared no efforts to explore feasible clinical applications of liquid biopsy in PRC hospitals and commenced clinical research in collaboration with renowned hospitals including Peking Union Medical College Hospital and Beijing Cancer Hospital. It also studied feasible ways from the perspective of device and reagent registration, entry to market and promotion, which allowed it to formulate a preliminary, effective and feasible business model.

Livzon Gene: It basically established the operating system for internal management and completed the construction of technology platforms of liquid biopsy, immunofluorescence protein and fluorescent PCR. It also took initiatives to drive the qualification accreditation and recognition of third party laboratories.

4. Production - centering on quality, safety and environmental protection

The Group carried on enhancing quality control over the production process while upgrading quality management, so as to ensure the steady operation of the quality management system. As at the end of the Period, 30 production lines of the five preparations enterprises of the Group and 13 production lines of 25 products of bulk medicines enterprises had passed the new GMP certification. During the Reporting Period, the members of the Group had not recorded any major environmental accidents, safety accidents or occupational health accidents. The Group also basically completed the legal compliance works in relation to the environmental assessment of its subsidiaries and published the "Overall Requirement of Livzon EHS Management System" along with other group-level EHS management systems, with the view of regulating the EHS management for normal corporate operation.

5. Management and strategy - enhancing internal control management and promoting business expansion

During the Reporting Period, the Group held to the core operation and management approach of "Transformation and upgrading for standardized development". Through continuous efforts in optimizing and implementing various regulations and rules, it strengthened the internal control and prevented operational risks in a systematic manner. Its major tasks included: firstly, it improved the human resources management system, carried out restructuring of the organizational hierarchy at headquarters and adjusted staff's salary; secondly, it enhanced the administrative and management platform and the back-office service platform for better task management of different functions and departments; thirdly, it upgraded the development capability of information technology, enhanced resources allocation and boosted operating efficiency; fourthly, it optimized the Group's control of funds and the financial management of tier two enterprises, so as to promote the efficiency and effectiveness of fund utilization; fifthly, it carried on applying for technology projects and government subsidies.

In terms of strategic development and investment, the Group strengthened its core competitiveness through a combination of organic growth and business expansion. While the Group kept on enhancing equity management and operating efficiency within the organization, it increased external investment and established connection for investment projects with renowned international investment banks and institutions. By identifying potential investment and M&A targets in the medical and healthcare sectors that were in line with the corporate development strategy, the Group further improved the business structure.

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

(II). OPERATING ACTIVITIES

As for the principal activities of the Group for the Reporting Period, please refer to related contents in the Chapter III “PRINCIPAL ACTIVITIES ENGAGED DURING THE PERIOD” of this report.

(III). 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.

(IV). ANALYSIS OF PRINCIPAL ACTIVITIES

1. Whether the disclosure in summary is the same as that in the summary in the Operation Discussion and Analysis

☒ YES ☐ NO

2. How the future developments and plans disclosed in those publicly disclosing documents such as the initial public offering prospectus, fund raising document and assets restructuring report continued until the Reporting Period

☐ Applicable ☒ Not applicable

There is no disclosure on how the future developments and plans continued until the Reporting Period in those publicly disclosing documents such as initial public offering prospectus, fund raising document and assets restructuring report.

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

(IV). ANALYSIS OF PRINCIPAL ACTIVITIES *(continued)*

3. Composition of principal activities

		<i>Amount Denominated: RMB</i>					
		Operating Income	Operating Cost	Gross Margin	Year on year increase/ (decrease) in operating Income	Year on year increase/ (decrease) in operating Cost	Year on year increase/(decrease) in Gross Margin
By sector							
Western drug preparation products	Gastrointestinal	483,205,958.80	40,002,353.14	91.72%	28.20%	10.52%	Increased by 1.32 percentage points
	Cardio-cerebral vascular	100,146,727.09	21,595,872.19	78.44%	19.00%	10.07%	Increased by 1.75 percentage points
	Antibiotics	228,064,619.25	50,390,724.11	77.91%	6.95%	-4.67%	Increased by 2.69 percentage points
	Gonadotropic hormones	664,749,567.19	229,462,274.69	65.48%	10.31%	17.70%	Decrease by 2.17 percentage points
	Other	402,514,212.81	43,146,858.90	89.28%	11.66%	27.46%	Decrease by 1.33 percentage points
Bulk medicines and Intermediates		1,003,680,176.64	757,111,582.22	24.57%	22.17%	12.45%	Increased by 6.52 percentage points
Chinese drug preparation products		1,084,258,734.17	224,934,891.52	79.25%	3.26%	2.39%	Increased by 0.18 percentage points
Diagnostic products and equipment		288,802,370.79	125,343,287.98	56.60%	11.06%	13.75%	Decrease by 1.03 percentage points
Other		-	-		-100.00%	-100.00%	-
Total		4,255,422,366.73	1,491,987,844.75	64.94%	12.86%	10.94%	Increased by 0.60 percentage points
By product							
Shengqi Fuzheng Injection		835,106,547.02	148,762,093.26	82.19%	1.49%	4.99%	Decrease by 0.59 percentage points
By region							
Domestic		3,792,727,424.52	1,140,498,393.89	69.93%	10.68%	5.92%	Increased by 1.35 percentage points
Overseas		462,694,942.21	351,489,450.86	24.03%	34.57%	31.08%	Increased by 2.02 percentage points

During the Reporting Period, the Group's principal activities generated an operating income of RMB4,255.42 million, representing an increase of RMB484.95 million or 12.86% as compared with RMB3,770.47 million for the Same Period Last Year, among which the sales growth of western drug preparation products increased by 14.74% year-on-year, and the sales growth of bulk medicines and intermediates increased by 22.17% 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 RMB208.74 million with a year-on-year increase of 46.77% the income from sales of Leuporelin Acetate Microspheres for Injection (注射用醋酸亮丙瑞林微球) was RMB281.76 million, up by 45.77% 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 RMB279.42 million with a year-on-year increase of 19.13%. The income and growth of key bulk medicines and intermediates are as follows: the income from sales of Phenylalanine (苯丙氨酸) was RMB134.63 million, up by 16.72% year-on-year; the income from sales of Acarbose (阿卡波糖) was RMB104.92 million, up by 91.01% year-on-year; the income from sales of Mycophenolic acid (霉酚酸) was RMB 85.74 million, up by 69.54% year-on-year; the income from sales of the Lincomycin (林可霉素) was RMB68.24 million, up by 44.05% year-on-year; the income from sales of Vancomycin Hydrochloride (鹽酸萬古霉素) was RMB53.88 million, up by 77.41% year-on-year; the income from sales of Milbemycin Oxime (米爾貝肟) was RMB37.39 million, up by 333.36% year-on-year. 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 the sustained high growth of the key products with high-margin in sector of Bulk medicines through the integration of resources, adjust the product structure, increase international certification and other measures.

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

(IV). ANALYSIS OF PRINCIPAL ACTIVITIES *(continued)*

3. Composition of principal activities *(continued)*

During the Reporting Period, the Group's operating costs of principal activities amounted to RMB1,491.99 million, representing an increase of RMB147.12 million or 10.94% as compared with RMB1,344.87 million for the Same Period Last Year, which was mainly due to sales growth.

4. Operating Income of Principal Activities by Regions

Regions	Amount incurred for the Current Period		Amount denominated: RMB Amount incurred for the Previous Period	
	Principal activities income	Principal activities cost	Principal activities income	Principal activities cost
Domestic	3,792,727,424.52	1,140,498,393.89	3,426,641,043.21	1,076,728,670.69
Overseas	462,694,942.21	351,489,450.86	343,825,504.85	268,142,351.78
Total	4,255,422,366.73	1,491,987,844.75	3,770,466,548.06	1,344,871,022.47

5. Major customers and suppliers

During the Reporting Period, the sales amount attributable to the five largest customers contributed to 9.03% (Same Period Last Year: 8.25%) of the total operating income of the Group, while the purchase amount from the five largest suppliers of the Group contributed to approximately 36.35% (Same Period Last Year: 36.30%) 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 (RMB)	330,015,443.11
Percentage of purchase amount from top five suppliers to total purchase in the Current Period (%)	36.35%

Top Five Suppliers of the Company for the Reporting Period

No.	Name of supplier	Purchase amount (RMB)	Percentage of purchase amount to total purchase in the Current Period (%)
1	First	157,605,097.57	17.36%
2	Second	50,024,986.01	5.51%
3	Third	49,386,246.66	5.44%
4	Fourth	38,865,266.54	4.28%
5	Fifth	34,133,846.33	3.76%
Total		330,015,443.11	36.35%

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

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

(IV). ANALYSIS OF PRINCIPAL ACTIVITIES *(continued)*

5. Major customers and suppliers *(continued)*

Other information about major suppliers:

✓Applicable ☐Not applicable

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

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

6. Expenses

During the Reporting Period, the Group's three expense items (selling expenses, administrative expenses and financial expenses) amounted to RMB2,085.38 million, representing an increase of RMB256.91 million or 14.05% year-on-year. Details are as follows:

Items	Reporting Period	Amount denominated: RMB	
		Same Period Last Year	Year-on-year change (%)
Selling expenses	1,684,605,046.08	1,501,463,348.45	12.20%
Administrative expenses	400,516,843.08	318,315,959.37	25.82%
Financial expenses	259,718.44	8,694,063.93	-97.01%

- (1) Selling expenses rose by 12.20% year-on-year, which was mainly due to the increase of marketing expenses as a result of the growth of sales volume of the products;
- (2) Administrative expenses rose by 25.82% year-on-year, which was mainly due to increase in R&D investment;
- (3) Financial expenses decreased by 97.01% year-on-year, which was mainly due to the combined effect of the repayment of all interest-bearing liabilities resulting in the decrease in interest expenses, and the increase in bank deposits resulting in the increase in interest income, as well as the appreciation of RMB resulting in the increase of foreign exchange loss from exporting operation.

During the Reporting Period, the total income tax expenses were RMB114.25 million, representing an increase of RMB21.29 million or 22.91% year-on-year, which was mainly due to income growth and the corresponding increase in profits.

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

(IV). ANALYSIS OF PRINCIPAL ACTIVITIES *(continued)*

7. Research and development expenditure

During the Reporting Period, the Group's expenditures related to research and development amounted to RMB278.67 million (Same Period Last Year: RMB172.26 million), representing an increase of 61.78% year-on-year. The amount accounted for 4.06% of net assets attributable to shareholders of the Company and 6.52% (Same Period Last Year: 4.55%) of the Group's total operating income for the Reporting Period.

As 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, a total of 18 projects have been registered and have commenced clinical studies, two projects have been reported to the competent authorities for clinical studies, six projects are undergoing clinical studies and seven projects have been reported to the competent authorities for production; in respect of biopharmaceutical drugs, a total of 12 projects are being researched, among which, four projects are undergoing clinical studies, two projects have been registered and the technological research of six projects are in progress. In respect of diagnostic reagents, a total of six in vitro products have completed development and entered the phase of registration tests; six in vitro diagnostic reagent products will soon finish clinical trials and enter the registration phase, while two in vitro diagnostic reagent products have entered the registration phase. In the field of long-term microsphere, six projects have been registered and commenced the preclinical studies, and one project has been reported to the competent authorities for clinical studies. Details of Livzon Shengmei are set out below.

The progress of major research and development projects during the Reporting Period is as follows:

- (1) Chemical drugs and Chinese drug preparation products: the approval of clinical trial has been obtained and will step into the clinical research stage immediately for high purity hMG for injection and bulk medicines; Orphan Drug Ryanodex for injection (注射用丹曲林鈉) and bulk medicines have been included into the thirteenth batch of priority review procedures for drug registration application directory; Ilaprazole Sodium Injection (注射用艾普拉唑鈉) and bulk medicines have been declared for production and is still under review; Ilaprazole Enteric Coated Tablet (艾普拉唑腸溶片新適應症) (The original registration is classified as category 1.6) is still under review; the supplementary application for increase the package of multi-layer co-extruded film infusion membrane bag for Shengqi Fuzheng Injection (參芪扶正注射液) has been approved.

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

(IV). ANALYSIS OF PRINCIPAL ACTIVITIES *(continued)*

7. Research and development expenditure *(continued)*

- (2) Biopharmaceutical drug preparation products: phase II clinical trial and case selection of recombinant humanized anti-tumor necrosis factor α monoclonal antibody for injection (注射用重組人源化抗人腫瘤壞死因子 α 單克隆抗體) commenced; phase III clinical trial and case selection of recombinant human chorionic gonadotropin (rhCG) for injection (注射用重組人絨促性素) commenced; eight clinical trial centers were selected and determined for recombinant human/mouse chimeric anti-CD20 biosimilar monoclonal antibody for injection (重組人鼠嵌合抗CD20單克隆抗體注射液) and the clinical trial is in start-up stage; phase I clinical trial of recombinant anti-HER2 humanized monoclonal antibody for injection project (重組人源化抗HER2單克隆抗體注射液項目) commenced; recombinant humanized anti-PD-1 monoclonal antibody (重組人源化抗PD-1單克隆抗體) is pending to be reviewed by the CDE of the PRC and has completed the Investigational New Drug (IND) filing with the FDA of the USA; the new drug registration and on-site inspection of recombinant anti-RANKL monoclonal antibody (重組全人抗RANKL單克隆抗體) has completed in the PRC and relevant information has been submitted to the CDE; technology scale-up and three batch of pilot production of recombinant anti-IL-6R humanized monoclonal antibody (重組抗IL-6R人源化單克隆抗體) project has been completed, and the Group is preparing the information to be submitted for new drug registration; the molecular determination and druggability evaluation of the recombinant humanized anti-PD-L1 monoclonal antibody (重組全人抗PD-L1單克隆抗體) project has been completed, and the research on intermediate production technology has commenced; the molecular evaluation and cell strain construction of humanized anti-OX40 monoclonal antibody (全人源抗OX40單克隆抗體) has been completed and the development of primary trial technology was finished; the molecular evaluation and cell strain constitution of recombinant humanized anti-IL-17A F monoclonal antibody (重組抗IL-17A F人源化單克隆抗體) has also been completed.
- (3) Diagnostic reagents: one gold standard rapid reagent is undergoing clinical trial and will soon enter registration phase; two reagents have entered registration phase; four drug concentration test reagents are in clinical trial phase; one ELISA diagnostic reagent has entered clinical trial phase; five molecular diagnostic reagents will soon complete development and enter the registration and inspection phase; one chemiluminescent diagnostic reagent (the first reagent and auxiliary equipment project) will soon complete development and enter the registration and inspection phase; two items of equipment and device have entered the registration phase, one item is undergoing clinical trial phase and will soon enter the registration phase, one item will soon enter the registration and inspection phase.

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

(IV). ANALYSIS OF PRINCIPAL ACTIVITIES *(continued)*

7. Research and development expenditure *(continued)*

- (4) Long-term microsphere: the preclinical study for Leuporelin Acetate for Injection (注射用醋酸亮丙瑞林) Project has been completed and an application is about to be filed; The preclinical study for Goserelin Acetate (醋酸戈舍瑞林) Project is undergoing; Triptorelin Acetate Microspheres (醋酸曲普瑞林微球) Project has entered the stage of being examined and evaluated, waiting for the clinical approval from the pharmaceuticals appraisal authority; Octreotide Acetate Microspheres (醋酸奥曲肱微球) Project is undergoing magnification research; The primary pilot study for Triptorelin Pamoate Microspheres (雙脔奈酸曲普瑞林微球) Project has been completed, and it is undergoing magnification research stage by stage; The prescription technological study for Aripiprazole (阿立哌唑) Project has been completed, and the research on release mechanism and quality standards of ingredients are in progress.
- (5) Livzon Shengmei: the formulation of clinical trial proposal for the LiquidBiopsy platform has been basically completed and it is expected that the clinical trial will commence in the current year. In terms of the immunofluorescence platform, the evaluation of bulk medicines and construction of reaction system for two antibody test reagents have been completed. For molecular testing platform, the preliminary marketing research and technology analysis of two PCR test reagents have been completed and the projects have been registered. As to the technology platform, the construction of the FISH technology platform and the IHC technology platform has been completed. Livzon Shengmei has been working with Livzon Gene in developing a comprehensive operating model centering third party laboratory business. It has also actively participated in and organized exchange events with hospitals and strived for cooperation in clinical trials and scientific research. It also took initiatives to promote domestic production of equipment accessories and reagents and allocated production capacity based on the current scale of sales.

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

(V). ANALYSIS OF NON-PRINCIPAL ACTIVITIES

✓ Applicable □ Not applicable

Amount Denominated: RMB

	Amount	As a percentage of total profits	Reason for occurrence	Sustainability
Investment income	5,084,363.02	0.76%	Mainly due to the gain generated from the redemption of principal-guaranteed financial products bought with idle raised proceeds	YES
Gains or losses arising from changes in fair value	733,944.14	0.11%	Mainly due to the vitality formation of the market value of the invested stock	YES
Impairment of assets	34,562,724.43	5.20%	Mainly due to the provision for the receivables, inventories according to accounting policies	NO
Non-operating Income	72,877,568.90	10.96%	Mainly due to the government subsidies received	YES
Non-operating expenses	11,436,436.31	1.72%	Mainly due to the expenses from disposal of fixed assets	NO

(VI). ANALYSIS OF FINANCIAL CONDITIONS

1. Assets and Liabilities

(1) Material changes in assets composition

Amount denominated: RMB

	At the end of the Period		At the beginning of the Period		Increase/decrease in proportion	Reason for material changes
	Amount	As a percentage of total assets	Amount	As a percentage of total assets		
Cash at bank and on hand	6,803,987,863.10	43.79%	905,540,384.83	10.49%	33.30%	Mainly due to the increased proportion of cash at bank and on hand in total assets resulting from the consideration for the transfer of equity interest in a subsidiary received.
Receivables	1,730,945,602.62	11.14%	1,602,653,235.14	18.57%	-7.43%	Mainly due to the decrease of the proportion of receivables resulting from the consideration for the transfer of equity interest in a subsidiary received, and the increase in total assets.
Inventories	1,088,003,959.31	7.00%	1,035,807,509.06	12.00%	-5.00%	Mainly due to the decrease of the proportion of inventories resulting from the consideration for the transfer of equity interest in a subsidiary received, and the increase in total assets.
Investment properties	-	-	-	-	-	-
Long-term equity investments	91,694,784.78	0.59%	92,530,162.610	1.07%	-0.48%	-
Fixed assets	3,261,818,783.99	20.99%	3,386,045,120.75	39.22%	-18.23%	Mainly due to the decrease of the proportion of inventories resulting from the consideration for the transfer of equity interest in a subsidiary received, and the increase in total assets.
Constructions in progress	169,934,836.39	1.09%	196,862,180.39	2.28%	-1.19%	-
Short-term loans	-	-	860,000,000.00	9.96%	-9.96%	Mainly due to the repayment of interest-bearing liabilities.
Long-term Loans	700,000.00	0.0045%	700,000.00	0.0081%	-0.0036%	-

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

(VI). ANALYSIS OF FINANCIAL CONDITIONS *(continued)*

1. Assets and Liabilities *(continued)*

(2) Assets and liabilities measured at fair value

☒ Applicable ☐ Not applicable

					Amount denominated: RMB		
	At the beginning of the Period	Change in fair value for the Period	Accumulated change in fair value in equity	Impairment provision for the Period	Amount purchased during the Period	Amount sold during the Period	At the end of the Period
Item							
Financial assets							
1. Financial assets at fair value through profit or loss for the current period (excluding derivative financial assets)	6,019,067.02	733,944.14	-	-	-	-	6,587,883.16
2. Derivative financial assets	-	-	-	-	-	-	-
3. Available-for-sale financial assets	6,598,657.13	-	2,126,961.35	-	-	-	9,100,964.60
Sub-total for financial assets	12,617,724.15	733,944.14	2,126,961.35	-	-	-	15,688,847.76
Investment properties	-	-	-	-	-	-	-
Productive biological assets	-	-	-	-	-	-	-
Others	-	-	-	-	-	-	-
Total	12,617,724.15	733,944.14	2,126,961.35	-	-	-	15,688,847.76
Financial liabilities	-	-	-	-	-	-	-

Whether there are material changes in measuring assets during the year

☐ YES ☒ NO

(3) Whether the entitlement to assets was limited as at the end of the Reporting Period

☒ Applicable ☐ Not applicable

On 18 April 2017, the Company and its subsidiary, Pharmaceutical Factory* (製藥廠) entered into an Equity Transfer Agreement with Zhuhai Hengqin Weichuang Fortune Investment Co., Ltd.* (珠海橫琴維創財富投資有限公司) in relation to the proposed transfer of 100% equity interest in its subsidiary of Weixing. As of the end of the Reporting Period, the abovementioned equity transfer has been passed by way of a resolution at the 2016 annual general meeting and the equity transfer consideration was fully received. However, in accordance with the agreement between both parties, consideration for this transfer of RMB4.102 billion should be supervised and managed by a bank before the completion of registration procedures at Administration of Industry and Commerce. Therefore, such consideration amount was still supervised and managed by the bank as at the end of the Reporting Period. The transfer of equity interest was completed on 17 July 2017, the supervision and management was fully released.

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

(VI). ANALYSIS OF FINANCIAL CONDITIONS *(continued)*

2. Year-on-year changes of major financial data

(1) Year-on-year changes in Consolidated Income Statement items and reasons for those changes

	For the Current Period	Amount denominated: RMB For the Previous Period	Year-on-year change (%)
Financial expenses	259,718.44	8,694,063.93	-97.01%
Asset impairments loss	34,562,724.43	78,584,389.42	-56.02%
Gain from changes in fair value	733,944.14	-416,854.57	276.07%
Investment income	5,084,363.02	1,684,174.09	201.89%
Other income	9,524,623.00	—	—
Non-operating expenses	11,436,436.31	2,871,052.59	298.34%
Gains and losses of the non-controlling shareholders	46,389,160.88	18,404,926.37	152.05%

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

- (1) Financial expenses decreased by 97.01% year-on-year, which was mainly due to the combined effect of the repayment of all interest-bearing liabilities resulting in the decrease in interest expenses, and the increase in bank deposits resulting in the increase in interest income, as well as the appreciation of RMB resulting in the increase of foreign exchange loss from exporting operation;
- (2) Assets impairment loss decreased by 56.02% 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 during the same period last year;
- (3) Gain from changes in fair value increased by 276.07% 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;
- (4) Investment income increased by 201.89% year-on-year, which was mainly due to the income generated from the redemption of principal-guaranteed financial products subscribed for with idle proceeds;
- (5) Other income for the current period amounted to RMB9,524,623.00, which was mainly due to government subsidies related to daily business activities were included in other income in accordance with Accounting Standards for Business Enterprises No. 16 – Government Grants (Revised in 2017) (企業會計準則第16號—政府補助(2017年修訂));
- (6) Non-operating expenses increased by 298.34% year-on-year, which was mainly due to the loss from the disposal of idle fixed assets;
- (7) Gains and losses of the non-controlling shareholders increased by 152.05% year-on-year, which was mainly due to the increase in profit of non-wholly owned subsidiaries and the corresponding increase in profit and loss of minority shareholders.

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

(VI). ANALYSIS OF FINANCIAL CONDITIONS *(continued)*

2. Year-on-year changes of major financial data *(continued)*

(2) Year-on-year changes in Consolidated Balance Sheet items and reasons for those changes

Amount denominated: RMB

	30 June 2017	31 December 2016	Change at End of the Period as compared to Beginning of the Period(%)
Cash at bank and on hand	6,803,987,863.10	2,061,923,004.89	229.98%
Bills receivables	868,254,813.90	512,986,726.32	69.25%
Prepayments	119,227,647.65	87,734,518.90	35.90%
Other receivables	70,140,871.98	48,808,469.78	43.71%
Non current assets classified as held for sale or assets of a disposal group classified as held for sale	33,729,017.03	–	–
Other current assets	277,715,068.05	689,748,423.34	–59.74%
Development costs	22,097,916.42	14,821,797.96	49.09%
Other non-current assets	207,328,387.21	115,019,206.09	80.26%
Bills payables	744,086,552.91	323,795,509.11	129.80%
Prepayments	4,567,499,660.83	78,685,240.60	5704.77%
Taxes payables	177,615,892.25	292,306,699.79	–39.24%
Interest payables	–	3,812,602.74	–100.00%
Dividends payables	215,313,280.46	2,531,984.46	8403.74%
Liabilities of a disposal group classified as held for sale	501,921.20	–	–
Other current liabilities	–	350,000,000.00	–100.00%
Treasury shares	75,162,388.20	140,321,805.40	–46.44%
Other consolidated earnings	–18,326,857.85	602,767.19	–3140.45%

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

- (1) Cash at bank and on hand increased by 229.98% year-on-year, which was mainly due to the equity transfer amount received from proposed transfer of subsidiaries' equities;
- (2) Bills receivables increased by 69.25% year-on-year, which was mainly due to the Company changed the circulation way of bills according to the Company's daily demand for fund in the Period, so as to hold the bills receivables until maturity for collection;
- (3) Prepayments increased by 35.90% year-on-year, which was mainly due to the increase in prepayments for procurement of materials;
- (4) Other receivables increased by 43.71% year-on-year, which was mainly due to the increase in advance to the staff for business;
- (5) Non-current assets classified as held for sale or assets of a disposal group classified as held for sale amounted to RMB33,729,017.03 at the End of the Period, which was mainly due to reclassification of the proposed transfer of equities in subsidiaries according to Accounting Standards for Business Enterprises No. 42 – Non-current Assets, Disposal Group and Discontinued Business Classified as Held for Sale;
- (6) Other current assets decreased by 59.74% year-on-year, which was mainly due to the redemption in the current period of capital-guaranteed financial products subscribed for with idle proceeds from last year;

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

(VI). ANALYSIS OF FINANCIAL CONDITIONS *(continued)*

2. Year-on-year changes of major financial data *(continued)*

(2) Year-on-year changes in Consolidated Balance Sheet items and reasons for those changes *(continued)*

- (7) Development costs increased by 49.09% year-on-year, which was mainly due to the increase in expenses for the development of recombinant human chorionic gonadotropin (rhCG) for injection, a R&D project, in the Period;
- (8) Other non-current assets increased by 80.26% year-on-year, which was mainly due to the prepayment for the proposed buying of fund products;
- (9) Bills payables increased by 129.80% year-on-year, which was mainly due to the Company changed the circulation way of bills according to the Company's daily demand for fund in the Period, so as to increase the percentage of bills payment in the purchase operation;
- (10) Receipts in advance increased by 5704.77% year-on-year, which was mainly due to the equity transfer amount received from transfer of subsidiaries' equities;
- (11) Taxes payable decreased by 39.24% year-on-year, which was mainly due to the decrease in value-added tax payable ;
- (12) Interest payable decreased by 100.00% year-on-year, which was mainly due to the repayment of the interest for the first tranche of short-term financing bills issued in 2016;
- (13) Dividends payable increased by 8403.74% year-on-year, which was mainly due to the ex-rights and ex-dividends events in July by passing the 2016 equity distribution plan at the Shareholders' General Meeting in the current period;
- (14) Liabilities of a disposal group classified as held for sale amounted to RMB501,921.20 at the End of the Period, which was mainly due to reclassification of the proposed transfer of equities in subsidiaries according to Accounting Standards for Business Enterprises No. 42 – Non-current Assets, Disposal Group and Discontinued Business Classified as Held for Sale;
- (15) Other current liabilities decreased by 100.00% year-on-year, which was mainly due to the repayment of the principal for the first tranche of short-term financing bills issued in 2016;
- (16) Treasury shares decreased by 46.44% year-on-year, which was mainly due to the decrease in repurchase obligation confirmed by the issuance of A Shares under the restricted shares incentive scheme as a result of the unlock of the first batch of the second tranche;
- (17) Other consolidated earnings decreased by 3140.45% year-on-year, which was mainly due to the changes in translation differences of foreign currency statements resulted from exchange rate fluctuations.

Debt ratio

The Group's debt ratio as at 30 June 2017 and 31 December 2016 is calculated by dividing the Group's total liabilities at each respective date by its total assets. The debt ratio of the Group increased from 32.52% as at 31 December 2016 to 51.80% as at 30 June 2017.

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

(VI). ANALYSIS OF FINANCIAL CONDITIONS *(continued)*

2. Year-on-year changes of major financial data *(continued)*

(3) Year-on-year changes in Consolidated Cash Flow Statement items and reasons for those changes

	For the Current Period	For the Previous Period	Amount denominated: RMB Year-on-year change (%)
Net cash flows from operating activities	447,380,853.65	307,923,704.40	45.29%
Sub-total of cash inflows from investing activities	810,183,782.84	78,247,638.34	935.41%
Net cash flows from investing activities	587,562,211.72	-122,429,567.93	579.92%
Sub-total of cash inflows from financing activities	16,753,334.52	861,007,821.00	-98.05%
Sub-total of cash outflows from financing activities	391,719,936.09	912,201,689.37	-57.06%
Net cash flows from financing activities	-374,966,601.57	-51,193,868.37	-632.44%
Effect of foreign exchange rate changes on cash and cash equivalents	-22,141,605.59	4,146,713.28	-633.96%
Net increase in cash and cash equivalents	637,834,858.21	138,446,981.38	360.71%

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 45.29% year-on-year, which was mainly due to the fact that the sales increased and the Company changed the circulation way of bills according to the Company's daily demand for fund, so as to hold the bills receivables until maturity for collection, which led to the increase in the gross proceeds from sales; meanwhile the percentage of bills payment in purchase increased, which led to the extension of payment period.
- (2) Sub-total of cash inflows from investing activities increased by 935.41% year-on-year, which was mainly due to the receipt of the deposits of RMB400 million from the proposed equity transfer of subsidiary, as well as redemption of principal-guaranteed financial products bought in the previous year for the Current Period.
- (3) Net cash flows from investing activities increased by 579.92% year-on-year, which was mainly due to the receipt of the deposits of RMB400 million from the proposed equity transfer of subsidiary, as well as redemption of principal-guaranteed financial products bought in the previous year for the Current Period.
- (4) Sub-total of cash inflows from financing activities decreased by 98.05% year-on-year, which was mainly due to that there was no additional bank loans because the capital was adequate enough to meet the operational needs for the Current Period.
- (5) Sub-total of cash outflows from financing activities decreased by 57.06% year-on-year, which was mainly due to the decrease of the repayment of bank borrowings and the dividend on profit distribution for 2016 of the Company paid on July 2017.
- (6) Net cash flows from financing activities decreased by 632.44% year-on-year, which was mainly due to repayment of all bank borrowings and no addition of bank borrowings.
- (7) Effect of foreign exchange rate changes on cash and cash equivalents decreased by 633.96% year-on-year, which was mainly due to the fluctuations in exchange rates.
- (8) Net increase in cash and cash equivalents increased by 360.71% year-on-year, which was mainly due to the receipt of the deposits of RMB400 million from the proposed equity transfer of subsidiary, as well as redemption of principal-guaranteed financial products bought in the previous year for the Current Period.

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

(VI). ANALYSIS OF FINANCIAL CONDITIONS *(continued)*

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

☐ Applicable ☒ Not applicable

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

4. Liquidity and financial resources

As at 30 June 2017, the Group's monetary funds amounted to RMB6,803.99 million (31 December 2016: RMB2,061.92 million), primarily arising from the proceeds from proposed transfer of subsidiaries' equities received.

During the Reporting Period, the Board and general meeting of the Group approved granted credit facilities of RMB6,281.00 million may be applied for and the actual granted amount applied to banks was RMB822.21 million.

Structure of monetary funds

Item	at End of the Period (30 June 2017)			<i>Amount denominated: RMB</i> at Beginning of the Period (31 December 2016)		
	Amounts in foreign currencies	Discount rate	Amounts in RMB	Amounts in foreign currencies	Discount rate	Amounts in RMB
Cash on hand:			170,285.08			125,085.29
– RMB	–	–	144,696.15	–	–	87,874.60
– US\$	1,970.00	6.7744	13,345.57	3,700.00	6.937	25,666.90
– Euro	1,579.87	7.7496	12,243.36	1,579.87	7.3068	11,543.79
bank deposits:			6,713,508,910.72			2,060,784,878.76
– RMB			5,871,108,819.92			1,676,739,336.00
– HK\$	713,014,278.66	0.86792	618,839,352.74	259,790,066.68		232,384,812.55
– US\$	31,853,351.11	6.7744	215,787,341.76	21,327,322.21		147,947,634.17
– Yen	55,832,535.00	0.060485	3,377,030.88	21,111,307.00	0.059591	1,258,043.90
– Euro	252,411.59	7.7496	1,956,088.86	282,060.26		2,060,957.91
– Mop	2,887,901.25	0.8450	2,440,276.56	452,565.72	0.8708	394,094.23
Capital in other currencies			90,308,667.30			1,013,040.84
– RMB			2,684,118.12			329,886.07
– HK\$	22,905,969.66	0.86792	19,880,549.18	763,719.54	0.89451	683,154.77
– US\$	10,000,000.00	6.7744	67,744,000.00			
Total			6,803,987,863.10			2,061,923,004.89

As at 30 June 2017, the Group's borrowings balance amounted to RMB1.10 million (31 December 2016: RMB1.10 million), accounting for 0.01% of the total assets (31 December 2016: 0.01%), of which short-term borrowings to mature within one year amounted to RMB0.40 million (31 December 2016: RMB0.40 million), accounting for 0.003% of total assets (31 December 2016: 0.005%) and long-term borrowings balance to mature after one year amounted to RMB0.70 million (31 December 2016: RMB0.70 million), accounting for 0.005% of total assets (31 December 2016: 0.01%). Repayments of borrowings denominated in RMB and borrowings denominated in Hong Kong dollars during the Reporting Period amounted to RMB350 million and HK\$0.00 million, respectively. There was no distinct seasonal demand for each of the above borrowings.

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

(VI).ANALYSIS OF FINANCIAL CONDITIONS *(continued)*

5. Capital structure

The Group's capital structure comprises the shareholders' equity and liabilities. As at 30 June 2017, the shareholders' equity amounted to RMB7,488.99 million, the total liabilities amounted to RMB8,049.13 million and the total assets amounted to RMB15,538.12 million. Among which, the current liabilities of the Group amounted to RMB7,942.24 million (31 December 2016: RMB3,310.64 million), which increased by 139.90% from the End of Last Year; the aggregated non-current liabilities amounted to RMB106.89 million (31 December 2016: RMB112.98 million), which decreased by 5.39% from the End of Last Year. During the Reporting Period, the Group repaid liabilities of RMB350.00 million (30 June 2016: RMB650.00 million).

Equity attributable to the shareholders of the Company amounted to RMB6,857.40 million (31 December 2016: RMB6,505.99 million), up by 5.40% from the End of Last Year. Minority interests amounted to RMB631.59 million (31 December 2016: RMB599.65 million), which increased by 5.33% from the End of Last Year.

6. Capital Commitments

Items	<i>Amount denominated: RMB</i>	
	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	20,947,790.89	37,696,879.21
Total	20,947,790.89	37,696,879.21

7. Interest rate

As at 30 June 2017, the interest-bearing bank borrowings and other borrowings amounted to RMB0.00 million (31 December 2016: RMB350.00 million). On 12 August 2016, the Group issued the 2016 first tranche of super short-term financing bills with an aggregate amount of RMB350.00 million with a fixed interest rate (the annualized interest rate being 2.80%) was due and repaid on 9 May 2017.

8. Ageing analysis of outstanding liabilities

Items	<i>Amount denominated: RMB million</i>	
	30 June 2017	31 December 2016
Within one year	744.49	674.20
1-2 years	-	-
2-5 years	-	-
Over 5 years	0.70	0.70
Total	745.19	674.90

9. Gearing ratio

As at 30 June 2017 and 31 December 2016, the gearing ratios were calculated by dividing the Group's total debts as at each respective date by shareholders' equity. The gearing ratio was 9.50% as at 31 December 2016 and increased to 9.95% as at 30 June 2017.

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

(VI). ANALYSIS OF FINANCIAL CONDITIONS *(continued)*

10. Interest Expenses and Capitalisation

Amount denominated: RMB

Items	Reporting Period	Same Period Last Year
Interest expenses	3,050,424.10	12,725,878.77
Capitalised interest	386,288.23	2,020,268.19
Total interest expenses	3,436,712.33	14,746,146.96

11. 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.

12. Contingent liabilities

As at 30 June 2017, the Group had no significant contingent liabilities.

13. Pledge of assets

As at 30 June 2017, the assets of the Company subject to pledge were as follows:

Items	30 June 2017 (RMB)	Reasons for being subjected through pledge
Assets pledged:		
Other monetary fund	4,102,000,000.00	Tripartite regulatory funds for equity transfer
Other monetary fund	2,230,000.00	Deposit for letter of credit
Total	4,104,230,000.00	

14. Staff, Remuneration, Pension Scheme and Training

As at 30 June 2017, the Group had 6,421 staff members (31 December 2016: 6,297 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 remuneration level in the society. 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 RMB343.34 million (31 December 2016: RMB575.45 million).

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

(VI). ANALYSIS OF FINANCIAL CONDITIONS *(continued)*

14. Staff, Remuneration, Pension Scheme and Training *(continued)*

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 completed the grant and first tranche of unlock of the Restricted Shares Incentive Scheme in 2015 and 2016. Please refer to "the Restricted A Shares Incentive Scheme" in Chapter IV of the 2016 annual report of the Company for more details. Please refer to "the Restricted A Shares Incentive Scheme" in Chapter V of this Report for details of the Restricted A Shares Incentive Scheme for the Reporting Period.

In the first half of 2017, the Company further commenced many kinds of employee training, including events and training, to satisfy employee's needs for working and learning; organized several sharing sessions in respect to government projects reporting, artisan spirit book-reading, environmental protection knowledges; and opened several courses in respect of target management training, project management, personal planning methods, oral English and others. Through above measures, the operation mode of Livzon Business School was enriched. Besides, a total of 45 hours of online learning courses are offered to newly promoted management personnel. For high-level management officers, studies and inspections are made through their preparation of management positions papers and sharing of their reading experience. The Company changed the training mode for new employees, increased their training time, brought together the internal lecturers and external industry experts to instruct them in regard of production, quality, personnel system, administrative system, safety and environmental protection, information system and others, so to enable our employees to fully receive our corporate culture and absorb professional and technical knowledges.

15. Investments

During the Reporting Period, the Group did not make significant investment for the acquiring of equity interest and/or otherwise, and there was no significant change in the investments held by the Group compared with the relevant information disclosed in the 2016 annual report of the Company.

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

(VII). PROSPECT FOR FUTURE DEVELOPMENT

In the second half of 2017, the Company will continue to optimize its business portfolio and enhance its management, aiming to achieve the goal of the share incentive scheme of the Company. The Company's objectives planned for the second half year of 2017 are as follows:

1. Drug preparation business

Marketing: the Company will fully launch a marketing campaign for medical institutions under grade 2, step up its efforts in team building and assessment mechanism development for the management teams of medical institutions under grade 2 and actively build model markets and model teams. While constantly strengthening the academic promotion of its products, the Company will also establish a team comprising core clinical experts and pharmaceutical consultants dedicated to a variety of products including Shengqi and Ilaprazole. Our business efforts will focus on "commercial distribution, sales data, accounts receivable" at primary healthcare institutions. In addition to continuously consolidate its existing hospital market share, the Company intends to actively explore the OTC market for some of its products, boost product sales through multiple channels and further enhance its brand influence.

R&D: the Company will continue to increase efforts in the technological innovation and research of new products so as to speed up the development of new product types and stay abreast with the global R&D trend. In addition, while promoting the development of an international R&D platform for microspheres, the Company will spare no efforts to speed up the R&D progress of its key products under development, strive to obtain the approvals for Ilaprazole oral liquid new indications and Ilaprazole for injection as soon as practical, and vigorously promote the production verification of Shenqi Fuzheng Injection in soft bags.

2. Bulk medicines and intermediates business

Adhering to its guideline of "protecting safety environment, improving quality and reducing costs", the bulk medicines business will continue to increase efforts in talent recruitment and team building, refine performance appraisal management and enhance the comprehensive management of its production enterprises, thereby laying a solid management foundation for the development of the bulk medicines department.

Primary objectives include: to consolidate and improve production technology by introducing new strains and new technology so as to implement lean management as well as costs reduction program for key products; to establish and improve the R&D management system so as to speed up the research and development of new product projects; to introduce, research and develop products with high gross profit, low energy consumption and low emission; and to continuously conduct international certification for bulk medicines so as to further expand the international market.

3. Precise pharmaceutical business

Livzon Reagents (麗珠試劑): Livzon Reagents will strive to capitalize on the emerging market opportunities, proactively explore the health check market and the third-party inspection market, promote adjustments to its sales model. It will also speed up the R&D progress of the projects under development, such as the chemical luminous platform, the molecular detection platform and the multiple testing platform.

Livzon MAB (麗珠單抗): Livzon MAB will focus on promoting the clinical study of the five major products (being the Recombinant Biosimilar Human Chorionic Gonadotropin (重組人絨促性素), the Recombinant Humanised Anti-tumor Necrosis Factor α Monoclonal Antibody (重組人源化抗人腫瘤壞死因子 α 單克隆抗體), the Anti-HER2 Humanized Monoclonal Antibody (重組人源化抗HER2單克隆抗體注射液), the Recombinant Human/Mouse Chimeric Anti-CD20 Biosimilar Monoclonal Antibody (重組人鼠嵌合抗CD20單克隆抗體) and PD1 US FDA (PD1美國FDA)). In addition, it will actively promote the registration, declaration, research and development of new products and introduce certain projects in a timely manner to diversify and improve product research and development line.

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

(VII). PROSPECT FOR FUTURE DEVELOPMENT *(continued)*

3. Precise pharmaceutical business *(continued)*

Livzon Shengmei (麗珠聖美): Livzon Shengmei vigorously promote the registration of and application for some of the relevant liquid biopsy equipment (Category II products) and CTC testing reagents (Category III products) to speed up the accumulation of clinical data. In addition, with increased efforts in marketing and introduction of equipment into hospitals, it will cooperate with Livzon Gene to establish liquid biopsy clinical application models by focusing on the development of third-party laboratory models.

Livzon Gene (麗珠基因): Livzon Gene will respond actively to the assessment, inspection and acceptance by the health and family planning authority, establish a quality control system and running process for its laboratory (including quality system establishment, laboratory software system assessment, etc.), launch the internal verification and trial operation of the examination service projects, striving to initially achieve a commercial operation.

4. Quality and Production

The Group will continue to focus on its main products, and carry out project-based audit work in an accurate and effective manner through a combination of regular inspection and unscheduled inspection, taking into consideration the latest regulatory developments in the PRC.

Meanwhile, the Group will accomplish the audit work of the scientific research units according to the annual audit plan, and confirm with scientific research units their progress of establishing quality management system. The Group will also improve the project management of construction work, regulate project management and supplies procurement management of construction work, and gradually establish its technology management system to increase efforts in transformation of new products, control over production capacity and technological innovation. In addition, the Group will strengthen monitor and inspection efforts so as to prevent EHS incidents and ensure “zero” security and environmental accidents through a combination of prevention and regulation.

5. Management and Strategy

“Transformation, upgrading and regulated development” remains the Group’s core operation and management guideline. Firstly, the Group will optimize and implement regulations, strengthen internal control, and construct and improve administration and logistics service platforms to allow both basic level-based management and provision of refined services. Secondly, the Group will promote its IT-based construction in a comprehensive manner, by setting up the informationization committee of the Group and establishing and improving an information system focusing on the ERP and group-level management and control, so as to build the commercial intelligent and big data platform of the Group; Thirdly, the Group will further increase its efforts in establishment of human resources management system, search and conserve high-calibre talents, and promote the special work plan for doctoral management trainees.

At the same time, the Group will continue to step up efforts in the exploration and development of the capital market, establish investment channels and platforms, actively obtain the subjects of mergers and acquisitions, and strengthen the post-investment management of external investment, especially investment in overseas projects.

In view of the foregoing, in the second half of 2017, the Company will take effective measures to actively respond to changes in the industry, strive to achieve the goal of the Restricted A Share Incentive Scheme, and discuss the feasible program for medium- and long-term incentive schemes in due course.

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

(VIII). INVESTMENT ANALYSIS

1. External Equity Investments

(1) External Investments

☒ Applicable ☐ Not Applicable

Particulars of external investments		
Amount of investment for the Current Period (RMB)	Amount of investment for the Same Period Last Year (RMB)	Change
6,715,058.00	84,575,000.00	-92.06%

Particulars of the investee		
Name of the company	Principal business	Shareholding in the investee attributable to the listed company
Livzon MABPharm (US) Inc. (麗珠單抗生物技術(美國)有限公司)	Research and development of biological products for treatment purpose	51%

Note: Livzon Gene was established in December 2016, and no capital was paid in during that year. The Company has made actual capital contribution of RMB30.0 million during the Current Period. As the amount has been stated in 2016 annual report of the Company, which is not included in the amount of investment for the Reporting Period.

