



丽珠医药
LIVZON

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

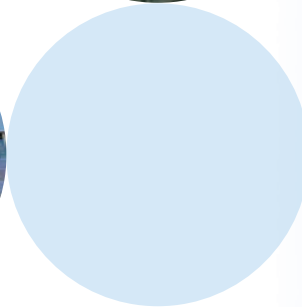
(a joint stock company incorporated in the People's Republic of China with limited liability)

(Stock code: 1513)

The background of the cover is a light blue gradient with various medical and pharmaceutical icons (heart, stethoscope, microscope, pills, chemical structures) and circular inset images. The circular images show: a group of people in orange uniforms forming a heart shape; a display of various medicine boxes; a robotic arm with multiple lenses; a person in a blue lab coat and mask working in a lab; and a tray of small glass vials.

ANNUAL REPORT 2017

* For identification purpose only



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Chairman of the Board
Mr. Zhu Baoguo



Dear shareholders,

2017 is a year of changes for the health care system, and various policies have far-reaching implications for the industry. By leading all staff to make innovations in norms, our management team has created a new situation. In the joint efforts of all staff of the Group, Livzon achieved a good growth in terms of business performance in 2017, which is gratifying.

With the rapid development of the national economy, in the “patient-centered” new era, the pharmaceutical industry has sped up the pace of innovation norms. Only by continuously developing new and better products with market competitiveness, can we stand in the forefront of the industry. Livzon is a national pharmaceutical enterprise with innovative strength, and has been focusing on drug research and development for the past 32 years. In the recent years, we have invested increasingly in research and development. It is gratifying to see that the research and development of the Company has been taking the lead in the industry, owning a number of national research and development centers, especially the construction of a precision medical system of “Livzon Reagents+ Livzon MAB + Livzon Shengmei + Livzon Gene”, which has laid the foundation for future development. From Bismuth Potassium Citrate Capsules to Ilaprazole, from bio-pharmaceuticals to precision medicine, Livzon’s development has been driven by innovation. With the increasing investment in R&D, the introduction of high-end talent, the transformation of production strategy, the construction of advanced production R&D platform, the continuous in-depth marketing reform, Livzon has consolidated its success step by step at strategic level with innovative thinking, thus laying a strong cornerstone for high-speed growth.

2017 REVIEW

During the Year, the operating income of the Group was RMB8,530.97 million, representing a year-on-year growth of 11.49%. The net profit was RMB4,487.70 million, showing a year-on-year growth of 440.74%, and the net profit attributable to the shareholders of the Company was RMB4,428.68 million, registering a year-on-year growth of 464.63%. Excluding extraordinary gains and losses, the Company’s net profit attributable to its shareholders generated from principal activities in the year of 2017 was RMB820.02 million, representing a year-on-year growth of 20.16%.

Based on the operating results and the overall financial position of the Group for 2017, the shareholder proposed and the Board suggested the 2017 Annual Profit Distribution as follows: it is expected to distribute cash dividend of RMB20.00 (tax inclusive) for every 10 shares to all shareholders of the Company and to issue 3 bonus shares for every 10 shares to all shareholders of the Company by way of conversion of capital reserve on 17 July 2018, based on the total share capital of the Company of 553,231,369 shares as at 31 December 2017. If the total share capital of the Company changes during the period from the promulgation to implementation of 2017 Annual Profit Distribution Plan, the aggregate distribution will be adjusted based on the total share capital as at the registration date of shareholding as determined by implementation of 2017 Annual Profit Distribution Plan, with the distribution ratio unchanged. The 2017 Annual Profit Distribution Plan is subject to shareholders' approval at the 2017 Annual General Meeting.

In 2017, from the marketing perspective, our marketing team overcame difficulties in the tightened policy environment to complete the whole year's task, and marketing reform has made a significant improvement; from the perspective of R&D, the year 2017 witnessed notable results, achieving a number of production and clinical approvals, and the most important was to strengthen the two R&D platforms, namely, the construction of MAB platform and Microsphere Center platform, which has become the important potential growth point for Livzon's future development; from the perspective of strategic transformation, we are transforming from the traditional pharmaceutical enterprises to bio-pharmaceutical + precision medical strategy and moved to a modern pharmaceutical industry park, which has provided a greater international development space for the Company.