(2) Material Equity Investment during the Reporting Period

☐ Applicable ☒ Not Applicable

(3) Material non-equity investment ongoing during the Reporting Period

☐ Applicable ☒ Not Applicable

(4) Shareholdings in Financial Institutions

☒ Applicable ☐ Not Applicable

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	84,936,000.00	1.5065%	84,936,000.00	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	68,854.00	0.0004%	68,854.00	0.0004%	177,348.84	-	Financial assets held-for-sale	Investee company
Total				-		-				-

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

(VIII). INVESTMENT ANALYSIS *(continued)*

1. External Equity Investments *(continued)*

(5) Investment in Securities

✓ Applicable ☐ Not Applicable

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	1,000,000.00	1,000,000.00	5,745,630.40	787,810.68	Financial assets at fair value through profit or loss	Self funding
Funds	206001	Penghua Fund	150,000.00	619,573.00	619,573.00	842,252.76	11,343.74	Financial assets at fair value through profit or loss	Self funding
Other securities investment held at the end of the year							-		-
Total			4,393,647.64			6,587,883.16	799,154.42	-	-
Disclosure date of the Board's announcement on review of securities investments			Not applicable						
Disclosure date of the general meeting announcement on review of securities investments (if any)			Not applicable						

(6) Shareholdings in other listed companies

✓ Applicable ☐ Not Applicable

Unit: RMB

Securities codes	Securities abbreviation	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	9,100,964.60	123,604.65	2,126,961.35	Available-for-sale financial assets	Investee
EPRS	Epirus	93,254,995.09	-	-	-	Available-for-sale financial assets	Investee
Total		93,294,846.95	9,100,964.60	123,604.65	2,126,961.35		

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

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

(VIII). INVESTMENT ANALYSIS *(continued)*

2. Entrusted Wealth Management, Derivatives Investment and Entrusted Loans

(1) Entrusted wealth management

☒ Applicable ☐ Not Applicable

Unit: RMB'0,000

Name of Trustee	Relationship	Connected transactions	Type of products	Amount of entrusted wealth management	Commencement date	Maturity date	Determination of commission fee	Actual principal recovered during the period	Impairment provision (if any)	Expected return	Actual gains or losses during the reporting period
China Resources Bank of Co., Ltd.(Gongbei Branch) (華潤銀行股份有限公司 (拱北支行))	-	No	Principal-protected with variable income	25,000.00	2016.10.26	2017.10.09	By agreement	-	-	Not applicable	Not applicable
Total				25,000.00	-	-	-				
Source of funds for entrusted investment				Funds raised							
Aggregate amount of overdue and outstanding principal and gain				Nil							
Litigation incurred (if applicable)				No							
Date of announcement of the Board of Directors regarding the approval of entrusted investment (if any)				27 October 2016							
Date of announcement of the Board of Directors regarding the approval of entrusted investment (if any)				Not applicable							

(2) Information on Derivatives Investment

☐ Applicable ☒ Not Applicable

(3) Entrusted loans

☐ Applicable ☒ Not Applicable

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

(VIII). INVESTMENT ANALYSIS *(continued)*

3. Utilization of Raised Funds

✓ Applicable ☐ Not applicable

(1) Overall use of proceeds

✓ Applicable ☐ Not Applicable

Unit: RMB'0,000

Total proceeds	142,030.04
Total amount of proceeds used during the Reporting Period	1,790.50
Accumulated amount of proceeds used	43,432.38
Total amount of proceeds involved in change of use during the Reporting Period	0
Accumulated amount of proceeds involved in change of use	0
Proportion of accumulated amount of proceeds involved in change of use	0

Overall use of proceeds

With the "Approval in relation to the Non-public Issuance of Shares by Livzon Pharmaceutical Group Inc." (Zheng Jian Xu Ke 2016 No. 1524) issued by the China Securities Regulatory Commission (the "CSRC"), the Company has issued 29,098,200 A Shares with a nominal value of RMB1.00 per share at RMB50.10 per share, raised proceeds amounted to RMB1,457,820,000, and the Company received net proceeds of RMB1,420,300,400 after deduction of underwriting and sponsorship fees and other issuance expenses of RMB37,519,600. The proceeds are mainly used to research and develop and commercialise the upgrade of innovative product of Ilaprazole series, increase investment to Livzon MAB's construction of "R&D and Industrialization of therapeutic antibody-based drugs", construction of R&D platform of prolonged-action microsphere technologies and supplement to working capital and repayment of bank borrowings, consistent with use passed by the Board meeting of the Company. As of 30 June 2017, unused proceeds were deposited in the special account designated for raised fund or cash management and will continue to be used in proceeds-funded project.

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

(VIII). INVESTMENT ANALYSIS *(continued)*

3. Utilization of Raised Funds *(continued)*

(2) Particulars of projects undertaken with the use of proceeds

✓ Applicable ☐ Not Applicable

Unit: RMB'0,000

Investment projects undertaken and the use of the excess funds		Project change (including partially changed projects)	Total amount of proceeds undertaken for investment	Total investment amount after adjustment (1)	Invested amount during the Reporting Period	Cumulative invested amount as of end of the period (2)	Progress of investment as of end of the period (3) = (2)/(1)	Date of project reaching the working condition for its intended use	Results realised during the reporting period	Achieving its estimate results	Any material change in feasibility of project
Investment projects undertaken											
Deeper Development and Industrialization Upgrade of the innovative Ilaprazole product series	Deeper Development and Industrialization Upgrade of the innovative Ilaprazole product series	Yes	45,000.00	45,000.00	935.17	2,786.08	6.19%	31 December 2023	-	-	No
Capital injections to Livzon MAB for its investment in the construction of "Research & Development and Industrialization of therapeutic antibody-based drugs"	Capital injections to Livzon MAB for its investment in the construction of "Research & Development and Industrialization of therapeutic antibody-based drugs"	Yes	30,600.00	30,600.00	-	2,099.12	6.86%	31 December 2021	-	-	No
Construction of Research & Development Platform of sustained release Microsphere Technologies	Construction of Research & Development Platform of sustained release Microsphere Technologies	No	30,182.00	30,182.00	855.33	2,299.14	7.62%	31 December 2021	-	-	No
Supplementary working capital and banking loan repayment	Supplementary working capital and banking loan repayment	No	36,248.04	36,248.04		36,248.04	100.00%	NOT APPLICABLE	NOT APPLICABLE	NOT APPLICABLE	No
Subtotal of the investment projects undertaken		-	142,030.04	142,030.04	1,790.50	43,432.38	-	-	-	-	-
Use of the excess proceeds:											
Not applicable											
Banking loan repayment (if any)	-		-	-	-	-	-	-	-	-	-
Supplementary working capital (if any)	-		-	-	-	-	-	-	-	-	-
Subtotal of the use of the excess proceeds	-		-	-	-	-	-	-	-	-	-
Total	-		142,030.04	142,030.04	1,790.50	43,432.38	-	-	-	-	-

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

(VIII). INVESTMENT ANALYSIS *(continued)*

3. Utilization of Raised Funds *(continued)*

(2) Particulars of projects undertaken with the use of proceeds *(continued)*

Particulars of and reasons for not meeting schedule or estimated income (by specific projects)	<p>I. Ilaprazole Project : 1. As for research and development equipment expenditures, small funds were invested due to the fact the project was at the stage of preliminary research and screening in the first half, and it's expected that more funds will be invested due to entering the purchase and payment period in the second half; 2. As for Industrialization Upgrade, the Company will focus its investment on upgrading the production lines in the second half, therefore, it's expected that more funds will be invested; 3. Due to the introduction of regulations in centralized assessment and clinical verification etc., the progress of obtaining approval of new indications of Ilaprazole Sodium for Injection and Ilaprazole Tablet did not meet the expectation, and the industrialization upgrade of the project will be carried out in phases and postponed. The adjustments to the amount of proceeds used in each of the subsequent years of the project and the construction period of industrialization project have been made subject to the consideration and approval by the 35th Meeting of the Eighth Session of the Board of Directors and the 27th Meeting of the Eighth Session of the Supervisory Committee of the Company.</p> <p>II. Capital injections to Livzon MAB investment in construction projects: 1. The capital expenditure for the first half was mainly paid out from its own funds and no raised funds were used due to the fact that the project was at the clinical screening and ethical stage; 2. Given the approval of clinical trial for products under research in relation to the project was obtained later than expected, and in view of the prospective changes of registration and approval policy of drugs in China, the time for launching the products under research may be delayed. The adjustments to the amount of proceeds used in each of the subsequent years of the project and the construction period of industrialization project have been made subject to the consideration and approval by the 35th Meeting of the Eighth Session of the Board of Directors and the 27th Meeting of the Eighth Session of the Supervisory Committee of the Company.</p> <p>III. Construction of Research & Development Platform of sustained release Microsphere Technologies: The overall project was in accordance with the expected progress, the funds used for construction of pilot workshop will increase significantly in the second half.</p>
Particulars of material change in feasibility of project	Not applicable
Amount and uses of the excess proceeds and the progress of uses	Not applicable
Particulars of change in place of application of proceeds	Not applicable
Particulars of adjustment to way of application of proceeds	<p>The project financed by funds raised of R&D and Industrialization Upgrade of Innovative Product of Ilaprazole Series (艾普拉唑系列創新產品深度開發及產業化升級項目) was originally executed by Livzon Pharmaceutical Group Inc. and upon review and approval of "the resolution on replacement of self-raised funds invested in advance to projects financed by proceeds raised from issuance of preference shares" at the third Extraordinary Shareholders' Meeting in 2016, Pharmaceutical Factory, a wholly owned subsidiary of the Company, was added as another executor of the project to facilitate effective implement, improve production abilities and quality of such project, and keep technical advantages of the Company.</p> <p>The addition of executor to partial projects financed by funds raised, and the adjustments to the amount of proceeds used in each of the subsequent years of the project and the construction period of industrialization project, will not result in any change on investment of funds or impact on the project's operation and the financial position of the Company</p>
Particulars of application of proceeds in early stage and replacement of proceeds	On 28 December 2016, the thirty-third meeting of the Eighth Session of the Board of the Company reviewed and approved "the resolution on replacement of self-raised funds invested in advance to projects financed by proceeds raised from issuance of preference shares" and proceeds raised from issuance of preference shares amounted to RMB41,857,100 were used by the Company. On 4 January 2017, the Company has transferred the funds from special account.
Particulars of application of idle proceeds for temporary replenishment of working capital	Not applicable
Amount of positive balance of proceeds upon commencement of project and its reason	Not applicable
Uses and whereabouts of unused proceeds	Those unused proceeds are deposited into the special account for proceeds-funded or cash management and will continue to be used for proceeds-funded projects.
Issues and other particulars of use of proceeds and its disclosure	Not applicable

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

(VIII). INVESTMENT ANALYSIS *(continued)*

3. Utilization of Raised Funds *(continued)*

(3) Particulars of projects changed with the use of proceeds

☐ Applicable ☒ Not Applicable

(4) Particulars of projects with the use of proceeds

Overview of Projects Financed by Funds Raised	Date of disclosure	Index of disclosure
Overall use of proceeds: With the "Approval in relation to the Non-public Issuance of Shares by Livzon Pharmaceutical Group Inc." (Zheng Jian Xu Ke 2016 No. 1524) issued by the China Securities Regulatory Commission (the "CSRC"), the Company has issued 29,098,200 A Shares with a nominal value of RMB1.00 per share at RMB50.10 per share, raised proceeds amounted to RMB1,457,820,000, and the Company received net proceeds of RMB1,420,300,400 after deduction of underwriting and sponsorship fees and other issuance expenses of RMB37,519,600. The proceeds are mainly used to research and develop and commercialise the upgrade of innovative product of Ilaprazole series, increase investment to Livzon MAB's construction of "R&D and Industrialization of therapeutic antibody-based drugs", construction of R&D platform of prolonged-action microsphere technologies and supplement to working capital and repayment of bank borrowings, consistent with use passed by the Board meeting of the Company. As of 30 June 2017, unused proceeds were deposited in the special account designated for raised fund or cash management and will continue to be used in proceeds-funded project.	23 August 2017	"Special Report of the Board of Directors of Livzon Pharmaceutical Group Inc. on the Deposit and the Actual Use of the Fund Raised as at 30 June 2017", website for announcement: http://www.cninfo.com.cn/

4. Significant Non-fundraising Investment Project

☐ Applicable ☒ Not Applicable

During the Reporting Period, the Company had no significant non-fundraising investment project.

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

(IX). MAJOR SUBSIDIARIES AND INVESTEE COMPANIES

✓ Applicable □ Not Applicable

Amount denominated: RMB

Company names	Company categories	Industry	Major products or services	Registered capital	Total assets	Net assets	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	2,161,533,740.68	821,480,763.40	897,159,075.76	173,355,249.33	154,399,255.35
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	887,250,140.39	762,886,185.58	187,553,139.72	55,098,833.45	47,856,699.66
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, Xueshuantong, etc.	61,561,014.73	727,365,356.57	259,893,507.91	315,403,412.19	118,970,951.93	91,144,919.04
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	518,254,341.18	311,169,023.11	390,130,599.39	100,791,961.97	81,987,796.72
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	804,443,932.08	269,962,072.81	314,322,144.79	28,689,696.65	26,558,844.60
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	587,026,605.29	430,549,463.57	273,163,303.62	52,430,322.94	45,327,775.99
Livzon Group Fuzhou Fuxing Pharmaceutical Co., Ltd. (麗珠集團福州福興醫藥有限公司)	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	647,436,166.01	518,098,712.49	230,091,550.48	57,897,530.24	46,909,471.96
Zhuhai Livzon Diagnostic Reagents Inc. (珠海麗珠試劑股份有限公司)	Subsidiary	Pharmaceutical	Principally engaged in production and sale of diagnostic reagents, major products include Chlamydia Trachomatis Antigen Diagnostic Kit and ELISA HIV Testing Reagents Kit.	46,450,837.00	703,107,063.65	449,843,353.66	295,028,145.53	44,619,130.71	41,448,927.95
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.	533,330,020.00	403,980,137.24	358,774,843.06	–	-51,987,481.29	-41,335,242.86

Note: Livzon MAB (麗珠單抗) is our key biopharmaceutical R&D enterprise which currently has no products for sale in market. The loss is mainly due to investment in R&D.

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

(X). ESTIMATION OF OPERATING RESULTS FOR JANUARY TO SEPTEMBER 2017

Warning on estimation that the accumulated net profit for the period from the beginning of the year to the end of next reporting period might be loss or there might be significant change compared to the same period of last year and reasons for that

✓ Applicable ☐ Not Applicable

	From the Beginning of the Year to the End of the Next Reporting Period	Same Period Last Year	Changes
Forecast of accumulated net profit (RMB'0,000)	422,878.64 – 426,992.88	61,477.40	587.86% – 594.55%
Basic earnings per share (RMB/share)	7.73 – 7.81	1.21	538.84% – 545.45%
Information on result forecast	On 18 April 2017, the Company and its subsidiary, Livzon Group Livzon Pharmaceutical Factory* (麗珠集團麗珠製藥廠) entered into an Equity Transfer Agreement with Zhuhai Hengqin Weichuang Fortune Investment Co., Ltd.* (珠海橫琴維創財富投資有限公司) in relation to the proposed transfer of 100% equity interest in its subsidiary being Weixing. As at the End of the Reporting Period, the aforesaid equity transfer has been passed at the 2016 annual general meeting and all payment therefor has been received. However, pursuant to the Equity Transfer Agreement, the actual closing could take place only subject to completion of changes in the industrial and commercial registration. In view that the equity transfer has been completed on 17 July 2017, it's expected that the transaction will lead to an increase in the Company's net profit of approximately RMB3.498 billion and the trading profit which can be realized eventually depends on the figures after audit by the Accountants for annual audit.		

(XI). STRUCTURAL BODY CONTROLLED BY THE COMPANY

☐ Applicable ✓ Not Applicable

(XII). RISKS THE COMPANY ARE FACING AND CORRESPONDING MEASURES

Pharmaceutical industry is one of the key industries in China, thus pharmaceutical products concerns the health and security of the public in the society. In recent years, relative administration authorities (e.g. National Development and Reform Commission of the People's Republic of China, National Health and Family Planning Commission of the People's Republic of China and China Food and Drug Administration) of PRC successively issued policies on pharmaceutical products assessment and approval reforms, price reform, Pharmacy benefit management, generic drugs conformance assessment, "two-vote" system and so on. With the continuing reform and update on policies, the requirements on the compliance with environmental and security regulations are becoming more and more strict, all process of the pharmaceutical industry chain, together with investment, fundraising, market supply and demand, operating mode of pharmaceutical enterprises, technology research and development and products' selling price in this sector, are affected significantly. Therefore, the Company proactively respond to the major changes occurred in the pharmaceutical sector through "early planning, early transform and early compliance".

Currently, the Group is still in an important stage of strategic adjustment, and has set up a preliminary market layout led by special preparations with synergy of biological drugs and precision medicine. In order to meet market requirements better, the Company will continue to optimize the planning of business in all segments, enhance its R&D and innovation, increase efforts to R&D, improve its work on market access continually, increase sales, meanwhile improve production quality control, standardize the safety and environmental protection production. The Company will enhance its internal control and standardize its development with transformation and upgrade in progress, so as to establish its own position and core competitiveness.

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

(XIII). REGISTRATION FORM FOR HOSTING RESEARCHES, COMMUNICATIONS AND INTERVIEWS DURING THE REPORTING PERIOD

✓ Applicable □ Not applicable

Date of reception	Place of reception	Type of reception	Type of guests	Guests	Content of discussion and information provided
10 January 2017	Company's Office	On-site investigation	Institution	Ximeng Investment (鑫萌投資)	Asked about information on the Company's operation and future development direction, and the Company answered questions in details but no information in written form was provided.
18 January 2017	Company's Office	On-site investigation	Institution	Taikang Asset (泰康資產), Zhongtai Securities (中泰證券), Penghua Fund (鵬華基金), China Future (華夏未來)	Asked about information on the Company's operation and future development direction, and the Company answered questions in details but no information in written form was provided.
18 January 2017	Company's Office	On-site investigation	Institution	Shenwan Hongyuan (申萬宏源), 常春藤, Neuberger Berman (路博邁), 西證創投, Great Wheel (大鈞資產), Zhongrong Fund (中融基金), 慢投資, Boyu Capital (博欲資本), Taikang Asset (泰康資產), 景泰利豐, 海涵資產, 遠望資產, Huatai Financial (華泰金融), 蘭馨投資, Allianz Global Investors (安聯投資), Taiping Asset (太平資產)	Asked about information on the Company's operation and future development direction, and the Company answered questions in details but no information in written form was provided.
3 May 2017	Company's Office	On-site investigation	Institution	Changjiang Securities (長江證券), Qianhai Alliance Asset (前海聯合基金), China Life AMP Asset (國壽安保基金), TF Securities (天風證券), Foresea Life Insurance (前海人壽保險), HuaAn Funds (華安基金)	Asked about information on the Company's operation and future development direction, and the Company answered questions in details but no information in written form was provided.
23 May 2017	Company's Office	On-site investigation	Institution	UOBKayHian (大華繼顯)	Asked about information on the Group's operation and future development direction, and the Company answered questions in details but no information in written form was provided.
25 May 2017	Company's Office	On-site investigation	Institution	Dongxing Securities (東興證券), Sinolink Securities (國金證券), PICC Asset (人保資產), 景泰利豐, E Fund (易方達), Flying Tiger (翼虎投資)	Asked about information on the Group's operation and future development direction, and the Company answered questions in details but no information in written form was provided.
7 June 2017	Company's Office	On-site investigation	Institution	Huatai Securities (華泰證券), China Asset Management (華夏基金), BOCOM Schroders (交銀施羅德), Fullgoal Fund (富國基金), Taikang Asset (泰康資產), 滙添富, China Life Asset Management (中國人壽資產)	Asked about information on the Group's operation and future development direction, and the Company answered questions in details but no information in written form was provided.
9 June 2017	Company's Office	On-site investigation	Institution	瀚倫投資, Morgan Stanley (摩根士丹利), 鼎天投資, Ally Bridge (滙橋資本), 民營投資, 海涵資本, 中投投資	Asked about information on the Group's operation and future development direction, and the Company answered questions in details but no information in written form was provided.
29 June 2017	Company's Office	On-site investigation	Institution	UBS, Putnam, Cathay Life Insurance (國泰人壽), Minmetals Capital (五礦資本), 弘鼎資本, Ivy Assets (常春藤資產), Broadvision Investment (博頤投資), 旌乾資產, Honghu Investment (泓湖投資)	Asked about information on the Group's operation and future development direction, and the Company answered questions in details but no information in written form was provided.
29 June 2017	Company's Office	On-site investigation	Institution	Orient Securities (東方證券)	Asked about information on the Group's operation and future development direction, and the Company answered questions in details but no information in written form was provided.



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

(XIV). 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.

(XV). 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.

V. MAJOR EVENTS

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

1. General meetings during the reporting period

Session of meeting	Type of meeting	Attendance rate of investors	Date of meeting	Date of A shares disclosure	Disclosure index
The 2016 Annual General Meeting	Annual general meeting	49.1931%	23 June 2017	24 June 2017	Announcement on Resolutions Passed at 2016 Annual General Meeting, 2017 First Class Meeting of A Shareholders and 2017 First Class Meeting of H Shareholders (Announcement No.: 2017-054), Published on the website of: Cninfo (http://www.cninfo.com.cn/)
The 2017 First Class Meeting of A Shareholders	Class Meeting	39.7861%			
The 2017 First Class Meeting of H Shareholders	Class Meeting	67.4747%			

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

☐ Applicable ☒ Not applicable

(II). CORPORATE GOVERNANCE

1. Highlights

During the Reporting Period, in strict accordance with the Company Law, the Securities Law, the Guidelines for Corporate Governance of Listed Companies, the Shenzhen Listing Rules, the Guidelines for Standardised Operation of Companies Listed on the Main Board of the Shenzhen Stock Exchange, and other requirements of normative documents relating to the governance of listed companies announced by the CSRC, the Shenzhen Stock Exchange and the Hong Kong Stock Exchange, the Company constantly enhanced the corporate governance structure and strengthened the internal control systems of the Company to achieve higher corporate governance standards.

The Board believed that the actual conditions of corporate governance of the Company are compliant with the rules and requirements of normative documents including the Guidelines for Corporate Governance of Listed Companies without deviation. During the Reporting Period, the decision-making and supervisory authorities of the Company (i.e. shareholders' general meetings, the Board, supervisory committee, etc) all conduct management decision and supervision strictly pursuant to the requirements of normative operation rules and internal control. The special committees of the Board all perform corresponding duties.

V. MAJOR EVENTS

(II). CORPORATE GOVERNANCE *(continued)*

2. Compliance with the Corporate Governance Code

The Company confirmed that since 1 January 2017 up to 30 June 2017, the Company strictly complied with principles and all of the code provisions (the “Code”) in the Corporate Governance Code as set out in Appendix 14 of Hong Kong Listing Rules, excluded the following deviation:

The Code Provision E.1.2 provides that the chairman of the Board should attend the annual general meeting. Mr. Zhu Baoguo, the chairman of the Board did not attend the 2016 annual general meeting due to urgent business trip.

3. 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 2017 to 30 June 2017. 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 2017 to 30 June 2017.

4. 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.

(1) Audit Committee

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

The Audit Committee has reviewed the unaudited results and interim report of the Group for the six months ended 30 June 2017 and agreed to submit to the Board for consideration.

(II). CORPORATE GOVERNANCE *(continued)*

4. Special Committees of the Board *(continued)*

(2) Remuneration and Assessment Committee

The Remuneration and Assessment Committee under the Ninth Session of Board is comprised of three Directors. The Chairman of the committee is Mr. Guo Guoqing (Independent Non-executive Director), and other committee members are Mr. Tao Desheng (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.

(3) Nomination Committee

The Nomination Committee under the Ninth Session of Board is comprised of three Directors. The Chairman of the committee is Mr. Xie Yun (Independent Non-executive Director), and other committee members are Mr. Guo Guoqing (Independent Non-executive Director) and Mr. Tao Desheng (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.

(4) Strategic Committee

The Strategic Committee under the Ninth 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.

(III). LITIGATION

MATERIAL LITIGATION AND ARBITRATION

☐ Applicable ☒ Not applicable

OTHER LITIGATION

☐ Applicable ☒ Not applicable

V. MAJOR EVENTS

(IV). QUESTIONING FROM MEDIA

☐ Applicable ☒ Not applicable

(V). MATTERS RELATED TO BANKRUPTCY RECTIFICATION

☐ Applicable ☒ Not applicable

(VI). DISPOSAL OF SUBSTANTIAL ASSETS AND EQUITY

1. Disposal of substantial assets

☒ Applicable ☐ Not applicable

During the Period, the Company and Pharmaceutical Factory disposed 100% equity interest in Weixing, one of the Company's subsidiaries. Please refer to "Disposal of substantial equity" in Section V of this Report for details.

2. Disposal of substantial equity

☒ Applicable ☐ Not applicable

Counterparty	Disposed Equity	Date of Disposal	Trading Price (RMB'0,000)	Net profit from disposal of the equity to the listed company from the Beginning of the Period to Date of Disposal (RMB'0,000)	Effect of the Disposal on the Company	The proportion of the net profit from disposal of equity of the listed company to the total net profit	Pricing Principle for disposal of equity	Connected Transaction	Relationships with connected persons	Full Transfer of property rights in the equity	Implemented as scheduled if not, shall provide the reasons and measures taken by the Company
Zhuhai Hengqin Weichuang Fortune Investment Co., Ltd.* (珠海橫琴維創財富投資有限公司)	100% equity interest in Zhuhai Weixing Shiye Co., Ltd. (珠海維星實業有限公司)	17 July 2017	452,993.21	-787.88	This transfer can enhance the Company's financial condition, and has no impact on the Company's daily operation and production department	Not applicable (Please refer to the Note for details)	Based on negotiation	No	Not applicable	Not applicable (Please refer to the Note for details)	Yes

Note: On 18 April 2017, the Company and its subsidiary, Pharmaceutical Factory* (製藥廠) entered into an Equity Transfer Agreement with Zhuhai Hengqin Weichuang Fortune Investment Co., Ltd.* (珠海橫琴維創財富投資有限公司) in relation to the proposed transfer of 100% equity interest in its subsidiary being Weixing. As of the end of the Reporting Period, the abovementioned equity transfer has been passed by way of a resolution at the 2016 annual general meeting and the equity transfer consideration was fully received. However, in accordance with the agreement between both parties, it should be regarded that actual delivery has occurred only after the completion of registration procedures at Administration of Industry and Commerce. The equity interest transfer was completed on 17 July 2017. Therefore, no gain on transfer of relative equity interest was recognized in the Reporting Period.

Details on the equity interest transfer mentioned above are set out in Announcement on the Progress of the Proposed Transfer of 100% Equity Interest in Zhuhai Weixing Shiye Co., Ltd. (珠海維星實業有限公司), a Subsidiary, and Xiangzhou District Livzon Group Transformation Project (announcement ref no.: 2017-029), Announcement on the Progress of the Proposed Transfer of 100% Equity Interest in Zhuhai Weixing Shiye Co., Ltd. (珠海維星實業有限公司), a Subsidiary (announcement ref no.: 2017-031), Announcement on the Progress of the Proposed Transfer of 100% Equity Interest in Zhuhai Weixing Shiye Co., Ltd. (珠海維星實業有限公司), a Subsidiary (announcement ref no.: 2017-044), and Holding Announcement on the Completion of Registration Procedures at the Administration of Industry and Commerce for the Equity Transfer of Weixing Shiye, a Subsidiary (announcement ref no.: 2017-060) published on Cninfo website (<http://www.cninfo.com.cn/>) (巨潮資訊網) on 20 April 2017, 27 April 2017, 9 May 2017 and 18 July 2017, respectively.

(VI). DISPOSAL OF SUBSTANTIAL ASSETS AND EQUITY *(continued)*

2. Disposal of substantial equity *(continued)*

Disposal of 100% Equity Interest in Weixing (which constituted a major transaction of the Company under chapter 14 of the Hong Kong Listing Rules)

Given that Xiangzhou District Livzon Group Transformation Project Update Unit Planning Schemes (Amendments to Regulatory Plan) ("Transformation Project") for which the Company filed an application had been approved by Zhuhai Municipal Government on 20 December 2016. In order to prompt the Company to further focus on biopharmaceutical business as well as cooperate with government to push on implementation of the Transformation Project, on 18 April 2017, the Company, Pharmaceutical Factory (together with the Company hereinafter referred to as the "Sellers") and Zhuhai Hengqin Weichuang Fortune Investment Co., Ltd.* (珠海橫琴維創財富投資有限公司) (the "Purchaser", a subsidiary of and controlled by Guowei Fortune) entered into the Equity Transfer Agreement ("Equity Transfer Agreement"), pursuant to which the Sellers agreed to sell and the Purchaser agreed to acquire the entire equity interest of Weixing (an indirectly wholly-owned subsidiary of the Company) (the "Disposal"). Pursuant to the Equity Transfer Agreement, the total consideration payable by the Purchaser was RMB4,552,000,000.00, of which, amount for equity transferred was RMB4,479,932,115.41, the debt repaid to the Company by the Purchaser in place of Weixing amounted to RMB22,067,884.59, and the reserved costs of construction cost of auxiliary public rental houses for the Transformation Project amounted to RMB50,000,000.00. After the completion of the Disposal, the carrying amount of the Company's monetary fund would increase by RMB4.502 billion, and it's expected that the completion of the Disposal would generate unaudited accounting net profit of RMB3.498 billion for the Group for the financial year ended 31 December 2017.

After the completion of the Disposal, the Company agreed to report Weixing as executor of the Transformation Project, responsible for implementing and completing the Transformation Project and be entitled to all rights and interests which may arise from the Transformation Project, except for property right of built public rental houses for the Transformation Project. Accordingly, after the completion of the Disposal, the Company ceased to be entitled to any interest of the Transformation Project and/or engage in the Transformation Project, except for property right of built public rental houses for the Transformation Project, which had been approved by Zhuhai Municipal Government.

As one of the applicable percentage ratios calculated under Chapter 14 of the Hong Kong Listing Rules for the Disposal is more than 25% but less than 75%, the Disposal constitutes a major part of the Company under Chapter 14 of the Hong Kong Listing Rules and therefore subject to the reporting, announcement and shareholders' approval requirements under the Hong Kong Listing Rules. According to relevant requirements in Shenzhen Listing Rules and Articles of Association, the Disposal shall also be proposed for consideration and approval by general meeting of the Company.

V. MAJOR EVENTS

(VI). DISPOSAL OF SUBSTANTIAL ASSETS AND EQUITY *(continued)*

2. Disposal of substantial equity *(continued)*

Disposal of 100% Equity Interest in Weixing (which constituted a major transaction of the Company under chapter 14 of the Hong Kong Listing Rules) *(continued)*

As at 25 April 2017, the Company had received an aggregate of RMB1,129,000,000.00, being part of consideration for transfer of the equity interest of Weixing. As of 5 May 2017, the Company had received the remaining balance of RMB3,340,295,323.16 for the equity transfer, and the Pharmaceutical Factory had received the remaining balance of RMB739,636,792.25 for the equity transfer. Meanwhile, the Company had also received the repayment of loan owed by Weixing to the Company of RMB22,067,884.59 made by the Purchaser on behalf of Weixing. The aforesaid amount totaled RMB4,102,000,000.00. Accordingly, the total amount received by the Group was RMB4,502,000,000.00.

On 23 June 2017, the Disposal and the matters related to the transfer of equity in the subsidiary to be executed by the Board and its attorney at sole discretion with authorization were considered and approved at the 2016 annual general meeting of the Company.

On 17 July 2017, the Company completed the registration and filing procedure of the change in equity ownership of Weixing, Weixing had obtained a new Business License accordingly and the Company had ceased to hold any equity interest in Weixing. Moreover, an aggregate amount of RMB4,102,000,000.00 deposited in a regulatory account in China Citic Bank Corporation Limited (Zhuhai Branch) opened by the Company and Pharmaceutical Factory had been released from being regulated after Weixing completed the procedures of registration of industrial and commercial change.

(VII). THE LAUNCH OF SHARE INCENTIVE OF THE COMPANY AND ITS EFFECT

☒ Applicable ☐ Not applicable

Restricted A Shares Incentive Scheme

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

(VII). THE LAUNCH OF SHARE INCENTIVE OF THE COMPANY AND ITS EFFECT

(continued)

Restricted A Shares Incentive Scheme *(continued)*

During the reporting period, details of implementation of the Restricted A Shares Incentive Scheme are as follows:

On 8 February 2017, the Company completed the repurchase and cancellation of 133,274 restricted shares in total, representing 0.03% of the total share capital of the Company before the repurchase and cancellation, i.e. 425,730,126 shares. Please refer to "Repurchase, sale or redemption of securities" contained in Section V of this report for the details of the repurchase cancellation.

On 28 March 2017, the "Resolution on Granting Shares to be Unlocked during the Second Unlocking Period under the Restricted Shares Incentive Scheme of the Company" and "the Resolution on Repurchase and Cancellation of Locked Restricted Shares Granted to Incentive Participants No Longer Satisfying the Conditions for Incentive" were being passed. It was agreed: (i) to complete the unlock procedure of the Second Unlocking Period for restricted shares initially granted in accordance with the relevant requirement of the Share Incentive Scheme. The number of incentive participants satisfying unlocking conditions for this time was 427 in total. The number of restricted shares which could be circulating in market after application for unlocking was 3,177,213 shares, representing 44.70% of the total number of shares with selling restrictions under share incentive which had yet to be unlocked. The unlocking date (i.e. the first date of circulating in market) of restricted shares for unlocking this time would be 7 April 2017; (ii) to repurchase and cancel all of the 34,260 shares which were comprised of 6,240 Restricted Shares granted but not yet unlocked from 1 incentive participant in the initial grant of Restricted shares who was no longer satisfying the incentive conditions and 28,020 Restricted Shares granted but not yet unlocked from 5 incentive participants in the reserved grant of Restricted Shares who were no longer satisfying the incentive conditions. Please refer to "Repurchase, sale or redemption of securities" contained in Section V of this report for the details of the repurchase and cancellation.

V. MAJOR EVENTS

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

1. Connected Transactions in the Ordinary Course of Business

✓ Applicable ☐ Not applicable

Transactions with connected persons	Relationships with connected persons	Type of connected transactions	Description of connected transactions	Pricing principle of connected transactions	Amount of connected transaction (RMB'000)	Proportion to transaction amount of the same category	Settlement method of connected transactions	Disclosure date	Disclosure index
Shenzhen Haibin Pharmaceutical Co., Ltd. (深圳市海濱製藥有限公司)	Subsidiary of the controlling shareholder	Sale of commodities	Sale of finished goods	Determined by negotiation based on market price	230.24	0.05%	Bank settlement	25 March 2017	"Livzon Pharmaceutical Group Inc. Execution of Connected Transactions in the Ordinary Course of Business for 2016 and the Expected Connected Transactions in the Ordinary Course of Business for 2017 Announcement" (Announcement No.: 2016-015)
Guangdong Blue Treasure Pharmaceutical Co. Ltd. (廣東藍寶製藥有限公司)	Associate	Sale of commodities	Sale of finished goods	Determined by negotiation based on market price	0.23	0.00%	Bank settlement		
Jiaozuo Jincare Pharmaceutical Industry Group Co., Ltd. (焦作健康元生物製品有限公司)	Subsidiary of the controlling shareholder	Sale of commodities	Sale of raw material	Determined by negotiation based on market price	91.54	0.02%	Bank settlement		
Guangdong Blue Treasure Pharmaceutical Co. Ltd. (廣東藍寶製藥有限公司)	Associate	Provision of services	Water, electricity and power	Determined by negotiation based on market price	395.37	55.22%	Bank settlement		
Zhuhai Jincare Pharmaceutical Co., Ltd. (珠海健康元生物製品有限公司)	Subsidiary of the controlling shareholder	Provision of services	Water, electricity and power	Determined by negotiation based on market price	26.86	3.75%	Bank settlement		
Jiaozuo Jincare Pharmaceutical Industry Group Co., Ltd. (焦作健康元生物製品有限公司)	Subsidiary of the controlling shareholder	Procurement of goods	Procurement of raw materials	Determined by negotiation based on market price	15,760.51	17.36%	Bank settlement	24 December 2016	"Resolution announcement of the 2016 Third Extraordinary General Meeting of Livzon Pharmaceutical Group Inc." (Announcement code: 2016-118)
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	607.77	0.67%	Bank settlement		
Guangdong Blue Treasure Pharmaceutical Co. Ltd. (廣東藍寶製藥有限公司)	Associate	Procurement of goods	Procurement of raw materials	Determined by negotiation based on market price	42.31	0.05%	Bank settlement	25 March 2017	"Livzon Pharmaceutical Group Inc. Execution of Connected Transactions in the Ordinary Course of Business for 2016 and the Expected Connected Transactions in the Ordinary Course of Business for 2017 Announcement" (Announcement No.: 2016-15)
Jincare Pharmaceutical Industry Group Co., Ltd. (健康元藥業集團股份有限公司)	Subsidiary of the controlling shareholder	Procurement of goods	Procurement of finished good	Determined by negotiation based on market price	6.48	0.01%	Bank settlement		
Jiaozuo Jincare Pharmaceutical Industry Group Co., Ltd. (焦作健康元生物製品有限公司)	Subsidiary of the controlling shareholder	Acceptance of services	Water, electricity and power	Determined by negotiation based on market price	771.28	5.97%	Bank settlement		
Zhuhai Jincare Pharmaceutical Co., Ltd. (珠海健康元生物製品有限公司)	Subsidiary of the controlling shareholder	Renting out of assets	Hiring of office premises and equipment	Determined by negotiation based on market price	12.06	8.66%	Bank settlement		
Jincare Pharmaceutical Industry Group Co., Ltd. (健康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	35.03	12.91%	Bank settlement		
Cynvenio Biosystems, Inc.	The company in which Directors are holding position	Procurement of goods	Procurement of equipment	Determined by negotiation based on market price	1,309.35	23.06%	Bank settlement		
Total					19,289.03	-	-	-	-
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 Period, the total amount of the connected transactions actually conducted in the ordinary course of business was RMB192,8568 million. Among which, the amount of connected transactions actually conducted between the Company and controlling shareholders (Jincare) and their subsidiaries was RMB175,3841 million, representing 45.91% of the projected amount (RMB382,0000 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 Blue Treasure Pharmaceutical (藍寶製藥) was RMB4,3791 million, representing 56.95% of the projected amount (RMB7,6894 million) approved by the Board of the Company; the amount of connected transactions actually conducted between the Company and Cynvenio biosystems, inc. was RMB13,0935 million, representing 72.74% of the projected amount (RMB18,00 million) approved by the Board of the Company; and no connected transaction aforesaid exceeded the projected amount approved.					
Reason for the significant difference between the transaction amounts and referential projection amounts (if applicable)				Not Applicable					

V. MAJOR EVENTS

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

2. Connected Transactions relating to Acquisition and Disposal of Assets

☒ Applicable ☐ Not applicable

Connected parties	Relationships with connected parties	Type of connected transactions	Description of connected transactions	Pricing principle of connected transactions	Carrying value of the assets transferred (RMB0'000) (RMB0'000)	Consideration of transfer (RMB0'000)	Settlement method of connected transactions	Profit or loss of the transactions (RMB0'000)	Disclosure date	Disclosure index
Jiaozuo Joincare Pharmaceutical Industry Group Co., Ltd. (焦作健康元生物製品有限公司)	Subsidiary of the controlling shareholder	Sale of assets	Sale of equipment	Pricing principle of negotiation	52.67	57.81	Bank settlement	5.14	Not applicable	Not applicable
Reason for the significant difference between transfer consideration and carrying value or evaluation value (if any)				Not applicable						
Effect on the operating results and financial position of the Company				No significant effect on the operating results and financial position of the Company						

3. Connected Transactions on Joint External Investment

☐ Applicable ☒ Not applicable

V. MAJOR EVENTS

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

4. Credits and Debts with Connected Persons

☒ Applicable ☐ Not applicable

Non-operating credits and debts with connected persons

☒ Yes ☐ No

Liabilities receivable from the connected persons

Connected parties	Relationships with connected parties	Reason for occurrence	Use of extraordinary capital	Balance at the beginning of the period (RMB'000)	Amount increased for the period (RMB'000)	Amount recovered for the period (RMB'000)	Interest rate	Interest of the period (RMB'000)	Balance at the end of the period (RMB'000)
Zuhai Joincare 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	3.27	45.74	49.01	–	–	0.00
Guangdong Blue Treasure Pharmaceutical Co. Ltd. (廣東藍寶製藥有限公司)	Associate	Sales of goods, provision of services	No	901.80	449.35	767.58	–	–	583.57
Shenzhen Haibin Pharmaceutical Co., Ltd. (深圳市海濱製藥有限公司)	Subsidiary of the controlling shareholder	Sales of goods	No	0.18	269.38	0.18	–	–	269.38
Jiaozuo Joincare Pharmaceutical Industry Group Co., Ltd. (焦作健康元生物製品有限公司)	Subsidiary of the controlling shareholder	Sales of goods and fixed assets	No	–	174.74	84.20	–	–	90.54
Health Pharmaceutical (China) Co., Ltd. (健康藥業(中國)有限公司)	Subsidiary of the controlling shareholder	Renting out of assets	No	3.33	–	3.33	–	–	0.00
Joincare Pharmaceutical Industry Group Co., Ltd. (健康元藥業集團股份有限公司)	Controlling Shareholder	Procurement of goods	No	10.80	–	4.81	–	–	5.99
Effect of creditors with connected parties on the operating results and financial position of the Company		The creditors mainly arose from ordinary course of business of the Company. There is no significant effect on the operating results and financial position of the Company.							

V. MAJOR EVENTS

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

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

Liabilities payable to the connected persons

Connected parties	Relationships with connected parties	Reason for occurrence	Balance at the beginning of the period (RMB'0'000)	Amount increased for the period (RMB'0'000)	Amount recovered for the period (RMB'0'000)	Interest rate	Interest of the period (RMB'0'000)	Balance at the end of the period (RMB'0'000)
Jiaozuo Joincare Pharmaceutical Industry Group Co., Ltd. (焦作健康元生物製品有限公司)	Subsidiary of the controlling shareholder	Procurement of goods, water, electricity and power	16,086.75	19,325.16	24,424.58	–	–	10,987.33
Shenzhen Haibin Pharmaceutical Co., Ltd. (深圳市海濱製藥有限公司)	Subsidiary of the controlling shareholder	Procurement of goods, dividends payables	0.34	1,094.13	0.67	–	–	1,093.79
Guangdong Blue Treasure Pharmaceutical Co. Ltd. (廣東藍寶製藥有限公司)	Associate	Procurement of goods	16.28	49.50	33.21	–	–	32.57
Joincare 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	–	5,089.60	48.96	–	–	5,040.65
Topsino Industries Limited (天誠實業有限公司)	Subsidiary of the controlling shareholder	Dividends payables	–	3,717.90	–	–	–	3,717.90
Guangzhou Begol Trading Corporation (廣州市保科力貿易公司)	Party acting in concert with the controlling shareholder	Dividends payables	–	393.86	–	–	–	393.86
CYNVENIO BIOSYSTEMS, INC	A company in which Directors are holding position	Purchase of equipment	–	1,309.35	1,309.35	–	–	–
Effect of creditors with connected parties on the operating results and financial position of the Company		The creditors mainly arose from ordinary course of business of the Company. There is no significant effect on the operating results and financial position of the Company.						

V. MAJOR EVENTS

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

5. Other Connected Transactions

☐ Applicable ☒ Not applicable

6. Relevant Enquiry about Website Disclosing the Interim Report on Connected Transactions

Title of the Interim Announcement	Disclosure Date of the Interim Announcement	Name of Website Disclosing the Interim Announcement
Livzon Pharmaceutical Group Inc. Execution of Connected Transactions in the Ordinary Course of Business for 2016 and Connected Transactions in the Ordinary Course of Business for 2017 Announcement	25 March 2017	巨潮網 (http://www.cninfo.com.cn/)

(IX). CONNECTED TRANSACTIONS DEFINED IN HONG KONG LISTING RULES

1. Connected Persons

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

2. Continuing Connected Transactions

Please refer to "Connected Transactions in the Ordinary Course of Business" contained in Section V of this Report for transactions actually occurred between the Group and the controlling shareholder Joicare 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.).

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

☐ Applicable ☒ Not applicable

During the Reporting Period, there is no non-operating use of funds of the listed company by the controlling shareholder of the Company and its related parties.

(XI). MAJOR CONTRACTS AND ITS ENFORCEMENT

1. Custody, Hiring and Leasing Matters

(1) Custody

☐ Applicable ☒ Not applicable

During the Reporting Period, the Company had no custody items which generated over 10% of total profit of the Company for the Current Period.

(2) Hiring

☐ Applicable ☒ Not applicable

During the Reporting Period, the Company had no hiring items which generated over 10% of total profit of the Company for the Current Period.

(3) Leasing

☐ Applicable ☒ Not applicable

During the Reporting Period, the Company had no leasing items which generated over 10% of total profit of the Company for the Current Period.

V. MAJOR EVENTS

(XI). MAJOR CONTRACTS AND ITS ENFORCEMENT *(continued)*

2. Guarantees

✓ Applicable ☐ Not applicable

Unit: RMB'0,000

External guarantees of the Company (excluding guarantees to its subsidiaries)								
Name of guaranteed party	Disclosure date of related announcements of guaranteed amount	Guaranteed amount	Actual date of event (Signing date of the Agreement)	Actual guarantee amount	Type of guarantee	Period of guarantee	Performance completion	Related party guarantee
-	-	-	-	-	-	-	-	-
Total of external guaranteed amount approved during the period (A1)			-	Total of actual external guaranteed amount approved during the reporting period (A2)				-
Total of external guaranteed amount approved at the end of the period (A3)			-	Total of actual external guaranteed amount approved at the end of the reporting period (A4)				-
Guarantees between the Company and its subsidiaries								
Name of guaranteed party	Disclosure date of related announcements of guaranteed amount	Guaranteed amount	Actual date of event (Signing date of the Agreement)	Actual guarantee amount	Type of guarantee	Period of guarantee	Performance completion	Related party guarantee
Livzon MABPharm Inc. (珠海市麗珠單抗生物技術有限公司)	2017.06.24	5,000.00	2016.6.22	588.23	Joint obligation guarantee	2016.6.22-2019.6.22	No	
Zhuhai Livzon Diagnostic Reagents Inc. (珠海麗珠試劑股份有限公司)	2017.06.24	10,000.00	2013.02.05	1,804.42	Joint obligation guarantee	2013.02.05-2018.02.04	No	
Zhuhai Livzon Diagnostic Reagents Inc. (珠海麗珠試劑股份有限公司)	2017.06.24	4,000.00	2015.09.11	160.00	Joint obligation guarantee	2015.09.11-2018.09.11	No	
Total of guaranteed amount to its subsidiaries approved during the reporting period (B1)			RMB362,500.00	Total of actual guaranteed amount to its subsidiaries approved during the reporting period (B2)				4,486.57
Total of guaranteed amount to its subsidiaries approved at the end of the reporting period (B3)			RMB362,500.00	Total of actual guaranteed amount to its subsidiaries approved at the end of the reporting period (B4)				2,552.65
Subsidiaries' guarantees to subsidiaries								
Subsidiaries' Name of guaranteed party	Disclosure date of related announcements of guaranteed amount	Guaranteed amount	Actual date of event (Signing date of the Agreement)	Actual guarantee amount	Type of guarantee	Period of guarantee	Performance completion	Related party guarantee
-	-	-	-	-	-	-	-	-
Total of guaranteed amount to its subsidiaries approved during the reporting period (C1)			-	Total of actual guaranteed amount to its subsidiaries approved during the reporting period (C2)				-
Total of guaranteed amount to its subsidiaries approved at the end of the reporting period (C3)			-	Total of actual guaranteed amount to its subsidiaries approved at the end of the reporting period (C4)				-
Total guaranteed amount of the Company (the total of the above three items)								
Total of guaranteed amount approved during the reporting period (A1+B1+C1)			RMB362,500.00	Total of actual guaranteed amount approved during the reporting period (A2+B2+C2)				4,486.57
Total of guaranteed amount approved at the end of the reporting period (A3+B3+C3)			RMB362,500.00	Total of actual guaranteed amount approved at the end of the reporting period (A4+B4+C4)				2,552.65
Total of actual guaranteed amount (A4+B4+C4) proportion to the net assets of the Company								0.37%
Among which:								
Guaranteed amount provided to shareholders, the ultimate beneficial owner and their related parties (D)				-				
Debt guaranteed amount to guaranteed party asset-liability ratio exceeding 70% directly or indirectly (E)				-				
The amount exceeding 50% of net assets in total guaranteed amount (F)				-				
Total of guaranteed amount of the above three items (D+E+F)				-				
For not yet mature guarantees, may undertake joint obligation (if any)				Not Applicable				
Illegal external guarantees (if any)				Not Applicable				

Information on illegal external guarantees

☐ Applicable ✓ Not applicable

During the Reporting Period, the Company had no illegal external guarantee.

V. MAJOR EVENTS

(XI). MAJOR CONTRACTS AND ITS ENFORCEMENT *(continued)*

3. Other Major Contracts

✓ Applicable ☐ Not applicable

Name of the contracted company	Name of the contracted counterparty	Contract subject	Date of contract	Carrying value of the underlying assets in the contract (RMB'000) (if any)	Pricing principle	Transaction consideration (RMB'000)	Connected transaction or not	Connected relationships	Execution as of the end of the Reporting Period
Livzon Group Xinbeijiang Pharmaceutical Manufacturing Inc. (麗珠集團新北江製藥股份有限公司)	Hangzhou Zhongmei Huadong Pharmaceutical Co., Ltd. (杭州中美華東製藥有限公司)	Acarbose bulk medicines	31 May 2017	–	Determined by negotiation based on market price	48,060.00	No	Nil	As of the end of the Reporting Period, an aggregate of RMB16.1531 million transaction amount (tax inclusive) has been recorded, representing 3.36% of the contracted amount

4. Other Material Transactions

✓ Applicable ☐ Not applicable

Please refer to “Disposal of substantial equity” contained in Section V of this Report for details on the disposal of 100% equity interest in Weixing (a subsidiary of the Company) during the Reporting Period.

V. MAJOR EVENTS

(XII). COMMITMENTS PERFORMED DURING THE REPORTING PERIOD OR NOT YET PERFORMED AS OF THE END OF THE REPORTING PERIOD BY THE DE FACTO CONTROLLER, SHAREHOLDERS, RELATED PERSONS, PURCHASER AND THE COMPANY

☐ Applicable ☒ Not applicable

(XIII). SOCIAL RESPONSIBILITY

1. Fulfilling social responsibility of targeted poverty alleviation

The Company temporarily did not carry out the works of targeted poverty alleviation during the interim reporting period, and did not has the subsequent plan of targeted poverty alleviation for the time being.

2. Major Environmental Events

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

☒ Yes ☐ No ☐ Not applicable

Name of Company or Subsidiary	Name of Major Pollutants and Specific Pollutant	The Method of Discharge	Number of Discharge Outlet	Distribution of Discharge Outlet	Concentration (mg/L)	Pollutant Discharge Standard Implemented (mg/L)	Total Emissions (t/a)	Total Emissions Verified (t/a)	Excessive Emissions
Livzon Group Fuzhou Fuxing Pharmaceutical Co., Ltd. ("Fuxing Company")	COD	intermittent	1	Northwest of Factory	169.027	500	61.366	394.3	No
	Ammonia nitrogen				25.348	60	0.5126	65.6	No

(2) Construction and operation of pollution prevention and treatment facilities

Since its commencement of production, Fuxing Pharmaceutical, a subsidiary of the Company, has effectively collected and treated the "three wastes" in accordance with the requirements of the "Three Simultaneous" system. Specifically, the designed sewage treatment capacity is 4,000 tonnes per day, with an upfront investment of more than RMB18 million. By employing an advanced sewage treatment process known as "Regulating pool + Hydrolysis acidification tank + SBR + Precipitation + Air float", the treatment system has an effective pool capacity of 14,000 cubic meters and accommodates over 20 sets of treatment equipment, with an installed capacity of 700KW. Its operating system is automatically controlled by the PLC programmable control system. To date, nearly RMB10 million has successively been invested to improve the water treatment process, so as to ensure all indicators of discharges from wastewater treatment consistently meet the relevant standards. After satisfying the third-grade discharge standards and the standards provided in the agreement entered into with Jiangyin sewage plant, waste water after treatment will be piped in to Jiangyin sewage plant operated by Fujian Huadong Water Treatment Co., Ltd. (福建華東水務有限公司) via sewage pipe network at the industrial park area.

(XIV). COMPARED WITH FINANCIAL STATEMENT OF THE PREVIOUS ACCOUNTING PERIOD, THE EXPLANATION OF CHANGE WITHIN COMBINED STATEMENT

☒ Applicable ☐ Not applicable

Livzon MABPharm (USA) Limited (麗珠單抗生物技術(美國)有限公司) was founded with 100% registered capital from Livzon MAB on June 2017 and was included in the scope of combination during the period.

(XV). APPOINTMENT AND DISMISSAL OF CERTIFIED PUBLIC ACCOUNTANTS

After consideration and approval at the 2016 Annual General Meeting of the Company, the re-appointment of Ruihua Certified Public Accountants (LLP) as the auditors firm of the Company for the year 2017 has been approved.

Whether the interim financial report has been audited

☐ Yes ☒ No

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

(XVI). PUNISHMENT AND RECTIFICATION

☐ Applicable ☒ Not applicable

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

(XVII). UNVEILING THE RISKS OF ILLEGALITY, NON-COMPLIANCE AND DELISTING

☐ Applicable ☒ Not applicable

During the Reporting Period, the Company was not exposed to the risks of illegality, non-compliance and delisting.

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

☐ Applicable ☒ Not applicable

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

V. MAJOR EVENTS

(XIX). OTHER SIGNIFICANT EVENTS

✓ Applicable ☐ Not applicable

1. Non-Public issuance of A Shares

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

The Issuance was completed as approved by the China Securities Regulatory Commission on 19 September 2016. The number of shares under the Issuance was 29,098,203 A Shares. The gross proceeds of the Issuance amounted to RMB1,457,819,970.30, net of issuance expenses totaling RMB37,519,603.53, the net proceeds were RMB1,420,300,366.77.

On 24 March 2017, the Board has comprehensively inspected the progress of the projects invested with proceeds from the Issuance in 2016, and considered and approved to make adjustments to the projects invested with proceeds for which the difference between the originally planned use of proceeds and the actual use of proceeds exceeds 30%. The adjustments involved that to the major investment plan of the "Deeper development and industrialization upgrade of innovative Ilaprazole series" and that to the major investment plan of the capital injections to Livzon MAB for investment in the construction of "Research & Development and Industrialization of Therapeutic Antibody-based Drugs".

On 30 March 2017, the Company has received the "Notice of Approval of Registration Change" on the completion of the business registration of increase in the registered capital of the Company due to the Issuance from Guangdong Province Zhuhai Administration for Industry and Commerce. The above industrial and commercial change of registered capital of the Company came into effect on 23 March 2017.

The aforesaid adjustments are made by the Company in view of the actual progress of the projects invested with proceeds. There were only adjustments to the amount of proceeds used in each of the subsequent years of the project and the construction period of industrialization project, without changing the use of the proceeds. The adjustments have been considered and approved at the annual general meeting for 2016 on 23 June 2017.

(XIX). OTHER SIGNIFICANT EVENTS *(continued)*

2. Shares pledged by the controlling shareholders

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

On 19 September 2016, the Company received the notice from Topsino that Topsino released the pledge of the original pledge of 4,550,000 H Shares of the Company to Nanyang Commercial Bank, relevant release procedures have completed, and the released shares approximately accounting for 1.07% of the total shares in issue at that time of the Company (425,730,126 shares).

On 15 August 2017, the Company received the notice from Topsino that Topsino released the pledge of the original pledge of 16,250,000 H Shares of the Company to Nanyang Commercial Bank, relevant release procedures have been completed, and the released shares approximately accounting for 2.94% of the total shares in issue of the Company (553,231,369 shares). As at the date of this report, no shares of the Company held by Topsino are pledged.

As at the date of the Report, Joincare (健康元), the Company's controlling shareholder, directly and indirectly, holds and controls a total of 247,857,176 shares of the Company, representing 44.80% of the Company's total issued shares. Among which, Topsino directly holds 96,665,487 H Shares of the Company, representing approximately 17.47% of the Company's total issued shares.

V. MAJOR EVENTS

(XIX). OTHER SIGNIFICANT EVENTS *(continued)*

3. Repurchase, sale or redemption of securities

- (1) In view of that 9 original Incentive Participants under the First Grant of the Restricted A Shares Incentive Scheme and 5 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 repurchased and cancelled the 133,274 Restricted Shares granted but still locked-up as held by the 14 resigned Incentive Participants.

On 6 February 2017, the Company purchased a total of 133,274 of the Restricted Shares (the "Repurchased A Shares") on the Shenzhen Stock Exchange at the price of RMB18.81 per share for 103,974 Restricted Shares of the First Grant and at the price of RMB24.11 per share for 29,300 Restricted Shares of the Reserved Grant respectively (the "Repurchase"). The aggregate purchase price paid for the Repurchase was RMB2,662,173.94. The Repurchased A Shares represented approximately 0.03% of the total issued capital of the Company immediately prior to the Repurchase. According to the Repurchase, the Repurchased A Shares have already been cancelled on 8 February 2017. Following the completion of the Repurchase, the total issued share capital of the Company reduced from 425,730,126 shares to 425,596,852 shares (comprising 280,005,492 A Shares and 145,591,360 H Shares).

- (2) In view of that one original Incentive Participants under the First Grant of the Restricted A Shares Incentive Scheme and five 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 repurchased and cancelled the 34,260 Restricted Shares granted but still locked-up as held by the six resigned Incentive Participants.

On 13 June 2017, the Company purchased a total of 34,260 of the Restricted Shares (the "Repurchased A Shares") on the Shenzhen Stock Exchange at the price of RMB18.81 per share for 6,240 Restricted Shares of the First Grant and at the price of RMB24.11 per share for 28,020 Restricted Shares of the Reserved Grant respectively (the "Repurchase"). The aggregate purchase price paid for the Repurchase was RMB792,936.60. According to the Repurchase, the Repurchased A Shares have already been cancelled on 14 June 2017. Following the completion of the Repurchase, the total issued share capital of the Company will reduce from 425,596,852 shares to 425,562,592 shares (comprising 279,971,232 A Shares and 145,591,360 H Shares).

Save as disclosed above, throughout the period from 1 January 2017 to 30 June 2017, neither the Company nor any of its subsidiaries repurchased, sold or redeemed any of the listed securities of the Company.

For further details of the Restricted A Shares Incentive Scheme, please refer to section V "Implementation and Impact of Shares Incentive of the Company" of the Report.

4. Dividends

On 23 June 2017, the Company convened the annual general meeting for 2016 to consider and approve the payment of a cash dividend of RMB5.00 (tax included) (the "Cash Dividend") per 10 shares to all Shareholders, totaling RMB212,781,296 (tax inclusive), and a bonus issue to all Shareholders by way of capitalising capital reserve on the basis of 3 shares (the "Bonus Share") for every 10 shares. The Company completed the payment of the Cash Dividend of A Shares and H Shares on 7 July 2017 and 28 July 2017, respectively.

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2017. The Company did not pay any dividend during the six months ended 30 June 2016.

V. MAJOR EVENTS

(XX).SIGNIFICANT EVENT OF SUBSIDIARIES OF THE COMPANY

☒ Applicable ☐ Not applicable

Please refer to the related content in “Disposal of substantial equity” in Section V in this report for the details of significant events of subsidiaries of the Company.

(XXI).DURING THE REPORTING PERIOD, THE EXPLANATION OF “NON-STANDARD AUDITORS’ REPORT” GIVEN BY THE BOARD OF DIRECTORS, THE SUPERVISORY COMMITTEE

☐ Applicable ☒ Not applicable

(XXII).THE EXPLANATION OF RELEVANT INFORMATION ON “NON-STANDARD AUDITORS’ REPORT” FOR LAST YEAR BY THE BOARD

☐ Applicable ☒ Not applicable

(XXIII).PLANS FOR PROFIT DISTRIBUTION AND CONVERSION OF CAPITAL RESERVE INTO SHARE CAPITAL

☐ Applicable ☒ Not applicable

VI. CHANGES IN EQUITY AND SHAREHOLDERS

(I). CHANGES IN SHARES

1. As at 30 June 2017, the share capital structure of the Company is as follows:

Unit: Shares

	Before the current change		Increase/Decrease (+, -) due to the current change		After the current change	
	Number	Percentage (approximately)	Others	Sub-total	Number	Percentage (approximately)
I. Shares subject to selling restrictions	44,392,430	10.43%	-3,013,481	-3,013,481	41,378,949	9.73%
1 State-owned shares						
2 State-owned legal person shares	11,777,256	2.77%	-	-	11,777,256	2.77%
3 Other domestic shares	32,615,174	7.66%	-3,013,481	-3,013,481	29,601,693	6.96%
Of which: Domestic legal person shares						
Domestic natural person shares	7,416,971	1.74%	-3,013,481	-3,013,481	4,403,490	1.04%
Funds and asset management products	25,198,203	5.92%	-	-	25,198,203	5.92%
4 Foreign shares						
Of which: Overseas legal person shares						
Overseas natural person shares						
II. Shares not subject to selling restrictions	381,337,696	89.57%	2,845,947	2,845,947	384,183,643	90.27%
1 Ordinary shares denominated in Renminbi	235,746,336	55.37%	2,845,947	2,845,947	238,592,283	56.07%
2 Domestically listed foreign shares						
3 Overseas listed foreign shares	145,591,360	34.20%	-	-	145,591,360	34.20%
4 Others						
III. Total number of shares	425,730,126	100.00%	-167,534	-167,534	425,562,592	100.00%

Reasons for changes in equity

✓ Applicable ☐ Not applicable

The Company has completed the Second Unlocking in March 2017 under the Restricted A Shares Incentive Scheme and 3,177,213 shares have been unlocked with 331,266 locked shares held by the senior management, resulted in an actual increase of 2,845,947 non-restricted shares of the Company and listed on 7 April 2017.

On 8 February 2017, the Company repurchased and cancelled 133,274 Restricted Shares held by 14 Participants.

On 14 June 2017, the Company repurchased and cancelled 34,260 Restricted Shares held by 6 Participants.

VI. CHANGES IN EQUITY AND SHAREHOLDERS

(I). CHANGES IN SHARES *(continued)*

2. Changes in shares with selling restrictions

✓Applicable □Not applicable

Unit: Shares

Name of shareholder	Number of shares with selling restrictions at the Beginning of the Period	Number of shares relieved from restrictions for the Period	Increase in number of shares with selling restrictions in the Period	Number of shares with selling restrictions at the End of the Period	Reasons for selling restrictions	Date of relieving from restrictions
Guangzhou Begol Trading Holdings Limited (廣州市保科力貿易公司)	7,877,256	–	–	7,877,256	shares pledged, shares locked, shares with selling restriction before initial issue	not confirmed
Penghua Asset Management (Shenzhen) Co., Ltd.	14,900,000	–	–	14,900,000	non-public issuance of restricted shares	20 September 2017 (14,900,000 shares)
Caitong Fund Management Co., Ltd.	5,200,000	–	–	5,200,000	non-public issuance of restricted shares	20 September 2017 (5,200,000 shares)
Da Cheng Fund Management Co., Ltd.	4,100,000	–	–	4,100,000	non-public issuance of restricted shares	20 September 2017 (4,100,000 shares)
China Huarong Asset Management Co., Ltd.	3,900,000	–	–	3,900,000	non-public issuance of restricted shares	20 September 2017 (3,900,000 shares)
China Merchants Wealth Asset Management Co., Ltd.	998,203	–	–	998,203	non-public issuance of restricted shares	20 September 2017 (998,203 shares)
Total 584 of the incentive participants (middle management, core technology (business) staff) ^{Note}	6,557,486	2,835,066	–	3,554,886	restricted shares under the share incentive scheme	7 April 2017; 13 November 2017 (359,910 shares); 27 March 2018 (2,835,066 shares); 12 November 2018 (359,910 shares)
Tao Desheng	206,992	82,797	82,797	206,992	restricted shares under the share incentive scheme, locked shares held by the senior management	7 April 2017, 27 March 2018 (82,797 shares)
Xu Guoxiang	206,992	82,797	82,797	206,992	restricted shares under the share incentive scheme, locked shares held by the senior management	7 April 2017, 27 March 2018 (82,797 shares)
Lu Wenqi	132,405	52,962	52,962	132,405	restricted shares under the share incentive scheme, locked shares held by the senior management	7 April 2017, 27 March 2018 (52,962 shares)
Yang Daihong	132,405	52,962	52,962	132,405	restricted shares under the share incentive scheme, locked shares held by the senior management	7 April 2017, 27 March 2018 (52,962 shares)
Si Yanxia	82,777	33,111	33,111	82,777	restricted shares under the share incentive scheme, locked shares held by the senior management	7 April 2017, 27 March 2018 (33,111 shares)
Zhou Peng	58,524	21,762	10,881	47,643	restricted shares under the share incentive scheme, locked shares held by the senior management	7 April 2017, 27 March 2018 (21,762 shares)
Yang Liang	39,390	15,756	15,756	39,390	restricted shares under the share incentive scheme, locked shares held by the senior management	7 April 2017, 27 March 2018 (15,756 shares)
Total	44,392,430	3,177,213	331,266	41,378,949		

Note:

- During the Period, among the shares with selling restriction held by incentive participants (excluding senior managements), 167,534 shares were bought back while some were relieved from selling restriction, therefore, the number of shares with selling restrictions at the End of the Period was 3,554,886;
- The shares with selling restriction increased in the Period held by senior management shown in the table above were locked shares, which will be unlocked year by year proportionately according to the Securities Law of the People's Republic of China and other relative laws and regulations.

VI. CHANGES IN EQUITY AND SHAREHOLDERS

(I). CHANGES IN SHARES *(continued)*

Approval of changes in equity

☒ Applicable ☐ Not applicable

On 30 November 2016, “the Resolution on Repurchase and Cancellation of Locked Restricted Shares Granted to Incentive Participants No Longer Satisfying the Conditions for Incentive” was being passed at the Thirty-second Meeting of the Eighth Session of the Board and the Twenty-fifth Meeting of the Eighth Session of the Supervisory Committee of the Company.

On 28 March 2017, the “Resolution on Granting Shares to be Unlocked during the Second Unlocking Period under the Restricted Shares Incentive Scheme of the Company” and “the Resolution on Repurchase and Cancellation of Locked Restricted Shares Granted to Incentive Participants No Longer Satisfying the Conditions for Incentive” were being passed at the Thirty-sixth Meeting of the Eighth Session of the Board and the Twenty-eighth Meeting of the Eighth Session of the Supervisory Committee of the Company.

Transfer of changes in equity

☐ Applicable ☒ Not applicable

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

☐ Applicable ☒ Not applicable

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

☐ Applicable ☒ Not applicable

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

☐ Applicable ☒ Not applicable

(II). NUMBER OF SHAREHOLDERS AND DETAILS ON SHAREHOLDINGS

1. Number of Shareholders

At the End of the Reporting Period, the Company had a total of 15,169 Shareholders which included 8 H Shareholders (Note 1) and 15,161 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 the Report.

Total number of ordinary Shareholders at the End of the Reporting Period	15,169 holders (including 15,161 A Shareholders and 8 H Shareholders)	Total number of preferential Shareholders with voting rights resumed at the End of the Reporting Period (if any)	0
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VI. CHANGES IN EQUITY AND SHAREHOLDERS

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

2. Shareholdings of Ordinary Shareholders holding more than 5% shares or top ten Ordinary Shareholders

Unit: Shares

Name of Shareholder	Nature of Shareholder	Class of shares	Shareholding percentage	Number of ordinary shares held at the End of the Reporting Period	Change during the Reporting Period (Shares)	Number of ordinary shares with selling restrictions (Shares)	Number of ordinary shares without selling restrictions (Shares)	Pledge or lock up	
								Share status	Number
HKSCC Nominees Limited <i>(Note 2)</i>	Foreign legal person	H Share	34.21%	145,587,570	–	16,250,000 <i>(Note 2)</i>	129,337,570	Pledge	16,250,000 <i>(Note 2)</i>
Joincare Pharmaceutical Industry Group Co., Ltd.	Domestic non-state owned legal person	A Share	23.68%	100,763,218	–	–	100,763,218		
Penghua Asset Management-SPDB-Hwabao Trust – Hwabao –Kang Sheng Tian Tian Xiang Shang Assembled Funds Trust Scheme <i>(Note 3)</i>	Others	A Share	3.50%	14,900,000	–	14,900,000	–		
Guangzhou Begol Trading Corporation	State owned legal person	A Share	1.85%	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	1.80%	7,660,826	–	–	7,660,826		
Central Huijin Investment Company Limited	State owned legal person	A Share	1.29%	5,487,820	–	–	5,487,820		
China Construction Bank Corporation – Boshi Industry Mixed Securities Investment Fun (LOF)	Others	A Share	0.99%	4,200,603	200,000	–	4,200,603		
China Huarong Asset Management Co., Ltd. <i>(Note 3)</i>	State owned legal person	A Share	0.92%	3,900,000	–	3,900,000	–		
China Merchants Bank Co., Ltd. – Hui Tian Fu Medical Services Flexible Configuration Hybrid Securities Investment Fund	Others	A Share	0.84%	3,590,796	3,590,796	–	3,590,796		
National Social Security Fund 113 <i>(Note 3)</i>	Others	A Share	0.58%	2,473,180	–7,083,976	1,700,000	773,180		

Description on strategic investors or general legal persons becoming the top ten ordinary Shareholders by placing of new shares (if any)

Not applicable

Description on connection and concert in actions among the aforesaid Shareholders

(1) On 2 January 2004, Joincare and Begol (保科力) entered into a share transfer and custody agreement and a share pledge agreement, pursuant to which the 6,059,428 original domestic legal person shares (the number of shares was increased to 7,877,256 shares after the Company's implementation of 2014 Equity Distribution) of the Company held by Begol have been directly transferred, entrusted and pledged to Joincare; (2) Haibin Pharmaceutical Co., Ltd. (海濱製藥) is Joincare'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.

VI. CHANGES IN EQUITY AND SHAREHOLDERS

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

3. Shareholdings of top ten ordinary Shareholders without selling restrictions

Name of Shareholder	Number of ordinary shares held without selling restriction at the End of the Reporting Period (Shares)	Type of shares	
		Category of shares	Number (Shares)
HKSCC Nominees Limited <i>(Note 2)</i>	129,337,570	Overseas listed foreign shares	129,337,570
Joincare Pharmaceutical Industry Group Co., Ltd.	100,763,218	Ordinary shares denominated in Renminbi	100,763,218
Shenzhen Haibin Pharmaceutical Co., Ltd.	7,660,826	Ordinary shares denominated in Renminbi	7,660,826
Central Huijin Investment Company Limited	5,487,820	Ordinary shares denominated in Renminbi	5,487,820
China Construction Bank Corporation – Boshi Industry Mixed Securities Investment Fund (LOF)	4,200,603	Ordinary shares denominated in Renminbi	4,200,603
China Merchants Bank Co., Ltd. – Hui Tian Fu Medical Services Flexible Configuration Hybrid Securities Investment Fund	3,590,796	Ordinary shares denominated in Renminbi	3,590,796
Bank of China Limited – Castrol Healthcare Equity Securities Investment Fund	2,290,430	Ordinary shares denominated in Renminbi	2,290,430
National Social Security Fund 102 <i>(Note 3)</i>	1,868,532	Ordinary shares denominated in Renminbi	1,868,532
Bank of China – Castrol Growth and Income Securities Investment Fund	1,800,659	Ordinary shares denominated in Renminbi	1,800,659
Huaxia Growth Securities Investment Fund	1,702,745	Ordinary shares denominated in Renminbi	1,702,745

VI. CHANGES IN EQUITY AND SHAREHOLDERS

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

3. Shareholdings of top ten ordinary Shareholders without selling restrictions *(continued)*

Description on connection and concert in actions among top ten ordinary Shareholders without selling restrictions themselves and between top ten ordinary Shareholders without selling restrictions and top ten ordinary Shareholders	(1) On 2 January 2004, Joicare (健康元) and Begol entered into a share transfer and custody agreement and a share pledge agreement, pursuant to which the 6,059,428 original domestic legal person shares (the number of shares was increased to 7,877,256 shares after the Company's implementation of 2014 Equity Distribution) of the Company held by Begol have been directly transferred, entrusted and pledged to Joicare (健康元); (2) Haibin Pharmaceutical Co., Ltd. (海濱製藥有限公司) is Joicare's directly and indirectly wholly-owned subsidiary; (3) both Bank of China Limited – Castrol Healthcare Equity Securities Investment Fund and Bank of China – Castrol Growth and Income Securities Investment Fund belong to Harvest Fund Management Co., Ltd; (4) the Company does not know whether the other Shareholders mentioned above are related parties or persons acting-in-concert as defined in the Administration Procedures of the Takeover of Listed Companies.
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Description of the top ten ordinary Shareholders of ordinary shares involved in the margin financing and securities lending business (if any)	Not applicable
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Note 1: Total number of H Shareholders is calculated based on the record of Tricor Investor Services Limited, the H Share Registrar of the Company.

Note 2: HKSCC Nominees Limited is a nominee holder of H Shares of the Company and the shareholdings under its name for others include 74,358,067 H Shares held by Topsino Industries Limited (天誠實業有限公司), which is a wholly-owned subsidiary of Joicare (健康元), the Company's controlling shareholder (Topsino Industries Limited has entered into an equity interest pledge agreement with Nanyang Commercial Bank to pledge its 16,000,000 H Shares (the number of shares was increased to 20,800,000 shares after the Company's implementation of 2014 Equity Distribution) held in the Company to Nanyang Commercial Bank. The effective date of the pledge is 11 June 2014. In 19 September 2016 and 15 August 2017, Topsino released its 4,550,000 and 16,250,000 H shares of the Company pledged to Nanyang Commercial Bank, respectively. As at the date of this report, none of the shares of the Company held by Topsino was pledged. Please see the section headed "Shares Pledged by the Controlling Shareholder" in Chapter V of this report for details.

Note 3: Each of Penghua Asset Management-SPDB-Hwabao Trust – Hwabao-Kang Sheng Tian Tian Xiang Shang Assembled Funds Trust Scheme, National Social Security Fund 113, China Huarong Asset Management Co., Ltd. and Dacheng Income Growth Securities Investment Fund are allottees of the Company's non-public issuance of A shares (The corresponding allottees are Penghua Asset Management (Shenzhen) Co., Ltd., Da Cheng Fund Management Co., Ltd., China Huarong Management Co., Ltd. and Da Cheng Fund Management Co., Ltd.), with allotted non-public A shares of the Company of 14,900,000, 1,700,000, 3,900,000 and 600,000 shares respectively. On 19 September 2016, the Company completed the non-public issuance. The shares subscribed by allottees cannot be transferred within 12 months from the listing date of the new shares, and the estimated circulation date of the listed new shares shall be 20 September 2017 (to be postponed accordingly if not a trading day).

Whether any of the top ten ordinary Shareholders and the top ten non-restricted ordinary Shareholders of the Company conducted any transactions on agreed repurchases during the Reporting Period

☐ Yes ☒ No

The top ten ordinary Shareholders and the top ten non-restricted ordinary Shareholders of the Company did not conduct any transactions on agreed repurchases during the Reporting Period.

VI. CHANGES IN EQUITY AND SHAREHOLDERS

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

4. As at 30 June 2017, the following major Shareholders and other persons (other than the Directors, supervisors or chief executives as defined in the SFO) had interests and short positions in the shares and underlying shares of the Company which were required to be recorded in the register required to be kept by the Company under section 336 of the SFO:

Name of Director	Capacity	Number of the Shares interested/ subject to the short position	Position	As a percentage to the specific class of issued Shares of the Company	As a percentage to the total issued Shares of the Company
Substantial shareholders					
Baiyeyuan	Interest of controlled corporations	116,301,300 A Shares ⁽¹⁾	Long position	41.54%	27.33%
	Interest of controlled corporations	74,358,067 H Shares ⁽²⁾	Long position	51.07%	17.47%
Ms. Liu Guangxia (劉廣霞)	Spouse interest	116,301,300 A Shares ⁽³⁾	Long position	41.54%	27.33%
		74,358,067 H Shares ⁽³⁾	Long position	51.07%	17.47%
Joincare (健康元)	Beneficial owner	100,763,218 A Shares	Long position		
	Interest of controlled corporations	7,660,826 A Shares ⁽⁴⁾	Long position		
	Person having a security interest in shares	7,877,256 A Shares ⁽⁵⁾	Long position		
		116,301,300 A Shares		41.54%	27.33%
	Interest of controlled corporations	74,358,067 H Shares ⁽²⁾	Long position	51.07%	17.47%
Topsino Industries	Beneficial owner	74,358,067 H Shares ⁽²⁾	Long position	51.07%	17.47%
Others					
UBS Group AG	Person having a security interest in shares	567,010 H Shares ⁽⁶⁾	Long position		
	Interest of controlled corporations	9,702,584 H Shares ⁽⁶⁾	Long position		
		10,269,594 H Shares		7.05%	2.41%
	Interest of controlled corporations	387,620 H Shares ⁽⁷⁾	Short position	0.27%	0.09%

VI. CHANGES IN EQUITY AND SHAREHOLDERS

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

4. As at 30 June 2017, the following major Shareholders and other persons (other than the Directors, supervisors or chief executives as defined in the SFO) had interests and short positions in the shares and underlying shares of the Company which were required to be recorded in the register required to be kept by the Company under section 336 of the SFO: *(continued)*

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, Haibin Pharmaceutical.
- (2) These shares are held directly by Topsino Industries, a wholly-owned subsidiary of Joincare (健康元).
- (3) As Ms. Liu Guangxia is the spouse of Mr. Zhu Baoguo, Ms. Liu Guangxia is deemed to be interested in Mr. Zhu Baoguo's equities in which he is deemed to be interested.
- (4) These shares are held directly by Haibin Pharmaceutical, a wholly-owned subsidiary of Joincare (健康元).
- (5) These shares were directly transferred from, entrusted and pledged by Begol in favor of Joincare (健康元) in accordance with the share transfer, custody and pledge agreement with Joincare (健康元) and Zhuhai Lishi Investment Co., Ltd. (珠海市麗士投資有限公司) dated 2 January 2004, the share transfer and custody agreement and the share pledge agreement with Joincare (健康元).
- (6) These shares include 567,010 shares attributable to security interest and 9,702,584 shares attributable to interest in controlled corporations, among which 387,620 shares are derivatives delivered by cash. Interest in controlled corporations is held as to 388,972 shares, 2,426,822 shares, 190,980 shares, 8,800 shares, 6,685,610 shares and 1,400 shares by its wholly-owned entities, namely UBS AG, UBS Asset Management (Hong Kong) Ltd, UBS Asset Management (Singapore) Ltd, UBS Asset Management Trust Company, UBS Fund Management (Luxembourg) S.A. and UBS Fund Management (Switzerland) AG, respectively.
- (7) These short positions are held by its wholly-owned UBS AG.

VI. CHANGES IN EQUITY AND SHAREHOLDERS

(III).CHANGES IN CONTROLLING SHAREHOLDERS OR ULTIMATE BENEFICIAL OWNERS

Changes in controlling shareholders during the Reporting Period

☐ Applicable ☒ Not applicable

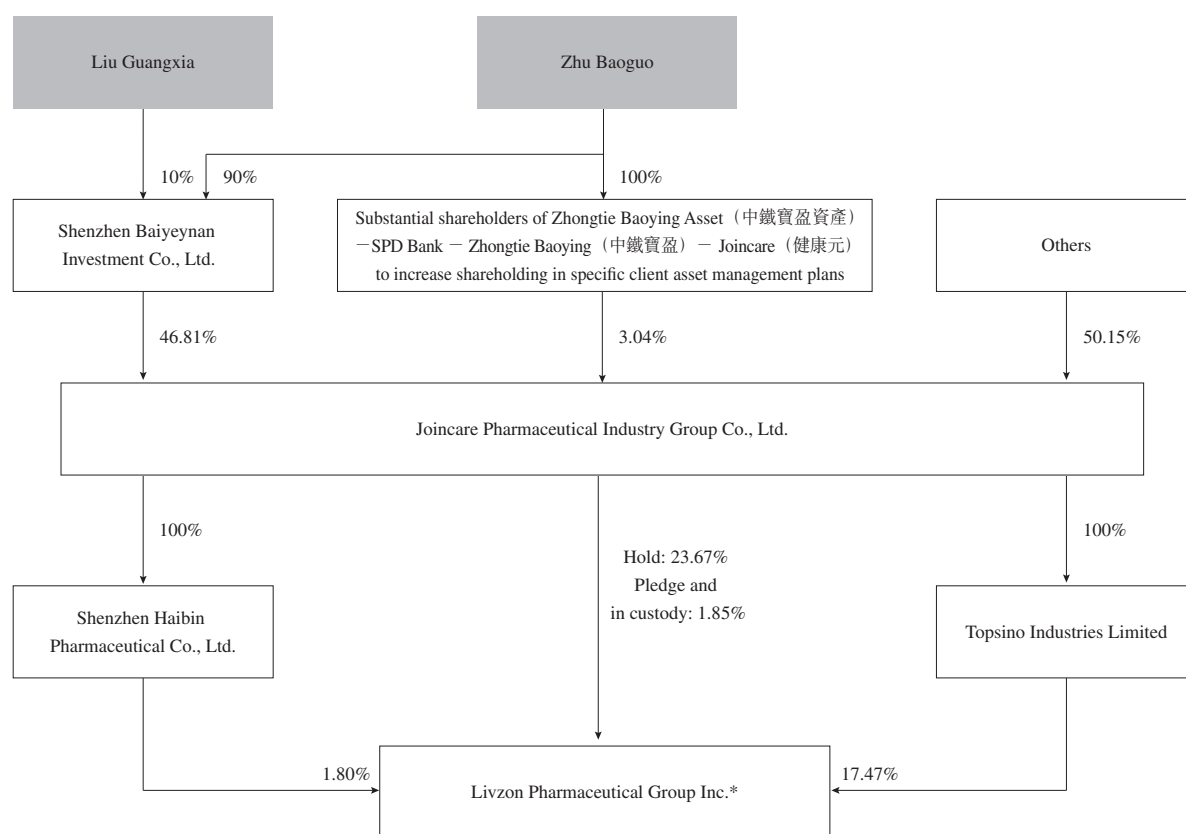
No change occurred on controlling shareholders of the Company during the Reporting Period.

Changes in ultimate beneficial owners during the Reporting Period

☐ Applicable ☒ Not applicable

No change occurred on ultimate beneficial owners of the Company during the Reporting Period.

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 25 January 2017, 1,238,000 restricted shares have been repurchased and cancelled by Joicare, of which share capital decreased from 1,587,139,292 shares to 1,585,901,292 shares. As such, the shareholding of Baiyeyuan in Joicare increased to 46.81% from 46.78%. Mr. Zhu Baoguo holds 48,277,046 shares in Joicare (健康元) in the form of targeted asset management scheme(s), with the proportion to the total share capital of Joicare unchanged at 3.04%.

VI. CHANGES IN EQUITY AND SHAREHOLDERS

(IV). PROPOSAL ON OR IMPLEMENTATION OF A SHARE ACQUISITION PLAN BY SHAREHOLDERS OF THE COMPANY AND PERSONS ACTING IN CONCERT WITH THEM DURING THE REPORTING PERIOD

☐ Applicable ☒ Not applicable

During the Reporting Period, to the best of the knowledge of the Company, no Shareholders of the Company or persons acting in concert with them proposed or implemented any share acquisition plan.



VII. PREFERRED SHARES

☐ Applicable ☒ Not applicable

There were no preferred shares of the Company during the Reporting Period.

VIII. DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

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

✓ Applicable ☐ Not applicable

Name	Position	Status of Office	Number of shares held at the Beginning of the Period (shares)	Additional shareholdings during the Period (shares)	Reduction of shareholdings during the Period (shares)	Number of shares held at the End of the Period (shares)	Number of Restricted Shares granted at the Beginning of the Period (shares)	Number of Restricted Shares granted during the Period (shares)	Number of Restricted Shares granted at the End of the Period (shares)
Tao Desheng (陶德勝)	Vice Chairman, Executive Director, President	Current	275,990	–	–	275,990	165,594	–82,797	82,797
Xu Guoxiang (徐國祥)	Executive Director, Vice President	Current	275,990	–	–	275,990	165,594	–82,797	82,797
Yang Daihong (楊代宏)	Vice President	Current	176,540	–	–	176,540	105,924	–52,962	52,962
Lu Wenqi (陸文岐)	Vice President	Current	176,540	–	–	176,540	105,924	–52,962	52,962
Si Yanxia (司燕霞)	Vice President	Current	110,370	–	–	110,370	66,222	–33,111	33,111
Zhou Peng (周鵬)	Vice President	Current	63,524	–	–	63,524	43,524	–21,762	21,762
Yang Liang (楊亮)	Secretary to the Board	Current	52,520	–	–	52,520	31,512	–15,756	15,756
Total	–	–	1,131,474	–	–	1,131,474	684,294	–342,147	342,147

Note: On 28 March 2017, the Company held a Board meeting and considered and passed the “Resolution on Granting Shares to be Unlocked during the Second 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. The number of Restricted Shares mentioned in the table above does not include locked shares held by the senior management.

VIII. DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

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

As at 30 June 2017, the interests or short positions of the Directors, Supervisors or chief executives of the Company, in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of SFO) as recorded in the register required to be kept under Section 352 of the SFO, or as otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code were as follows:

Interest in shares of the Company

Name of Director	Capacity	Number of Shares interested (Long position)	As a percentage 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 ^{(1) (2)}	41.54%	27.33%
		74,358,067 H Shares ^{(1) (3)}	51.07%	17.47%
Mr. Tao Desheng (陶德勝)	Beneficial owner Spouse interest	275,990 A Shares		
		48,360 A Shares ⁽⁴⁾		
		324,350 A Shares	0.12%	0.08%
Mr. Xu Guoxiang (徐國祥)	Beneficial owner	275,990 A Shares	0.10%	0.06%

VIII. DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

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

As at 30 June 2017, the interests or short positions of the Directors, Supervisors or chief executives of the Company, in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of SFO) as recorded in the register required to be kept under Section 352 of the SFO, or as otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code were as follows: *(continued)*

Interest in shares of associated corporations of the Company

Name of Director	Name of associated corporation	Capacity	Equity interest (RMB)	As a percentage 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 ⁽⁵⁾	
			<hr/> 790,692,566	49.86%
	Livzon MAB	Interest of controlled corporations	261,331,700 ^{(1), (6)}	49.00%

Notes:

- (1) Joincare (健康元) is 46.81% 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, Haibin Pharmaceutical, 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).

VIII. DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

(II). CHANGES IN DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

✓ Applicable ☐ Not applicable

Name	Occupation	Type	Date	Reason
Yang Daihong (楊代宏)	Executive Director	Retired	30 June 2017	He retired due to expiration of his term of office with effect from 30 June 2017.
Xu Guoxiang (徐國祥)	Executive Director	Appointed	30 June 2017	He was appointed as an Executive Director of the ninth session of the Board of Directors of the Company after the approval at the annual general meeting for 2016 of the Company with effect from 30 June 2017.

(III). 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:

- (1) Mr. Xu Yanjun (徐焱軍), independent non-executive Director of the Company, is a member of Zhuhai Committee of Chinese People's Political Consultative Conference from 23 December 2016;
- (2) Mr. Huang Huamin (黃華敏), Supervisor of the Company, is the Investment Director of Guangdong Qifan Investment Joint Venture (Limited Partnership) (廣東啟帆投資合夥企業(有限合夥)) from April 2017.

VIII. DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

(IV).LISTS OF MEMBERS OF THE BOARD AND THE SUPERVISOR 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. Xu Guoxiang (徐國祥) *(Vice President)* (appointed as an Executive Director on 23 June 2017 with effect from 30 June 2017)
Mr. Yang Daihong (楊代宏) *(Vice President)* (retired as an Executive Director on 30 June 2017)

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 and during the period, 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)



IX. FINANCIAL REPORT

(I). AUDITORS' REPORT

Whether the interim report has been audited

☐ Yes ☒ No

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

CONSOLIDATED BALANCE SHEET

Prepared by: Livzon Pharmaceutical Group Inc.