THE COMPANY MANAGEMENT TEAM



Mr. Tao Desheng
Vice Chairman,
Executive Director,
President



Mr. Yang Daihong
Vice President



Mr. Fu Daotian
Executive Director,
Vice President



Mr. Xu Guoxiang
Executive Director,
Vice President



Mr. Lu Wengji
Vice President



Mr. Zhou Peng
Vice President



Ms. Si Yanxia
Vice President,
Chief Financial Officer



Mr. Yang Liang
Company Secretary

In 2017, we have completed six major breakthroughs: (1) Newly-added package of ShenQi Fuzheng injection was approved, which is a hard-won result; (2) Ilaprazole sodium for injection, the company's exclusive variety, has gained production approvals; (3) The Livzon MAB products became an important part of the company's precise medical layout. 6 Livzon MAB products made it to clinic and achieved phased results; (4) Recombinant humanized anti-PD-1 monoclonal antibody (重組人源化抗PD-1單克隆抗體), the first global new drug of Livzon MAB has successfully obtained approval for clinical trial in the U.S., which is another breakthrough for Livzon to enter into the international market; (5) Equity interests of Weixing was successfully sold out, which has provided the financial guarantee for the sustainable development of the Group; (6) The transformation of the sales strategy secures a sustained sales growth: keep compliance, emphasize practice, to explore the market in depth and thoroughly.

At the same time, Livzon emphasizes and promotes the employees to grow with the Company, to let employees, shareholders and the public to share the dividend of the Company growth. Thus, following the implementation of the 2015 Restricted A Shares Incentive Scheme, at the end of 2017, the Company proposed the 2017 Share Options Incentive Scheme to be approved by the shareholder meeting, which has provided a mechanism guarantee for the rapid growth of the Company.

PROSPECTS

Livzon is a practitioner who has been committed to human life and health. Our business objective is to meet the people's increasing demand for healthy living. Using our products to make a better life for the public is the core and nature of our work.

In 2018, we will firmly stick to the business objectives and work focus, strive to complete the business tasks, and carry out the work with focus; we will continue to speed up the building of marketing team, improve the overall strength of sales; comply with the new modified drug law, to achieve the strict standards of consistency evaluation; we will accelerate the R&D of biopharmaceutical and precision medical field, and promote clinical progress; by flexibly using Internet thinking, we will strive to make innovations in working methods, to improve quality and efficiency; we will enhance systematic exchange, ensure smooth communication, establish a sharing mechanism within the group, so as to improve management ability and team quality, and create a well-trained management team through training and learning.

In the future, we will always maintain the sense of crisis, and work together towards the established goals. We will use our own diligence and wisdom to create a better harvest, so that shareholders, employees, public investors and other stakeholders will be able to share the dividend of Company development.

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

Zhu Baoguo

Chairman of the Board

23 March 2018



IMPORTANT NOTICE

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

The financial report of the Group and the Company for the year ended 31 December 2017, which had been prepared in accordance with China Accounting Standards for Business Enterprises, was audited by Ruihua Certified Public Accountants (LLP), and a standard unqualified audit report thereon was issued.

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

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

As proposed by the shareholders of the Company and approved by the Board, the 2017 Annual Profit Distribution Plan of the Company are as follows: it is expected to distribute cash dividend of RMB20.00 (tax inclusive) for every 10 shares to all shareholders of the Company and to issue 3 bonus shares for every 10 shares to all shareholders of the Company by way of conversion of capital reserve on 17 July 2018, based on the total share capital of the Company of 553,231,369 shares as at 31 December 2017. If the total share capital of the Company changes during the period from the promulgation to implementation of 2017 Annual Profit Distribution Plan, the aggregate distribution will be adjusted based on the total share capital as at the registration date of shareholding as determined by implementation of 2017 Annual Profit Distribution Plan, with the distribution ratio unchanged (the "Dividend Distribution Plan for the Year"). The Dividend Distribution Plan for the Year is subject to approval at the 2017 annual general meeting of the Company (the "AGM").