Amount denominated: RMB

Item	Notes	30 June 2017	31 December 2016
Current assets:			
Cash at bank and on hand	VI.1	6,803,987,863.10	2,061,923,004.89
Financial assets at fair value through profit or loss	VI.2	6,587,883.16	6,019,067.02
Derivative financial assets			
Bills receivables	VI.3	868,254,813.90	512,986,726.32
Accounts receivables	VI.4	1,730,945,602.62	1,464,366,229.78
Prepayments	VI.5	119,227,647.65	87,734,518.90
Interest receivables			
Dividends receivables		64,226.08	
Other receivables	VI.6	70,140,871.98	48,808,469.78
Inventories	VI.7	1,088,003,959.31	1,099,199,376.02
The non-current assets classified as held for sale or the part of disposal group classified as held for sale	VI.8	33,729,017.03	
Non-current assets due within one year			
Other current assets	VI.9	277,715,068.05	689,748,423.34
Total current assets		10,998,656,952.88	5,970,785,816.05
Non-current assets:			
Available-for-sale financial assets	VI.10	146,671,473.44	147,294,165.97
Held-to-maturity investments			
Long-term receivables			
Long-term equity investments	VI.11	91,694,784.78	91,109,734.79
Investment properties			
Fixed assets	VI.12	3,261,818,783.99	3,340,977,856.91
Construction in progress	VI.13	169,934,836.39	201,733,854.47
Construction supplies	VI.14	31,009.86	
Fixed assets to be disposed			
Bearer biological assets			
Oil and gas assets			
Intangible assets	VI.15	277,896,861.71	298,903,312.95
Development costs	VI.16	22,097,916.42	14,821,797.96
Goodwill	VI.17	103,040,497.85	103,040,497.85
Long-term deferred expenses	VI.18	114,188,781.83	92,477,000.88
Deferred income tax assets	VI.19	144,754,937.03	153,099,708.49
Other non-current assets	VI.20	207,328,387.21	115,019,206.09
Total non-current assets		4,539,458,270.51	4,558,477,136.36
Total assets		15,538,115,223.39	10,529,262,952.41

CONSOLIDATED BALANCE SHEET

Prepared by: Livzon Pharmaceutical Group Inc.

Amount denominated: RMB

Item	Notes	30 June 2017	31 December 2016
Current liabilities:			
Short-term loans			
Financial liabilities at fair value through profit or loss			
Derivatives financial liabilities			
Bills payables	VI.21	744,086,552.91	323,795,509.11
Accounts payables	VI.22	449,727,964.76	587,715,946.84
Receipts in advance	VI.23	4,567,499,660.83	78,685,240.60
Employee benefits payables	VI.24	79,461,537.97	113,279,912.95
Taxes payables	VI.25	177,615,892.25	292,306,699.79
Interest payables	VI.26		3,812,602.74
Dividends payables	VI.27	215,313,280.46	2,531,984.46
Other payables	VI.28	1,707,630,188.20	1,558,113,278.30
Liabilities of disposal group classified as held for sale	VI.8	501,921.20	
Non-current liabilities due within one year	VI.29	400,000.00	400,000.00
Other current liabilities	VI.30		350,000,000.00
Total current liabilities		7,942,236,998.58	3,310,641,174.79
Non-current liabilities:			
Long-term loans	VI.31	700,000.00	700,000.00
Notes payables			
Of which: preferred shares			
Perpetual bonds			
Long-term payables			
Long-term employee benefits payables			
Special payables			
Accrued liabilities			
Deferred gain	VI.33	84,092,257.22	94,997,993.67
Deferred tax liabilities	VI.19	22,097,940.56	17,285,280.40
Other non-current liabilities			
Total non-current liabilities		106,890,197.78	112,983,274.07
Total liabilities		8,049,127,196.36	3,423,624,448.86
Shareholders' equity:			
Share capital	VI.34	425,562,592.00	425,730,126.00
Other equity instruments			
Of which: Preferred shares			
Perpetual bonds			
Capital reserve	VI.35	1,834,441,114.65	1,820,309,052.12
Less: Treasury shares	VI.36	75,162,388.20	140,321,805.40
Other consolidated earnings	VI.37	-18,326,857.85	602,767.19
Special reserve			
Surplus reserve	VI.38	587,255,162.90	587,255,162.90
General risks provision			
Unallocated earnings	VI.39	4,103,633,328.40	3,812,412,101.62
Total equity attributable to shareholders of the parent company		6,857,402,951.90	6,505,987,404.43
Non-controlling interests		631,585,075.13	599,651,099.12
Total shareholders' equity		7,488,988,027.03	7,105,638,503.55
Total liabilities and shareholders' equity		15,538,115,223.39	10,529,262,952.41

Chairman of the Board and
Legal representatives:
Zhu Baoguo

Vice Chairman and
President:
Tao Desheng

Principal in charge of
accounting work:
Si Yanxia

Name of the accounting firm's
principal:
Zhuang Jianying

CONSOLIDATED INCOME STATEMENT

Prepared by: Livzon Pharmaceutical Group Inc.

Amount denominated: RMB

Item	Notes	30 June 2017	31 December 2016
I. Total operating income		4,274,758,446.48	3,784,299,658.63
Including: Operating income	VI. 40	4,274,758,446.48	3,784,299,658.63
II. Total operating costs		3,686,902,282.11	3,322,367,543.86
Including: Operating costs	VI. 40	1,503,215,468.12	1,355,315,539.67
Business taxes and surcharges	VI. 41	63,742,481.96	59,994,243.02
Selling expenses	VI. 42	1,684,605,046.08	1,501,463,348.45
Administrative expenses	VI. 43	400,516,843.08	318,315,959.37
Financial expenses	VI. 44	259,718.44	8,694,063.93
Asset impairment loss	VI. 45	34,562,724.43	78,584,389.42
Add: Gains from changes in fair value ("—" represents losses)	VI. 46	733,944.14	-416,854.57
Investment income ("—" represents losses)	VI. 47	5,084,363.02	1,684,174.09
Including: Income from investment in associates and joint ventures		585,049.99	1,046,651.54
Other income	VI. 32	9,524,623.00	
III. Operating profit ("—" represents losses)		603,199,094.53	463,199,434.29
Add: Non-operating income	VI. 48	72,877,568.90	60,093,394.63
Including: Profit from disposal of non-current assets		652,895.89	5,735,970.45
Less: Non-operating expenses	VI. 49	11,436,436.31	2,871,052.59
Including: Losses from disposal of non-current assets		7,670,643.65	217,369.82
IV. Total profit ("—" represents total losses)		664,640,227.12	520,421,776.33
Less: Income tax expenses	VI. 50	114,248,543.46	92,955,026.56
V. Net profit ("—" represents net losses)		550,391,683.66	427,466,749.77
Net profit attributable to the shareholders of the parent company		504,002,522.78	409,061,823.40
Profit or loss from non-controlling interests		46,389,160.88	18,404,926.37
VI. Other comprehensive net income after taxation	VI. 51	-18,984,809.91	1,855,202.22
Other comprehensive net income after taxation attributable to the shareholders of the parent company		-18,929,625.04	1,825,451.95
(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	30 June 2017	31 December 2016
(II) Other comprehensive income items subsequently to be re-classified as profit or loss		-18,929,625.04	1,825,451.95
1. Other comprehensive income portions subsequently to be re-classified as profit or loss of investment units using the equity method			
2. Profit and loss from change of fair value of available-for-sale financial assets		2,126,961.35	-1,133,134.18
3. Held-to-maturity investment to be reclassified 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		-21,056,586.39	2,958,586.13
6. Others			
Other comprehensive net income after taxation attributable to non-controlling interests		-55,184.87	29,750.27
VII. Total comprehensive income		531,406,873.75	429,321,951.99
Total comprehensive income attributable to the shareholders of the parent company		485,072,897.74	410,887,275.35
Total comprehensive income attributable to non-controlling interests		46,333,976.01	18,434,676.64
VIII. Earnings per share:			
(I) Basic earnings per share	XVIII.2	1.19	1.04
(II) Diluted earnings per share	XVIII.2	1.19	1.04

Chairman of the Board and
Legal representatives:
Zhu Baoguo

Vice Chairman and
President:
Tao Desheng

Principal in charge of
accounting work:
Si Yanxia

Name of the accounting firm's
principal:
Zhuang Jianying

CONSOLIDATED CASH FLOW STATEMENT

Prepared by: Livzon Pharmaceutical Group Inc.

Amount denominated: RMB

Item	Notes	For the Period	For the Previous Period
I. Cash flows from operating activities:			
Cash received from sale of goods and rendering of services		4,155,737,239.39	3,511,468,937.29
Refund of taxes		18,822,794.00	22,986,914.48
Cash received relating to other operating activities	VI.52	104,355,190.42	84,125,713.82
Sub-total of cash inflows from operating activities		4,278,915,223.81	3,618,581,565.59
Cash paid for purchasing goods and services		1,046,325,931.48	938,862,776.69
Cash paid to and for employees		344,900,636.27	301,912,677.49
Cash paid for all types of taxes		646,234,979.87	534,217,034.36
Cash paid relating to other operating activities	VI.52	1,794,072,822.54	1,535,665,372.65
Sub-total of cash outflows from operating activities		3,831,534,370.16	3,310,657,861.19
Net cash flows from operating activities		447,380,853.65	307,923,704.40
II. Cash flows from investing activities:			
Cash received from disposal of investments		404,080,530.00	
Cash received from return on investments		4,209,870.84	165,222.25
Net cash received from disposal of fixed assets, intangible assets and other long-term assets		1,893,382.00	572,667.31
Net cash received from disposal of subsidiaries and other operating entities			62,999,265.69
Cash received relating to other investing activities	VI.52	400,000,000.00	14,510,483.09
Sub-total of cash inflows from investing activities		810,183,782.84	78,247,638.34
Cash paid for acquisition of fixed assets, intangible assets and other long-term assets		119,525,288.38	178,102,206.27
Cash paid for investments		103,096,282.74	22,575,000.00
Net cash paid for acquisition of subsidiaries and other operating entities			
Cash paid relating to other investing activities			
Sub-total of cash outflows from investing activities		222,621,571.12	200,677,206.27
Net cash flows from investing activities		587,562,211.72	-122,429,567.93
III. Cash flows from financing activities:			
Cash received from investors		15,000,000.00	
Including: Cash received from non-controlling shareholders of subsidiaries		15,000,000.00	
Cash received from borrowings			860,000,000.00
Cash received from issue of financing bills			
Cash received relating to other financing activities	VI.52	1,753,334.52	1,007,821.00
Sub-total of cash inflows from financing activities		16,753,334.52	861,007,821.00
Cash repayments of borrowings		350,000,000.00	650,000,000.00
Cash paid for dividends, profit distributions or interest		35,669,315.07	257,174,465.17
Including: Dividends and profits paid to non-controlling shareholders of subsidiaries		29,400,000.00	31,850,000.00
Cash paid relating to other financing activities	VI.52	6,050,621.02	5,027,224.20
Sub-total of cash outflows from financing activities		391,719,936.09	912,201,689.37
Net cash flows from financing activities		-374,966,601.57	-51,193,868.37
IV. Effect of foreign exchange rate changes on cash and cash equivalents		-22,141,605.59	4,146,713.28
V. Net increase in cash and cash equivalents		637,834,858.21	138,446,981.38
Add: Cash and cash equivalents at the beginning of the period		2,061,923,004.89	767,093,403.45
VI. Cash and cash equivalents at the end of the period		2,699,757,863.10	905,540,384.83

Chairman of the Board and
Legal representatives:
Zhu Baoguo

Vice Chairman and
President:
Tao Desheng

Principal in charge of
accounting work:
Si Yanxia

Name of the accounting firm's
principal:
Zhuang Jianying

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

Prepared by: Livzon Pharmaceutical Group Inc.

Amount denominated: RMB

Item	For the period											Total shareholders' equity					
	Attributable to shareholders of the Parent Company											Non-controlling interests		Total shareholders' equity			
	Share capital	Other equities	Preferred Shares	Other equities	Residual Bonds	Capital reserve	Treasury shares	Other Comprehensive Income	Special reserve	Surplus reserve	General risks provision	Retained earnings					
Balance at 31 December 2016	425,730,260.00					1,800,300,672.12	14,321,062.13	44,321,062.13	60,270.19		907,255,962.30	3,104,427,015.20	598,557,896.12	7,165,034,503.55	396,885,547.00	465,647,412.27	4,881,967,453.53
After effects of change in accounting policies																	
Effects of corrections in errors in prior years																	
Business combination under common control																	
Others																	
Balance at 1 January 2017	425,730,260.00					1,800,300,672.12	14,321,062.13	44,321,062.13	60,270.19		907,255,962.30	3,104,427,015.20	598,557,896.12	7,165,034,503.55	396,885,547.00	465,647,412.27	4,881,967,453.53
(I) Changes in equity for the year																	
(1) "—" represents decrease																	
(i) Total comprehensive income	-149,539.00					14,032,621.31	-45,954,617.20	-18,935,625.04				239,227,225.28	31,313,376.81	383,248,532.48		231,017,088.00	231,017,088.00
(ii) Shareholders' contributions and decrease of capital								-18,935,625.04				598,000,520.28	4,313,376.81	539,668,777.25		184,847,366.40	439,370,957.99
(i) Shareholders' contributions and decrease of capital	-149,539.00					-2,307,151.14	-45,954,617.20						55,000.00	79,249,207.65		4,022,332.00	19,567,379.21
1. Ordinary shares issued by shareholders													55,000.00	55,000,000.00		4,533,330.00	4,533,330.00
2. Capital contributed by holders of other equities																	
3. Increase in shareholders' equity resulted from share-based payments																	
4. Others																	
(ii) Appropriation of profits	-149,539.00					-2,307,151.14	-45,954,617.20					-12,701,266.60	-29,600,000.00	67,790,307.04		-18,444,775.50	99,251,546.72
1. Appropriation of surplus reserve													-29,600,000.00	-342,011,264.00		-36,790,000.00	-355,614,775.50
2. Appropriation of general risk provision																	
3. Distribution to shareholders																	
4. Others																	
(iii) Transfer of shareholders' equity internally																	
1. Capital reserve transferred to capital (or share capital)																	
2. Surplus reserve transferred to capital (or share capital)																	
3. Surplus reserve transferred to retained earnings (or share income)																	
4. Others																	
(iv) Special reserve																	
1. Appropriation of special reserve																	
2. Utilization of special reserve																	
Balance at 31 December 2017	425,592,060.00					1,804,441,114.05	17,441,693.67	75,933,381.20	-13,536,677.85		907,255,962.30	4,108,632,384.40	615,667,513.00	7,165,034,503.55	396,885,547.00	-36,790,000.00	486,599,427.91
Others																	

Chairman of the Board and
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Tao Desheng

Principal in charge of
accounting work:
Si Yanxia

Name of the accounting firm's
principal:
Zhuang Jianying

BALANCE SHEET

Prepared by: Livzon Pharmaceutical Group Inc.

Amount denominated: RMB

Item	Notes	30 June 2017	31 December 2016
Current assets:			
Cash at bank and on hand		5,807,224,934.56	1,606,485,665.85
Financial assets at fair value through profit or loss			
Derivative financial assets			
Bills receivables		424,584,045.20	378,167,573.35
Accounts receivables	XVII.1	890,915,379.69	750,555,294.60
Prepayments		8,982,377.05	7,714,173.54
Interest receivables			
Dividends receivables		391,650,975.80	177,917,013.08
Other receivables	XVII.2	2,038,998,050.47	1,597,868,171.05
Inventories		317,544,152.73	544,807,287.12
The non-current assets classified as held for sale or the part of disposal group classified as held for sale		235,841,100.00	
Non-current assets due within one year			
Other current assets		250,742,769.71	659,787,830.58
Total current assets		10,366,483,785.21	5,723,303,009.17
Non-current assets:			
Available-for-sale financial assets		146,171,473.44	146,794,165.97
Held-to-maturity investments			
Long-term receivables			
Long-term equity investments	XVII.3	1,922,596,213.52	2,129,168,228.64
Investment properties			
Fixed assets		55,529,202.56	57,527,592.11
Construction in progress		1,333,336.74	
Construction supplies			
Fixed assets to be disposed			
Bearer biological assets			
Oil and gas assets			
Intangible assets		21,897,514.49	27,692,003.80
Development costs		18,430,897.97	14,821,797.96
Goodwill			
Long-term deferred expenses		60,000.00	120,000.00
Deferred tax assets		37,091,853.95	23,188,326.48
Other non-current assets		19,193,598.03	13,151,166.62
Total non-current assets		2,222,304,090.70	2,412,463,281.58
Total assets		12,588,787,875.91	8,135,766,290.75

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Zhuang Jianying

BALANCE SHEET

Prepared by: Livzon Pharmaceutical Group Inc.

Amount denominated: RMB

Item	Notes	30 June 2017	31 December 2016
Current liabilities:			
Short-term loans			
Financial liabilities at fair value through profit or loss			
Derivatives financial liabilities			
Bills payables		796,681,185.27	357,658,571.27
Accounts payables		855,910,557.29	959,772,950.49
Receipts in advance		3,786,475,654.26	27,009,355.74
Employee benefits payables		16,197,665.51	21,646,582.84
Taxes payables		35,775,715.19	33,984,535.88
Interest payables			3,812,602.74
Dividends payables		212,801,470.46	20,174.46
Other payables		2,298,196,770.98	2,818,149,364.34
Liabilities of disposal group classified as held for sale			
Non-current liabilities due within one year			
Other current liabilities			350,000,000.00
Total current liabilities		8,002,039,018.96	4,572,054,137.76
Non-current liabilities:			
Long-term loans			
Notes payables			
Of which: preferred shares			
Perpetual bonds			
Long-term payables			
Long-term employee benefits payables			
Special payables			
Accrued liabilities			
Deferred gain		28,983,338.51	28,983,338.51
Deferred tax liabilities		5,236,015.15	4,026,425.14
Other non-current liabilities			
Total non-current liabilities		34,219,353.66	33,009,763.65
Total liabilities		8,036,258,372.62	4,605,063,901.41
Shareholders' equity:			
Share capital		425,562,592.00	425,730,126.00
Other equity instruments			
Of which: Preferred shares			
Perpetual bonds			
Capital reserve		1,955,968,423.00	1,941,836,360.47
Less: Treasury shares		75,162,388.20	140,321,805.40
Other consolidated earnings		9,921,210.84	7,794,249.49
Special reserve			
Surplus reserve		382,292,109.32	382,292,109.32
General risks provision			
Unallocated earnings		1,853,947,556.33	913,371,349.46
Total shareholders' equity		4,552,529,503.29	3,530,702,389.34
Total liabilities and shareholders' equity		12,588,787,875.91	8,135,766,290.75

Chairman of the Board and
Legal representatives:
Zhu Baoguo

Vice Chairman and
President:
Tao Desheng

Principal in charge of
accounting work:
Si Yanxia

Name of the accounting firm's
principal:
Zhuang Jianying

INCOME STATEMENT

Prepared by: Livzon Pharmaceutical Group Inc.

Amount denominated: RMB

Item	Notes	For the period	For the Previous period
I. Operating income	XVII.4	2,519,389,541.44	2,315,400,043.19
Less: Operating costs	XVII.4	1,429,118,380.09	1,173,286,453.29
Business taxes and surcharges	XVII.5	22,742,308.34	23,462,702.38
Selling expenses		1,041,682,556.02	963,730,130.20
Administrative expenses		145,213,452.28	121,852,065.63
Financial expenses		-25,105,084.54	-10,276,818.33
Asset impairment loss		13,793,748.43	12,693,154.15
Add: Gains from changes in fair value ("—" represents losses)			
Investment income ("—" represents losses)	XVII.6	1,214,323,982.87	353,239,868.61
Including: Gains from investment in associates and joint ventures		-730,915.12	-644,508.87
Other income		3,315,800.00	
II. Operating profit ("—" represents losses)		1,109,583,963.69	383,892,224.48
Add: Non-operating income		41,569,037.12	41,241,142.77
of which: proceeds from disposal of non-current assets		71,538.46	5,921.77
Less: Non-operating expenses		10,864,781.52	47,404.88
of which: Losses from disposal of non-current assets		31,051.67	47,404.88
III. Total profit ("—" represents total losses)		1,140,288,219.29	425,085,962.37
Less: Income tax expenses		-13,069,283.58	6,400,095.47
IV. Net profit ("—" represents net losses)		1,153,357,502.87	418,685,866.90
Including: Profit or loss from continuing operations			
Profit or loss from discontinued operations			
V. Other comprehensive income after tax, net		2,126,961.35	-1,133,134.18
(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		2,126,961.35	-1,133,134.18
1. Other comprehensive income portions subsequently to be re-classified as profit or loss of investment units using the equity method			
2. Profit and loss from change of fair value of available-for-sale financial assets		2,126,961.35	-1,133,134.18
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			
VI. Total comprehensive income		1,155,484,464.22	417,552,732.72

Chairman of the Board and
Legal representatives:
Zhu Baoguo

Vice Chairman and
President:
Tao Desheng

Principal in charge of
accounting work:
Si Yanxia

Name of the accounting firm's
principal:
Zhuang Jianying

CASH FLOW STATEMENT

Prepared by: Livzon Pharmaceutical Group Inc.

Amount denominated: RMB

Item	Notes	For the period	For the Previous period
I. Cash flows from operating activities:			
Cash received from sale of goods and rendering of services		2,707,217,792.96	2,391,571,605.55
Refund of taxes			
Cash received relating to other operating activities		65,884,063.83	65,819,106.59
Sub-total of cash inflows from operating activities		2,773,101,856.79	2,457,390,712.14
Cash paid for purchasing goods and services		1,525,231,196.68	1,132,535,456.34
Cash paid to and for employees		62,923,733.00	50,824,933.41
Cash paid for all types of taxes		174,555,460.62	200,079,396.20
Cash paid relating to other operating activities		1,068,076,998.75	979,598,141.27
Sub-total of cash outflows from operating activities		2,830,787,389.05	2,363,037,927.22
Net cash flows from operating activities		-57,685,532.26	94,352,784.92
II. Cash flows from investing activities:			
Cash received from disposal of investments		403,125,000.00	
Cash received from return on investments		1,001,552,233.36	31,964,448.75
Net cash received from disposal of fixed assets, intangible assets and other long-term assets		86,700.00	166,500.00
Cash received relating to other investing activities		400,000,000.00	
Sub-total of cash inflows from investing activities		1,804,763,933.36	32,130,948.75
Cash paid for acquisition of fixed assets, intangible assets and other long-term assets		5,055,396.36	7,757,412.55
Cash paid for acquisition of investments		30,000,000.00	3,000,000.00
Cash paid relating to other investing activities			
Sub-total of cash outflows from investing activities		35,055,396.36	10,757,412.55
Net cash flows from investing activities		1,769,708,537.00	21,373,536.20
III. Cash flows from financing activities:			
Cash received from investors			
Borrowings received from subsidiaries			568,872,360.33
Cash received from borrowings			430,000,000.00
Cash received from issue of bonds			
Cash received relating to other financing activities		1,753,334.52	1,007,821.00
Sub-total of cash inflows from financing activities		1,753,334.52	999,880,181.33
Cash repayments of borrowings		350,000,000.00	400,000,000.00
Cash paid for dividends, profit distributions or interest		7,249,315.07	216,363,731.81
Advances to subsidiaries		132,573,105.44	
Cash paid relating to other financing activities		385,573,224.01	632,885,689.92
Sub-total of cash outflows from financing activities		875,395,644.52	1,249,249,421.73
Net cash flows from financing activities		-873,642,310.00	-249,369,240.40
IV. Effect of foreign exchange rate changes on cash and cash equivalents		-4,633.78	3,878.57
V. Net increase in cash and cash equivalents		838,376,060.96	-133,639,040.71
Add: Cash and cash equivalents at the beginning of the period		1,606,485,665.85	677,465,238.87
VI. Cash and cash equivalents at the end of the period		2,444,861,726.81	543,826,198.16

Chairman of the Board and
Legal representatives:
Zhu Baoguo

Vice Chairman and
President:
Tao Desheng

Principal in charge of
accounting work:
Si Yanxia

Name of the accounting firm's
principal:
Zhuang Jianying

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

Prepared by: Livzon Pharmaceutical Group Inc.

Amount denominated: RMB

Item	For the period										For the previous period											
	Share capital	Preferred Shares	Other Equities	Capital reserve	Less Treasury shares	Comprehensive income	Special reserve	Surplus reserve	General risks provision	Retained earnings	Total shareholders' equity	Share capital	Preferred Shares	Other Equities	Capital reserve	Less Treasury shares	Comprehensive income	Special reserve	Surplus reserve	General risks provision	Retained earnings	Total shareholders' equity
Balance at 31 December 2016	425,720,126.00			1,941,835,360.47	140,320,005.40	7,794,248.49		382,251,059.32		913,371,348.46	3,250,702,383.34	396,883,547.00			517,236,633.50	247,719,357.00	8,553,340.22		341,647,498.08		745,855,809.84	1,761,002,466.64
Add: effect of changes in accounting policies																						
Effect of corrections on errors in prior years																						
Others																						
Balance at 1 January 2017	425,720,126.00			1,941,835,360.47	140,320,005.40	7,794,248.49		382,251,059.32		913,371,348.46	3,250,702,383.34	396,883,547.00			517,236,633.50	247,719,357.00	8,553,340.22		341,647,498.08		745,855,809.84	1,761,002,466.64
III. Changes in equity for the year																						
(*) - represents decrease																						
(i) Total comprehensive income	-467,534.00			14,132,662.53	-45,159,417.20	2,126,961.35				940,576,268.87	4,014,827,113.95			19,699,365.35	-90,144,746.80	-1,133,134.18					202,241,093.40	338,952,071.37
(ii) Shareholders' contributions and decrease of capital										1,153,357,592.87	1,155,484,464.22										403,635,866.90	417,552,732.72
1. Ordinary shares issued by shareholders																						
2. Capital contributed by holders of other equities																						
3. Increase in shareholders' equity realized from share-based payments																						
4. Others	-467,534.00			-3,207,576.14	-45,159,417.20						61,704,307.06			107,198.92	-90,144,746.80						-98,444,773.50	-98,444,773.50
(iii) Appropriation of profits																						
1. Appropriation of surplus reserve										-212,701,256.00	-212,701,256.00											
2. Appropriation of general risks provision																						
3. Distributions to shareholders																						
4. Others																						
(iv) Transfer of shareholders' equity internally																						
1. Capital reserve transferred to capital (or share capital)										-212,701,256.00	-212,701,256.00											
2. Surplus reserve transferred to capital (or share capital)																						
3. Surplus reserves transferred to retained earnings for losses incurred																						
4. Others																						
(v) Special reserve																						
1. Appropriation of special reserve																						
2. Utilization of special reserve																						
(vi) Others																						
Balance at 31 December 2017	425,552,592.00			1,956,968,423.00	75,162,388.20	9,921,210.84		382,251,059.32		1,653,947,556.33	4,552,535,593.29	396,883,547.00			537,136,033.85	157,075,702.20	7,430,806.04		341,647,498.08		966,126,903.24	2,092,555,680.01
																			</			

Chairman of the Board and
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Vice Chairman and
President:
Tao Desheng

Principal in charge of
accounting work:
Si Yanxia

Name of the accounting firm's
principal:
Zhuang Jianying

NOTES TO THE 2017 INTERIM FINANCIAL STATEMENTS (UNAUDITED)

(Unless specified otherwise, all amounts are denominated in RMB)

I. COMPANY STATUS

1. History and development

In March 1992, Livzon Pharmaceutical Group Inc. (麗珠醫藥集團股份有限公司) (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 (深人銀復字[1993]第239號文) issued by Shenzhen Special Economic Zone branch of the People’s Bank of China (中國人民銀行深圳經濟特區分行) and Zheng Jian Fa Shen Zi [1993] No. 19 document (證監發審字[1993]19號文) issued by China Securities Regulatory Commission (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 THE 2017 INTERIM FINANCIAL STATEMENTS (UNAUDITED)

(Unless specified otherwise, all amounts are denominated in RMB)

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 RMB304,382,252. 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 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 THE 2017 INTERIM FINANCIAL STATEMENTS (UNAUDITED)

(Unless specified otherwise, all amounts are denominated in RMB)

I. COMPANY STATUS *(continued)*

1. History and development *(continued)*

Pursuant to “the Resolution on Repurchase and Cancellation of Locked Restricted Shares Granted to Incentive Participants No Longer Satisfying the Conditions for Incentive” considered and approved by the 16th Board Meeting of the 8th Session of the Board (27 October 2015), 93,080 shares were repurchased. After the repurchase, the Company’s share capital has changed to RMB395,603,847. This capital reduction was validated and confirmed by Capital Verification Report 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. The Company’s share capital following the exercise of options has changed to RMB396,631,923. This capital reduction was validated and confirmed by Capital Verification Report Rui Hua Yan Zi [2016]40030011 issued by Ruihua issued by Ruihua Certified Public Accountants.

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

Pursuant to “the Resolution on Repurchase and Cancellation of Locked Restricted Shares Granted to Incentive Participants No Longer Satisfying the Conditions for Incentive” considered and approved by the 32nd Board Meeting of the 8th Session of the Board (30 November 2016) and the 36th Board Meeting of the 8th Session of the Board (28 March 2017), 167,534 shares were repurchased. After the repurchase, the Company’s share capital has changed to RMB425,562,592. This capital reduction was validated and confirmed by Capital Verification Report Rui Hua Yan Zi [2017]40030001 and [2017]40030007 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.

NOTES TO THE 2017 INTERIM FINANCIAL STATEMENTS (UNAUDITED)

(Unless specified otherwise, all amounts are denominated in RMB)

I. COMPANY STATUS *(continued)*

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).

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 22 August 2017.

Please refer to note. VIII "Equity in other entities" for names of subsidiaries included into the consolidation in January to June 2017. One subsidiary is added compared with the previous year, please refer to note. VII "Change to consolidation scope".

II. BASIS OF PREPARATION FOR THE FINANCIAL STATEMENTS

The financial statements have been prepared by the Company on the basis of going concern, actual transactions and events. The financial statements were prepared in accordance with the Accounting Standards for Business Enterprises—Basic Standards (issued as MOF Decree No. 33, revised as MOF Decree No. 76), and another 42 specific accounting standards amended on or after 15 February 2006. The financial statements were also prepared based on the Accounting Standards for Business Enterprises—Application Guide, interpretations to the Accounting Standards for Business Enterprises and the other related provisions (together the "Accounting Standards for Business Enterprises"), and the disclosure provisions of the Information Disclosure and Presentation Rules for Companies Offering Securities to the Public No. 15—General Provisions on Financial Reporting (Revised in 2014) issued by the China Securities Regulatory Commission.

In accordance with the applicable provisions under the Accounting Standards for Business Enterprises, the Company uses the accrual method as its basis of accounting. Except certain financial instruments, accounting items are generally measured at historical cost in the financial statements. The held-for-sale non-fixed assets are measured at the fair value less the estimated expense or the original carrying value 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 2017 and the results and cash flow of the Company for January-June 2017. 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.

NOTES TO THE 2017 INTERIM FINANCIAL STATEMENTS (UNAUDITED)

(Unless specified otherwise, all amounts are denominated in RMB)

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

1. Accounting period

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

2. 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 values as recorded by the enterprise being combined on the combination date. The difference between the carrying value of the net assets acquired and the carrying value 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.

NOTES TO THE 2017 INTERIM FINANCIAL STATEMENTS (UNAUDITED)

(Unless specified otherwise, all amounts are denominated in RMB)

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(continued)

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

(2) Business combinations involving enterprises not under common control

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

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

NOTES TO THE 2017 INTERIM FINANCIAL STATEMENTS (UNAUDITED)

(Unless specified otherwise, all amounts are denominated in RMB)

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(continued)

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

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

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

In the separate financial statements, the initial investment cost of the investment is the sum of the carrying value 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 value 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.

NOTES TO THE 2017 INTERIM FINANCIAL STATEMENTS (UNAUDITED)

(Unless specified otherwise, all amounts are denominated in RMB)

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(continued)

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

(2) Preparation of consolidated financial statements

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

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

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

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 12 (Long-term equity investment) and note IV 8 (Financial Instruments) for details.

NOTES TO THE 2017 INTERIM FINANCIAL STATEMENTS (UNAUDITED)

(Unless specified otherwise, all amounts are denominated in RMB)

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(continued)

5. Preparation of consolidated financial statements (continued)

(2) Preparation of consolidated financial statements (continued)

Where the Company disposes of the equity investment in the subsidiary through several transactions until the Company loses control, it shall be determined whether such transactions are a basket of transactions. Where the terms, conditions and economic impacts of various transactions involved in the disposal of the equity investment in the subsidiary satisfy one or several of the following circumstances, such several transactions shall be normally deemed as a basket of transactions in accounting treatment: (1) Such transactions are entered into simultaneously or upon the consideration of the mutual impacts; (2) No complete commercial result will be realised without such transactions as a whole; (3) The occurrence of one transaction depends on the occurrence of at least another transaction; (4) One transaction is not economical independently but economical together with other transactions. In case no basket of transactions is constituted, each transaction is subject to the accounting treatment separately based on the applicable principles stipulated in "Partial disposal of the long-term equity investment in subsidiaries without losing control" (note IV 12 (2) (4)) and "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 THE 2017 INTERIM FINANCIAL STATEMENTS (UNAUDITED)

(Unless specified otherwise, all amounts are denominated in RMB)

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(continued)

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

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

Non-monetary items denominated in foreign currencies that are measured at historical cost are translated to functional currency using the foreign exchange rate at the transaction date. Non-monetary items denominated in foreign currencies that are measured at fair value are translated using the foreign exchange rate at the date the fair value is determined; the resulting exchange differences are dealt with as the change in fair value (including the change in exchange rate) and recognised in profit or loss for the 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 period upon translation; the non-distributed profit at the end of the period is presented based on the items of translated profit appropriation; the differences between the assets and the sum of the liabilities and the shareholders’ equity are recognised as the other comprehensive income. When the Company disposes of the overseas operation and loses control, the differences arising from the translation of the financial statements in foreign currency that are presented under the shareholders’ equity in the balance sheet and related to the overseas operation are carried forward to the profit or loss for the 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.

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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.

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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 value 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.

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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 value 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 value 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 value 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 value 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.

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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 value 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 value 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 value are recognised in the profit or loss for the period.

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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.

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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 value 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) Derivatives and embedded derivatives

Derivatives are initially measured at fair value at the date when the derivative contracts are entered into and are subsequently re-measured at fair value. The gain or loss arising from the change in fair value of a derivative is recognised in profit or loss for the current period, unless the derivative is designated and highly effective as a hedging instrument, in which case the timing of the recognition in profit or loss depends on the nature of the hedge relationship in accordance with hedging accounting policies.

An embedded derivative is separated from the hybrid instrument, where the hybrid instrument is not designated as a financial asset or financial liability at fair value through profit or loss, and treated as a stand-alone derivative if the economic characteristics and risks of the embedded derivative are not closely related to those of the host contract, and a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative. If the Group is unable to measure the embedded derivative separately either at acquisition or at a subsequent balance sheet date, it will designate the entire hybrid instrument as a financial asset or financial liability at fair value through profit or loss.

(8) 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.

(9) 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.

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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 value 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 value of the receivables over the estimated present value of future cash flow.

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

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

Amount of more than 10% of the balance of receivables

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

If there is objective evidence of impairment noted in the individual impairment test, provisions for bad debts are made based on the excess of the carrying value 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

Basis for determining the portfolio

Basis for determining portfolio of credit risk by ageing

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:

Ageing	Percentage of provision for accounts receivables	Percentage of provision for other receivables
within one year (including one year)	5%	5%
1-2 years (including 2 years)	6%	6%
2-3 years (including 3 years)	20%	20%
3-4 years (including 4 years)	70%	70%
4-5 years (including 5 years)	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.

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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

Basis for determining the portfolio	Amount that are not individually significant and aged over 3 years
Method of bad debts provision	For the individual impairment test, provisions for bad debts are made as the excess of the carrying value 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 value 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 value 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.

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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 value, 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. Non-current assets and disposal groups held for sale

A non-current asset or disposal group will be classified under held-for-sale category where the Company recovers the carrying value of the non-current asset or disposal group mainly through the disposal of (including non-monetary assets exchange with commercial substance, the same below) them instead of the continuous use of them. The specific criterion is to satisfy all of the conditions mentioned below: According to the practice of disposing of this type of assets or disposal groups in a similar transaction, a non-current asset or disposal group can be disposed of at its current condition; The Company has made resolution on the disposal plan and obtained definite purchase commitment from buyer; The disposal is estimated to be completed within one year. Among them, disposal group is a group of assets which are disposed of together through sale or other means as a whole in a transaction, and the liabilities transferred in the transaction which are directly associated with those assets. Where the asset group or groups to which a disposal group belongs share the goodwill acquired in the business merger according to Accounting Standards for Business Enterprises 8 — Impairment of Assets, the disposal group shall include the goodwill allocated to it.

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

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IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(continued)

11. Non-current assets and disposal groups held for sale *(continued)*

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

When the non-current asset or disposal group doesn't meet the classification condition of the held-for-sale category, the Company ceases to classify them into held-for-sale category or remove the non-current asset from the held-for-sale disposal group, and measures it at the lower of: (1) its carrying value before it's classified into held-for-sale category, after being adjusted with the depreciation, amortization or impairment which could have been recognized as if it's not classified into held-for-sale category; (2) recoverable amount.

12. Long-term equity investment

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

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

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

(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.

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.

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IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(continued)

12. Long-term equity investment (continued)

(2) Subsequent measurement and recognition of profit or loss

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

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.

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.

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IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(continued)

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

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

3 Acquisition of non-controlling interests

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

4 Disposal of long-term equity investment

In the consolidated financial statements, if the parent disposes part of the long-term equity investment in the subsidiary without losing its control, the difference between the disposal price and the Company's share in the net assets of the subsidiary 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.

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IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(continued)

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

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

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

13. Investment Properties

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

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

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

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

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

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

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IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(continued)

13. 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.

14. Fixed Assets

(1) Recognition of fixed assets

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

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

(2) Classification of fixed assets

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

(3) Measurement of fixed assets

Fixed assets are initially measured at cost.

- 1 Where the payment for purchase of a fixed asset is postponed beyond the normal credit terms, which constitutes financing transaction in substance, the present value of the purchase price is recognised as the cost of fixed assets.
- 2 The fixed assets acquired from debtor under debt restructuring are measured at the fair value, and the difference between the carrying amount of the restructured debt and the fair value of the fixed assets acquired from debtor under debt restructuring is recognised in the profit or loss for the 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.

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IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(continued)

14. Fixed Assets (continued)

(3) Measurement of fixed assets (continued)

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

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

(4) Method for depreciation of fixed assets

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

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

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

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

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

15. Construction in progress

(1) Classification of construction in progress

Construction in progress is classified into individual projects.

(2) Conversion of construction in progress to fixed assets

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

(3) Impairment of construction in progress

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

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IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(continued)

16. Borrowing Costs

- (1) For the borrowing costs incurred by the Company directly attributable to the acquisition, construction or production of a qualifying asset, they are capitalised as part of the cost of the asset. Other borrowing costs are recognised as expenses when incurred and charged to profit or loss for the 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.

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IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(continued)

16. 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.

17. Biological Assets

(1) Determination and classification of biological assets

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

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

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

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

The consumable biological assets are reviewed at least once at the end of each 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.

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IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(continued)

18. Intangible Assets

(1) Intangible assets

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

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

Intangible assets are measured initially at cost.

- 1 Where the payment for acquisition of an intangible asset is postponed beyond the normal credit terms, which constitutes financing transaction in substance, the present value of the purchase price is recognised as the cost of fixed assets.
- 2 The intangible assets acquired from debtor under debt restructuring are measured at the fair value, and the difference between the carrying amount of the restructured debt and the fair value of the intangible assets acquired from debtor under debt restructuring is recognised in the profit or loss for the 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.

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IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(continued)

18. 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.

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.

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IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(continued)

18. Intangible Assets *(continued)*

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

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

19. Long-term deferred expenses

Long-term deferred expenses are the various expenses already incurred but to be amortised 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.

20. Impairment of Non-fixed Non-financial Assets

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

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

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

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

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IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(continued)

21. 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.

22. 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.

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IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(continued)

22. Provisions (continued)

(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.

23. Share-based payments

(1) Accounting treatment for share-based payments

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

1 *Equity-settled share-based payments*

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

At each balance sheet date during the pending period, the Company, based on the latest subsequent information such as the latest update on the change in the number of entitled employees, makes best estimates to adjust the expected number of equity instruments that can be vested. The effect of the above estimate is included in relevant costs or expenses for the period and the capital reserve is adjusted accordingly.

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IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(continued)

23. Share-based payments *(continued)*

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

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

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.

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IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(continued)

23. 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).

24. 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 THE 2017 INTERIM FINANCIAL STATEMENTS (UNAUDITED)

(Unless specified otherwise, all amounts are denominated in RMB)

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(continued)

25. 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.

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(Unless specified otherwise, all amounts are denominated in RMB)

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(continued)

26. 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.

Government grants related to the daily activities of the Company will be recognised in other revenue according to business nature; government grants unrelated to daily activities of the Company will be recognised in non-operating revenue.

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 THE 2017 INTERIM FINANCIAL STATEMENTS (UNAUDITED)

(Unless specified otherwise, all amounts are denominated in RMB)

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(continued)

27. 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.

28. 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 THE 2017 INTERIM FINANCIAL STATEMENTS (UNAUDITED)

(Unless specified otherwise, all amounts are denominated in RMB)

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(continued)

28. 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

29. 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;

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IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(continued)

29. 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.

30. 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 THE 2017 INTERIM FINANCIAL STATEMENTS (UNAUDITED)

(Unless specified otherwise, all amounts are denominated in RMB)

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(continued)

30. 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.

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

(1) Change of accounting policy

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

- 1 On 28 April 2017, the Ministry of Finance issued the Accounting Standards for Business Enterprises 42—Non-current assets, Disposal Groups Classified as Held for Sale and Discontinued Operation Caikuai [2017] No.13, which came into effect from 28 May 2017. On 10 May 2017, the Ministry of Finance issued the Accounting Standards for Business Enterprises 16—Government grants (2017 revision), which came into effect on 12 June 2017. As approved by the resolution passed on the third meeting of the ninth session of the Board held on 22 August 2017, the Company adopted the foregoing two accounting standards from the time as required by the Ministry of Finance.
- 2 According to the Provisions Concerning the Accounting Treatments on Value-Added Tax (Cai kuai [2016] No. 22) issued by the Ministry of Finance, the Previous Period's figures are adjusted as follows:

Items	January-June 2016					
	Consolidated financial statements			Parent Company's financial statements		
	Amount before adjustment	Changes	Amount after adjustment	Amount before adjustment	Changes	Amount after adjustment
Taxes and surcharges	48,862,604.54	11,131,638.48	59,994,243.02	22,354,930.17	1,107,772.21	23,462,702.38
Administrative fees	329,447,597.85	-11,131,638.48	318,315,959.37	122,959,837.84	-1,107,772.21	121,852,065.63

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

Nil.

NOTES TO THE 2017 INTERIM FINANCIAL STATEMENTS (UNAUDITED)

(Unless specified otherwise, all amounts are denominated in RMB)

V. TAXATION

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

Types of tax	Basis of taxation	Tax rate
Value added tax	Income from sales of products and raw materials	Value added tax rate for sales of biological preparation: 3% and 6%, value added tax rate for other sales: 17%.
Business tax	Taxable operating income	5%
Urban maintenance and construction tax	Turnover tax to be paid	1%, 5%, 7%
Education surcharges	Turnover tax to be paid	3%
Local education surcharges	Turnover tax to be paid	Note 1
Enterprise income tax	Taxable income	Note 2

Note 1. The Company and its subsidiaries that are incorporated in Zhuhai shall pay local education surcharges that is charged as 2% of the turnover tax to be paid. Other subsidiaries shall pay local education surcharges according to the tax rate as specified at its place of incorporation on the basis of turnover tax to be paid.

Note 2. The enterprise income tax rate applicable to the Company and its subsidiaries are set out as follows:

Name	Actual tax rate	Remarks
Livzon Pharmaceutical Biotechnology Co., Limited (麗珠醫藥生物科技有限公司), Lian (Hong Kong) Co., Ltd. (麗安香港有限公司)	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), Pharmaceutical Factory (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. (上海麗珠生物科技有限公司)	15%	Shanghai Livzon Biotechnology Co., Ltd. (上海麗珠生物科技有限公司) 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. (麗珠集團新北江製藥有限公司) and Zhuhai Livzon Diagnostic Reagents Inc. (珠海麗珠試劑股份有限公司) were recognised as high and new technology enterprises in 2016 for a valid period of three years and other enterprises have been reapplied for the recognition of high and new technology enterprises during the year.
Livzon Group Ningxia Fuxing Pharmaceutical Manufacturing Co., Ltd. (麗珠集團寧夏福興製藥有限公司), Livzon Group Ningxia Xinbeijiang Pharmaceutical Manufacturing Co., Ltd. (麗珠集團寧夏新北江製藥有限公司)	15%	Livzon Group Ningxia Fuxing Pharmaceutical Manufacturing Co., Ltd. (麗珠集團寧夏福興製藥有限公司) and Livzon Group Ningxia Xinbeijiang Pharmaceutical Manufacturing Co., Ltd. (麗珠集團寧夏新北江製藥有限公司) were approved to enjoy the tax preference of the Encouraged Industries in Western China during the year
Other subsidiaries	25%	

NOTES TO THE 2017 INTERIM FINANCIAL STATEMENTS (UNAUDITED)

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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), Pharmaceutical Factory (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 been reapplied for the recognition of high and new technology enterprises during the year. 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 enjoyed preferential taxation policies applicable to high and new technology enterprises since 2016 for a valid period of three years; Shanghai Livzon Biotechnology Co., Ltd. (上海麗珠生物科技股份有限公司) is entitled to the preferential taxation policies applicable to high and new technology enterprises for three years since 2015; Livzon Group Ningxia Fuxing Pharmaceutical Manufacturing Co., Ltd. (麗珠集團寧夏福興製藥有限公司) and Livzon Group Ningxia Xinbeijiang Pharmaceutical Manufacturing Co., Ltd. (麗珠集團寧夏新北江製藥有限公司) were approved to enjoy the tax preference of the Encouraged Industries in Western China during the year. Such subsidiaries were subject to an enterprise income tax rate of 15% for the 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, Livzon Pharmaceutical Biotechnology Co., Limited (麗珠醫藥生物科技股份有限公司) 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 THE 2017 INTERIM FINANCIAL STATEMENTS (UNAUDITED)

(Unless specified otherwise, all amounts are denominated in RMB)

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	170,285.08	125,085.29
Bank deposits	6,713,508,910.72	2,060,784,878.76
Other cash at bank and in hand	90,308,667.30	1,013,040.84
Total	6,803,987,863.10	2,061,923,004.89
In which: total overseas deposit	715,344,760.69	233,154,094.99

- (1) Other cash at bank and on hand are mainly deposits for investments and guarantee for letter of credit.
- (2) Bank deposit subject to third-party supervision and restricted funds such as guarantee for letter of credit 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
Capital subject to third-party supervision	4,102,000,000.00	0.00
Guarantee for letter of credit	2,230,000.00	0.00
Total	4,104,230,000.00	0.00

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	6,587,883.16	6,019,067.02
Of which: Shares	5,745,630.40	5,188,158.00
Funds	842,252.76	830,909.02

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 THE 2017 INTERIM FINANCIAL STATEMENTS (UNAUDITED)

(Unless specified otherwise, all amounts are denominated in RMB)

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	868,254,813.90	512,986,726.32
Total	868,254,813.90	512,986,726.32

(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	43,014,663.85	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 (RMB0.00 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 (RMB0.00 in the Previous Period).

NOTES TO THE 2017 INTERIM FINANCIAL STATEMENTS (UNAUDITED)

(Unless specified otherwise, all amounts are denominated in RMB)

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				
	Gross amount		Provision for bad debts		Carrying Value
	Amount	Percentage (%)	Amount	Percentage (%)	
Accounts receivables that are individually significant and impairment provided on an individual basis	0.00	0.00	0.00	0.00	
Accounts receivables assessed for impairment collectively	1,830,268,497.64	99.66	99,322,895.02	5.43	1,730,945,602.62
Accounts receivables that are individually insignificant but impairment provided on an individual basis	6,178,670.20	0.34	6,178,670.20	100.00	0.00
Total	1,836,447,167.84	100.00	105,501,565.22	5.74	1,730,945,602.62

Type	Balance at the beginning of the year				
	Gross amount		Provision for bad debts		Carrying Value
	Amount	Percentage (%)	Amount	Percentage (%)	
Accounts receivables that are individually significant and impairment provided on an individual basis	0.00	0.00	0.00	0.00	
Accounts receivables assessed for impairment collectively	1,550,361,240.55	99.63	85,995,010.77	5.55	1,464,366,229.78
Accounts receivables that are individually insignificant but impairment provided on an individual basis	5,821,227.13	0.37	5,821,227.13	100.00	0.00
Total	1,556,182,467.68	100.00	91,816,237.90	5.90	1,464,366,229.78

NOTES TO THE 2017 INTERIM FINANCIAL STATEMENTS (UNAUDITED)

(Unless specified otherwise, all amounts are denominated in RMB)

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

4. Accounts receivables (continued)

(1) Accounts receivables disclosed by types (continued)

- 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	1,792,254,128.09	89,612,706.41	5.00
1 to 2 years	24,954,991.43	1,497,299.48	6.00
2 to 3 years	4,723,819.97	944,764.00	20.00
3 to 4 years	2,941,207.87	2,058,845.50	70.00
4 to 5 years	1,850,706.49	1,665,635.84	90.00
Over 5 years	3,543,643.79	3,543,643.79	100.00
Total	1,830,268,497.64	99,322,895.02	

- 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	6,178,670.20	6,178,670.20	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	1,532,604,570.56	83.46	1,277,695,733.87	82.10
91 to 180 days	187,387,338.80	10.20	147,348,953.76	9.47
181 days to 1 year	72,271,060.83	3.94	91,909,884.28	5.91
1 to 2 years	25,965,015.43	1.41	19,847,303.22	1.28
2 to 3 years	6,627,278.81	0.36	7,980,583.68	0.51
3 to 4 years	4,811,511.51	0.26	4,908,199.74	0.31
4 to 5 years	2,674,876.70	0.15	3,371,193.64	0.22
Over 5 years	4,105,515.20	0.22	3,120,615.49	0.20
Total	1,836,447,167.84	100.00	1,556,182,467.68	100.00

As at 30 June 2017 and 31 December 2016, the Company had no accounts receivables that are past due but not impaired.

- (3) Provisions for bad debts made for the period were RMB13,911,147.34; no provision for bad debts was recovered or reversed.

NOTES TO THE 2017 INTERIM FINANCIAL STATEMENTS (UNAUDITED)

(Unless specified otherwise, all amounts are denominated in RMB)

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	224,476.64

- (5) The total of account receivables with five largest amount by creditors was RMB291,945,889.53, or 15.90% of the total account receivables by the period end, total provision for bad debts by the period end was RMB14,597,294.48.
- (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	110,725,211.39	92.87	76,523,370.05	87.22
1 to 2 years	6,893,731.30	5.78	8,349,790.80	9.52
2 to 3 years	859,443.03	0.72	562,270.35	0.64
Over 3 years	749,261.93	0.63	2,299,087.70	2.62
Total	119,227,647.65	100.00	87,734,518.90	100.00

- (2) The total of prepayments with five largest amount by receiver of prepayments was RMB43,875,815.09, or 36.80% of the prepayments by the period end.

NOTES TO THE 2017 INTERIM FINANCIAL STATEMENTS (UNAUDITED)

(Unless specified otherwise, all amounts are denominated in RMB)

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	81,416,097.56	97.61	11,275,225.58	13.85	70,140,871.98
Other receivables that are individually insignificant but impairment provided on an individual basis	1,992,510.97	2.39	1,992,510.97	100.00	0.00
Total	83,408,608.53	100.00	13,267,736.55	15.91	70,140,871.98

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	58,391,006.73	96.15	9,582,536.95	16.41	48,808,469.78
Other receivables that are individually insignificant but impairment provided on an individual basis	2,340,097.37	3.85	2,340,097.37	100.00	0.00
Total	60,731,104.10	100.00	11,922,634.32	19.63	48,808,469.78

NOTES TO THE 2017 INTERIM FINANCIAL STATEMENTS (UNAUDITED)

(Unless specified otherwise, all amounts are denominated in RMB)

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	67,426,934.94	3,371,346.75	5.00
1 to 2 years	5,531,998.87	331,919.93	6.00
2 to 3 years	425,323.71	85,064.75	20.00
3 to 4 years	1,737,668.06	1,216,367.65	70.00
4 to 5 years	236,454.85	212,809.37	90.00
Over 5 years	6,057,717.13	6,057,717.13	100.00
Total	81,416,097.56	11,275,225.58	

- 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	1,192,510.97	1,192,510.97	100.00	Not expected to be recoverable
Project account	800,000.00	800,000.00	100.00	Project shelved, not expected to be recoverable
Total	1,992,510.97	1,992,510.97	100.00	

- (2) Provisions for bad debts made for the Current Period was RMB1,362,346.89; no provision for bad debts was recovered or reversed.

(3) Other receivables written off during the Current Period

Item	Amount written off
Other receivables written off	5,800.00

NOTES TO THE 2017 INTERIM FINANCIAL STATEMENTS (UNAUDITED)

(Unless specified otherwise, all amounts are denominated in RMB)

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

6. Other receivables *(continued)*

(4) Other receivables by the nature of receivables

Nature of receivables	Balance at the End of the Period	Balance at the beginning of the year
Deposits under guarantee	8,557,680.56	8,899,921.66
Reserve fund	9,528,820.28	14,164,735.70
Related party balances	2,383,026.39	2,184,030.10
Borrowing due from external entities	5,000,000.00	5,000,000.00
Tax refunds on exports	6,435,755.88	6,041,905.94
Lease expenses and deposits	3,290,261.18	4,814,789.50
Staff advances	29,741,009.74	10,145,092.64
Others	18,472,054.50	9,480,628.56
Total	83,408,608.53	60,731,104.10

(5) Other receivables with five largest amount by creditors by the End of the Period

Name of unit	Nature of receivables	Balance at the End of the Period	Ageing	Proportion to receivables at the End of the Period (%)	Provision for bad debts at the End of the Period
PICC Property and Casualty Company Limited Zhuhai branch	Indemnity	9,006,514.78	Within 1 year	10.80	450,325.74
Tax refunds on exports	Tax refunds on exports	6,435,755.88	Within 1 year	7.71	321,787.79
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	5.99	5,000,000.00
Guangdong Blue Treasure Pharmaceutical Co. Ltd. (廣東藍寶製藥有限公司)	Energy and power	2,383,026.39	Within 1 year	2.86	119,151.32
Zuhai City Pipeline Gas Co. Ltd.	Guarantee	1,750,000.00	Within 1 year	2.10	87,500.00
Total	—	24,575,297.05	—	29.46	5,978,764.85

(6) The Company has no derecognized other receivables out of transfer of financial assets.

(7) The Company has no assets or liabilities formed by its continuous involvement of transferring other receivables.

NOTES TO THE 2017 INTERIM FINANCIAL STATEMENTS (UNAUDITED)

(Unless specified otherwise, all amounts are denominated in RMB)

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	262,340,861.25	1,599,322.18	260,741,539.07
Packaging materials	20,449,736.67	889,888.04	19,559,848.63
Goods in process	232,045,849.38	2,097,762.76	229,948,086.62
Finished goods	546,814,174.93	22,392,973.71	524,421,201.22
Sub-contracting materials	801,551.14	0.00	801,551.14
Low-value consumables	5,443,397.82	0.00	5,443,397.82
Goods in transit	9,147,569.11	0.00	9,147,569.11
Consumable biological assets	8,523,435.58	0.00	8,523,435.58
Proprietary semi-finished goods	29,417,330.12	0.00	29,417,330.12
Total	1,114,983,906.00	26,979,946.69	1,088,003,959.31

Item	Balance at the beginning of the year		
	Gross amount	Provision for diminution in value	Carrying amount
Raw materials	254,728,662.55	762,653.88	253,966,008.67
Packaging materials	17,270,886.84	0.00	17,270,886.84
Goods in process	246,453,027.12	8,404,429.48	238,048,597.64
Finished goods	573,399,209.20	32,850,393.05	540,548,816.15
Sub-contracting materials	998,264.12	0.00	998,264.12
Low-value consumables	4,251,539.17	0.00	4,251,539.17
Goods in transit	4,847,226.33	0.00	4,847,226.33
Consumable biological assets	7,926,390.69	0.00	7,926,390.69
Proprietary semi-finished goods	31,341,646.41	0.00	31,341,646.41
Total	1,141,216,852.43	42,017,476.41	1,099,199,376.02

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 THE 2017 INTERIM FINANCIAL STATEMENTS (UNAUDITED)

(Unless specified otherwise, all amounts are denominated in RMB)

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

7. Inventories *(continued)*

(2) Provision for diminution in value of inventories

Item	Balance at the beginning of the year	Increase during the Current Period		Decrease during the Current Period		Balance at the End of the Period
		Provision	Other	Reversed	Written off	
Raw materials	762,653.88	928,717.71	0.00	16,322.62	75,726.79	1,599,322.18
Packaging materials	0.00	889,888.04	0.00	0.00	0.00	889,888.04
Work in progress	8,404,429.48	2,097,762.76	0.00	0.00	8,404,429.48	2,097,762.76
Finished goods	32,850,393.05	15,735,300.55	0.00	359,394.32	25,833,325.57	22,392,973.71
Total	42,017,476.41	19,651,669.06	0.00	375,716.94	34,313,481.84	26,979,946.69

(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

NOTES TO THE 2017 INTERIM FINANCIAL STATEMENTS (UNAUDITED)

(Unless specified otherwise, all amounts are denominated in RMB)

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

8. Non-current assets and disposal group classified as held for sale

(1) basic information of non-current assets and disposal group held for sale

Items	Carrying amount at the End of the Period	Fair Value	Estimated cost for sale	Reason and method for sale	Estimated sale time	Segment
Disposal group classified as held for sale – Zhuhai Weixing Shiye Co., Ltd. (珠海維星實業有限公司)	33,227,095.83	4,529,932,115.41	1,603,945.26	To dispose it by the way of transferring the equity interest in a subsidiary, so as to help the Company to further focus on its main activity—bio-pharmaceuticals, and to cooperate with the government to speed up the implementation of the transformation project	17 July 2017	
Of which: Other current assets	116,234.97	—	—	—	—	—
Fixed assets	20,642,452.49	—	—	—	—	—
Intangible assets	9,535,429.57	—	—	—	—	—
Other non-current assets	3,434,900.00	—	—	—	—	—
Total assets	33,729,017.03	—	—	—	—	—
Of which: Taxes payables	1,921.20	—	—	—	—	—
Other payables	500,000.00	—	—	—	—	—
Total liabilities	501,921.20	—	—	—	—	—

NOTES TO THE 2017 INTERIM FINANCIAL STATEMENTS (UNAUDITED)

(Unless specified otherwise, all amounts are denominated in RMB)

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

8. Non-current assets and disposal group classified as held for sale *(continued)*

(2) Impairment and provision for assets held for sale

Item	Carrying value at the beginning of the year	Provision in the Current Period	Decrease in the Current Period		Balance at the End of the Period
			Reversed	Other decrease	
Disposal group classified as held for sale – Zhuhai Weixing Shiye Co., Ltd. (珠海維星實業有限公司)	0.00	0.00	0.00	0.00	0.00
Total	0.00	0.00	0.00	0.00	0.00

(3) As at the End of the Period, the Company's other comprehensive income related to the above disposal group held for sale was nil.

(4) Items not classified as held for sale or removed from disposal group held for sale during the Current Period

Nil.

9. Other current assets

Item	Balance at the End of the Period	Balance at the beginning of the year
Input VAT pending deduction/attestation	22,950,121.82	4,566,465.14
Remaining VAT credit	4,764,946.23	35,181,958.20
Smart deposit	0.00	100,000,000.00
"Bubuweiying" structured deposit (“步步為贏”結構性存款)	0.00	300,000,000.00
Runjin No.2 principal-protected RMB wealth management product (潤金2號保本型人民幣理財產品)	250,000,000.00	250,000,000.00
Total	277,715,068.05	689,748,423.34

According to the notes of "Regulations for the Accounting Treatment of VAT*" (Cai Kuai [2016] No. 22) issued by the PRC Ministry of Finance, the debit balance of the breakdown items of "VAT Payable", "Outstanding VAT", "Credit tax available for deduction", "Credit tax pending verification" and "Outstanding VAT credit" under the entry of "Tax payable" as at the End of the Period have been presented as "Other current assets".

NOTES TO THE 2017 INTERIM FINANCIAL STATEMENTS (UNAUDITED)

(Unless specified otherwise, all amounts are denominated in RMB)

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

10. 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		
	Balance	Impairment provision	Carrying value	Balance	Impairment provision	Carrying value
Available-for-sale equity instruments	260,526,468.53	113,854,995.09	146,671,473.44	261,149,161.06	113,854,995.09	147,294,165.97
Of which: measured at fair value	102,355,959.69	93,254,995.09	9,100,964.60	99,853,652.22	93,254,995.09	6,598,657.13
measured at cost	158,170,508.84	20,600,000.00	137,570,508.84	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	9,100,964.60
Change in fair value accrued through other comprehensive income	7,701,945.83
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 and the fair value was determined by the closing price for the last day of dealings in the year.

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

Investee	Balance			Impairment provision				At the End of the Period	Proportion of equity hold in investee (%)	Cash dividend for the period
	At the beginning of the year	Increase during the Period	Decrease during the Period	At the End of the Period	At the beginning of the year	Increase during the Period	Decrease during the 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	0.00	0.0004	0.00
Beijing Medical Supplies Joint Operating Corporation (北京醫藥物資聯合經營公司)	100,000.00	0.00	0.00	100,000.00	100,000.00	0.00	0.00	100,000.00	0.821	0.00
Doumen Sanzhou Industrial City Co., Ltd. (斗門三洲工業城股份有限公司)	500,000.00	0.00	0.00	500,000.00	500,000.00	0.00	0.00	500,000.00	1.60	0.00
Zhuhai China Resources Bank Co., Ltd. (珠海華潤銀行股份有限公司)	95,325,760.00	0.00	0.00	95,325,760.00	20,000,000.00	0.00	0.00	20,000,000.00	1.5065	0.00
Ruiheng Medical Technology Investment Co., Ltd. (瑞醫藥科技投資有限責任公司)	6,250,000.00	0.00	3,125,000.00	3,125,000.00	0.00	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	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	0.00	13.64	0.00
Total	161,295,508.84	0.00	3,125,000.00	158,170,508.84	20,600,000.00	0.00	0.00	20,600,000.00	—	0.00

NOTES TO THE 2017 INTERIM FINANCIAL STATEMENTS (UNAUDITED)

(Unless specified otherwise, all amounts are denominated in RMB)

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

10. Available-for-sale financial assets (continued)

(4) movement in impairment for available-for-sale financial assets by the End of the Period

Categorised available-for-sale financial assets	Available-for-sale equity instruments	Total
Provision for Impairment at the beginning of the year	113,854,995.09	113,854,995.09
Provision for Impairment for the Period	0.00	0.00
In which: transferred from other comprehensive income	0.00	0.00
Decrease during the 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

11. Long-term equity investments

Investee	Balance at the beginning of the year	Change during the Period				
		Investment acquired	Investment disposed of	Investment profit and loss on the equity method	Adjustment in other comprehensive income	Other equity changes
Associates						
Livzon Medical Electronic Equipment (Plant) Co., Ltd. (麗珠醫用電子設備(廠)有限公司)	1,200,000.00	0.00	0.00	0.00	0.00	0.00
Guangdong Blue Treasure Pharmaceutical Co. Ltd. (廣東藍寶製藥有限公司)	47,464,325.41	0.00	0.00	2,488,194.33	0.00	0.00
Minitech Medical (Jiangsu) Ltd (江蘇尼科醫療器械有限公司)	23,527,231.29	0.00	0.00	-1,207,938.50	0.00	0.00
Yobbo (深圳市有寶科技有限公司)	1,133,011.55	0.00	0.00	-75,908.70	0.00	0.00
AbCyte Therapeutics Inc.	18,985,166.54	0.00	0.00	-619,297.14	0.00	0.00
Total	92,309,734.79	0.00	0.00	585,049.99	0.00	0.00

Investee	Change during the Period				Balance of provision for impairment at the End of the Period
	Cash dividend or profit distribution declared	Impairment provision	Others	Balance at the End of the Period	
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	49,952,519.74	0.00
Minitech Medical (Jiangsu) Ltd (江蘇尼科醫療器械有限公司)	0.00	0.00	0.00	22,319,292.79	0.00
Yobbo (深圳市有寶科技有限公司)	0.00	0.00	0.00	1,057,102.85	0.00
AbCyte Therapeutics Inc.	0.00	0.00	0.00	18,365,869.40	0.00
Total	0.00	0.00	0.00	92,894,784.78	1,200,000.00

NOTES TO THE 2017 INTERIM FINANCIAL STATEMENTS (UNAUDITED)

(Unless specified otherwise, all amounts are denominated in RMB)

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

12. Fixed assets

(1) Status of fixed assets

Items	Plant & buildings	Machinery & equipment	Motor vehicles	Electronic devices and others	Total
I. Cost at book					
1. Balance at the beginning of the year	2,805,673,864.46	2,294,105,270.63	65,427,676.80	311,077,450.29	5,476,284,262.18
2. Additions for the Period	49,018,617.26	43,696,095.70	5,494,737.54	19,308,765.57	117,518,216.07
(1) Acquisition	4,114,665.30	21,290,495.13	5,240,147.52	17,317,297.95	47,962,605.90
(2) Construction in progress transferred	44,903,951.96	22,405,600.57	254,590.02	1,991,467.62	69,555,610.17
3. Decrease for the Period	265,269,751.60	85,288,081.56	3,063,643.27	6,142,204.42	359,763,680.85
(1) Disposal or written-off	287,191.82	85,288,081.56	3,063,643.27	6,142,204.42	94,781,121.07
(2) Transferring to a disposal group classified as held for sale	264,982,559.78	0.00	0.00	0.00	264,982,559.78
4. Balance at the End of the Period	2,589,422,730.12	2,252,513,284.77	67,858,771.07	324,244,011.44	5,234,038,797.40
II. Accumulated depreciation					
1. Balance at the beginning of year	781,941,900.97	1,021,104,678.76	40,569,796.64	199,649,690.40	2,043,266,066.77
2. Additions for the Period	56,097,858.24	85,011,041.97	3,968,529.19	16,530,211.41	161,607,640.81
(1) Provision	56,097,858.24	85,011,041.97	3,968,529.19	16,530,211.41	161,607,640.81
(2) Other additions	0.00	0.00	0.00	0.00	0.00
3. Decrease for the Period	218,126,454.14	69,861,579.47	2,006,244.53	4,779,154.61	294,773,432.75
(1) Disposal or written-off	264,895.04	69,861,579.47	2,006,244.53	4,779,154.61	76,911,873.65
(2) Transferring to a disposal group classified as held for sale	217,861,559.10	0.00	0.00	0.00	217,861,559.10
4. Balance at the End of the Period	619,913,305.07	1,036,254,141.26	42,532,081.30	211,400,747.20	1,910,100,274.83
III. Impairment provision					
1. Balance at the beginning of the year	47,143,625.75	43,778,992.19	65,313.29	1,052,407.27	92,040,338.50
2. Additions for the Period	0.00	12,298.08	0.00	980.00	13,278.08
(1) Provision	0.00	12,298.08	0.00	980.00	13,278.08
3. Decrease for the Period	26,500,844.97	3,202,945.43	0.00	230,087.60	29,933,878.00
(1) Disposal or written-off	22,296.78	3,202,945.43	0.00	230,087.60	3,455,329.81
(2) Transferring to a disposal group classified as held for sale	26,478,548.19	0.00	0.00	0.00	26,478,548.19
4. Balance at the End of the Period	20,642,780.78	40,588,344.84	65,313.29	823,299.67	62,119,738.58
IV. Carrying amounts					
1. Carrying amount at the End of the Period	1,948,866,644.27	1,175,670,798.67	25,261,376.48	112,019,964.57	3,261,818,783.99
2. Carrying amount at the beginning of the year	1,976,588,337.74	1,229,221,599.68	24,792,566.87	110,375,352.62	3,340,977,856.91

During the Period, the amount of depreciation was RMB161,607,640.81 (RMB171,291,939.54 in the previous Period). During the Period, construction in progress transferred to cost of fixed assets was RMB69,555,610.17 (RMB150,132,125.74 the previous Period).

NOTES TO THE 2017 INTERIM FINANCIAL STATEMENTS (UNAUDITED)

(Unless specified otherwise, all amounts are denominated in RMB)

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

12. Fixed assets *(continued)*

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

Item	Cost	Accumulated depreciation	Provision for impairment	Carrying amount
Plant & buildings	23,344,398.33	13,170,732.36	41,432.31	10,132,233.66
Machinery & equipment	35,609,236.86	26,070,331.39	1,419,797.95	8,119,107.52
Electronic devices and others	4,650,391.28	4,236,034.34	71,043.91	343,313.03
Total	63,604,026.47	43,477,098.09	1,532,274.17	18,594,654.21

(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	1,380,080.74
Electronic devices and others	35,663,138.78
Total	37,043,219.52

(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	577,965,958.46	Being in progress

NOTES TO THE 2017 INTERIM FINANCIAL STATEMENTS (UNAUDITED)

(Unless specified otherwise, all amounts are denominated in RMB)

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

13. Construction in progress

(1) Construction in progress status

Item	Balance	Balance at the End of the Period		Balance at the beginning of the year		Carrying amount
		Provision for impairment	Carrying amount	Balance	Provision for impairment	
Guangda New Factory Project (光大新廠項目)	5,784,851.29	0.00	5,784,851.29	5,784,851.29	0.00	5,784,851.29
Improvement Project of Workshop of Hecheng Co. (合成公司車間改造項目)	6,253,091.24	0.00	6,253,091.24	12,813,476.65	0.00	12,813,476.65
Project of New Factory of Reagent Co. (試劑公司新廠項目)	113,976,871.47	0.00	113,976,871.47	121,205,122.02	0.00	121,205,122.02
Project of Shijiao New Factory (石角新廠項目)	6,057,212.52	0.00	6,057,212.52	682,930.46	0.00	682,930.46
Transformation Project of Pharmaceutical Factory Workshop (藥廠車間改造項目)	11,796,803.49	0.00	11,796,803.49	22,634,029.13	0.00	22,634,029.13
Transformation Project of Weiqiu Zhongshi Workshop (微球中試車間項目)	1,333,336.74	0.00	1,333,336.74	0.00	0.00	0.00
Others	24,732,669.64	0.00	24,732,669.64	38,613,444.92	0.00	38,613,444.92
Total	169,934,836.39	0.00	169,934,836.39	201,733,854.47	0.00	201,733,854.47

(2) Status of changes of significant construction in progress item

Categories of project	Budgeted amount	Balance at the beginning of the year	Additions for the Period	Transferred to fixed asset for the Period	Other deduction	Balance at the End of the Period
Guangda New Factory Project (光大新廠項目)	365,816,500.00	5,784,851.29	0.00	0.00	0.00	5,784,851.29
Improvement Project of Workshop of Hecheng Co. (合成公司車間改造項目)	26,840,007.50	12,813,476.65	3,418,132.04	9,637,227.45	341,290.00	6,253,091.24
Project of New Factory of Reagent Co. (試劑公司新廠項目)	148,315,000.00	121,205,122.02	5,571,749.45	12,800,000.00	0.00	113,976,871.47
Project of Shijiao New Factory (石角新廠項目)	46,664,000.00	682,930.46	5,374,282.06	0.00	0.00	6,057,212.52
Transformation Project of Pharmaceutical Factory Workshop (藥廠車間改造項目)	47,752,151.44	22,634,029.13	20,015,236.97	30,852,462.61	0.00	11,796,803.49
Transformation Project of Weiqiu Zhongshi Workshop (微球中試車間項目)	33,450,000.00	0.00	1,333,336.74	0.00	0.00	1,333,336.74
Others	0.00	38,613,444.92	33,701,812.22	16,265,920.11	31,316,667.39	24,732,669.64
Total	668,837,658.94	201,733,854.47	69,414,549.48	69,555,610.17	31,657,957.39	169,934,836.39

NOTES TO THE 2017 INTERIM FINANCIAL STATEMENTS (UNAUDITED)

(Unless specified otherwise, all amounts are denominated in RMB)

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

13. Construction in progress *(continued)*

(2) Status of changes of significant construction in progress item *(continued)*

Categories of project	Accumulated amount of the interest capitalised as at the year end	Interest capitalised for the Period	Interest capitalised rate for the Period (%)	Percentage of cost incurred over budgeted amount (%)	Construction progress	Sources of funds
Guangda New Factory Project (光大新廠項目)	0.00	0.00	0.00	1.58%	Designing process	Self-funding
Improvement Project of Workshop of Hecheng Co. (合成公司車間改造項目)	0.00	0.00	0.00	85.54%	Completion of some projects	Self-funding
Project of New Factory of Reagent Co. (試劑公司新廠項目)	0.00	0.00	0.00	85.48%	Under construction	Self-funding
Project of Shijiao New Factory (石角新廠項目)	0.00	0.00	0.00	73.11%	Under construction	Self-funding
Transformation Project of Pharmaceutical Factory Workshop (藥廠車間改造項目)	0.00	219,686.96	2.80%	89.31%	Completion of some projects	Borrowing and self-funding
Transformation Project of Weiqiu Zhongshi Workshop (微球中試車間項目)	0.00	0.00	0.00	3.99%	Under construction	Self-funding
Others	166,601.27	166,601.27	2.80%			Borrowing and self-funding
Total	166,601.27	386,288.23				

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

14. Construction supplies

Item	Balance at the end of the Period	Balance at the beginning of the Period
Specialised equipment	31,009.86	0.00

NOTES TO THE 2017 INTERIM FINANCIAL STATEMENTS (UNAUDITED)

(Unless specified otherwise, all amounts are denominated in RMB)

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

15. Intangible assets

(1) Status of intangible assets

Items	Land use rights	Patent and technical know-how	Software	Trademark rights	Others	Total
I. Cost at book						
1. Balance at the beginning of the year	276,224,425.58	223,448,445.32	31,780,544.04	24,000.00	10,985,294.53	542,462,709.47
2. Additions for the Current Period	340,454.88	707,547.15	697,048.72	0.00	0.00	1,745,050.75
(1) Acquisition	340,454.88	707,547.15	697,048.72	0.00	0.00	1,745,050.75
3. Decrease for the Current Period	19,710,906.98	0.00	0.00	0.00	0.00	19,710,906.98
(1) Disposal	250,905.92	0.00	0.00	0.00	0.00	250,905.92
(2) Transferring to a disposal group classified as held for sale	19,460,001.06	0.00	0.00	0.00	0.00	19,460,001.06
4. Balance at the End of the Period	256,853,973.48	224,155,992.47	32,477,592.76	24,000.00	10,985,294.53	524,496,853.24
II. Accumulated depreciation						
1. Balance at the beginning of year	66,035,475.76	140,363,010.39	25,854,372.52	24,000.00	91,544.12	232,368,402.79
2. Additions for the Period	2,517,679.99	7,928,042.56	1,671,820.43	0.00	1,098,529.44	13,216,072.42
(1) Provision	2,517,679.99	7,928,042.56	1,671,820.43	0.00	1,098,529.44	13,216,072.42
3. Decrease for the Period	10,175,477.41	0.00	0.00	0.00	0.00	10,175,477.41
(1) Disposal	250,905.92	0.00	0.00	0.00	0.00	250,905.92
(2) Transferring to a disposal group classified as held for sale	9,924,571.49	0.00	0.00	0.00	0.00	9,924,571.49
4. Balance at the End of the Period	58,377,678.34	148,291,052.95	27,526,192.95	24,000.00	1,190,073.56	235,408,997.80
III. Impairment provision						
1. Balance at the beginning of the year	981,826.94	10,209,166.79	0.00	0.00	0.00	11,190,993.73
2. Additions for the Period	0.00	0.00	0.00	0.00	0.00	0.00
(1) Provision	0.00	0.00	0.00	0.00	0.00	0.00
3. Decrease for the Period	0.00	0.00	0.00	0.00	0.00	0.00
(1) Disposal	0.00	0.00	0.00	0.00	0.00	0.00
4. Balance at the End of the Period	981,826.94	10,209,166.79	0.00	0.00	0.00	11,190,993.73
IV. Carrying amounts						
1. Carrying amount at the End of the Period	197,494,468.20	65,655,772.73	4,951,399.81	0.00	9,795,220.97	277,896,861.71
2. Carrying amount at the beginning of the year	209,207,122.88	72,876,268.14	5,926,171.52	0.00	10,893,750.41	298,903,312.95

Amortisation for the Current Period is RMB13,216,072.42 (RMB15,311,422.63 in the Previous Period).

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

Item	Carrying amount	Reason for pending certificates for ownership
Land use rights	27,268,261.64	Being in progress

NOTES TO THE 2017 INTERIM FINANCIAL STATEMENTS (UNAUDITED)

(Unless specified otherwise, all amounts are denominated in RMB)

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

15. Intangible assets *(continued)*

(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.

16. Development costs

Item	Balance at the beginning of the year	Additions for the Current Period	Decrease for the Current Period		Balance at the end of the Period
			Recognised in profit or loss	Recognised as intangible assets	
Expensing costs	0.00	171,552,330.26	171,552,330.26	0.00	0.00
Capitalised expenses	14,821,797.96	7,276,118.46	0.00	0.00	22,097,916.42
In which: western drug preparation	14,821,797.96	7,276,118.46	0.00	0.00	22,097,916.42
Total	14,821,797.96	178,828,448.72	171,552,330.26	0.00	22,097,916.42

17. Goodwill

(1) Total goodwill value at book

Name of investee or the matter of goodwill arisen	Balance at the beginning of the year	Additions for the Current Period	Decrease for the Current Period	Balance at the end of the Period
Pharmaceutical Factory (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 THE 2017 INTERIM FINANCIAL STATEMENTS (UNAUDITED)

(Unless specified otherwise, all amounts are denominated in RMB)

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

17. Goodwill (continued)

(2) Provision for impairment of goodwill

Name of investee or the matter of goodwill arisen	Balance at the beginning of the year	Additions for the period	Decrease for the period	Balance at the 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 Pharmaceutical Factory (製藥廠), key assumptions are a gross margin of 63%-67% and a business revenue growth rate of 0~17%. 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 62%-64% and a business revenue growth rate of 0~25.30%. 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 41%-45% and a business revenue growth rate of -19%~8.33%. 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 THE 2017 INTERIM FINANCIAL STATEMENTS (UNAUDITED)

(Unless specified otherwise, all amounts are denominated in RMB)

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

18. Long-term deferred expenses

Item	Balance at the beginning of the year	Additions for the Current Period	Amortisation for the Current Period	Other decrease	Balance at the end of the Period	Reason for other decrease
Overhaul costs of fixed assets	3,038,437.77	42,735.04	913,313.62	0.00	2,167,859.19	
Renovation costs of offices	17,984,172.67	3,540,514.29	1,261,928.81	0.00	20,262,758.15	
Renovation costs of plants	63,695,566.78	21,847,871.66	2,426,026.15	0.00	83,117,412.29	
Share of costs for public utilities	48,750.06	0.00	16,249.98	0.00	32,500.08	
Resin and filler	6,691,473.14	3,520,555.55	2,386,741.39	0.00	7,825,287.30	
Others	1,018,600.46	96,581.19	332,216.83	0.00	782,964.82	
Total	92,477,000.88	29,048,257.73	7,336,476.78	0.00	114,188,781.83	

19. Deferred income tax assets/Deferred income tax liabilities

(1) Breakdown of deferred income tax assets

Item	Balance at the end of the Period		Balance at the beginning of the year	
	Deductible temporary difference	Deferred tax assets	Deductible temporary difference	Deferred tax assets
Deductible temporary difference arising from provision for impairment	226,905,568.57	29,511,075.89	231,892,133.71	29,929,197.82
Deductible temporary difference arising from accrued expenses	158,436,497.07	23,765,474.55	141,166,101.17	21,174,915.04
Deductible temporary difference arising from tax losses carried forward	125,473,524.13	18,878,212.15	34,207,535.93	5,131,130.39
Deductible temporary difference arising from deferred income	63,488,747.75	9,523,312.16	62,888,581.97	9,433,287.29
Deductible temporary difference arising from gains from unrealized intracompany transactions	399,029,499.33	59,854,424.91	549,114,425.28	82,367,163.80
Deductible temporary difference arising from share incentive cost	21,954,139.25	3,222,437.37	33,760,094.36	5,064,014.15
Total	995,287,976.10	144,754,937.03	1,053,028,872.42	153,099,708.49

(2) Breakdown of deferred income tax liabilities

Item	Balance at the end of the Period		Balance at the beginning of the year	
	Taxable temporary difference	Deferred tax liabilities	Taxable temporary difference	Deferred tax liabilities
Taxable temporary difference arising from financial assets held for trading	692,252.76	103,837.91	680,909.00	102,136.35
Taxable temporary difference arising from available-for-sale financial assets	11,672,012.74	1,750,801.91	9,169,705.27	1,375,455.79
Taxable temporary difference arising from long-term equity investments under in equity method	25,216,706.26	3,782,505.94	24,012,359.13	3,601,853.87
Taxable temporary difference arising from accelerated depreciation of fixed assets	109,320,132.36	16,460,794.80	81,080,134.67	12,205,834.39
Total	146,901,104.12	22,097,940.56	114,943,108.07	17,285,280.40

NOTES TO THE 2017 INTERIM FINANCIAL STATEMENTS (UNAUDITED)

(Unless specified otherwise, all amounts are denominated in RMB)

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

19. Deferred income tax assets/Deferred income tax liabilities *(continued)*

(3) Breakdown of deferred income tax assets not recognised

Item	Balance at the end of the Period	Balance at the beginning of the Period
Deductible temporary difference	142,739,592.20	144,620,046.23
Deductible loss	418,677,087.80	341,889,829.68
Total	561,416,680.00	486,509,875.91

(4) Deductible loss of deferred income tax assets not recognised will be due next year

Year	Balance at the end of the Period	Balance at the beginning of the year	Remarks
2017	19,915,143.83	20,911,633.82	
2018	27,829,187.05	27,888,663.82	
2019	59,342,863.03	59,410,126.67	
2020	83,129,268.76	84,685,649.76	
2021	126,139,577.44	124,537,726.45	
2022	94,365,489.25		
Indefinite	7,955,558.44	24,456,029.16	
Total	418,677,087.80	341,889,829.68	

20. Other non-current assets

Item	Balance at the end of the Period	Balance at the beginning of the Period
Input VAT pending deduction/attestation	2,518,292.39	238,726.86
Remaining VAT credit	39,180,588.55	39,590,963.11
Prepayment for investments	101,541,432.48	0.00
Prepayment for acquisition of project and equipment	18,847,644.33	26,666,529.37
Prepayment for acquisition of technical know-how	45,240,429.46	48,522,986.75
Total	207,328,387.21	115,019,206.09

According to the notes of "Regulations for the Accounting Treatment of VAT*" (Cai Kuai 2016 No. 22) issued by the PRC Ministry of Finance, the debit balance of the breakdown items of "VAT Payable", "Outstanding VAT", "Credit tax available for deduction", "Credit tax pending verification" and "Outstanding VAT credit" under the entry of "Tax payable" as at the end of the Period have been presented as "Other non-current assets".

NOTES TO THE 2017 INTERIM FINANCIAL STATEMENTS (UNAUDITED)

(Unless specified otherwise, all amounts are denominated in RMB)

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

21. Bills payables

Type	Balance at the end of the Period	Balance at the beginning of the Period
Bank acceptance bills	744,086,552.91	323,795,509.11

The amount of RMB744,086,552.91 will be due for the next accounting period.

22. 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 Period
1 to 90 days	312,943,981.07	309,091,528.70
91 to 180 days	52,085,361.85	149,853,279.51
181 days to 1 year	19,666,032.56	46,024,114.99
1 to 2 years	39,455,751.61	48,792,716.60
Over 2 years	25,576,837.67	33,954,307.04
Total	449,727,964.76	587,715,946.84

(2) Important payables ageing over 1 year

Item	Balance at the end of the Period	Reason for non-payment or non-transfer
Zhenjiang East Biotech Equipment and Technology Co., Ltd. (鎮江東方生物工程設備技術有限責任公司)	9,541,862.66	Holdback
Industrial Green Building Technology Co., Ltd. of Zhuhai (珠海興業綠色建築科技有限公司)	6,934,409.42	Holdback
Hebei Installation Engineering Co., Ltd (河北省安裝工程有限公司)	6,405,380.03	Holdback
ABC Building Systems (China) Co., Ltd (美建建築系統(中國)有限公司)	3,183,338.65	Holdback
Zibo Dongfang Yineng Medical Chemical Co., Ltd (淄博東方易能醫藥化工有限公司)	3,100,000.00	Holdback
Guangdong Jian'an Changsheng Engineering Co., Ltd. (廣東建安昌盛工程有限公司)	2,371,197.82	Holdback
Total	31,536,188.58	

NOTES TO THE 2017 INTERIM FINANCIAL STATEMENTS (UNAUDITED)

(Unless specified otherwise, all amounts are denominated in RMB)

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

23. Receipts in advance

(1) Presentation of receipts in advance

Item	Balance at the end of the Period	Balance at the beginning of the Period
Within 1 year	4,551,220,359.51	51,374,594.76
Over 1 year	16,279,301.32	27,310,645.84
Total	4,567,499,660.83	78,685,240.60

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

Nil.

24. Employee benefits payables

(1) Presentation of salary payables

Item	Balance at the beginning of the year	Increase for the Current Period	Decrease for the Current Period	Balance at the end of the Period
I. Short-term salary	110,251,790.51	284,818,913.51	317,242,206.02	77,828,498.00
II. Post-resignation benefits—designated provision	28,122.44	24,700,648.34	24,475,730.81	253,039.97
III. Dismiss benefits	3,000,000.00	0.00	1,620,000.00	1,380,000.00
IV. Other benefits due within 1 year	0.00	0.00	0.00	0.00
Total	113,279,912.95	309,519,561.85	343,337,936.83	79,461,537.97

(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	108,738,713.76	250,550,849.93	282,834,587.94	76,454,975.75
2. Employee welfare	914,091.50	13,488,132.50	13,451,682.48	950,541.52
3. Social insurance	14,150.10	10,840,168.79	10,729,937.97	124,380.92
Of which: Medical insurances	11,394.47	9,468,156.29	9,373,971.91	105,578.85
Work-related injury insurances	1,925.21	722,219.93	711,457.88	12,687.26
Maternity insurances	830.42	649,792.57	644,508.18	6,114.81
4. Housing funds	522,789.00	9,238,704.12	9,515,962.12	245,531.00
5. Labour union fees and employee education fees	62,046.15	701,058.17	710,035.51	53,068.81
6. Short-term compensated absence	0.00	0.00	0.00	0.00
7. Short-term profit distribution plan				
—Performance-linked bonuses of subsidiaries	0.00	0.00	0.00	0.00
Total	110,251,790.51	284,818,913.51	317,242,206.02	77,828,498.00

NOTES TO THE 2017 INTERIM FINANCIAL STATEMENTS (UNAUDITED)

(Unless specified otherwise, all amounts are denominated in RMB)

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

24. Employee benefits payables *(continued)*

(3) Presentation of designated provision

Item	Balance at the beginning of the year	Increase for the Current Period	Decrease for the Current Period	Balance at the end of the Period
1. Basic pension insurance	27,151.02	23,350,748.23	23,136,473.35	241,425.90
2. Unemployment insurance	971.42	1,349,900.11	1,339,257.46	11,614.07
Total	28,122.44	24,700,648.34	24,475,730.81	253,039.97

25. Taxes payables

Item	Balance at the end of the Period	Balance at the beginning of the Period
Value added tax	74,154,910.02	95,848,978.18
Urban maintenance and construction tax	5,312,475.14	4,998,468.60
Enterprise income tax	71,675,635.46	163,284,148.94
Property tax	7,792,017.21	8,325,607.88
Land use tax	2,368,826.18	1,982,305.92
Individual income tax	10,850,323.79	11,448,173.56
Stamp duty	785,447.67	1,505,696.22
Education surcharges	4,662,911.77	4,666,899.96
Flood prevention fee	13,345.01	24,082.65
Others	0.00	222,337.88
Total	177,615,892.25	292,306,699.79

NOTES TO THE 2017 INTERIM FINANCIAL STATEMENTS (UNAUDITED)

(Unless specified otherwise, all amounts are denominated in RMB)

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

26. Interest payables

Item	Balance at the end of the Period	Balance at the beginning of the Period
Interest for short-term bonds payable	0.00	3,812,602.74
Total	0.00	3,812,602.74

27. 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	212,801,470.46	20,174.46	Not yet paid
Qingyuan Xinbeijiang (Group) Company (清遠新北江企業(集團)公司)	1,200,710.00	1,200,710.00	Not yet paid
Other legal persons and individual shares of subsidiaries	1,051,300.00	1,051,300.00	Not yet paid
Staff shares of subsidiaries	259,800.00	259,800.00	Not yet paid
Total	215,313,280.46	2,531,984.46	

28. Other payables

(1) Breakdown of other payables

Item	Balance at the end of the Period	Balance at the beginning of the Period
Within 1 year	1,481,495,108.91	1,468,382,831.50
Over 1 year	226,135,079.29	89,730,446.80
Total	1,707,630,188.20	1,558,113,278.30

NOTES TO THE 2017 INTERIM FINANCIAL STATEMENTS (UNAUDITED)

(Unless specified otherwise, all amounts are denominated in RMB)

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

28. Other payables *(continued)*

(2) Other payables by nature

Item	Balance at the end of the Period	Balance at the beginning of the Period
Office expenses	44,822,511.64	46,432,084.92
Deposits under guarantees	23,940,851.18	21,425,431.13
Business promotion expenses	594,069,947.49	479,228,514.39
Obligations of repurchasing restricted shares	75,162,388.20	140,321,805.40
Technology transfer funds	11,759,647.92	13,490,101.79
Related party balances	3,690,021.35	2,459,992.87
Accrued expenses	917,831,580.36	807,309,319.37
Others	36,353,240.06	47,446,028.43
Total	1,707,630,188.20	1,558,113,278.30

The repurchase of the restricted shares obligation of the Directors, the senior management and their spouses amounted to RMB6,530,353.05 by the end of the Period.