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

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

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



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DEFINITIONS

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

"Company"	麗珠醫藥集團股份有限公司 Livzon Pharmaceutical Group Inc.*, a joint stock limited liability company incorporated in accordance with the PRC's law, whose H Shares and A Shares are listed on the Main Board of the Hong Kong Stock Exchange and the Shenzhen Stock Exchange respectively;
"Group"	the Company and its subsidiaries;
"Board"	the board of directors of the Company;
"Director(s)"	director(s) of the Company;
"Supervisory Committee"	the supervisory committee of the Company;
"Supervisor(s)"	supervisor(s) of the Company;
"Shareholder(s)"	shareholder(s) of the Company;
"A Share(s)"	the ordinary shares in the registered capital of the Company with a nominal value of RMB1.00 each, which are listed and traded on the Shenzhen Stock Exchange;
"B Share(s)"	domestically listed foreign shares originally issued by the Company;
"H Share(s)"	the ordinary shares in the registered capital of the Company with a nominal value of RMB1.00 each, which are listed and traded on the Hong Kong Stock Exchange;
"A Shareholder(s)"	holder(s) of A Shares of the Company;
"H Shareholder(s)"	holder(s) of H Shares of the Company;
"Year" or "Reporting Period" or "Current Period"	the twelve months from 1 January to 31 December 2017;
"Same Period Last Year" or "Last Year"	the twelve months from 1 January to 31 December 2016;
"End of Last Year" or "Beginning of the year" or "Beginning of the Period"	31 December 2016;
"End of the year" or "End of the Reporting Period" or "End of the Period"	31 December 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;

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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"	廣州保科力貿易有限公司 Guangzhou Begol Trading Holdings Limited*;
"Livzon MAB"	珠海市麗珠單抗生物技術有限公司 Livzon MABPharm Inc.*;

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DEFINITIONS *(continued)*

"Pharmaceutical Factory"	麗珠集團麗珠製藥廠 Livzon Group Livzon Pharmaceutical Factory*;
"Livzon Reagents"	珠海麗珠試劑股份有限公司 Zhuhai Livzon Diagnostic Reagents Inc.*;
"Jiaozuo Joincare"	焦作健康元生物製品有限公司 Jiaozuo Joincare Biological Product Co., Ltd.*;
"Haibin Pharma"	深圳市海濱製藥有限公司 Shenzhen Haibin Pharmaceutical Co., Ltd.*;
"Blue Treasure Pharma"	廣東藍寶製藥有限公司 Guangdong Blue Treasure Pharmaceutical Co., Ltd.*;
"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 dated 18 April 2017;
"China" or "PRC"	the People's Republic of China;
"Hong Kong" or "HK"	Hong Kong Special Administrative Region of China;
"RMB"	Renminbi, the lawful currency of China;
"HK\$" or "HKD"	Hong Kong dollars, the lawful currency of Hong Kong;
"USD"	United States dollars, the lawful currency of the United States of America;
"Cninfo"	巨潮資訊網 www.cninfo.com.cn ;
"Company's website"	the website of the Company, www.livzon.com.cn .

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(I) COMPANY INFORMATION

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

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

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

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(II) CONTACT PERSONS AND CONTACT DETAILS

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

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

(IV) CHANGE IN REGISTRATION DETAILS

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



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

Name of accounting firm	Ruihua Certified Public Accountants (LLP)
Address of accounting firm	5-11/F, West Tower of China Overseas Property Plaza, Building 7, NO.8, Yongdingmen Xibinhe Road, Dongcheng District, Beijing, the PRC
Name of signing accountants	Wang Shuyan, Zhang Fang

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

Authorised Representatives appointed pursuant to the Listing Rules	Tao Desheng, Yang Liang
Company Secretary, Secretary to the Board	Yang Liang ^{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.