(3) 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	7,504,120.11	6,726,545.55	Not yet paid
Research expenses	24,291,079.52	21,267,803.56	Not yet paid
Business promotion expenses	797,692,018.59	715,786,697.44	Not yet paid
Advertising expenses	2,511,402.75	873,776.16	Not yet paid
Business meeting expenses	6,347,905.46	8,366,673.40	Not yet paid
Auditing and information disclosure expenses	5,883,613.27	5,668,454.20	Not yet paid
Others	73,601,440.66	48,619,369.06	Not yet paid
Total	917,831,580.36	807,309,319.37	

NOTES TO THE 2017 INTERIM FINANCIAL STATEMENTS (UNAUDITED)

(Unless specified otherwise, all amounts are denominated in RMB)

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

29. Non-current liabilities due within one year

Item	Balance at the end of the Period	Balance at the beginning of the Period
Long-term loans due within 1 year (Note VI.31)	400,000.00	400,000.00
Total	400,000.00	400,000.00

30. Other current liabilities

Item	Balance at the end of the Period	Balance at the beginning of the Period
Short-term payable bills	0.00	350,000,000.00

Of which: changes in short-term payable bonds

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
16Livzon SCP001	100.00	11 August 2016	270 days	350,000,000.00	3,812,602.74	3,436,712.33	7,249,315.07	0.00	0.00

31. Long-term loans

(1) Classification of long-term loans

Item	Balance at the end of the Period	Balance at the beginning of the Period
Loans on credit	1,100,000.00	1,100,000.00
Guarantee loans	0.00	0.00
Less: Long-term loans due within one year (Note VI.29)	400,000.00	400,000.00
Total	700,000.00	700,000.00

As at the end of the Period, there was no overdue long-term loans that were unpaid.

NOTES TO THE 2017 INTERIM FINANCIAL STATEMENTS (UNAUDITED)

(Unless specified otherwise, all amounts are denominated in RMB)

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

31. 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 rate (%)	Balance at the end of the Period		Balance at the beginning of the year	
					Foreign amount	Local currency amount	Foreign amount	Local currency amount
Fuzhou Bureau of Finance	Indefinite	Indefinite	RMB	Interest-free	—	700,000.00	—	700,000.00
Total						700,000.00		700,000.00

32. Government grant

(1) The details of the government grant recognized at the beginning of the Current Period are as follows :

Items	Amount	Related to assets		Related to income			Written down of costs	Actually received or not
		Deferred income	Non-operating income	Deferred income	other incomes	Non-operating 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)	5,831,374.82	4,831,374.82	1,000,000.00	0.00	0.00	0.00	0.00	Yes
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)	5,161,143.88	0.00	0.00	4,653,412.25	0.00	507,731.63	0.00	Yes
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)	5,587,400.47	0.00	5,587,400.47	0.00	0.00	0.00	0.00	Yes
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	2,000,000.00	0.00	0.00	0.00	Yes
Pilot magnification and commercialization of long-term microspheres products (長效注射微球產品的中試放大和產業化)	2,400,000.00	2,400,000.00	0.00	0.00	0.00	0.00	0.00	Yes
2015 Special Fund for Innovation-driven Projects (2015年度創新驅動項目專項資金)	93,000.00	93,000.00	0.00	0.00	0.00	0.00	0.00	Yes
Project subsidy from Ministry of Industry and Information Technology (工業和信息化部項目補助款)	2,400,000.00	2,400,000.00	0.00	0.00	0.00	0.00	0.00	Yes
R&D Projects Subsidy from Xiangzhou District Technology Industry and Information Technology (香洲區科工信局研發項目補助款)	1,029,300.00	1,029,300.00	0.00	0.00	0.00	0.00	0.00	Yes

NOTES TO THE 2017 INTERIM FINANCIAL STATEMENTS (UNAUDITED)

(Unless specified otherwise, all amounts are denominated in RMB)

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

32. Government grant (continued)

(1) The details of the government grant recognized at the beginning of the Current Period are as follows : (continued)

Items	Amount	Related to assets		Related to income			Written down of costs	Actually received or not
		Deferred income	Non-operating income	Deferred income	other incomes	Non-operating income		
Foreign Trade Development and Port Construction Special Fund (外經貿發展與口岸建設專項資金)	189,725.00	0.00	189,725.00	0.00	0.00	0.00	0.00	Yes
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)	3,249,999.93	2,999,999.91	250,000.02	0.00	0.00	0.00	0.00	Yes
2013 Provincial Technology Special Fund (Subsidy for Rotavirus Vaccine Pre-clinical Research) (2013年度省級科技專項資金 (輪狀病毒疫苗臨床前研究補助))	420,442.09	0.00	420,442.09	0.00	0.00	0.00	0.00	Yes
Demonstration project on the application of solar photovoltaic architecture (太陽能光電建築應用示範項目)	7,965,499.83	7,548,166.50	417,333.33	0.00	0.00	0.00	0.00	Yes
Subsidy for the Tender of Technology Upgrade Project for PVC Soft Bag Supported by Provincial Finance Departments (省財政支持技改招標項目補助金PVC軟袋)	2,580,980.06	2,483,797.16	97,182.90	0.00	0.00	0.00	0.00	Yes
Traditional Chinese Medicine Standardization Project of State Administration of Traditional Chinese Medicine (國家中醫藥管理局中藥標準化項目)	1,000,000.00	700,000.00	0.00	0.00	0.00	0.00	0.00	Yes
Shenqi Fuzheng Injection (參芪扶正注射液)	1,029,987.68	1,029,987.68	0.00	0.00	0.00	0.00	0.00	Yes
Shenqi Fuzheng Injection (參芪扶正注射液)	960,523.19	0.00	0.00	960,523.19	0.00	0.00	0.00	Yes
Financial grant for the quality control technologies of Shenqi (參芪質量控制技術財政撥款)	243,062.00	34,730.00	208,332.00	0.00	0.00	0.00	0.00	Yes
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)	4,641,357.94	4,641,357.94	0.00	0.00	0.00	0.00	0.00	Yes
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	850,000.00	0.00	0.00	0.00	Yes
R&D and Production Transformation of Gemifloxacin Tablets (吉米沙星片的研發及生產轉化)	212,527.55	212,527.55	0.00	0.00	0.00	0.00	0.00	Yes

NOTES TO THE 2017 INTERIM FINANCIAL STATEMENTS (UNAUDITED)

(Unless specified otherwise, all amounts are denominated in RMB)

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

32. Government grant (continued)

(1) The details of the government grant recognized at the beginning of the Current Period are as follows : (continued)

Items	Amount	Related to assets		Related to income			Written down of costs	Actually received or not
		Deferred income	Non-operating income	Deferred income	other incomes	Non-operating income		
Research of Technologies for the Inspection of Toxic Substances from High-Throughput Aquatic Products in Guangdong Province (廣東省水產品中有毒物質高通量檢測技術研究)	80,000.00	0.00	0.00	80,000.00	0.00	0.00	0.00	Yes
Subsidy for Rental and Property of the Investment and Promotion Center (投促中心租金及物業費補貼)	841,557.60	0.00	0.00	467,532.00	0.00	374,025.60	0.00	Yes
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))	5,412,970.40	4,857,702.04	555,268.36	0.00	0.00	0.00	0.00	Yes
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))	589,435.56	0.00	0.00	545,977.32	0.00	43,458.24	0.00	Yes
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	1,000,000.00	0.00	0.00	0.00	Yes
Technological Upgrading and Transformation Projects of Workshop for Acarbose (Bulk Medicine of Glucosidase Inhibitor) (α-葡萄糖苷酶抑制劑類原料藥阿卡波糖生產車間工藝升級技術改造項目)	1,000,000.00	946,428.58	53,571.42	0.00	0.00	0.00	0.00	Yes
R&D and Commercialisation of Statins (降血脂他汀類藥物的研發與產業化)	500,000.00	150,000.00	350,000.00	0.00	0.00	0.00	0.00	Yes
Industrial Revitalisation Supporting Funds (產業振興扶持資金)	8,235,500.01	7,656,500.01	579,000.00	0.00	0.00	0.00	0.00	Yes
Innovative drug of Ilaprazole phase IV clinical research (創新藥物艾普拉唑IV期臨床研究)	3,270,800.00	3,270,800.00	0.00	0.00	0.00	0.00	0.00	Yes
Government grant for industrial transformation (工業轉型政府扶持資金)	1,358,333.34	1,258,333.36	99,999.98	0.00	0.00	0.00	0.00	Yes
New Industrialisation Development Grant (新型工業化發展獎金)	2,654,166.67	2,479,166.67	175,000.00	0.00	0.00	0.00	0.00	Yes
Policy fund for leading industrial enterprises loan interests (工業龍頭企業貸款貼息政策資金)	1,366,666.69	1,266,666.67	100,000.02	0.00	0.00	0.00	0.00	Yes
Five Goods and One New Supporting Funds (五優一新扶持資金)	800,000.00	750,000.02	49,999.98	0.00	0.00	0.00	0.00	Yes

NOTES TO THE 2017 INTERIM FINANCIAL STATEMENTS (UNAUDITED)

(Unless specified otherwise, all amounts are denominated in RMB)

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

32. Government grant (continued)

(1) The details of the government grant recognized at the beginning of the Current Period are as follows : (continued)

Items	Amount	Related to assets		Related to income			Written down of costs	Actually received or not
		Deferred income	Non-operating income	Deferred income	other incomes	Non-operating income		
Subsidy for Online Monitoring Equipment for Coal-fired Boilers (燃煤鍋爐在線監控設備裝置補助)	450,000.00	450,000.00	0.00	0.00	0.00	0.00	0.00	Yes
Set-up and research fund for post-doc station (博士後建站和科研補貼)	100,000.00	100,000.00	0.00	0.00	0.00	0.00	0.00	Yes
Set-up and research fund for post-doc station (博士後建站和科研補貼)	5,142.15	0.00	0.00	5,142.15	0.00	0.00	0.00	Yes
New R&D Institution Subsidy (新型研發機構補助)	2,560,454.41	2,321,631.40	238,823.01	0.00	0.00	0.00	0.00	Yes
Capital projects of Innovation and Entrepreneurship Team Funding Program (創新創業團隊資助計劃資金項目)	2,500,000.00	0.00	0.00	400,000.00	0.00	2,100,000.00	0.00	Yes
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	1,000,000.00	0.00	0.00	0.00	0.00	0.00	Yes
Capsule for Kidney for cure for diabetes and kidney disease (治療糖尿病腎病創新中藥“芪蘆糖腎膠囊”的研究開發)	1,000,000.00	1,000,000.00	0.00	0.00	0.00	0.00	0.00	Yes
Zhuhai Strategic Emerging Industries Special Funds (珠海市戰略性新興產業專項資金)	3,270,000.00	3,270,000.00	0.00	0.00	0.00	0.00	0.00	Yes
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	5,600,000.00	0.00	0.00	0.00	0.00	0.00	Yes
Innovative drug of Ilaprazole for Injection (創新藥注射用艾普拉唑鈉針劑)	2,400,000.00	2,400,000.00	0.00	0.00	0.00	0.00	0.00	Yes
Technological Transformation Projects of New Cefuroxime (新型頭孢粉針劑技術改造項目)	1,533,100.00	1,533,100.00	0.00	0.00	0.00	0.00	0.00	Yes
Funds for Joint R&D and Commercialisation of Integrated Platform for molecular diagnostics (集成一體化分子診斷平臺的合作研發及產業化資金)	2,415,100.00	2,415,100.00	0.00	0.00	0.00	0.00	0.00	Yes
Export credit insurance subsidy (出口信保補貼)	939,600.00	0.00	0.00	0.00	939,600.00	0.00	0.00	Yes

NOTES TO THE 2017 INTERIM FINANCIAL STATEMENTS (UNAUDITED)

(Unless specified otherwise, all amounts are denominated in RMB)

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

32. Government grant (continued)

(1) The details of the government grant recognized at the beginning of the Current Period are as follows : (continued)

Items	Amount	Related to assets		Related to income			Written down of costs	Actually received or not
		Deferred income	Non-operating income	Deferred income	other incomes	Non-operating income		
R&D Subsidy (研究開發費補助)	8,585,023.00	0.00	0.00	0.00	8,585,023.00	0.00	0.00	Yes
Fiscal Subsidy (財政補貼)	798,700.00	0.00	0.00	0.00	0.00	798,700.00	0.00	Yes
Interest Discount for Supporting Excellent and Strong Enterprises and Innovation Supporting Funds (扶優扶強貼息資金及創新驅動扶持資金)	5,427,120.00	0.00	0.00	0.00	0.00	5,427,120.00	0.00	Yes
Interest Discount and Relevant Funds for Promoting Imports (進口貼息及配套資金)	356,340.00	0.00	0.00	0.00	0.00	356,340.00	0.00	Yes
Technological Upgrading and Transformation Projects of Workshop for Acarbose (Bulk Medicine of Glucosidase Inhibitor) (α-葡萄糖甘酶抑制劑類原料藥阿卡波糖生產車間工藝升級技術改造項目)	100,000.00	0.00	0.00	0.00	0.00	100,000.00	0.00	Yes
10KV Pharmaceutical Factory Line Relocation and Improvement Project at Tietia Road in Qingyuan City (清遠市鐵塔路10KV藥廠線路遷改項目)	132,731.97	0.00	0.00	0.00	0.00	132,731.97	0.00	Yes
Subsidies for high and new technology enterprises and high and new technology products (高新技術企業及高新技術產品項目補貼)	600,000.00	0.00	0.00	0.00	0.00	600,000.00	0.00	Yes
Market Development Fund For Small and Medium Enterprises (中小企業開拓市場項目資金)	1,661,000.00	0.00	0.00	0.00	0.00	1,661,000.00	0.00	Yes
Special Fund for Energy Saving and Emission Reduction (節能減排專項資金)	1,208,950.00	0.00	0.00	0.00	0.00	1,208,950.00	0.00	Yes
Subsidies for Enterprises to Attract Graduates of Tertiary Academic Institutions (企業吸納高校畢業生補貼款)	16,480.90	0.00	0.00	0.00	0.00	16,480.90	0.00	Yes
Scientific Technology Incentive and Subsidy for Technological Innovative Project (科學技術獎及科技創新項目資助)	910,000.00	0.00	0.00	0.00	0.00	910,000.00	0.00	Yes
Financial Support Funds of Jinwan District (金灣區財政扶持資金)	41,834,477.76	0.00	0.00	0.00	0.00	41,834,477.76	0.00	Yes
Patent (Intellectual Property) Support Fund (專利(知識產權)資助資金)	300,000.00	0.00	0.00	0.00	0.00	300,000.00	0.00	Yes
Leading Enterprise Development Bonus (龍頭企業做大做強獎勵款)	180,000.00	0.00	0.00	0.00	0.00	180,000.00	0.00	Yes
Employment Assurance and Re-employment Subsidy (企業穩崗及再就業補貼)	325,846.94	0.00	0.00	0.00	0.00	325,846.94	0.00	Yes
Reward Funds for Contribution of Pillar-type Enterprise (支柱型企業經營貢獻獎)	2,253,839.00	0.00	0.00	0.00	0.00	2,253,839.00	0.00	Yes
Supporting Subsidy for "The Thousand Talents Plan" (「千人計劃」配套補貼)	1,000,000.00	0.00	0.00	0.00	0.00	1,000,000.00	0.00	Yes
Others	367,700.00	0.00	0.00	0.00	0.00	367,700.00	0.00	Yes
Total	-	73,129,670.31	10,372,078.58	10,962,586.91	9,524,623.00	60,498,402.04	0.00	-

NOTES TO THE 2017 INTERIM FINANCIAL STATEMENTS (UNAUDITED)

(Unless specified otherwise, all amounts are denominated in RMB)

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

32. Government grant (continued)

(2) Government grant recognized as profit or loss for the Current Period

Item	Related to assets income	Recognised in other incomes	Recognised in non-operating income	Written down of costs
Export credit insurance subsidy (出口信保補貼)	Related to income	939,600.00	0.00	0.00
R&D Subsidy (研究開發費補助)	Related to income	8,585,023.00	0.00	0.00
Fund for 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)	Related to assets	0.00	5,587,400.47	0.00
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)	Related to assets	0.00	1,000,000.00	0.00
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)	Related to income	0.00	507,731.63	0.00
Fiscal Subsidy (財政補貼)	Related to income	0.00	798,700.00	0.00
Interest Discount for Supporting Excellent and Strong Enterprises and Innovation Supporting Funds (扶優扶強貼息資金及創新驅動扶持資金)	Related to income	0.00	5,427,120.00	0.00
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)	Related to assets	0.00	250,000.02	0.00
Fund for Entrepreneurial Team (創業團隊經費)	Related to income	0.00	2,100,000.00	0.00
2013 Provincial Technology Special Fund (Subsidy for Rotavirus Vaccine Pre-clinical Research) (2013年度省級科技專項資金(輪狀病毒疫苗臨床前研究補助))	Related to assets	0.00	420,442.09	0.00
Interest Discount and Relevant Funds for Promoting Imports (進口貼息及配套資金)	Related to income	0.00	356,340.00	0.00
Promoting Imports of Foreign Trade Development and Port Construction Special Fund (外經貿發展與口岸建設專項資金)	Related to assets	0.00	189,725.00	0.00
Subsidy for Rental and Property of the Investment and Promotion Center (投促中心租金及物業費補貼)	Related to income	0.00	374,025.60	0.00
Technological Upgrading and Transformation Projects of Workshop for Acarbose (Bulk Medicine of Glucosidase Inhibitor) (α -葡萄糖苷酶抑制劑類原料藥阿卡波糖生產車間工藝升級技術改造項目)	Related to assets	0.00	53,571.42	0.00
Technological Upgrading and Transformation Projects of Workshop for Acarbose (Bulk Medicine of Glucosidase Inhibitor) (α -葡萄糖苷酶抑制劑類原料藥阿卡波糖生產車間工藝升級技術改造項目)	Related to income	0.00	100,000.00	0.00
R&D and Commercialisation of Statins (降血脂他汀類藥物的研發與產業化)	Related to assets	0.00	350,000.00	0.00
10KV Pharmaceutical Factory Line Relocation and Improvement Project at Tieta Road in Qingyuan City (清遠市鐵塔路10KV藥廠線路遷改項目)	Related to income	0.00	132,731.97	0.00
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)	Related to assets	0.00	97,182.90	0.00
Financial grant for the quality control technologies of Shenqi (參芪質量控制技術財政撥款)	Related to assets	0.00	208,332.00	0.00

NOTES TO THE 2017 INTERIM FINANCIAL STATEMENTS (UNAUDITED)

(Unless specified otherwise, all amounts are denominated in RMB)

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

32. Government grant (continued)

(2) Government grant recognized as profit or loss for the Current Period (continued)

Item	Related to assets income	Recognised in other incomes	Recognised in non-operating income	Written down of costs
Demonstration project on the application of solar photovoltaic architecture (太陽能光電建築應用示範項目)	Related to assets	0.00	417,333.33	0.00
High and new technology enterprises and high and new technology products projects (高新技術企業及高新技術產品項目)	Related to income	0.00	600,000.00	0.00
Market Development Fund For Small and Medium Enterprises (中小企業開拓市場項目資金)	Related to income	0.00	1,661,000.00	0.00
Special Fund for Energy Saving and Emission Reduction (節能減排專項資金)	Related to income	0.00	1,208,950.00	0.00
Subsidies for Enterprises to Attract Graduates of Tertiary Academic Institutions (企業吸納高校畢業生補貼款)	Related to income	0.00	16,480.90	0.00
Scientific Technology Incentive and Subsidy for Technological Innovative Project (科學技術獎及科技創新項目資助)	Related to income	0.00	910,000.00	0.00
Financial Support Funds from Jinwan District (金灣區財政扶持資金)	Related to income	0.00	41,834,477.76	0.00
Patent (Intellectual Property) Support Fund (專利(知識產權)資助資金)	Related to income	0.00	300,000.00	0.00
Policy fund for leading industrial enterprises loan interests (工業龍頭企業貸款貼息政策資金)	Related to assets	0.00	100,000.02	0.00
Government grant for industry transformation (工業轉型政府扶持資金)	Related to assets	0.00	99,999.98	0.00
New Industrialization Development Grant (新型工業化發展獎金)	Related to assets	0.00	175,000.00	0.00
Government Industry Encouragement Fund (政府產業振興扶持資金)	Related to assets	0.00	579,000.00	0.00
Five Goods and One New Supporting Funds (五優一新扶持資金)	Related to assets	0.00	49,999.98	0.00
Leading Enterprise Development Bonus (龍頭企業做大做強獎勵款)	Related to income	0.00	180,000.00	0.00
Employment Assurance and Re-employment Subsidy (企業穩崗及再就業補貼)	Related to income	0.00	325,846.94	0.00
New Scientific Research Institution Subsidy (新型科研機構補助資金)	Related to assets	0.00	238,823.01	0.00
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))	Related to assets	0.00	555,268.36	0.00
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))	Related to income	0.00	43,458.24	0.00
Reward Funds for Contribution of Pillar-type Enterprise (支柱型企業經營貢獻獎)	Related to income	0.00	2,253,839.00	0.00
Supporting Subsidy for "The Thousand Talents Plan" (「千人計劃」配套補貼)	Related to income	0.00	1,000,000.00	0.00
Others	Related to income	0.00	367,700.00	0.00
Total	-	9,524,623.00	70,870,480.62	0.00

NOTES TO THE 2017 INTERIM FINANCIAL STATEMENTS (UNAUDITED)

(Unless specified otherwise, all amounts are denominated in RMB)

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

32. Government grant (continued)

(3) Return of the government grant for the Current Period

Nil.

33. 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	94,997,993.67	2,791,557.60	13,697,294.05	84,092,257.22	

Items related to government grant:

Liabilities	Balance at the beginning of the year	Increase for the Current Period	Decrease for the Current Period				Balance at the end of the Period	Related to assets/ Related to income
			Recognised in non-operating income	Recognised in other incomes	Written down of costs	Other decreases		
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)	5,831,374.82	0.00	1,000,000.00	0.00	0.00	0.00	4,831,374.82	Related to assets
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)	5,161,143.88	0.00	507,731.63	0.00	0.00	0.00	4,653,412.25	Related to income
2014 Strategic Emerging Industries (Sustained Release Microsphere) (2014年戰略性新興產業(緩釋微球))	5,587,400.47	0.00	5,587,400.47	0.00	0.00	0.00	0.00	Related to assets
Pilot magnification and commercialization of long-term microspheres products (長效注射微球產品的中試放大和產業化)	2,000,000.00	0.00	0.00	0.00	0.00	0.00	2,000,000.00	Related to income
2015 Special Fund for Innovation-driven Projects (2015年度創新驅動項目專項資金)	2,400,000.00	0.00	0.00	0.00	0.00	0.00	2,400,000.00	Related to assets
Project subsidy from Ministry of Industry and Information Technology (工業和信息化部項目補助款)	93,000.00	0.00	0.00	0.00	0.00	0.00	93,000.00	Related to assets
R&D Projects Subsidy from Xiangzhou District Technology Industry and Information Technology (香洲區科工信局研發項目補助款)	2,400,000.00	0.00	0.00	0.00	0.00	0.00	2,400,000.00	Related to assets
Foreign Trade Development and Port Construction Special Fund (外經貿發展與口岸建設專項資金)	1,029,300.00	0.00	0.00	0.00	0.00	0.00	1,029,300.00	Related to assets
	189,725.00	0.00	189,725.00	0.00	0.00	0.00	0.00	Related to assets

NOTES TO THE 2017 INTERIM FINANCIAL STATEMENTS (UNAUDITED)

(Unless specified otherwise, all amounts are denominated in RMB)

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

33. Deferred income (continued)

Liabilities	Balance at the beginning of the year	Increase for the Current Period	Decrease for the Current Period				Balance at the end of the Period	Related to assets/ Related to income
			Recognised in non-operating income	Recognised in other incomes	Written down of costs	Other decreases		
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)	3,249,999.93	0.00	250,000.02	0.00	0.00	0.00	2,999,999.91	Related to assets
2013 Provincial Technology Special Fund (Subsidy for Rotavirus Vaccine Pre-clinical Research) (2013年度省級科技專項資金 (輪狀病毒疫苗臨床前研究補助))	420,442.09	0.00	420,442.09	0.00	0.00	0.00	0.00	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)	7,965,499.83	0.00	417,333.33	0.00	0.00	0.00	7,548,166.50	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)	2,580,980.06	0.00	97,182.90	0.00	0.00	0.00	2,483,797.16	Related to assets
Traditional Chinese Medicine Standardization Project of State Administration of Traditional Chinese Medicine (國家中醫藥管理局中藥標準化項目)	1,000,000.00	0.00	0.00	0.00	0.00	300,000.00	700,000.00	Related to assets
Shenqi Fuzheng Injection (參芪扶正注射液)	1,029,987.68	0.00	0.00	0.00	0.00	0.00	1,029,987.68	Related to assets
	960,523.19	0.00	0.00	0.00	0.00	0.00	960,523.19	Related to income
Financial grant for the quality control technologies of Shenqi (參芪質量控制技術財政撥款)	243,062.00	0.00	208,332.00	0.00	0.00	0.00	34,730.00	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)	4,641,357.94	0.00	0.00	0.00	0.00	0.00	4,641,357.94	Related to assets
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	0.00	0.00	850,000.00	Related to income
R&D and Production Transformation of Gemifloxacin Tablets (吉米沙星片的研發及生產轉化)	212,527.55	0.00	0.00	0.00	0.00	0.00	212,527.55	Related to assets
Research of technologies for the inspection of toxic substances from high-throughput aquatic products in Guangdong Province (廣東省水產品中有害物質高通量檢測技術研究)	80,000.00	0.00	0.00	0.00	0.00	0.00	80,000.00	Related to income
Subsidy for Rental and Property of the Investment and Promotion Center (投促中心租金及物業費補貼)	0.00	841,557.60	374,025.60	0.00	0.00	0.00	467,532.00	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))	5,412,970.40	0.00	555,268.36	0.00	0.00	0.00	4,857,702.04	Related to assets
	589,435.56	0.00	43,458.24	0.00	0.00	0.00	545,977.32	Related to income

NOTES TO THE 2017 INTERIM FINANCIAL STATEMENTS (UNAUDITED)

(Unless specified otherwise, all amounts are denominated in RMB)

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

33. Deferred income (continued)

Liabilities	Balance at the beginning of the year	Increase for the Current Period	Recognised in non-operating income	Decrease for the Current Period			Balance at the end of the Period	Related to assets/ Related to income
				Recognised in other incomes	Written down of costs	Other decreases		
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	0.00	0.00	1,000,000.00	Related to income
Technological Upgrading and Transformation Projects of Workshop for Acarbose (Bulk Medicine of Glucosidase Inhibitor) (α -葡萄糖苷酶抑制劑類原料藥阿卡波糖生產車間工藝升級技術改造項目)	0.00	1,000,000.00	53,571.42	0.00	0.00	0.00	946,428.58	Related to assets
R&D and Commercialisation of Statins (降血脂他汀類藥物的研發與產業化)	0.00	500,000.00	350,000.00	0.00	0.00	0.00	150,000.00	Related to assets
Industrial Revitalisation Supporting Funds (產業振興扶持資金)	8,235,500.01	0.00	579,000.00	0.00	0.00	0.00	7,656,500.01	Related to assets
Innovative drug of Ilaprazole phase IV clinical research (創新藥物艾普拉唑IV期臨床研究)	3,270,800.00	0.00	0.00	0.00	0.00	0.00	3,270,800.00	Related to assets
Government grant for industrial transformation (工業轉型政府扶持資金)	1,358,333.34	0.00	99,999.98	0.00	0.00	0.00	1,258,333.36	Related to assets
New Industrialisation Development Grant (新型工業化發展獎金)	2,654,166.67	0.00	175,000.00	0.00	0.00	0.00	2,479,166.67	Related to assets
Policy fund for leading industrial enterprises loan Interests (工業龍頭企業貸款貼息政策資金)	1,366,666.69	0.00	100,000.02	0.00	0.00	0.00	1,266,666.67	Related to assets
Five Goods and One New Supporting Funds (五優一新扶持資金)	800,000.00	0.00	49,999.98	0.00	0.00	0.00	750,000.02	Related to assets
Subsidy for Online Monitoring Equipment for Coal-fired Boilers (燃煤鍋爐在線監控設備裝置補助)	0.00	450,000.00	0.00	0.00	0.00	0.00	450,000.00	Related to assets
Set-up and research fund for post-doc station (博士後建站和科研補貼)	100,000.00	0.00	0.00	0.00	0.00	0.00	100,000.00	Related to assets
	5,142.15	0.00	0.00	0.00	0.00	0.00	5,142.15	Related to income
New R&D Institution Subsidy (新型研發機構補助)	2,560,454.41	0.00	238,823.01	0.00	0.00	0.00	2,321,631.40	Related to assets
Capital projects of Innovation and Entrepreneurship Team Funding Program (創新創業團隊資助計劃資金項目)	2,500,000.00	0.00	2,100,000.00	0.00	0.00	0.00	400,000.00	Related to income
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	0.00	0.00	1,000,000.00	Related to assets

NOTES TO THE 2017 INTERIM FINANCIAL STATEMENTS (UNAUDITED)

(Unless specified otherwise, all amounts are denominated in RMB)

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

33. Deferred income (continued)

	Balance at the beginning of the year	Increase for the Current Period	Decrease for the Current Period				Balance at the end of the Period	Related to assets/ Related to income
			Recognised in non-operating income	Recognised in other incomes	Written down of costs	Other decreases		
Liabilities								
R&D of Innovative Traditional Chinese Medicine								
Qihuo Sugar (芪薈糖) Capsule for Kidney for cure for diabetes and kidney disease (治療糖尿病腎病創新中藥“芪薈糖腎膠囊”的研究開發)	1,000,000.00	0.00	0.00	0.00	0.00	0.00	1,000,000.00	Related to assets
Zhuhai Strategic Emerging Industries Special Funds (珠海市戰略性新興產業專項資金)	3,270,000.00	0.00	0.00	0.00	0.00	0.00	3,270,000.00	Related to assets
Funds for R&D and commercialisation of innovative drug of Ilaprazole series (艾普拉唑系列創新藥物研發及產業化項目資金)	5,600,000.00	0.00	0.00	0.00	0.00	0.00	5,600,000.00	Related to assets
Innovative drug of Ilaprazole for Injection (創新藥注射用艾普拉唑鈉針劑)	2,400,000.00	0.00	0.00	0.00	0.00	0.00	2,400,000.00	Related to assets
Technological Transformation Projects of New Cefuroxime (新型頭孢粉針劑技術改造項目)	1,533,100.00	0.00	0.00	0.00	0.00	0.00	1,533,100.00	Related to assets
Funds for Joint R&D and Commercialisation of Integrated Platform for molecular diagnostics (集成一體化分子診斷平臺的合作研發及產業化資金)	2,415,100.00	0.00	0.00	0.00	0.00	0.00	2,415,100.00	Related to assets
Total	94,997,993.67	2,791,557.60	13,397,294.05	0.00	0.00	300,000.00	84,092,257.22	

NOTES TO THE 2017 INTERIM FINANCIAL STATEMENTS (UNAUDITED)

(Unless specified otherwise, all amounts are denominated in RMB)

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

34. Share capital

January to June 2017

Item	Balance at the beginning of the year		Changes for the Current Period (+ -)					Balance at the end of the Period	
	Amount	Percentage (%)	Issue of new shares	Number of bonus shares	Reserve fund capitalized	Others	Sub-total	Amount	Percentage (%)
I. Shares subject to selling restrictions									
1. State-owned shares	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
2. State-owned legal person shares	11,777,256	2.77	0.00	0.00	0.00	0.00	0.00	11,777,256	2.77
3. Other domestic shares	32,615,174	7.66	0.00	0.00	0.00	-3,013,481	-3,013,481	29,601,693	6.96
Of which: Domestic legal person shares	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Domestic natural person shares	7,416,971	1.74	0.00	0.00	0.00	-3,013,481	-3,013,481	4,403,490	1.04
Funds and wealth management products	25,198,203	5.92	0.00	0.00	0.00	0.00	0.00	25,198,203	5.92
4. Foreign shares	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Of which: Domestic legal person shares	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Overseas natural person shares	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Shares subject to selling restrictions in aggregate	44,392,430	10.43	0.00	0.00	0.00	-3,013,481	-3,013,481	41,378,949	9.73
II. Shares not subject to selling restrictions									
1. Ordinary shares denominated in Renminbi	235,746,336	55.37	0.00	0.00	0.00	2,845,947	2,845,947	238,592,283	56.07
2. Domestically listed foreign shares (B-share)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
3. Overseas listed foreign shares (H-share)	145,591,360	34.20	0.00	0.00	0.00	0.00	0.00	145,591,360	34.20
4. Others	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Shares not subject to selling restrictions in aggregate	381,337,696	89.57	0.00	0.00	0.00	2,845,947	2,845,947	384,183,643	90.27
III. Total number of shares	425,730,126	100.00	0.00	0.00	0.00	-167,534	-167,534	425,562,592	100.00

On 28 March 2017, 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 Thirty-sixth Meeting of the Eighth Session of the Board of the Company. Total 3,177,213 shares 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 7 April 2017, 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 331,266 locked shares held by the senior management, resulting in an actual increase of 2,845,947 non-restricted shares of the Company.

For the details of changes of other shares, please see the Note 1.

NOTES TO THE 2017 INTERIM FINANCIAL STATEMENTS (UNAUDITED)

(Unless specified otherwise, all amounts are denominated in RMB)

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

34. Share capital (continued)

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 (%)
I. Shares subject to selling restrictions									
1. State-owned shares	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
2. State-owned legal person shares	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
Of which: Domestic legal person shares	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Domestic natural person shares	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
Of which: overseas legal person shares	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Overseas natural person shares	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Shares subject to selling restrictions in aggregate	20,328,396	5.12	0.00	0.00	0.00	-4,292,985	-4,292,985	16,035,411	4.04
II. Shares not subject to selling restrictions									
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
III. Total number of shares	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 THE 2017 INTERIM FINANCIAL STATEMENTS (UNAUDITED)

(Unless specified otherwise, all amounts are denominated in RMB)

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

35. Capital reserve

January to June 2017

Item	Balance at the beginning of the year	Increase for the Current Period	Decrease for the Current Period	Balance at the end of the Period
Capital premiums	1,766,067,775.00	29,225,593.78	3,287,576.14	1,792,005,792.64
Other capital reserve	54,241,277.12	8,559,980.22	20,365,935.33	42,435,322.01
Total	1,820,309,052.12	37,785,574.00	23,653,511.47	1,834,441,114.65

Increase in share premium for the Current Period represents: 1. releasing conditions of 3,177,213 Restricted Shares from the First Grant have been fulfilled, and the corresponding withdrawal of share incentive expenses RMB20,365,935.33 is transferred from other capital reserve to the share premium reserve; 2. upon unlocking of Restricted Shares, the difference between expenses deductible for tax purpose and the accrued expenses reduced income tax payable by RMB8,859,658.45 according to taxation requirements and capital premiums is increased accordingly. The decrease of share premium for the Current Period was attributable to the decrease of share premium in the sum of RMB 3,287,576.14 by the repurchase and cancellation of 167,534 shares restricted shares granted to incentive participants no longer satisfying the conditions of incentive.

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

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	368,130,766.31
Other capital reserve	56,570,182.76	19,792,166.43	28,884,400.00	47,477,949.19
Total	395,709,350.15	48,783,765.35	28,884,400.00	415,608,715.50

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 during the period was attributable to the provision of share incentive expenses.

NOTES TO THE 2017 INTERIM FINANCIAL STATEMENTS (UNAUDITED)

(Unless specified otherwise, all amounts are denominated in RMB)

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

36. Treasury shares

January to June 2017

Item	Balance at the beginning of the year	Increase for the Current Period	Decrease for the Current Period	Balance at the end of the Period
Repurchase arising from the Share Incentive Scheme	140,321,805.40	0.00	65,159,417.20	75,162,388.20
Total	140,321,805.40	0.00	65,159,417.20	75,162,388.20

The decrease in our repurchase obligation for the Current Period represents: 1. the releasing conditions of 3,177,213 Restricted Shares from the First Grant have been fulfilled, resulting in a corresponding decrease in our repurchase obligation of RMB59,763,376.53; 2. the decrease of treasury shares of RMB1,940,930.53 was due to cash dividends distributed to the holders of Restricted Shares for the Current Period; 3. the repurchase and cancellation of 167,534 shares Restricted Shares granted to the Incentive Participants who no longer satisfying the incentive conditions, resulting in a repurchase payment of RMB3,455,110.14, among which the decrease of share capital of RMB167,534 and capital reserve of RMB3,287,576.14 were attributable to the cancellation of treasury shares.

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
Repurchase arising from the Share Incentive Scheme	247,219,957.00	0.00	90,144,746.80	157,075,210.20
Total	247,219,957.00	0.00	90,144,746.80	157,075,210.20

The decrease in our repurchase obligation during the period represents: 1. 4,453,176 Restricted Shares from the first batch have 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 THE 2017 INTERIM FINANCIAL STATEMENTS (UNAUDITED)

(Unless specified otherwise, all amounts are denominated in RMB)

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

37. Other comprehensive income

January to June 2017

Item	Balance at the beginning of the year	Amount incurred before income tax for the Current Period	For the Current Period				Balance at the end of the Period
			Less: amount recognised in other comprehensive income in Previous Period transferred to profit or loss for the 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	602,767.19	-18,609,463.79	0.00	375,346.12	-18,929,625.04	-55,184.87	-18,326,857.85
Of which: other comprehensive income portions subsequently to be re-classified as profit or loss of investment units using the equity method	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Profit and loss from change of fair value of available-for-sale financial assets	5,574,984.49	2,502,307.47	0.00	375,346.12	2,126,961.35	0.00	7,701,945.84
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	-7,191,482.30	-21,111,771.26	0.00	0.00	-21,056,586.39	-55,184.87	-28,248,068.69
Others	2,219,265.00	0.00	0.00	0.00	0.00	0.00	2,219,265.00
Total of other comprehensive income	602,767.19	-18,609,463.79	0.00	375,346.12	-18,929,625.04	-55,184.87	-18,326,857.85

NOTES TO THE 2017 INTERIM FINANCIAL STATEMENTS (UNAUDITED)

(Unless specified otherwise, all amounts are denominated in RMB)

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

37. Other comprehensive income *(continued)*

January to June 2016

Item	Balance at the Beginning of the year	Amount incurred before income tax for the period	For the period				Balance at the period end
			Less: amount recognised in other comprehensive income in previous period transferred to profit or loss for the period	Less: income tax expenses	Attributable to the parent company after tax	Attributable to the non-controlling shareholders after tax	
I. Other comprehensive income items subsequently not to be re-classified as profit or loss	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Of which: changes caused by re-measurement of net liabilities or net assets of benefit plans	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Other comprehensive income portions subsequently not to be re-classified as profit or loss of investment units using the equity method	0.00	0.00	0.00	0.00	0.00	0.00	0.00
II. Other comprehensive income items subsequently to be re-classified as profit or loss	-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 THE 2017 INTERIM FINANCIAL STATEMENTS (UNAUDITED)

(Unless specified otherwise, all amounts are denominated in RMB)

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

38. Surplus reserve

January to June 2017

Item	Balance at the beginning of the year	Increase for the Current Period	Decrease for the Current Period	Balance at the end of the Period
Statutory surplus reserve	419,666,842.50	0.00	0.00	419,666,842.50
Discretionary surplus reserve	63,796,201.34	0.00	0.00	63,796,201.34
Reserve funds	82,108,376.71	0.00	0.00	82,108,376.71
Enterprise development funds	21,683,742.35	0.00	0.00	21,683,742.35
Total	587,255,162.90	0.00	0.00	587,255,162.90

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	379,022,231.26
Discretionary surplus reserve	63,796,201.34	0.00	0.00	63,796,201.34
Reserve funds	82,108,376.71	0.00	0.00	82,108,376.71
Enterprise development funds	21,683,742.35	0.00	0.00	21,683,742.35
Total	546,610,551.66	0.00	0.00	546,610,551.66

NOTES TO THE 2017 INTERIM FINANCIAL STATEMENTS (UNAUDITED)

(Unless specified otherwise, all amounts are denominated in RMB)

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

39. Retained earnings

(1) Movement in retained earnings

Item	For the period	For the previous period	Allocation or appropriation proportion
Retained earnings for the previous year before adjustment	3,812,412,101.62	3,267,019,067.30	
Add: Adjusted retained earnings at the beginning of the year	0.00	0.00	
Retained earnings at the beginning of the year after adjustment	3,812,412,101.62	3,267,019,067.30	
Add: Net earnings attributable to the shareholders of the parent company for the period	504,002,522.78	409,061,823.40	
Less: Appropriation to statutory surplus reserve	0.00	0.00	10%
Appropriation to discretionary surplus reserve	0.00	0.00	
Dividends payable to ordinary shares	212,781,296.00	198,444,773.50	
Dividends of ordinary shares capitalised	0.00	0.00	
Retained earnings at the period end	4,103,633,328.40	3,477,636,117.20	

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 THE 2017 INTERIM FINANCIAL STATEMENTS (UNAUDITED)

(Unless specified otherwise, all amounts are denominated in RMB)

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

39. Retained earnings (continued)

(2) Notes to appropriation of profits

Unit: RMB'000

Item	For the period	For the previous period
Dividends:		
Final dividends in respect of the year 2016 paid during the year (Note 1)	—	—
Final dividends in respect of the year 2015 paid during the year (Note 2)	—	198,315.96
Dividends proposed after the balance sheet date:		
Final dividends proposed for the year 2016 (Note 1)	212,781.30	—
Final dividends proposed for the year 2015 (Note 2)	—	198,315.96

Note 1: On 24 March 2017, the Company held the 35th Meeting of the 8th Board, which passed the resolution of 2016 annual profit distribution plan to distribute a cash dividend (RMB0.5 per share (tax inclusive)) to all shareholders. Based on the Company's total share capital as at the registration date of shareholding determined by implementation of the 2016 annual profit distribution plan, a cash dividend of RMB0.5 per share (tax inclusive) would be distributed to all the shareholders of the Company. At the same time, 3 shares would be issued for every 10 shares held to all shareholders of the Company by way of capitalizing our capital reserve. Such profit contribution plan is subject to the approval at the annual general meeting on 23 June 2016.

Note 2: 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 period. Such profit contribution plan was approved at the general meeting on 27 May 2016 and the payment of RMB198,315,960 was made on June and December of 2016, respectively.

40. Operating income and operating cost

Item	For the Current Period		For the Previous Period	
	Income	Cost	Income	Cost
Principal activities	4,255,422,366.73	1,491,987,844.75	3,770,466,548.06	1,344,871,022.47
Other activities	19,336,079.75	11,227,623.37	13,833,110.57	10,444,517.20
Total	4,274,758,446.48	1,503,215,468.12	3,784,299,658.63	1,355,315,539.67

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 THE 2017 INTERIM FINANCIAL STATEMENTS (UNAUDITED)

(Unless specified otherwise, all amounts are denominated in RMB)

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

41. Business taxes and surcharges

Item	For the Current Period	For the Previous Period
Urban maintenance and construction tax	25,428,894.46	24,921,415.08
Education surcharges	20,698,880.20	19,968,871.17
Flood prevention fee	258,635.33	1,202,301.58
Business tax	0.00	2,770,016.71
Land use tax	3,292,201.27	3,387,396.50
Property tax	10,409,620.00	6,703,442.48
Stamp duty	3,411,944.66	850,480.33
Vehicle and vessel usage tax	24,619.53	6,390.00
Others	217,686.51	183,929.17
Total	63,742,481.96	59,994,243.02

Note 1: The basis of calculations for principal business taxes and surcharges taxes are disclosed in note V. Taxation.

Note 2: Items accounted under "Management fee" including land use tax, property tax, vehicle and vessel usage tax and stamp duty were should be accounted as "Tax and surcharges" in accordance with "Regulations for the Accounting Treatment of VAT*" (Cai Kuai [2016] No. 22) issued by the PRC Ministry of Finance.

42. Selling expenses

Item	For the Current Period	For the Previous Period
Marketing and promotional expenses	1,557,350,097.28	1,389,651,866.96
Staff salaries	57,579,535.14	51,206,527.51
Transportation costs	27,526,885.54	26,142,404.61
Travelling expenses and entertainment	14,800,309.03	14,342,573.36
Business meeting expenses	10,990,092.45	7,010,645.79
Others	16,358,126.64	13,109,330.22
Total	1,684,605,046.08	1,501,463,348.45

NOTES TO THE 2017 INTERIM FINANCIAL STATEMENTS (UNAUDITED)

(Unless specified otherwise, all amounts are denominated in RMB)

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

43. Administrative expenses

Item	For the Current Period	For the Previous Period
Research and development costs	171,552,330.26	117,885,714.09
Staff salaries	58,422,752.10	51,925,434.54
Share incentive expenses	8,559,980.22	19,792,166.43
Depreciation and amortisation	29,052,016.46	30,049,956.04
Loss on suspension of operations	30,133,491.13	25,955,331.57
Auditor Remuneration	1,231,417.10	1,641,509.39
Others	101,564,855.81	71,065,847.31
Total	400,516,843.08	318,315,959.37

44. Financial expenses

Item	For the Current Period	For the Previous Period
Interest expenses	3,050,424.10	12,725,878.77
Less: Interest income	14,656,795.70	2,797,130.94
Exchange (gains)/losses	10,006,744.30	-3,222,370.51
Bank charges	1,859,345.74	1,987,686.61
Total	259,718.44	8,694,063.93

45. Impairment loss

Item	For the Current Period	For the Previous Period
Provision for bad debts	15,273,494.23	20,497,826.88
Provision for diminution in value of inventories	19,275,952.12	14,586,955.38
Provision for impairment of fixed assets	13,278.08	3,247,837.98
Provision for Intangible assets	0.00	8,829,166.90
Provision for impairment of available-for-sale financial assets	0.00	31,422,602.28
Total	34,562,724.43	78,584,389.42

NOTES TO THE 2017 INTERIM FINANCIAL STATEMENTS (UNAUDITED)

(Unless specified otherwise, all amounts are denominated in RMB)

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

46. Gains from changes in fair value

Sources of gains from changes in fair value	For the Current Period	For the Previous Period
Financial assets at fair value through profit or loss	733,944.14	-416,854.57
Of which: Shares	722,600.40	-431,577.30
Funds	11,343.74	14,722.73

47. Investment Income

Item	For the Current Period	For the Previous Period
Long-term equity investments income under equity method	585,049.99	1,046,651.54
Investment income generated from disposal of long-term equity investments	0.00	472,300.00
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	65,210.28	50,773.80
Investment income generated from disposal of financial assets measured at fair value, with the change in fair value included in the profit or loss	0.00	0.00
Investment income generated from held-to-maturity investments during its holding period	0.00	0.00
Investment income generated from available-for-sale financial assets during its holding period	123,604.65	114,448.75
In which: investment income generated from available-for-sale financial assets measured at fair value during its holding period	123,604.65	114,448.75
Investment income generated from disposal of available-for-sale financial assets investments	0.00	0.00
Income generated from revaluation of remaining equity measured at fair value upon loss of control	0.00	0.00
Return from cash management	4,310,498.10	0.00
Total	5,084,363.02	1,684,174.09

48. 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	652,895.89	5,735,970.45	652,895.89
Of which: Gains on disposal of fixed assets	652,895.89	636,605.36	652,895.89
Income from scraps	349,681.78	48,884.47	349,681.78
Government grants (as detailed in the table below : Table for breakdown of government grants)	70,870,480.62	54,024,145.82	70,870,480.62
Compensation income	458,669.44	6,866.57	458,669.44
Waiver of payables	191,411.51	0.00	191,411.51
Others	354,429.66	277,527.32	354,429.66
Total	72,877,568.90	60,093,394.63	72,877,568.90

NOTES TO THE 2017 INTERIM FINANCIAL STATEMENTS (UNAUDITED)

(Unless specified otherwise, all amounts are denominated in RMB)

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

49. Non-operating expenses

Item	For the Current Period	For the Previous Period	Recognised as extraordinary gains or losses for the Current Period
Losses on disposal of non-current assets	7,670,643.65	217,369.82	7,670,643.65
Of which: Losses on disposal of fixed assets	7,670,643.65	217,369.82	7,670,643.65
Retirement of fixed assets	0.00	73,400.67	0.00
Charitable donation expenses	492,569.88	0.00	492,569.88
Others	3,273,222.78	2,580,282.10	3,273,222.78
Total	11,436,436.31	2,871,052.59	11,436,436.31

50. 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	101,466,457.96	102,931,086.52
Include: Income tax on domestic enterprises	101,466,457.96	102,928,372.11
Income tax on Hong Kong and Macau enterprises	0.00	2,714.41
Adjustment of deferred income tax	12,782,085.50	-9,976,059.96
Total	114,248,543.46	92,955,026.56

(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	664,640,227.12	520,421,776.33
Income tax calculated at statutory tax rates	166,160,056.78	130,105,444.08
Tax effect of different rates applicable to subsidiaries	-1,044,687.16	-14,106,859.27
Effect of tax deduction	-83,947,079.01	-49,092,258.44
Effect of non-deductible expenses	1,333,878.86	-1,322,477.20
Credit (charge) on temporary differences on which deferred tax assets are not recognised for the year	619,822.35	11,670,538.33
Deductible losses of deferred tax assets that are not recognised for the year	23,666,015.46	12,872,624.72
Use of deductible losses of deferred tax assets that are not recognised in the previous year	-897,877.83	-1,394,303.02
Others	8,358,414.01	4,222,317.36
Total	114,248,543.46	92,955,026.56

NOTES TO THE 2017 INTERIM FINANCIAL STATEMENTS (UNAUDITED)

(Unless specified otherwise, all amounts are denominated in RMB)

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

51. Other comprehensive income details

Please refer to note VI. 37 for details.

52. 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	69,489,367.17	45,071,067.21
Interest income	14,656,795.70	2,797,130.94
Damages and penalty income	463,564.44	6,866.57
Income from scraps	349,681.78	48,884.47
Deposits under guarantees for letter of credit	0.00	16,691,397.20
Movements of capital and others	19,395,781.33	19,510,367.43
Total	104,355,190.42	84,125,713.82

(2) Cash paid relating to other operating activities

Item	For the Current Period	For the Previous Period
Office expenses	28,827,893.74	13,910,159.02
Travelling expenses	17,028,213.41	13,613,044.39
Entertainment expenses	21,007,397.58	11,998,647.03
Transportation fees	38,204,483.19	27,944,411.81
Advertising expenses	608,301.81	128,403.77
Business meeting expenses	40,595,363.51	19,586,507.44
Auditing and information disclosure fees	3,463,443.01	4,494,656.30
Consultancy fees	9,793,889.73	6,286,004.68
Research and development costs	61,300,002.31	40,664,692.43
Bank charges	1,859,345.74	1,987,686.61
Business promotion expenses	1,520,337,575.70	1,354,482,428.68
Deposits under guarantees for letter of credit and bank acceptance bills	2,230,000.00	0.00
Other expenses paid and current account	48,816,912.81	40,568,730.49
Total	1,794,072,822.54	1,535,665,372.65

(3) Cash received relating to other investing activities

Item	For the Current Period	For the Previous Period
Deposits under guarantees	400,000,000.00	14,510,483.09

(4) Cash paid relating to other investing activities

Item	For the Current Period	For the Previous Period
Collection and advance payment of individual income tax	1,753,334.52	1,007,821.00

NOTES TO THE 2017 INTERIM FINANCIAL STATEMENTS (UNAUDITED)

(Unless specified otherwise, all amounts are denominated in RMB)

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

52. Notes to cash flow statement item (continued)

(5) Cash paid relating to other financing activities

Item	For the Current Period	For the Previous Period
Repurchase of shares	3,455,110.14	5,027,224.20
Collection and advance payment of individual income tax	2,595,510.88	0.00
	6,050,621.02	5,027,224.20

53. 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
1 Reconciliation of net profit to cash flow from operating activities:		
Net profit	550,391,683.66	427,466,749.77
Add: Provision for impairment of assets	34,562,724.43	78,584,389.42
Depreciation of fixed assets, amortisation of oil and gas assets, depreciation of productive biological assets	161,607,640.81	171,291,939.54
Amortisation of intangible assets	13,216,072.42	15,311,422.63
Amortisation of long-term deferred expenses	7,336,476.78	4,610,264.80
Losses on disposal of fixed assets, intangible assets and other long-term assets ("—" represents gains)	7,017,747.76	-5,518,600.63
Losses on retirement of fixed assets ("—" represents gains)	0.00	73,400.67
Losses from changes in fair value ("—" represents gains/income)	-733,944.14	416,854.57
Financial expenses ("—" represents gains/income)	26,686,560.04	8,579,165.49
Investments losses ("—" represents gains)	-5,084,363.02	-1,684,174.09
Decrease in deferred tax assets ("—" represents increase)	8,344,771.46	-12,920,501.88
Increase in deferred tax liabilities ("—" represents decrease)	4,437,314.04	2,944,441.92
Decrease in inventories ("—" represents increase)	-8,080,535.41	-66,478,694.30
Decrease in trade receivables ("—" represents increase)	-679,885,768.21	-448,903,435.51
Increase in trade payables ("—" represents decrease)	319,004,492.81	114,358,315.57
Others	8,559,980.22	19,792,166.43
Net cash flows from operating activities	447,380,853.65	307,923,704.40
2 Significant investing and financing activities not involving cash receipts and payment:		
Liabilities converted into capital	0.00	0.00
Convertible bonds due within one year	0.00	0.00
Fixed assets acquired under finance leases	0.00	0.00
3 Net movement in cash and cash equivalents:		
Cash at the End of the Period	2,699,757,863.10	905,540,384.83
Less: Cash at the beginning of the year	2,061,923,004.89	767,093,403.45
Add: Cash equivalents at the End of the Period	0.00	0.00
Less: Cash equivalents at the beginning of the year	0.00	0.00
Net increase in cash and cash equivalents	637,834,858.21	138,446,981.38

NOTES TO THE 2017 INTERIM FINANCIAL STATEMENTS (UNAUDITED)

(Unless specified otherwise, all amounts are denominated in RMB)

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

53. Supplemental information to cash flow statement *(continued)*

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

Nil

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

Nil

(4) Composition of cash and cash equivalents

Item	For the Current Period	For the Previous Period
1 Cash	2,699,757,863.10	905,540,384.83
Of which: Cash on hand	170,285.08	213,028.68
Bank deposits that are readily available for payment	2,611,508,910.72	904,345,336.13
Other cash at bank and on hand that are readily available for payment	88,078,667.30	982,020.02
2 Cash equivalents	0.00	0.00
Of which: Bond investments due within three months	0.00	0.00
3 Cash and cash equivalents at the End of the Period	2,699,757,863.10	905,540,384.83

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

54. Assets with restricted ownership or right of use

Item	Carrying amount at the End of the Period	Reasons
Cash in foreign currency – Bank deposits	4,102,000,000.00	The equity transfer payments received are subject to supervision by the parties to the transaction and the bank before the completion of the transfer
Cash in foreign currency – Other cash at bank and on hand	2,230,000.00	Deposits under guarantees for letter of credit
Total	4,104,230,000.00	

NOTES TO THE 2017 INTERIM FINANCIAL STATEMENTS (UNAUDITED)

(Unless specified otherwise, all amounts are denominated in RMB)

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

55. Monetary items in foreign currency

Item	Amount in foreign currency by the End of the Period	Exchange rate	Amount translated into RMB by the End of the Period
Cash in foreign currency :			
In which: HKD	735,920,248.32	0.86792	638,719,901.92
Euro	253,991.46	7.7496	1,968,332.22
USD	41,855,321.11	6.7744	283,544,687.33
MOP	2,887,901.25	0.8450	2,440,276.56
JPY	55,832,535.00	0.060485	3,377,030.88
Total cash in foreign currency			930,050,228.91
Trade receivables :			
In which: USD	40,986,546.02	6.7744	277,659,257.36
MOP	1,028,865.03	0.8450	869,390.95
Total trade receivables			278,528,648.31
Other receivables :			
In which: HKD	1,474,282.03	0.86792	1,279,558.86
MOP	418,000.00	0.8450	353,210.00
Total other receivables			1,632,768.86
Payables :			
In which: Euro	88,900.00	7.7496	688,939.44
USD	305,205.95	6.7744	2,067,587.19
Total other receivables			2,756,526.63
Other payables:			
In which: HKD	1,413,100.98	0.86792	1,226,458.60
USD	389,138.59	6.7744	2,636,180.46
Total other payables			3,862,639.06

NOTES TO THE 2017 INTERIM FINANCIAL STATEMENTS (UNAUDITED)

(Unless specified otherwise, all amounts are denominated in RMB)

VII. CHANGE TO CONSOLIDATION SCOPE

Livzon MABPharm (USA) Limited (麗珠單抗生物技術(美國)有限公司) was founded with 100% registered capital from Livzon MABPharm Inc. (珠海市麗珠單抗生物技術有限公司) in June 2017 and was included in the scope of combination during the period.

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 (安瀾發展有限公司)	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	Zhuhai	Zhuhai	Provision of services	RMB6,000,000	100%	100%	Set-up
Livzon Group Livzon Pharmaceutical Factory (麗珠集團麗珠製藥廠)	Wholly-owned	Limited company	Zhuhai	Zhuhai	Manufacture of medicine	RMB450,000,000	100%	100%	Set-up
Livzon Group Livzon Pharmaceutical Marketing Co., Ltd. (麗珠集團麗珠醫藥營銷有限公司)	Wholly-owned	Limited company	Zhuhai	Zhuhai	Sales of goods	RMB20,000,000	100%	100%	Set-up
Zhuhai Livzon Pharmaceutical Trading Co., Ltd. (珠海市麗珠醫藥貿易有限公司)	Wholly-owned	Limited company	Zhuhai	Zhuhai	Sales of goods	RMB60,000,000	100%	100%	Set-up
Shanghai Livzon Pharmaceutical Manufacturing Co., Ltd. (上海麗珠製藥有限公司)	Holding	Limited company	Shanghai	Shanghai	Manufacture of medicine	RMB87,330,000	51%	51%	Set-up
Zhuhai FTZ Livzon Hecheng Pharmaceutical Manufacturing Co., Ltd. (珠海保稅區麗珠合成製藥有限公司)	Wholly-owned	Limited company	Zhuhai	Zhuhai	Manufacture of medicine	RMB128,280,000	100%	100%	Set-up
Zhuhai Livzon Diagnostic Reagents Inc. (珠海麗珠試劑股份有限公司)	Holding	Limited company	Zhuhai	Zhuhai	Manufacture of medicine	RMB46,450,000	51%	51%	Set-up
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 Subsidiary	Limited company	Zhuhai	Zhuhai	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 County	Longxi County	Crop farming	RMB4,000,000	100%	100%	Set-up
Livzon Pharmaceutical Biotechnology Co., Limited (麗珠醫藥生物技術有限公司)	Wholly-owned	Limited company	Hong Kong	Hong Kong	Provision of services	HKD10,000	100%	100%	Set-up
Zhuhai Livzon Advertising Co., Ltd. (珠海麗珠廣告有限公司)	Wholly-owned	Limited company	Zhuhai	Zhuhai	Provision of services	RMB1,000,000	100%	100%	Set-up
Livzon Group Livzon Baimeing Biological Materials Co., Ltd. (麗珠集團麗珠一拜阿蒙生物材料有限公司)	Holding	Limited company	Zhuhai	Zhuhai	Manufacture of medicine	RMB12,000,000	82%	82%	Set-up
Zhuhai Livzon Meidaxin Technological Development Co., Ltd. (珠海市麗珠美達信技術開發有限公司)	Wholly-owned	Limited company	Zhuhai	Zhuhai	Provision of services	RMB1,000,000	100%	100%	Set-up
Livzon Group Livzon Medical Research Centre (麗珠集團麗珠醫藥研究所)	Wholly-owned	Limited company	Zhuhai	Zhuhai	Provision of services	RMB10,000,000	100%	100%	Set-up
Jiaozuo Livzon Hecheng Pharmaceutical Manufacturing Co., Ltd. (焦作麗珠合成製藥有限公司)	Wholly-owned	Limited company	Jiaozuo	Jiaozuo	Manufacture of medicine	RMB70,000,000	100%	100%	Set-up
Livzon MABPharm Inc. (珠海市麗珠單抗生物技術有限公司)	Holding	Limited company	Zhuhai	Zhuhai	Provision of services	RMB533,330,000	51%	51%	Set-up

NOTES TO THE 2017 INTERIM FINANCIAL STATEMENTS (UNAUDITED)

(Unless specified otherwise, all amounts are denominated in RMB)

VIII.EQUITY IN OTHER ENTITIES *(continued)*

1. Equity in subsidiaries *(continued)*

(1) Group Structure *(continued)*

Name of the subsidiary	Subsidiary Type	Type of legal entity	Principal place of business	Place of registration	Nature of business	Registered capital	Percentage of shareholding	Proportion of voting rights	Acquisition method
Livzon Group Vaccine Engineering Inc. (麗珠集團疫苗工程股份有限公司)	Holding	Limited company	Zhuhai	Zhuhai	Provision of services	RMB65,000,000	83.85%	83.85%	Set-up
Wenshan Livzon Sanqi Plantation Co., Ltd. (文山麗珠三七種植有限公司)	Holding	Limited company	Wenshan	Wenshan	Crop farming	RMB9,200,000	51%	51%	Set-up
Livzon Group Ningxia Xinbeijiang Pharmaceutical Manufacturing Co., Ltd. (麗珠集團寧夏新北江製藥有限公司)	Holding	Limited company	Pingluo County	Pingluo County	Manufacture of medicine	RMB100,000,000	99.214%	99.214%	Set-up
Livzon Group Ningxia Fuxing Pharmaceutical Manufacturing Co., Ltd. (麗珠集團寧夏福興製藥有限公司)	Wholly-owned	Limited company	Pingluo County	Pingluo County	Manufacture of medicine	RMB100,000,000	100%	100%	Set-up
Companhia de Macau Carason Limitada (澳門嘉安信有限公司)	Subsidiary of Holding Subsidiary	Limited company	Macau	Macau	Sales of goods	MOP100,000	51%	51%	Set-up
Li Zhu (Macau) Limitada (麗珠(澳門)有限公司)	Wholly-owned	Limited company	Macau	Macau	Provision of services	MOP100,000	100%	100%	Set-up
Shanghai Livzon Biotechnology Co., Ltd. (上海麗珠生物科技股份有限公司)	Subsidiary of Holding Subsidiary	Limited company	Shanghai	Shanghai	Provision of services	RMB10,000,000	38.25%	38.25%	Set-up
Zhuhai Weixing Shiye Co., Ltd. (珠海維星實業有限公司)	Wholly-owned	Limited company	Zhuhai	Zhuhai	Provision of services	RMB309,562,400	100%	100%	Set-up
Zhuhai Lihe Medical Diagnostic Product Company Limited (珠海麗禾醫療診斷產品有限公司)	Subsidiary of Holding Subsidiary	Limited company	Zhuhai	Zhuhai	Manufacture of medicine	RMB15,000,000	51%	51%	Set-up
Shanghai Lihang Biotechnology Co., Limited (上海麗航生物科技股份有限公司)	Subsidiary of Holding Subsidiary	Limited company	Shanghai	Shanghai	Provision of services	RMB1,000,000	51%	51%	Set-up
Zhuhai Livzon Gene Detection Technology Co., Ltd. (珠海市麗珠基因檢測科技有限公司)	Holding	Limited company	Zhuhai	Zhuhai	Provision of services	RMB100,000,000	60%	60%	Set-up
Livzon MABPharm (USA) Limited (麗珠單抗生物技術(美國)有限公司)	Subsidiary of Holding Subsidiary	Limited company	Boston	Boston	Technology development	USD1,000,000	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. (麗珠集團福州福興製藥有限公司)	Wholly-owned	Limited company	Fuzhou	Fuzhou	Manufacture of medicine	USD41,700,000	100%	100%	Consolidated from noncommon control
Gutian Fuxing Pharmaceutical Co., Ltd. (古田福興製藥有限公司)	Wholly-owned	Limited company	Gutian County	Gutian County	Manufacture of medicine	RMB26,700,000	100%	100%	Consolidated from noncommon control

On 12 April 2017, Zhuhai Livzon Pharmaceutical Industrial Co. Ltd. (珠海市麗珠醫藥工業有限公司) was renamed as Zhuhai Weixing Shiye Co., Ltd. (珠海維星實業有限公司).

NOTES TO THE 2017 INTERIM FINANCIAL STATEMENTS (UNAUDITED)

(Unless specified otherwise, all amounts are denominated in RMB)

VIII.EQUITY IN OTHER ENTITIES *(continued)*

1. Equity in subsidiaries *(continued)*

(2) Important non-wholly owned subsidiaries

Name of Subsidiaries	Percentage of shareholdings of non-controlling shareholders	Profit and loss attributable to non-controlling shareholders for the 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. (上海麗珠生物科技股份有限公司))	49%	44,918,059.35	29,400,000.00	154,496,077.15
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), Zhuhai Livzon Shengmei Medical Diagnosis Technology Co., Ltd. (珠海麗珠聖美醫療診斷技術有限公司) and Shanghai Lihang Biotechnology Co., Limited (上海麗航生物科技股份有限公司))	49%	17,076,968.10	0.00	254,621,575.92
Livzon MABPharm Inc. (珠海市麗珠單抗生物技術有限公司)	49%	-20,254,269.00	0.00	175,799,673.11
Livzon Group Vaccine Engineering Inc. (麗珠集團疫苗工程股份有限公司)	16.15%	-44,760.83	0.00	-1,058,242.07
Livzon Group Xinbeijiang Pharmaceutical Manufacturing Inc. (麗珠集團新北江製藥股份有限公司)	7.86%	3,562,763.19	0.00	33,841,187.84

(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. (上海麗珠生物科技股份有限公司))	518,254,341.18	311,169,023.11	375,405,673.51	234,001,736.34
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), Zhuhai Livzon Shengmei Medical Diagnosis Technology Co., Ltd. (珠海麗珠聖美醫療診斷技術有限公司) and Shanghai Lihang Biotechnology Co., Limited (上海麗航生物科技股份有限公司))	703,107,063.65	449,843,353.66	588,527,027.75	383,231,481.48
Livzon MABPharm Inc. (珠海市麗珠單抗生物技術有限公司)	403,980,137.24	358,774,843.06	272,090,340.55	256,526,013.32
Livzon Group Vaccine Engineering Inc. (麗珠集團疫苗工程股份有限公司)	17,829,355.47	-6,552,582.47	14,594,391.59	-5,643,104.09
Livzon Group Xinbeijiang Pharmaceutical Manufacturing Inc. (麗珠集團新北江製藥股份有限公司)	587,026,605.29	430,549,463.57	451,430,171.83	333,466,020.40

NOTES TO THE 2017 INTERIM FINANCIAL STATEMENTS (UNAUDITED)

(Unless specified otherwise, all amounts are denominated in RMB)

VIII.EQUITY IN OTHER ENTITIES *(continued)*

1. Equity in subsidiaries *(continued)*

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

Name of subsidiaries	Operating results for the Current Period			Operating results for the Previous Period		
	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有限公司))	390,130,599.39	81,987,796.72	81,987,796.72	289,044,115.68	53,974,775.28	53,974,775.28
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), Zhuhai Livzon Shengmei Medical Diagnosis Technology Co., Ltd. (珠海麗珠聖美醫療診斷技術有限公司) and Shanghai Lihang Biotechnology Co., Limited (上海麗航生物科技有限公司))	295,028,145.53	41,448,927.95	41,391,490.64	260,148,898.69	44,473,659.00	44,534,373.84
Livzon MABPharm Inc. (珠海市麗珠單抗生物技術有限公司)	0.00	-41,335,242.86	-41,335,242.86	0.00	-64,883,147.78	-64,883,147.78
Livzon Group Vaccine Engineering Inc. (麗珠集團疫苗工程股份有限公司)	0.00	-277,156.83	-277,156.83	0.00	-12,647,033.09	-12,647,033.09
Livzon Group Xinbeijiang Pharmaceutical Manufacturing Inc. (麗珠集團新北江製藥股份有限公司)	273,163,303.62	45,327,775.99	45,327,775.99	187,961,626.29	35,199,817.25	35,199,817.25

NOTES TO THE 2017 INTERIM FINANCIAL STATEMENTS (UNAUDITED)

(Unless specified otherwise, all amounts are denominated in RMB)

VIII. EQUITY IN OTHER ENTITIES (continued)

1. Equity in subsidiaries (continued)

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

Name of subsidiaries	Cash flow for the 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. (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))	64,184,218.40	-9,796,698.44	-46,848,323.95	5,219,176.50	12,732,070.93	50,229,605.43	-4,929,825.09	-44,504,957.34	868,764.71	1,663,587.71
Zhuohai 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), Zhuohai Lihe Medical Diagnostic Product Co. Ltd (珠海麗禾醫療診斷產品有限公司) and Zhuohai Livzon Shengmei Medical Diagnosis Technology Co., Ltd. (珠海麗珠聖美醫療診斷技術有限公司) and Shanghai Lihang Biotechnology Co., Limited (上海麗航生物科技股份有限公司))	-1,625,149.94	-14,790,414.12	-12,841,917.92	44,824,799.54	15,631,237.44	-13,882,830.69	-31,376,508.71	74,077,223.66	31,465,881.13	60,928,334.77
Livzon MABPharm Inc. (珠海市麗珠單抗生物技術有限公司)	-47,107,960.72	-10,631,490.54	66,804,687.87	294,507.64	9,359,744.25	-43,665,035.44	-39,124,763.44	83,344,029.82	464,130.86	1,018,361.80
Livzon Group Vaccine Engineering Inc. (麗珠集團疫苗工程股份有限公司)	22,827.51	-45,255.63	-19,168.87	42,208.18	611.19	-689,094.03	-191,469.97	845,103.70	79,513.21	44,052.91
Livzon Group Xinbeijiang Pharmaceutical Manufacturing Inc. (麗珠集團新北江製藥股份有限公司)	-14,190,203.84	-4,038,051.36	50,026,121.65	81,655,605.61	111,518,668.56	-21,644,318.15	57,860,310.62	-25,737,185.88	16,730,091.81	27,270,947.05

2. Equity interest transfer with changes to proportion of equity ownership for subsidiaries without losing control

(1) Explanation on changes to proportion of equity interest ownership for subsidiaries

Nil.

(2) Effect of transfer on non-controlling shareholder's equity interests and equity interest attributable to the owners of the Company for the 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	91,694,784.78	92,530,162.61
Total amount calculated by percentage of shareholding		
– net profit	585,049.99	1,046,651.54
– other comprehensive income	0.00	0.00
– total comprehensive income	585,049.99	1,046,651.54

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

Nil.

NOTES TO THE 2017 INTERIM FINANCIAL STATEMENTS (UNAUDITED)

(Unless specified otherwise, all amounts are denominated in RMB)

IX. RISKS RELATED TO FINANCIAL INSTRUMENTS

(I) Management objectives and policies of risks

The operation activities of the Company are subject to various financial risks: market risks (mainly including foreign exchange risks and interest rate risks), credit risks and liquidity risks. The Company formulates an overall risk management plan with respect to the unforeseeability of the financial market in order to minimise the potential adverse impacts on the financial performance of the Company.

1. Foreign exchange risks

The Company conducts its operation primarily in China. Substantially all of the transactions were denominated and settled in Renminbi. However, the Company still has certain imports and exports businesses regarding bulk medicines and diagnostic reagents that are settled in U.S. dollar and Japanese Yen. The Company's businesses outside China (mainly in Hong Kong) are settled in Hong Kong dollars. In addition, the Company will have foreign currency loans according to the operating needs. In respect of the above, the Company still exposes to certain foreign exchange risks. Taking into account the foreign exchange risks acceptable by the Company, the Company 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 2017

Amount denominated: RMB'000

Item	HKD item	USD item	Euro item	JPY item	MOP item
Financial assets in foreign currency –					
Cash	638,719.90	283,544.69	1,968.33	3,377.03	2,440.28
Financial assets measured at fair value, with the change in fair value included in the profit or loss for the period	5,745.63	0.00	0.00	0.00	0.00
Receivables	0.00	277,659.26	0.00	0.00	869.39
Prepayments	0.00	39.80	6,889.39	0.00	0.00
Dividend receivables	64.23	0.00	0.00	0.00	0.00
Other receivables	1,279.56	0.00	0.00	0.00	353.21
Other non-current assets	101,541.43	0.00	0.00	0.00	0.00
Subtotal:	747,350.75	561,243.75	8,857.72	3,377.03	3,662.88
Financial liabilities in foreign currency –					
Payables	0.00	2,067.59	688.94	0.00	0.00
Receipts in advance	0.00	1,516.72	0.00	0.00	0.00
Other payables	1,226.46	2,636.18	0.00	0.00	0.00
Subtotal:	1,226.46	6,220.49	688.94	0.00	0.00

NOTES TO THE 2017 INTERIM FINANCIAL STATEMENTS (UNAUDITED)

(Unless specified otherwise, all amounts are denominated in RMB)

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

(I) Management objectives and policies of risks *(continued)*

1. Foreign exchange risks *(continued)*

(2) 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
Subtotal:	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
Subtotal:	3,478.77	1,156.93	0.00	0.00	413.39

As at 30 June 2017, in respect of Group's financial assets and liabilities denominated in Hong Kong dollar, U.S. dollar, Euro, Japanese Yen and Macau dollar, should the value of RMB appreciate or depreciate by 5% against Hong Kong dollar, U.S. dollar, Euro, Japanese Yen and Macau dollar, and other factors remain unchanged, the Group would be subject to an increase or decrease in profit of approximately RMB65,817,810 (30 June 2016: approximately RMB22,376,890).

2. Interest rate risk

The Company's exposures to interest rate risk are mainly arising from interest-bearing liabilities such as bank borrowings and bonds payables. The interest rates are affected by the macro monetary policies of China, hence the Company will face the risks arising from fluctuation of interest rates in the future.

The finance department of the head office of the Company continues to monitor the level of interest rate. The rise in the interest rate will increase the cost of additional interest bearing liabilities and the interest expenses of the Company's outstanding interest-bearing liabilities of which the interests are calculated at floating rates, and impose material adverse impact on the financial results of the Company. The management will timely make adjustment based on the updated market conditions. The directors of the Company consider that the future changes in the interest rate will have no material adverse impact on the operating results of the Company.

NOTES TO THE 2017 INTERIM FINANCIAL STATEMENTS (UNAUDITED)

(Unless specified otherwise, all amounts are denominated in RMB)

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

(I) Management objectives and policies of risks *(continued)*

3. Credit risk

Credit risk is primarily attributable to cash and cash equivalents, restricted cash at bank, accounts receivables and other receivables. In respect of cash at banks, they were placed at several banks with good reputations, for which the credit risk was limited. In respect of accounts receivables, the Company shall assess the credit limit granted to customers for credit purpose. Moreover, as the customer base is large, the credit risk on accounts receivables is not concentrated. In respect of the settlement of bills receivables, since more quality bills such as bank acceptance bills are used, it's expected that there should be no significant credit risks as for whether the Company determines to hold for redemption upon maturity or endorse for payment to external parties based on capital requirements. In addition, the provision made on accounts receivables and other receivables are adequate to manage the credit risk.

4. Liquidity risk

The Company adopts prudent liquidity risk management for the sufficient supply of monetary funds and liquidity. It secures readily available credit loans from banks mainly by maintaining adequate monetary funds and banking facilities. Apart from indirect financing from banks, a number of financing channels were opened, such as direct financing by inter-bank market including short-term financing bills and medium term financing bills, corporate bonds etc. These instruments can effectively reduce the effects of scale of financing and the macromonetary policies of China on indirect bank financing, which shall secure adequate funds in a flexible manner. As at the date of the balance sheet, cash flows of the financial assets and financial liabilities contracts are presented below by term of maturity:

(1) 30 June 2017

Item	Within 1 year	1-2 years	2-5 years	Over 5 years	Total
Financial assets –					
Cash	6,803,987,863.10	0.00	0.00	0.00	6,803,987,863.10
Financial assets measured at fair value, with the change in fair value included in the profit or loss for the period	6,587,883.16	0.00	0.00	0.00	6,587,883.16
Bills receivables	868,254,813.90	0.00	0.00	0.00	868,254,813.90
Receivables	1,730,945,602.62	0.00	0.00	0.00	1,730,945,602.62
Prepayments	119,227,647.65	0.00	0.00	0.00	119,227,647.65
Dividend receivables	64,226.08	0.00	0.00	0.00	64,226.08
Other receivables	70,140,871.98	0.00	0.00	0.00	70,140,871.98
Other current assets	250,000,000.00	0.00	0.00	0.00	250,000,000.00
Subtotal:	9,849,208,908.49	0.00	0.00	0.00	9,849,208,908.49
Financial liabilities –					
Bills payables	744,086,552.91	0.00	0.00	0.00	744,086,552.91
Payables	449,727,964.76	0.00	0.00	0.00	449,727,964.76
Receipts in advance	4,567,499,660.83	0.00	0.00	0.00	4,567,499,660.83
Dividend payables	215,313,280.46	0.00	0.00	0.00	215,313,280.46
Other payables	1,707,630,188.20	0.00	0.00	0.00	1,707,630,188.20
Non-current liabilities due within one year	400,000.00	0.00	0.00	0.00	400,000.00
Long-term loans	0.00	0.00	0.00	700,000.00	700,000.00
Subtotal:	7,684,657,647.16	0.00		700,000.00	7,685,357,647.16

NOTES TO THE 2017 INTERIM FINANCIAL STATEMENTS (UNAUDITED)

(Unless specified otherwise, all amounts are denominated in RMB)

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

(I) Management objectives and policies of risks *(continued)*

4. Liquidity risk *(continued)*

(2) 30 June 2016

Item	Within 1 year	1-2 years	2-5 years	Over 5 year s	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
Bills receivables	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
Subtotal:	3,249,348,197.25	0.00	0.00	0.00	3,249,348,197.25
Financial liabilities –					
Short-term loans	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
Subtotal:	3,172,505,051.75	0.00	0.00	700,000.00	3,173,205,051.75

(II) Transfer of financial assets

Nil.

NOTES TO THE 2017 INTERIM FINANCIAL STATEMENTS (UNAUDITED)

(Unless specified otherwise, all amounts are denominated in RMB)

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 1	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 1
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	6,019.07	733.94	0.00	0.00	6,587.88
1. Financial assets held for trading	6,019.07	733.94	0.00	0.00	6,587.88
(1) debt instrument investments	0.00	0.00	0.00	0.00	0.00
(2) equity instrument investments	6,019.07	733.94	0.00	0.00	6,587.88
(3) derivative financial assets	0.00	0.00	0.00	0.00	0.00
2. Financial assets measured at fair value, with the change in fair value included in the profit or loss for the period	0.00	0.00	0.00	0.00	0.00
(II) Available-for-sale financial assets	6,598.66	0.00	2,126.96	0.00	9,100.96
1. debt instrument investments	0.00	0.00	0.00	0.00	0.00
2. equity instrument investments	6,598.66	0.00	2,126.96	0.00	9,100.96
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

Based on the closing price in the open market as at the last trading day at the end of the Reporting Period.

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

Nil.

NOTES TO THE 2017 INTERIM FINANCIAL STATEMENTS (UNAUDITED)

(Unless specified otherwise, all amounts are denominated in RMB)

XI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS

1. Status of parent company of the Company

Name of parent company	Relationship with the related party	Type of entity	Place of registration	Legal representative	Nature of business
Joicare Pharmaceutical Industry Group Co., Ltd. (健康元藥業集團股份有限公司)	Controlling shareholder	Joint stock company with limited liability (listed)	Shenzhen	Zhu Baoguo	Production of oral liquid, drugs and healthcare food
Name of parent company	Registered capital	Percentage of the entity's shareholding held by the parent company (%)	Percentage of the entity's voting rights held by the parent company (%)	The ultimate controlling party of the entity	Unified social credit code
Joicare Pharmaceutical Industry Group Co., Ltd. (健康元藥業集團股份有限公司)	1,573,778,272	23.68	23.68	Zhu Baoguo	91440300618874367T

Notes to the parent company of the Company

As of 30 June 2017, the Company's parent company and its subsidiaries held a total of 190,659,367 shares in the Company, representing 44.80% 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. Equity in subsidiaries.

3. Joint ventures and associates of the Company

Please refer to note VI.12. Long-term equity investments and note VIII.3. Equity in joint ventures and associates.

NOTES TO THE 2017 INTERIM FINANCIAL STATEMENTS (UNAUDITED)

(Unless specified otherwise, all amounts are denominated in RMB)

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

4. Other related parties of the Company

Name of other related parties	Relationship with the Company	Organisation code
Shenzhen Haibin Pharmaceutical Co., Ltd. (深圳市海濱製藥有限公司)	A company controlled by the parent company	91440300618855174Y
Xinxiang Haibin Pharmaceutical Co., Ltd. (新鄉海濱藥業有限公司)	A company controlled by the parent company	914107007648945429
Jiaozuo Joincare Pharmaceutical Industry Group Co., Ltd. (焦作健康元生物製品有限公司)	A company controlled by the parent company	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 parent company	914404007578808713
Health Pharmaceutical (China) Co., Ltd. (健康藥業(中國)有限公司)	A company controlled by the parent company	914404006174989103
Shenzhen Taitai Pharmaceutical Co., Ltd. (深圳太太藥業有限公司)	A company controlled by the parent company	91440300741217151R
Shenzhen Taitai Gene Engineering Co., Ltd. (深圳太太基因工程有限公司)	A company controlled by the parent company	91440300733083333P
Topsino Industries Limited (天誠實業有限公司)	A company controlled by the parent company	
Guangzhou Joincare Respiratory Drugs Engineering Technology Co., Ltd. (廣州健康元呼吸藥物工程技術有限公司)	A company controlled by the parent company	91440101347516532X
EPIRUS SWITZERLAND GmbH	A subsidiary of the company in which a Director of the Company is holding position	
CYNVENIO BIOSYSTEMS, INC.	A company at which a Director of the Company serves	
Zhuhai Xianghetai Investment Management Partnership (Limited Partnership) (珠海祥和泰投資管理合夥企業(有限合夥))	A company controlled by a senior management of the Company	91440400MA4UXRWA0K
Zhuhai Hengqin New Area Guanlian Gu Investment Partnership (Limited Partnership) (珠海橫琴新區觀聯谷投資合夥企業(有限合夥))	A company controlled by a director of the subsidiary of the Company	91440400MA4UY9CW9

NOTES TO THE 2017 INTERIM FINANCIAL STATEMENTS (UNAUDITED)

(Unless specified otherwise, all amounts are denominated in RMB)

XI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (continued)

5. Related party transactions

(1) Related party transactions relating to purchase of goods/receipt of services

Related party	Description of related party transaction	Pricing basis and decision making procedures of the related party transactions	For the Current Period		For the Previous Period	
			Amount	Proportion to the transaction amount of the same category (%)	Amount	Proportion to the transaction amount of the same category (%)
Guangdong Blue Treasure Pharmaceutical Co., Ltd. (廣東藍寶製藥有限公司)	Raw materials	The market price	423,027.78	0.05	92,786.32	0.01
Shenzhen Haibin Pharmaceutical Co., Ltd. (深圳市海濱製藥有限公司)	Raw materials	The market price	6,077,658.12	0.67	23,040,598.29	2.59
Xinxiang Haibin Pharmaceutical Co., Ltd. (新鄉海濱藥業有限公司)	Raw materials	The market price	0.00	0.00	4,273.50	0.00
Health Pharmaceutical (China) Co., Ltd. (健康藥業(中國)有限公司)	Raw materials	The market price	0.00	0.00	11,666.67	0.00
Joincare Pharmaceutical Industry Group Co., Ltd. (健康元藥業集團股份有限公司)	Finished goods	The market price	64,804.82	0.01	61,900.93	0.01
Shenzhen Taitai Pharmaceutical Co., Ltd. (深圳太太藥業有限公司)	Raw materials	The market price	0	0.00	20,000.00	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	157,605,097.57	17.36	123,347,466.11	13.86
Purchase of goods in aggregate			164,170,588.29	18.09	146,578,691.82	16.47
Jiaozuo Joincare Pharmaceutical Industry Group Co., Ltd. (焦作健康元生物製品有限公司)	Water and power	The market price	7,712,847.20	5.97	4,066,665.23	3.51
Receipt of services in aggregate			7,712,847.20	5.97	4,066,665.23	3.51

NOTES TO THE 2017 INTERIM FINANCIAL STATEMENTS (UNAUDITED)

(Unless specified otherwise, all amounts are denominated in RMB)

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

5. Related party transactions *(continued)*

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

Related party	Description of related party transaction	Pricing principles and decision making procedures of the related party transactions	For the Current Period		For the Previous Period	
			Amount	Proportion to the transaction amount of the same category (%)	Amount	Proportion to the transaction amount of the same category (%)
Zhuhai Joincare Pharmaceutical Co., Ltd. (珠海健康元生物醫藥有限公司)	Finished goods	The market price	0.00	0.00	7,460.45	0.00
Guangdong Blue Treasure Pharmaceutical Co., Ltd. (廣東藍寶製藥有限公司)	Finished goods	The market price	2,290.60	0.00	14,743,589.74	0.39
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	915,381.28	0.02	97,095.38	0.00
Shenzhen Haibin Pharmaceutical Co., Ltd. (深圳市海濱製藥有限公司)	Finished goods	The market price	2,302,360.15	0.05	0.00	0.00
Sales of goods in aggregate			3,220,032.03	0.07	14,848,145.57	0.39
Guangdong Blue Treasure Pharmaceutical Co. Ltd. (廣東藍寶製藥有限公司)	Water and power	The market price	3,953,732.52	55.22	2,835,901.18	97.84
Zhuhai Joincare Pharmaceutical Co., Ltd. (珠海健康元生物醫藥有限公司)	Water and power	The market price	268,572.57	3.75	0.00	0.00
Provision of services in aggregate			4,222,305.09	58.97	2,835,901.18	97.84
Shenzhen Haibin Pharmaceutical Co., Ltd. (深圳市海濱製藥有限公司)	Processing and inspection fee	Based on negotiation	0.00	0.00	493,234.57	53.96
Provision of services in aggregate			0.00	0.00	493,234.57	53.96

(3) Related party leases

(1) The Company as lessor

Name of lessee	Type of leased assets	Lease income recognised for the Current Period	Lease income recognised for the Previous Period
Zhuhai Joincare Pharmaceutical Co., Ltd. (珠海健康元生物醫藥有限公司)	Plant & buildings, equipment	120,560.05	86,274.11
Health Pharmaceutical (China) Co., Ltd. (健康藥業(中國)有限公司)	Plant & buildings	0.00	47,145.28

(2) The Company as lessee

Name of lessor	Type of leased assets	Lease expenses recognised for the Current Period	Lease expenses recognised for the Previous Period
Joincare Pharmaceutical Industry Group Co., Ltd. (健康元藥業集團股份有限公司)	Plant & buildings	350,335.14	329,472.00

NOTES TO THE 2017 INTERIM FINANCIAL STATEMENTS (UNAUDITED)

(Unless specified otherwise, all amounts are denominated in RMB)

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

5. Related party transactions *(continued)*

(4) Related party asset transfers and debt restructuring

Related party	Description of related party transaction	For the Current Period	For the Previous Period
Jiaozuo Joicare Pharmaceutical Industry Group Co., Ltd. (焦作健康元生物製品有限公司)	Sales of equipment	578,139.08	0.00
CYNVENIO BIOSYSTEMS, INC.	Procurement of equipment	13,093,539.59	7,899,972.21

(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'0,000):

Name of guaranteed party	Actual date of event (Signing date of the Agreement)	Balance at the end of the Period	Actual guaranteed amount	Guaranteed amount	Description and type of guarantee	Period of guarantee
Livzon MABPharm Inc. (珠海市麗珠單抗生物技術有限公司)	2016.6.22	588.23	588.23	5,000.00	Opening bank acceptance bills, joint liability guarantee	2016.6.22-2019.6.22 (Bank of Communication, Zhuhai Branch) (交通銀行珠海分行)
Zhuhai Livzon Diagnostic Reagents Inc. (珠海麗珠試劑股份有限公司)	2013.2.05	1,804.42	1,804.42	10,000.00	Opening the letter of credit, joint liability guarantee	2013.2.05-2018.2.04 Standard Chartered Bank, Zhuhai Branch (渣打銀行珠海分行)
Zhuhai Livzon Diagnostic Reagents Inc. (珠海麗珠試劑股份有限公司)	2015.9.11	160.00	160.00	4,000.00	Opening the letter of guarantee, joint liability guarantee	2015.9.11-2018.9.11 Bank of China, Zhuhai Branch (中國銀行珠海分行)
Total actual amount guaranteed for subsidiaries during the Reporting Period			4,486.57			
Total balance of actual amount guaranteed for subsidiaries at the end of the Reporting Period			2,552.65			

(2) Guarantee provided to the Company by related party

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

Zhuhai Zhenghe Co., Ltd. (珠海正禾企業有限公司), the other shareholder of Zhuhai Livzon Diagnostic Reagents Inc. (珠海麗珠試劑股份有限公司) has provided a "Letter of Undertaking for Counter Guarantee", pursuant to which it has undertaken to provide counter guarantee for 49% of the abovementioned guarantee credit for Zhuhai Livzon Diagnostic Reagents Inc. (珠海麗珠試劑股份有限公司) and the guarantee period of which will be expired on the expiry date of the credit.