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

☒ Applicable ☐ Not applicable

Sponsor	Business address of the Sponsor	Name of representative of the Sponsor	Period of continuous supervisions
Minsheng Securities Co., Ltd.	Minsheng Financial Centre, Block A, Level 16 to 18, 28 Jianguomen Nei Avenue, Dongcheng District, Beijing	Yu Chunyu (于春宇), Xu Weili (徐衛力)	From 20 September 2016 to 31 December 2017

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

☐ Applicable ☒ Not applicable

(VI) CHANGES OF SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND ACCOUNTING METHOD AND CORRECTION OF ACCOUNTING ERRORS

☒ Applicable ☐ Not applicable

During the Year, details of the changes in the accounting policies of the Company are as follows:

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.

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

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

✓YES ☐ NO

Amount denominated: RMB'000

Items	2017	2016	Year-on-year change	2015	2014	2013
Operating income	8,530,968.60	7,651,775.29	11.49%	6,620,516.54	5,544,233.78	4,618,680.04
Net profit attributable to shareholders of the Company	4,428,684.56	784,353.61	464.63%	622,641.03	515,978.43	487,502.35
Net profit attributable to the shareholders of the Company after deducting the extraordinary gain or loss	820,022.56	682,466.19	20.16%	538,364.28	463,031.47	462,159.19
Net cash from operating activities	1,315,865.47	1,279,215.04	2.87%	927,788.46	717,393.89	439,986.53
Total profit	5,724,922.79	1,005,061.18	469.61%	807,921.30	652,025.03	628,940.45
Total assets	15,897,730.72	10,529,262.95	50.99%	8,077,537.79	7,302,605.06	6,566,006.12
Total liabilities	4,664,107.16	3,423,624.45	36.23%	3,267,641.05	3,220,183.53	2,961,486.64
Net assets attributable to the shareholders of the Company	10,772,739.77	6,505,987.40	65.58%	4,346,255.33	3,696,516.57	3,344,648.58
Share capital	553,231.37	425,730.13	29.95%	396,889.55	295,721.85	295,721.85
Shareholders' equity per share attributable to the shareholders of the Company (RMB)	19.47	15.28	27.42%	10.95	12.50	11.31

Amount denominated: RMB

Items	2017	2016	Year-on-year change	2015	2014	2013
Basic earnings per share	8.09	1.52	432.24%	1.25	1.03	0.98
Diluted earnings per share	8.06	1.51	433.77%	1.23	1.03	0.98
Basic earnings per share after deducting extraordinary gain or loss	1.50	1.32	13.64%	1.08	0.92	0.92
Weighted average return on net assets (%)	51.17%	15.48%	Up by 35.69 percentage points	15.51%	14.66%	15.34%
Return on equity attributable to shareholders of the Company (%)	41.11%	12.06%	Up by 29.05 percentage points	14.33%	13.96%	14.58%
Equity attributable to shareholders of the Company to total assets ratio (%)	67.76%	61.79%	Up by 5.97 percentage points	53.81%	50.62%	50.94%

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

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

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

In accordance with requirements of the “Notice on the Revision of the Format for Issuing General Enterprise Financial Statements” (《關於修訂印發一般企業財務報表格式的通知》) (Cai Kuai [2017] No.30) issued by the Ministry of Finance, the data of the corresponding period of last year has been adjusted by the Company as follows:

Amount denominated: RMB

Items	2016					
	Consolidated financial statements			Parent Company's financial statements		
	Amount before adjustment	Changes	Amount after adjustment	Amount before adjustment	Changes	Amount after adjustment
Gains on disposal of assets	0.00	4,836,855.74	4,836,855.74	0.00	-16,823.84	-16,823.84
Non-operating Income	136,029,232.75	-6,429,453.92	129,599,778.83	78,630,003.18	-84,189.96	78,545,813.22
Non-operating expenses	7,448,331.26	-1,592,598.18	5,855,733.08	4,454,998.47	-101,013.80	4,353,984.67

2. Whether corporate debts exist

☐ YES ☒ NO

3. Whether the Company has continuous deficit in recent two years

☐ YES ☒ NO ☐ Not applicable

(VIII) DIFFERENCES IN ACCOUNTING DATA UNDER DOMESTIC AND FOREIGN ACCOUNTING STANDARDS

Reasons for differences in accounting date under domestic and foreign accounting standards

☐ Applicable ☒ Not applicable

(IX) QUARTERLY PRINCIPAL FINANCIAL INDICATORS

Amount denominated: RMB

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Operating income	2,126,032,700.53	2,148,725,745.95	2,246,986,396.19	2,009,223,753.87
Net profit attributable to shareholders of the Company	275,011,096.84	228,991,425.94	3,742,239,394.63	182,442,647.16
Net profit attributable to shareholders of the Company after deducting the extraordinary gains or losses	238,343,079.15	216,924,384.39	223,896,064.02	140,859,028.53
Net cash from operating activities	257,702,732.97	189,678,120.68	480,121,134.77	388,363,479.27

Whether there is significant difference between the above financial indicators or calculative amounts and the related financial indicators disclosed by the Company in quarterly reports and semi-annual report

☐ YES ☒ NO

(X) ITEMS AND AMOUNTS OF EXTRAORDINARY GAINS OR LOSSES

✓Applicable □Not applicable

Amount denominated: RMB

Items	Amounts in 2017	Amounts in 2016	Amounts in 2015
Gains and losses from disposal of non-current assets (including those already written off in the provision for impairment of assets as provided)	4,504,302,450.88	5,309,155.74	-4,005,495.80
Government grants included in the profit or loss for the Current Period (save as those government grants closely associated to the operations of the Company, being entitled at a certain standard amount or certain level in accordance with the national standards)	161,721,876.94	128,100,925.11	127,679,776.28
Gains or losses from investments on trust or asset management	11,387,922.35	-	-
Investment income derived from the holding of financial assets held for trading, gains or losses arising from changes in fair value of financial liabilities held for trading and disposal of financial assets held for trading, financial liabilities held for trading and available-for-sale financial assets (excluding the effective hedging activities of the normal operations of the Company)	7,608,235.70	-930,399.32	-182,343.23
Other non-operating income and expenses apart from the above	-2,642,343.73	-4,356,879.36	-8,552,063.55
Less: Effect on income tax	1,056,999,539.60	17,442,373.66	14,326,733.64
Effect on non-controlling interests (after tax)	16,716,594.06	8,793,009.36	16,336,387.58
Total	3,608,662,008.48	101,887,419.15	84,276,752.48

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

□Applicable ✓Not applicable

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



(I) PRINCIPAL ACTIVITIES ENGAGED DURING THE YEAR

During the Year, there was no change to the principal activities of the Group. The Group is primarily engaged in the research and development, production and distribution of pharmaceutical products. The products of the Group covered drug preparation products, bulk medicines and intermediates as well as diagnostic reagents and equipment. Major products included Chinese and Western drug preparation products such as Shengqi Fuzheng Injection (參芪扶正注射液), a series of Bismuth Potassium Citrate 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 (樂申寶 (注射用尿促性素)), Ilaprazole (Ilaprazole Enteric Coated Tablet) (壹麗安 (艾普拉唑腸溶片)), Voriconazole itraconazole for Injection (麗福康 (注射用伏立康唑)) and Cefodizime Sodium for injection (Mouse Nerve Growth Factor for Injection) 麗康樂 (注射用鼠神經生長因子) and Leuprorelin Microspheres for Injection (貝依 (注射用亮丙瑞林微球)); bulk medicines and intermediates such as Mevastatin (美伐他汀), Colistin (硫酸粘菌素), Phenylalanine (苯丙氨酸), Ceftriaxone Sodium (頭孢曲松鈉); and diagnostic reagent products such as 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)).