NOTES TO THE 2017 INTERIM FINANCIAL STATEMENTS (UNAUDITED)

(Unless specified otherwise, all amounts are denominated in RMB)

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

5. Related party transactions *(continued)*

(6) Remuneration of key management personnel

1 Directors', supervisors' and senior management's remuneration disclosed as follows

January – June 2017

Unit: RMB'0,000

	Fees of Director/ Supervisor	Salaries and allowances	Social insurance	Housing provident fund	Bonus	Signing bonus	Compensation for loss of office	Others	Total
Directors:									
Zhu Baoguo (朱保國)	4.50	0.00	0.00	0.00	0.00	0.00	0.00	0.00	4.50
Tao Desheng (陶德勝)	3.60	25.36	2.19	0.51	75.00	0.00	0.00	6.79	113.45
Yang Daihong (楊代宏)	3.60	27.90	2.20	0.51	41.17	0.00	0.00	0.00	75.38
Fu Daotian (傅道田)	3.60	23.63	1.23	0.00	8.42	0.00	0.00	0.00	36.88
Qiu Qingfeng (邱慶豐)	3.60	0.00	0.00	0.00	0.00	0.00	0.00	0.00	3.60
Zhong Shan (鐘山)	3.60	0.00	0.00	0.00	0.00	0.00	0.00	0.00	3.60
Independent Directors:									
Xu Yanjun (徐炎軍)	4.80	0.00	0.00	0.00	0.00	0.00	0.00	0.00	4.80
Guo Guoqing (郭國慶)	4.80	0.00	0.00	0.00	0.00	0.00	0.00	0.00	4.80
Wang Xiaojun (王小軍)	4.80	0.00	0.00	0.00	0.00	0.00	0.00	0.00	4.80
Zheng Zhihua (鄭志華)	4.80	0.00	0.00	0.00	0.00	0.00	0.00	0.00	4.80
Xie Yun (謝耘)	4.80	0.00	0.00	0.00	0.00	0.00	0.00	0.00	4.80
Supervisors:									
Wang Maolin (汪卯林)	2.10	14.37	2.10	0.51	3.45	0.00	0.00	0.00	22.53
Tang Yin (湯胤)	1.80	0.00	0.00	0.00	0.00	0.00	0.00	0.00	1.80
Huang Huamin (黃華敏)	1.80	0.00	0.00	0.00	0.00	0.00	0.00	0.00	1.80
Other senior management:									
Xu Guoxiang (徐國祥)	0.00	27.67	2.21	0.51	0.00	0.00	0.00	0.00	30.39
Lu Wenqi (陸文岐)	0.00	25.37	0.00	0.51	45.18	0.00	0.00	0.00	71.06
Si Yanxia (司燕霞)	0.00	17.79	2.13	0.51	37.32	0.00	0.00	0.00	57.75
Zhou Peng (周鵬)	0.00	21.11	2.15	0.51	8.47	0.00	0.00	0.00	32.24
Yang Liang (楊亮)	0.00	11.45	2.08	0.51	5.20	0.00	0.00	3.39	22.63
Total	52.20	194.65	16.29	4.08	224.21	0.00	0.00	10.18	501.61

Mr. Zhou Peng (周鵬) was appointed on 7 November 2016.

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(Unless specified otherwise, all amounts are denominated in RMB)

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

5. Related party transactions *(continued)*

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

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

January – June 2016

Unit: RMB'0,000

	Fees of Director/ Supervisor	Salaries and allowances	Social insurance	Housing provident fund	Bonus	Signing bonus	Compensation for loss of office	Others	Total
Directors:									
Zhu Baoguo (朱保國)	4.50	0.00	0.00	0.00	0.00	0.00	0.00	0.00	4.50
Tao Desheng (陶德勝)	3.60	25.37	2.00	0.78	10.69	0.00	0.00	0.00	42.44
Yang Daihong (楊代宏)	3.60	25.37	2.00	0.78	7.50	0.00	0.00	0.00	39.25
Fu Daotian (傅道田)	3.60	23.62	1.26	0.00	2.50	0.00	0.00	10.00	40.98
Qiu Qingfeng (邱慶豐)	3.60	0.00	0.00	0.00	0.00	0.00	0.00	0.00	3.60
Zhong Shan (鍾山)	3.60	0.00	0.00	0.00	0.00	0.00	0.00	0.00	3.60
Independent Directors:									
Xu Yanjun (徐焱軍)	4.80	0.00	0.00	0.00	0.00	0.00	0.00	0.00	4.80
Guo Guoqing (郭國慶)	4.80	0.00	0.00	0.00	0.00	0.00	0.00	0.00	4.80
Wang Xiaojun (王小軍)	4.80	0.00	0.00	0.00	0.00	0.00	0.00	0.00	4.80
Zheng Zhihua (鄭志華)	4.80	0.00	0.00	0.00	0.00	0.00	0.00	0.00	4.80
Xie Yun (謝耘)	4.80	0.00	0.00	0.00	0.00	0.00	0.00	0.00	4.80
Supervisors:									
Wang Maolin (汪卯林)	2.10	14.20	1.89	0.76	2.50	0.00	0.00	0.00	21.45
Tang Yin (湯胤)	1.20	0.00	0.00	0.00	0.00	0.00	0.00	0.00	1.20
Huang Huamin (黃華敏)	1.80	0.00	0.00	0.00	0.00	0.00	0.00	0.00	1.80
Yuan Huasheng (袁華生)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Other senior management:									
Xu Guoxiang (徐國祥)	0.00	27.67	2.03	0.78	0.00	0.00	0.00	0.00	30.48
Lu Wengqi (陸文岐)	0.00	25.37	0.00	0.78	7.50	0.00	0.00	0.00	33.65
Si Yanxia (司燕霞)	0.00	17.79	1.93	0.78	7.50	0.00	0.00	0.00	28.00
Yang Liang (楊亮)	0.00	10.41	1.85	0.55	2.50	0.00	0.00	0.00	15.31
Total	51.60	169.80	12.96	5.21	40.69	0.00	0.00	10.00	290.26

Mr. Tang Yin (湯胤) was appointed on 26 February 2016; and Mr. Yuan Huasheng (袁華生) tendered his resignation on 20 November 2015, effective from 26 February 2016.

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 2016 and January–June 2017, respectively. The rest were senior management of the Company (two and two for January–June 2016 and January–June 2017, respectively). The remuneration of the five highest paid individuals were already disclosed in note. XI.5.(6) "Remuneration of key management personnel".

(7) Other affiliated transactions

Nil.

NOTES TO THE 2017 INTERIM FINANCIAL STATEMENTS (UNAUDITED)

(Unless specified otherwise, all amounts are denominated in RMB)

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

6. Amounts due from/to related parties

(1) Amounts due from related parties and prepayments

Name of item	Related parties	Balance at the End of the 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)	3,452,680.00	207,134.00	6,900,000.00	345,000.00
Accounts receivables	Jiaozuo Jincare Pharmaceutical Industry Group Co., Ltd. (焦作健康元生物製品有限公司)	905,399.78	45,269.99	0.00	0.00
Accounts receivables	Zhuhai Jincare Pharmaceutical Co., Ltd. (珠海健康元生物醫藥有限公司)	0.00	0.00	0.00	0.00
Accounts receivables	Shenzhen Haibin Pharmaceutical (深圳市海濱製藥有限公司)	2,693,761.37	134,688.07	1,755.00	87.75
Sub-total		7,051,841.15	387,092.06	6,901,755.00	345,087.75
Prepayments	Jincare Pharmaceutical Industry Group Co., Ltd. (健康元藥業集團股份有限公司)	59,871.80	0.00	108,030.26	0.00
Sub-total		59,871.80	0.00	108,030.26	0.00
Other receivables	Zhuhai Jincare Pharmaceutical Co., Ltd. (珠海健康元生物醫藥有限公司)	0.00	0.00	32,724.76	1,636.24
Other receivables	Health Pharmaceutical (China) Co., Ltd. (健康藥業(中國)有限公司)	0.00	0.00	33,316.00	1,665.80
Other receivables	Shenzhen Haibin Pharmaceutical (深圳市海濱製藥有限公司)	0.00	0.00	0.00	0.00
Other receivables	Guangdong Blue Treasure Pharmaceutical Co. Ltd. (廣東藍寶製藥有限公司)	2,383,026.39	119,151.32	2,117,989.34	105,899.47
Sub-total		2,383,026.39	119,151.32	2,184,030.10	109,201.51

NOTES TO THE 2017 INTERIM FINANCIAL STATEMENTS (UNAUDITED)

(Unless specified otherwise, all amounts are denominated in RMB)

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

6. Amounts due from/to related parties *(continued)*

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

Name of item	Related parties	Balance at the End of the 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)	325,680.00	162,840.00
Payables	Shenzhen Haibin Pharmaceutical (深圳市海濱製藥有限公司)	7,107,500.00	3,360.00
Payables	Health Pharmaceutical (China) Co., Ltd. (健康藥業(中國)有限公司)	0.00	0.00
Payables	Jiaozuo Joicare Pharmaceutical Industry Group Co., Ltd. (焦作健康元生物製品有限公司)	106,208,168.45	158,407,480.13
Sub-total		113,641,348.45	158,573,680.13
Other payables	Joicare Pharmaceutical Industry Group Co., Ltd. (健康元藥業集團股份有限公司)	24,877.86	0.00
Other payables	Jiaozuo Joicare Pharmaceutical Industry Group Co., Ltd. (焦作健康元生物製品有限公司)	3,665,143.49	2,459,992.87
Other payables	EPIRUS SWITZERLAND GmbH	0.00	0.00
Sub-total		3,690,021.35	2,459,992.87
Dividend payables	Joicare Pharmaceutical Industry Group Co., Ltd. (健康元藥業集團股份有限公司)	50,381,609.00	0.00
Dividend payables	Guangzhou Begol Trading Corporation (廣州市保科力貿易公司)	3,938,628.00	0.00
Dividend payables	Shenzhen Haibin Pharmaceutical (深圳市海濱製藥有限公司)	3,830,413.00	0.00
Dividend payables	Topsino Industries Limited (天誠實業有限公司)	37,179,033.50	0.00
Sub-total		95,329,683.50	0.00

NOTES TO THE 2017 INTERIM FINANCIAL STATEMENTS (UNAUDITED)

(Unless specified otherwise, all amounts are denominated in RMB)

XII. SHARE-BASED PAYMENT

1. General information about share-based payments

Item	Relevant description
Total equity instruments granted during the Current Period by the Company (share)	—
Total equity instruments exercised during the Current Period by the Company (share)	3,177,213
Total equity instruments of the Company expired during the Current Period (share)	—
Range of exercise price of share option of the Company outstanding and remaining term of contract as the End of the Period	—
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 Current Period of 12 months to 24 months from the date of granting (the First unlock-up period), 24 months to 36 months from the date of granting (the Second unlock-up period) and 36 months to 48 months from the date of granting (the Third unlock-up period), respectively. Unlocking conditions are as follows:

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

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

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

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(Unless specified otherwise, all amounts are denominated in RMB)

XII. SHARE-BASED PAYMENT *(continued)*

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

Note 2: On 14 August 2015, the Company completed the 2014 Equity Distribution. According to the Incentive Scheme, adjustments were made to the number of Restricted Shares under the initial grant and repurchase price according to the adjustment methods of the number of shares granted and the price upon the transfer of capital reserves into the share capital, bonus issues and share sub-divisions. The number of the Restricted Shares of the first grant after the adjustments was 11,258,520 and the repurchase price of the first grant after the adjustments was RMB19.308 per share. On 27 October 2015, the 16th Board Meeting of the 8th Session of the Board, considered and approved "the Resolution on Repurchase and Cancellation of Locked Restricted Shares Granted to Incentive Participants No Longer Satisfying the Conditions for Incentive". It was agreed to repurchase and cancel 93,080 Restricted shares granted but not yet unlocked at RMB19.308 per share from 7 incentive participants in the initial grant of Restricted shares who no longer satisfying the incentive conditions. Upon completion of the repurchase, the number of incentive participants of the initial grant of Restricted Shares was adjusted from 458 to 451.

On 28 March 2016, the Twenty-third Meeting of the Eighth Session of the Board considered and passed the "Resolution on Granting Shares to be Unlocked during the First Unlock-up period under the Restricted Shares Incentive Scheme of the Company" and the "Resolution on Repurchase and Cancellation of the Restricted Shares Granted but Not Yet Unlocked to Incentive Participants Who Are No Longer Qualified". It was agreed to repurchase and cancel 32,500 Restricted Shares granted but not yet unlocked at RMB19.308 per share from 1 incentive participant in the initial grant of Restricted shares who no longer satisfying the incentive conditions. The remaining 450 incentive participants in the initial grant of Restricted shares have satisfied the unlocking conditions with 4,453,176 Restricted Shares unlocked and listed in the first tranche in the initial grant.

On 16 May 2016, the 26th Board Meeting of the 8th Session of the Board, considered and passed "the Resolution on Repurchase and Cancellation of Locked Restricted Shares Granted to Incentive Participants No Longer Satisfying the Conditions for Incentive". It was agreed to repurchase and cancel 215,124 Restricted Shares granted but not yet unlocked at RMB19.308 per share from 13 incentive participants in the initial grant of Shares who no longer satisfying the conditions for incentive, and repurchase and cancel 10,000 Restricted Shares granted but not yet unlocked at RMB24.61 per share from 1 incentive participant from the reserved grant of Shares who no longer satisfying the incentive conditions, totaling 225,124 shares repurchased. Upon completion of the repurchase, the number of incentive participants of the initial grant of Restricted Shares and the reserved grant of incentive shares were adjusted from 450 to 437 and 177 to 176, respectively.

On 30 November 2016, the 32nd Board Meeting of the 8th Session of the Board, considered and passed "Resolution on Reserved Grant to be Unlocked during the First Unlocking Period under the Restricted Shares Incentive Scheme of the Company" and "the Resolution on Repurchase and Cancellation of Locked Restricted Shares Granted to Incentive Participants No Longer Satisfying the Conditions for Incentive". It was agreed to repurchase and cancel 103,974 Restricted Shares granted but not yet unlocked at RMB18.81 per share from 9 incentive participants in the initial grant of Shares who no longer satisfying the conditions for incentive, and repurchase and cancel 29,300 Restricted Shares granted but not yet unlocked at RMB24.11 per share from 5 incentive participants from the reserved grant of Shares who no longer satisfying the incentive conditions, totaling 133,274 shares repurchased. Upon completion of the repurchase, the number of incentive participants of the initial grant of Restricted Shares and the reserved grant of incentive shares were adjusted from 437 to 428 and 176 to 171, respectively. The remaining 171 incentive participants from the reserved grant have satisfied the unlocking conditions with 498,560 Restricted Shares unlocked and listed in the first tranche from the reserved grant.

NOTES TO THE 2017 INTERIM FINANCIAL STATEMENTS (UNAUDITED)

(Unless specified otherwise, all amounts are denominated in RMB)

XII. SHARE-BASED PAYMENT *(continued)*

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

Note 3: On 28 March 2017, the Company convened the 36th meeting of the eighth session of the Board to consider and approve the "Resolution on Granting Shares to be Unlocked during the Second Unlocking Period of the First Grant under the Restricted Shares Incentive Scheme of the Company" and the "Resolution on Repurchase and Cancellation of Locked Restricted Shares Granted to Incentive Participants No Longer Qualified for Incentive". Pursuant to which, it was agreed that the Company repurchase and cancel 6,240 Restricted shares granted but not yet unlocked at RMB18.81 per share from 1 incentive participants in the initial grant of Shares who no longer satisfying the conditions for incentive, and repurchase and cancel 28,020 Restricted Shares granted but not yet unlocked at RMB24.11 per share from 5 incentive participant from the reserved grant of Shares who no longer satisfying the incentive conditions, totaling 34,260 shares repurchased. Upon completion of the repurchase, the number of incentive participants of the initial grant of Restricted Shares and the reserved grant of incentive shares were adjusted from 428 to 427 and 171 to 166, respectively. The remaining 427 incentive participants in the initial grant of Restricted shares have satisfied the unlocking conditions with 3,177,213 Restricted Shares unlocked and listed in the second tranche from the initial grant.

2. Equity settled share-based payments

Item	Relevant Content
Determination on Fair Value of Equity Instruments as the Date of Grant	Black-Scholes Model
Basis for Determining Quantity of Exercisable Equity Instruments	—
Reasons for Significant Discrepancies Between Estimate of Current and Previous Period	Nil
Accumulated Amount of Shares Settled in Equity Included in Capital Reserve	75,047,851.14
Total Expense Recognized for Equity Settled Share-Based Payments for this Period	8,559,980.22

3. Cash settled share-based payments

Nil.

NOTES TO THE 2017 INTERIM FINANCIAL STATEMENTS (UNAUDITED)

(Unless specified otherwise, all amounts are denominated in RMB)

XIII.COMMITMENTS AND CONTINGENCIES

1. Significant commitments

(1) Capital commitments

Item	Balance at the End of the Period	Balance at the beginning of the year
Contracted but not recognised in the financial statements		
– Commitments in relation to acquisition of long-term assets	20,947,790.89	37,696,879.21
Total	20,947,790.89	37,696,879.21

(2) Operating lease commitments

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

Item	Balance at the End of the Period	Balance at the beginning of the year
Minimum lease payments under non-cancellable operating leases payable:		
Within 1 year	5,563,538.17	7,271,507.49
1 to 2 years	4,777,040.10	7,097,054.83
2 to 3 years	2,453,346.02	3,976,684.49
Over 3 years	0.00	110,476.03
Total	12,793,924.29	18,455,722.84

(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 2016 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 THE 2017 INTERIM FINANCIAL STATEMENTS (UNAUDITED)

(Unless specified otherwise, all amounts are denominated in RMB)

XIV. POST BALANCE SHEET DATE EVENTS

1. On 23 June 2017, the “Proposal on Transfer of 100% Equity Interest of Our Subsidiary Zhuhai Weixing Shiye Co., Ltd. (珠海維星實業有限公司)” was considered and approved at the 2016 General Meeting of the Company, pursuant to which, the 100% equity interest of Zhuhai Weixing Shiye Co., Ltd. (珠海維星實業有限公司) hereinafter referred to “Weixing Singye”) held by the Company and Pharmaceutical Factory (製藥廠) was transferred to Zhuhai Hengqin Weichuang Fortune Investment Co., Ltd.* (珠海橫琴維創財富投資有限公司). After consideration and approval at the general meeting, the Company submitted the relevant information to the Industrial and Commercial Administration of Zhuhai, Guangdong Province for registration of the change in equity interest of Weixing Singye. On 17 July 2017, the Company completed the relevant equity change registration, and no longer holds any equity interest in Weixing Singye. In addition, a total amount of RMB4,102,000,000.00 in the supervisory account opened by the Company and Pharmaceutical Factory (製藥廠) with the Zhuhai Branch of China CITIC Bank Corporation Limited has been deregulated after completion of the registration of industrial and commercial changes. A total of RMB4,102,000,000.00 held in the regulatory account opened by the Company and the Livzon Group Livzon Pharmaceuticals Fund with CITIC Bank Co., Ltd. Zhuhai Branch was deregulated after completion of the registration of industrial and commercial changes.
2. In July 2017, the Company invested and set up Zhuhai Livzon Weiqiu Technology Co., Ltd.* (珠海市麗珠微球科技有限公司), accounting for 100% of its registered capital.
3. The 2016 Annual Profit Distribution Plan of the Company was considered and adopted at 2016 Annual General Meeting held on 23 June 2017, the 2017 First Class Meeting of A Shareholders and the 2017 First Class Meeting of H Shareholders, pursuant to which, the Company will distribute cash dividend of RMB5 (including taxes) for every 10 Shares held to all Shareholders of the Company, based on the Company’s total share capital as at the registration date of shares determined by implementation of the 2016 Annual Profit Distribution Plan, and will make a bonus issue by way of capitalizing our capital reserve on the basis of 3 shares for every 10 shares held to all Shareholders of the Company. The registration date of shares was 6 July 2017, and the ex-dividend and ex-right date was 7 July 2017. The total equity of the Company before the Equity Distribution was of 425,562,592 shares (comprising 279,971,232 A shares and 145,591,360 H shares), the total equity after the Equity Distribution increased to 553,231,369 shares (comprising 363,962,601 A shares and 189,268,768 H shares).
4. On 2 August 2017, the Company held the Second Meeting of the Ninth Session of the Board of Directors of the Company to consider and pass the Resolution on Alteration to the Fund-Raising Investment Project of the Non-Public of A Shares of the Company, pursuant to which alterations and adjustments to the Fund-Raising Investment Project of the Non-Public of A Shares of the Company were approved, with details set out as follows:
 - (1) The Company intended to alter the “Capital injections to Livzon MAB for its investment in the construction of ‘Research & development and industrialization of therapeutic antibody-based drugs’”, and to apply the total proceeds of RMB306,000,000.00 (which was originally proposed to allocate to the project) for the following purposes: (a) RMB143,289,400.00 will be applied to the project of relocation and expansion of Livzon Group Xinbeijiang Pharmaceutical Manufacturing Inc (phase I); (b) RMB53,117,300.00 will be applied to the technological transformation project of bag infusion workshop in relation to Livzon Group Livzon Pharmaceutical Factory; and (c) RMB109,593,300.00 will be applied to the sub-project of “microsphere workshop construction project for Livzon Group Livzon Pharmaceutical Factory” under the project of “Construction of research & development platform of sustained release microsphere technologies”.

NOTES TO THE 2017 INTERIM FINANCIAL STATEMENTS (UNAUDITED)

(Unless specified otherwise, all amounts are denominated in RMB)

XIV. POST BALANCE SHEET DATE EVENTS *(continued)*

Upon completion of the alteration, the Company will turn to use its own funds to finance the capital injections to Livzon MAB for additional investment in the construction of "Research & development and industrialization of therapeutic antibody-based drugs". The originally invested proceeds will be refunded to the special account of fund-raising exercises for the purpose of the construction of new investment projects.

- (2) The Company intended to adjust the sub-project under the project of "Construction of research & development platform of sustained release microsphere technologies", so as to: (a) change the original sub-project of "Renovation Project of Pilot Workshop" to "Microsphere Workshop Construction Project for Livzon Group Livzon Pharmaceutical Factory", and additionally include Livzon Group Livzon Pharmaceutical Factory as one of the subjects of implementation; and (b) terminate preclinical studies project of "Risperidone Sustained-release Microspheres for Injection (1 month)".

In order to satisfy the fund needs for the implementation of new investment projects after the aforesaid alterations and to ensure the successful implementation of the investment projects, the Company will use the proceeds to provide borrowings to the subject of implementation of new investment projects, the borrowing limits are up to the amounts to be applied with the proceeds from each of the new investment projects, respectively. The term of borrowing shall commence from the date of actual borrowing and end at the completion of the construction of new investment projects. The borrowings may be used on a rolling basis after its expiration and early repaid. The borrowings above bear interests at the latest one-year RMB benchmark loan interest rates of financial institutions. The operating management of the Company was authorized by the Board of Directors of the Company to deal with the follow-up matters at its absolute discretion regarding the abovementioned borrowings.

The aforesaid resolution on alteration to the use of the proceeds is subject to consideration and approval by the general meeting of the Company.

As at the date of the Report, the Company has no other non-adjustment events that need to be disclosed after the balance sheet date.

XV. OTHER SIGNIFICANT MATTERS

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

NOTES TO THE 2017 INTERIM FINANCIAL STATEMENTS (UNAUDITED)

(Unless specified otherwise, all amounts are denominated in RMB)

XVI.NET CURRENT ASSETS AND TOTAL ASSETS LESS CURRENT LIABILITIES

1. Net current assets

Item	Balance at the End of the Period	Balance at the beginning of the year
Current assets	10,998,656,952.88	5,970,785,816.05
Less: Current liabilities	7,942,236,998.58	3,310,641,174.79
Net current assets	3,056,419,954.30	2,660,144,641.26

2. Total assets less current liabilities

Item	Balance at the End of the Period	Balance at the beginning of the year
Total assets	15,538,115,223.39	10,529,262,952.41
Less: Current liabilities	7,942,236,998.58	3,310,641,174.79
Total assets less current liabilities	7,595,878,224.81	7,218,621,777.62

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				
	Gross amount		Provision for bad debts		Carrying value
	Amount	Percentage (%)	Amount	Percentage (%)	
Accounts receivables that are individually significant and impairment provided on an individual basis	0.00	0.00	0.00	0.00	0.00
Accounts receivables assessed for impairment collectively	939,457,916.22	99.54	48,542,536.53	5.17	890,915,379.69
Accounts receivables that are individually insignificant but impairment provided on an individual basis	4,374,559.94	0.46	4,374,559.94	100.00	0.00
Total	943,832,476.16	100.00	52,917,096.47	5.61	890,915,379.69

NOTES TO THE 2017 INTERIM FINANCIAL STATEMENTS (UNAUDITED)

(Unless specified otherwise, all amounts are denominated in RMB)

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

1. Accounts receivables *(continued)*

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

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	791,197,142.14	99.53	40,641,847.54	5.14	750,555,294.60
Accounts receivables that are individually insignificant but impairment provided on an individual basis	3,723,328.97	0.47	3,723,328.97	100.00	0.00
Total	794,920,471.11	100.00	44,365,176.51	5.58	750,555,294.60

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		
	Accounts receivables	Provision for bad debts	Percentage (%)
Within 1 year	935,491,897.10	46,774,594.86	5.00
1 to 2 years	2,217,873.39	133,072.40	6.00
2 to 3 years	16,759.53	3,351.91	20.00
3 to 4 years	281,570.23	197,099.16	70.00
4 to 5 years	153,977.67	138,579.90	90.00
Over 5 years	1,295,838.30	1,295,838.30	100.00
Total	939,457,916.22	48,542,536.53	

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

Other receivables description	Gross amount	Provision for bad debts	Percentage (%)	Reason for provision made
Loans	4,374,559.94	4,374,559.94	100.00	Not expected to be recoverable

NOTES TO THE 2017 INTERIM FINANCIAL STATEMENTS (UNAUDITED)

(Unless specified otherwise, all amounts are denominated in RMB)

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

1. Accounts receivables *(continued)*

(2) Provisions for bad debts made for the Current Period were RMB8,601,554.36; no provision for bad debts was recovered or reversed during the period.

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

Item	Amount written-off
Receivables actually written off	49,634.40

(4) The total of account receivables with five largest amount by creditors was RMB107,743,783.95, or 11.42% of the total account receivables by the end of the Current Period, total provision for bad debts by the end of the Current Period was RMB5,387,189.20.

(5) The Company has no derecognized receivables out of transfer of financial assets.

(6) The Company has no assets or liabilities arising from 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 assessed for impairment collectively	30,980,597.43	1.51	7,412,818.43	23.93	23,567,779.00
Receivables from each company in the scope of combination	2,015,430,271.47	98.47	0.00	0.00	2,015,430,271.47
Other receivables that are individually insignificant but impairment provided on an individual basis	290,005.20	0.02	290,005.20	100.00	0.00
Total	2,046,700,874.10	100.00	7,702,823.63	0.38	2,038,998,050.47

NOTES TO THE 2017 INTERIM FINANCIAL STATEMENTS (UNAUDITED)

(Unless specified otherwise, all amounts are denominated in RMB)

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

2. Other receivables (continued)

(1) Other receivables disclosed by types (continued)

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 assessed for impairment collectively	19,763,173.80	1.23	6,525,445.08	33.02	13,237,728.72
Receivables from each company in the scope of combination	1,584,630,442.33	98.76	0.00	0.00	1,584,630,442.33
Other receivables that are individually insignificant but impairment provided on an individual basis	90,005.20	0.01	90,005.20	100.00	0.00
Total	1,604,483,621.33	100.00	6,615,450.28	0.41	1,597,868,171.05

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	Provision Percentage (%)
Within 1 year	23,328,350.50	1,166,417.53	5.00
1 to 2 years	951,991.13	57,119.47	6.00
2 to 3 years	335,262.00	67,052.40	20.00
3 to 4 years	752,549.24	526,784.47	70.00
4 to 5 years	170,000.00	153,000.00	90.00
Over 5 years	5,442,444.56	5,442,444.56	100.00
Total	30,980,597.43	7,412,818.43	

2 Receivables from each company in the scope of combination

Other receivables description	Carrying amount	Provision for bad debts	Provision Percentage (%)	Reason
Current account	2,015,430,271.47	0.00	0.00	The debtor is a subsidiary of the Company and no provision for bad debts is made.

NOTES TO THE 2017 INTERIM FINANCIAL STATEMENTS (UNAUDITED)

(Unless specified otherwise, all amounts are denominated in RMB)

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

2. Other receivables (continued)

(1) Other receivables disclosed by types (continued)

3 As at the End of the Period, other receivables that are individually insignificant but impairment provided on an individual basis

Other receivables description	Gross amount	Provision for bad debts	Provision Percentage (%)	Reason for provision made
Current account	290,005.20	290,005.20	100.00	Not expected to be recoverable

(2) Provisions for bad debts made for the Current Period were RMB1,093,173.35; no provision for bad debts was recovered or reversed.

(3) Actual write-off of other receivables for the Current Period

Item	Amount written-off
Other receivables actually written off	5,800.00

(4) Other receivables by nature of items

Nature or description	Balance at the End of the Period	Balance at the beginning of the year
Reserve fund	17,862,544.38	11,204,397.91
Related party balances	0.00	66,040.76
Receivables from each company in the scope of combination	2,015,430,271.47	1,584,630,442.33
Borrowing due from external entities	5,000,000.00	5,000,000.00
Others	8,408,058.25	3,582,740.33
Total	2,046,700,874.10	1,604,483,621.33

NOTES TO THE 2017 INTERIM FINANCIAL STATEMENTS (UNAUDITED)

(Unless specified otherwise, all amounts are denominated in RMB)

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

2. Other receivables (continued)

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

Name	Nature or description	Balance at the End of the Period	Term	Proportion to total balance of other receivables at the End of the Period (%)	Provision for bad debts Balance 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	788,095,256.23	Within 1 year	38.51	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	547,764,885.08	Within 1 year	26.76	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	293,657,256.24	Within 1 year	14.35	0.00
Ando Development Limited (安滔發展有限公司)	Current account	123,935,871.32	Within 1 year	6.05	0.00
Livzon Group Livzon Pharmaceutical Factory (麗珠集團麗珠製藥廠)	Current account	116,675,568.58	Within 1 year	5.70	0.00
Total	—	1,870,128,837.45	—	91.37	0.00

(6) The Company has no derecognized other receivables out of transfer of financial assets.

(7) The Company has no assets or liabilities arising from its continuous involvement of transferring other receivables.

3. Long-term equity investments

(1) Classification of long-term equity investments

Item	Balance at the End of the Period			Balance at the beginning of the year		
	Gross amount	Provision for impairment	Carrying value	Gross amount	Provision for impairment	Carrying value
Investments in subsidiaries	1,906,590,564.98	18,471,307.03	1,888,119,257.95	2,112,431,664.98	18,471,307.03	2,093,960,357.95
Investments in associates and joint ventures	35,676,955.57	1,200,000.00	34,476,955.57	36,407,870.69	1,200,000.00	35,207,870.69
Total	1,942,267,520.55	19,671,307.03	1,922,596,213.52	2,148,839,535.67	19,671,307.03	2,129,168,228.64

NOTES TO THE 2017 INTERIM FINANCIAL STATEMENTS (UNAUDITED)

(Unless specified otherwise, all amounts are denominated in RMB)

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

3. Long-term equity investments (continued)

(2) Investments 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 (安道發展有限公司)	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 Ltd. (麗珠集團麗珠醫藥行銷有限公司)	12,008,000.00	0.00	0.00	12,008,000.00	0.00	0.00
Livzon Group Limin Pharmaceutical Manufacturing Factory (麗珠集團利民製藥廠)	184,301,219.52	0.00	0.00	184,301,219.52	0.00	0.00
Zhuhai Livzon Pharmaceutical Trading Co., Ltd. (珠海市麗珠醫藥貿易有限公司)	40,020,000.00	0.00	0.00	40,020,000.00	0.00	0.00
Livzon Group Fuzhou Fuxing Pharmaceutical Co., Ltd. (麗珠集團福州福興醫藥有限公司)	280,769,410.50	0.00	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)	357,000,000.00	0.00	0.00	357,000,000.00	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 Sangi 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	235,841,100.00	0.00	0.00	0.00
Zhuhai Livzon Gene Diagnostics Ltd. (珠海市麗珠基因檢測科技有限公司)	0.00	30,000,000.00	0.00	30,000,000.00	0.00	0.00
Total	2,112,431,664.98	30,000,000.00	235,841,100.00	1,906,590,564.98	0.00	18,471,307.03

NOTES TO THE 2017 INTERIM FINANCIAL STATEMENTS (UNAUDITED)

(Unless specified otherwise, all amounts are denominated in RMB)

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

3. Long-term equity investments (continued)

(3) Investments in associates and joint ventures

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 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)	10,547,627.85	0.00	0.00	552,932.08	0.00	0.00
Jiangsu Nike Medical Equipment Co., Ltd. (江蘇尼科醫療器械有限公司)	23,527,231.29	0.00	0.00	-1,207,938.50	0.00	0.00
Shenzhen City Youbao Technology Co., Ltd (深圳市有寶科技有限公司)	1,133,011.55	0.00	0.00	-75,908.70	0.00	0.00
Total	36,407,870.69	0.00	0.00	-730,915.12	0.00	0.00

Investee	Change during the Current Period				Balance of provision for impairment at the End of the Period
	Cash dividend or profit distribution announced	Impairment provision	Others	Balance at the End of the Period	
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	11,100,559.93	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	22,319,292.79	0.00
Shenzhen City Youbao Technology Co., Ltd (深圳市有寶科技有限公司)	0.00	0.00	0.00	1,057,102.85	0.00
Total	0.00	0.00	0.00	35,676,955.57	1,200,000.00

4. Operating income and operating cost

Item	For the Current Period		For the Previous Period	
	Income	Cost	Income	Cost
Principal activities	2,516,026,716.34	1,429,118,380.09	2,314,831,984.42	1,173,284,371.36
Other activities	3,362,825.10	0.00	568,058.77	2,081.93
Total	2,519,389,541.44	1,429,118,380.09	2,315,400,043.19	1,173,286,453.29

NOTES TO THE 2017 INTERIM FINANCIAL STATEMENTS (UNAUDITED)

(Unless specified otherwise, all amounts are denominated in RMB)

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

5. Taxes and surcharges

Item	For the Current Period	For the Previous Period
Urban maintenance and construction tax	11,741,615.68	11,362,996.08
Education surcharges	8,386,868.31	8,116,409.85
Flood prevention fee	0.00	303,311.90
Business tax	0.00	2,572,212.34
Land use tax	150,000.00	103,200.00
Property tax	799,800.00	788,400.00
Stamp duty	1,655,282.11	212,572.21
Vehicle and vessel usage tax	8,742.24	3,600.00
Total	22,742,308.34	23,462,702.38

6. Investment Income

Item	For the Current Period	For the Previous Period
Long-term equity investment income under cost method	1,211,076,325.24	353,769,928.73
Long-term equity investment income under equity method	-730,915.12	-644,508.87
Investment income generated from disposal of long-term equity investments	0.00	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	0.00	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	0.00	0.00
Investment income generated from held-to-maturity investments during its holding period	0.00	0.00
Investment income generated from available-for-sale financial assets during its holding period	123,604.65	114,448.75
In which: investment income generated from available-for-sale financial assets measured at fair value during its holding period	123,604.65	114,448.75
Investment income generated from disposal of available-for-sale financial assets investments	0.00	0.00
Income generated from revaluation of remaining equity measured at fair value upon loss of control	0.00	0.00
Cash management gains	3,854,968.10	0.00
Total	1,214,323,982.87	353,239,868.61

NOTES TO THE 2017 INTERIM FINANCIAL STATEMENTS (UNAUDITED)

(Unless specified otherwise, all amounts are denominated in RMB)

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
(1) Reconciliation of net profit to cash flow from operating activities :		
Net profit	1,153,357,502.87	418,685,866.90
Add: Provision for impairment of assets	13,793,748.43	12,693,154.15
Depreciation of fixed assets, amortisation of oil and gas assets, depreciation of productive biological assets	5,150,620.32	6,127,393.58
Amortisation of intangible assets	5,794,489.31	6,679,957.65
Amortisation of long-term deferred expenses	60,000.00	60,000.00
Losses on disposal of fixed assets, intangible assets and other long-term assets ("—" represents gains/income)	-40,486.79	41,483.11
Losses on retirement of fixed assets ("—" represents gains/income)	0.00	0.00
Losses from changes in fair value ("—" represents gains/income)	0.00	0.00
Financial expenses ("—" represents gains/income)	-12,473,387.41	-12,168,336.76
Investments losses ("—" represents gains/income)	-1,214,323,982.87	-353,239,868.61
Decrease in deferred tax assets ("—" represents increase)	-13,903,527.47	733,084.57
Increase in deferred tax liabilities ("—" represents decrease)	834,243.89	364,235.00
Decrease in inventories ("—" represents increase)	223,164,113.67	-68,145,037.81
Decrease in trade receivables ("—" represents increase)	-629,824,306.71	152,453,498.57
Increase in trade payables ("—" represents decrease)	402,165,460.28	-89,724,811.86
Others	8,559,980.22	19,792,166.43
Net cash flows from operating activities	-57,685,532.26	94,352,784.92
(2) Significant investing and financing activities not involving cash receipts and payment:		
Liabilities converted into capital	0.00	0.00
Convertible corporate bonds due within one year	0.00	0.00
Fixed assets acquired under finance leases	0.00	0.00
(3) Net movement in cash and cash equivalents:		
Cash at the End of the Period	2,444,861,726.81	543,826,198.16
Less: Cash at the beginning of the year	1,606,485,665.85	677,465,238.87
Add: Cash equivalents at the End of the Period	0.00	0.00
Less: Cash equivalents at the beginning of the year	0.00	0.00
Net increase in cash and cash equivalents	838,376,060.96	-133,639,040.71

NOTES TO THE 2017 INTERIM FINANCIAL STATEMENTS (UNAUDITED)

(Unless specified otherwise, all amounts are denominated in RMB)

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	-7,017,747.76	5,990,900.63
Ultra vires or without official approval documents, or incidental tax rebate or relief	0.00	0.00
Government grants included in the profit or loss for the period, save for those government grants closely associated to the normal operation of the Group, complying with the policies and regulations of China, being entitled at a certain standard amount or certain level	70,870,480.62	54,024,145.82
Funds utilisation fees collected from non-financial enterprises included in the profit or loss for the period	0.00	0.00
The gain from the excess of the fair value of identifiable net assets attributable to the investee at acquisition over the investment costs of the Group for its subsidiaries, associates and joint ventures	0.00	0.00
Gains or losses from the exchange of non-monetary assets	0.00	0.00
Gains or losses from investments on trust or asset management	4,310,498.10	0.00
Provision for impairment as a result of force majeure factors, such as natural disasters	0.00	0.00
Gains or losses from debt restructuring	0.00	0.00
Corporate reorganisation expenses, such as expenditures for staff dormitory, and business combination expenses	0.00	0.00
Gains or losses from transaction with transaction price not at fair value over the part at fair value	0.00	0.00
Net gains or losses of subsidiaries for the period arising from business combination under common control from the beginning of the year to the date of combination	0.00	0.00
Gains or losses arising from contingent matters not related to the normal operation of the Company	0.00	0.00
Investment income derived from the holding of financial assets held for trading, gains or losses arising from changes in fair value of financial liabilities held for trading and disposal of financial assets held for trading, financial liabilities held for trading and available-for-sale financial assets (excluding the hedging activities of the normal operation of the Company)	733,944.14	-416,854.57
Reversal of provision for impairment of receivables that are individually tested for impairment	0.00	0.00
Gains or losses from external entrusted loans	0.00	0.00
Gains or losses from changes in fair value of investment properties subsequently measured under the fair value model	0.00	0.00
Effect of one-off adjustment made according to the laws and regulations regarding taxation and accounting to profit or loss for the period	0.00	0.00
Custodian fee income from entrusted operation	0.00	0.00
Other non-operating income and expenditures apart from the above	-2,411,600.27	-2,320,404.41
Items of gains or losses meeting the definition of extraordinary gains or losses	0.00	0.00
Sub-total	66,485,574.83	57,277,787.47
Effect of income tax	10,289,554.86	8,067,921.05
Effect of non-controlling interests (after tax)	7,460,960.73	3,989,910.66
Total	48,735,059.24	45,219,955.76

NOTES TO THE 2017 INTERIM FINANCIAL STATEMENTS (UNAUDITED)

(Unless specified otherwise, all amounts are denominated in RMB)

XVIII.SUPPLEMENTAL INFORMATION *(continued)*

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

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

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

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

January – June 2017

Profit for the Reporting Period	Weighted average rate of return on net assets	Earnings per share (RMB/share)	
		Basic earnings per share	Diluted earnings per share
Net profit attributable to shareholders of ordinary shares of the Company	7.42%	1.19	1.19
Net profit attributable to shareholders of ordinary shares of after deducting extraordinary gains or losses	6.70%	1.08	1.08

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



X. DOCUMENTS AVAILABLE FOR INSPECTION

- (I) They include a copy of the 2017 interim report of the Company which is signed by the legal representative.
- (II) They include the Company's unaudited financial report for the six months ended 30 June 2017 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 on the designated website as approved by CSRC during the Reporting Period.
- (IV) They include both English and Chinese versions of the 2017 interim report of the Company published on the website of Hong Kong Exchanges and Clearing Limited.

Livzon Pharmaceutical Group Inc.
Zhu Baoguo
Chairman

22 August 2017



www.livzon.com.cn