Ilaprazole Enteric Coated Tablets

For treatment of duodenal ulcers.



Leuprorelin Acetate Microspheres for Injection

Endometriosis; fibroid.



Urofollitropin for Injection

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



Mouse Nerve Growth Factor for Injection

For treatment of traumatic optic neuropathy.



DRUG PREPARATION PRODUCTS

Anti-viral Granules

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



Shenqi Fuzheng Injection

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



BULK MEDICINES



Diagnostics Kit for Antibody to Hepatitis C Virus (ELISA)



DIAGNOSTIC REAGENTS

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

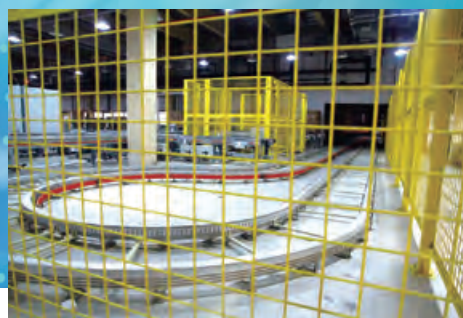


Diagnostics Kit for IgM Antibody to Mycoplasma pneumoniae (Colloidal Gold)



(II) MATERIAL CHANGES IN MAJOR ASSETS

Major assets	Details for material changes
Equity assets	An increase of 20.64%, no material changes for the year
Fixed assets	A decrease of 0.59%, no material changes for the year
Intangible assets	A decrease of 11.74%, no material changes for the year
Construction in progress	A decrease of 65.16%, mainly due to transfer of fixed assets as the plants newly completed during the Period were ready for their intended use
Financial assets at fair value through profit or loss for the Current Period	An increase of 45.08%, mainly due to fluctuations of the market value of the invested stock
Cash at bank and on hand	An increase of 259.65%, mainly due to amount received from the transfer of the equity interest in a subsidiary
Bills receivable	An increase of 124.49%, mainly due to 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
Prepayments	An increase of 44.15%, mainly due to the expanded production and increase in prepayments for procurement of materials



(II) MATERIAL CHANGES IN MAJOR ASSETS *(continued)*

Major assets	Details for material changes
Interest receivables	RMB5.9451 million for the Period, mainly represents the receivable interest from the 7-day notice deposit
Other current assets	A decrease of 81.98%, mainly because we bought principal-guaranteed financial products with idle raised proceeds which were redeemed in the Period
Development expenditure	An increase of 70.89%, mainly due to the increase in expenditure at the development stage of the project of recombinant biosimilar human chorionic gonadotropin (rhCG) for injection (注射用重组人绒毛膜性素(rhCG)) in the Period
Other non-current assets	An increase of 103.79%, mainly due to the increase in prepayment for acquisition of project and equipment

Major foreign assets:

☐ Applicable ☒ Not applicable

(III) ANALYSIS OF CORE COMPETITIVENESS

The Group sticks to the development goal of becoming a high-end specialty pharmaceutical enterprise. Centering on the core operation and management concept of "transformation and upgrading, standardizing development", Livzon continuously improves the management and control efficiency, standardizes the level of governance, steadily promotes research and development, optimizes the distribution of market layout, and achieves steady growth in performance. The core competencies of the Group have not changed significantly during the Year, which are mainly reflected in the following aspects:

(1) Diversified product structure and business layout.

The Group's products cover a number of medical subdivision areas, including pharmaceutical products, raw materials and intermediates, diagnostic reagents and equipment. And a certain market advantage has been formed in various specialized areas of treatment, such as anti-tumor support drugs, assisted reproductive medicine, digestive tract medication, psychotropic drugs and nerve drugs. At this stage, the Company continues to strengthen the development of monoclonal drugs, and at the same time, constantly accelerates its accurate medical service layout.

(2) Perfect marketing system and professional marketing team.

The Group has implemented fine management for marketing, constantly improved the marketing system construction, optimized the incentive assessment mechanism, constantly strengthened academic marketing and terminal promotion, and gradually built up a better marketing system through the optimization of resource allocation; The Group's sales teams of various fields and staff who provide professional sales service staff are 10,000 in total. Its marketing network covers all parts of the country, including major medical institutions, chain pharmacies, CDC and health departments and other terminals.

(III) ANALYSIS OF CORE COMPETITIVENESS *(continued)***(3) Mature Quality Management System**

The Group has established a three-dimensional quality management system covering product quality, scientific research, sales and other business. During this year, the Group continues to improve the level of quality management. The overall production and operating quality are in good condition. And the quality management system operates in great order. Thus, the safety and stability of the Group's products in various areas has been effectively protected.

(4) Strong R&D Capability and International R&D Concept

The Group has strong R&D capacity and international R&D concept in terms of chemical drugs, Chinese medicine, biological medicine and diagnostic reagents and other fields. Through the active introduction of domestic and foreign senior experts and innovative talents, constantly increasing investment in R&D, overseas strategic alliances and other ways, centered on the product layout of anti-tumor, assisted reproduction, digestion, mental, neurological drugs and other special medicine, the Group has formed a clear product development line, and thus enhanced the Group's R&D competitiveness.

(I) OPERATING ACTIVITIES

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

(II) SUMMARY

2017 is a year full of opportunities and challenges for the pharmaceutical industry. The reform of the pharmaceutical industry was further promoted. While control on medical insurance fees and tender arrangements for price reduction continued to exert influence on the whole industry, the introduction of priority review, adjustments to medical insurance catalogues, consistency evaluation and the negotiation list will also pose a profound impact on the pharmaceutical industry.

Against the backdrop of involving policies and complicated market environment in the pharmaceutical industry, the Group continued to improve management and control efficiency and standardize its corporate governance under the management principle of “Transformation, upgrade and standardized development”, steadily promoted the progress of its research and development efforts and optimized the structure of its market presence, thereby delivering a steady growth in performance.

During the Year, the Group recorded an operating income of RMB8,530.97 million, representing an increase of 11.49% as compared with RMB7,651.78 million of the previous year. Net profit was RMB4,487.70 million, representing an increase of 440.74% as compared with RMB829.92 million of the previous year. Net profit attributable to shareholders of the Company was RMB4,428.68 million, representing an increase of 464.63% as compared with RMB784.35 million of the previous year. Excluding extraordinary gains and losses, the Company’s net profit attributable to its shareholders generated from principal activities in 2017 was RMB820.02 million, representing an increase of 20.16% as compared with RMB682.47 million of the previous year.

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

(1) Drug preparation business: carried out in-depth development of marketing and sales with a focus on on-going research projects

In 2017, the Group’s income from sales of pharmaceutical preparations amounted to RMB5,747.36 million, representing a year-on-year increase of 8.20%. Specifically, income from sales of gonadotropic hormones products amounted to RMB1,344.21 million, representing a year-on-year increase of 13.92%; income from sales of gastrointestinal products amounted to RMB977.76 million, representing a year-on-year increase of 36.19%; and income from sales of cardio-cerebral vascular products and antibiotics products amounted to RMB198.55 million and RMB448.19 million respectively, representing a year-on-year increase of 19.24% and 16.29% respectively.

(II) SUMMARY *(continued)***(1) Drug preparation business: carried out in-depth development of marketing and sales with a focus on on-going research projects** *(continued)*

In respect of the marketing of pharmaceutical preparations, the Group comprehensively sorted out and further integrated the marketing resources, and clearly put forward the marketing mode system and innovation direction of “marketing based on evidence”, “service-oriented marketing” and “marketing through cooperation”, formulated the sales management policy of “regulatory compliance, penetration promotion and in-depth market development”, and comprehensively promoted product penetration and building of primary medical institutions and service teams. By capitalizing on the Group’s sales advantages in prescription drugs, the Group further strengthened and optimized the marketing system and management of non-prescription drugs. In response to the changes in the new situation, the Group established the primary healthcare sales department, the medical affairs department, the clinic project department, the marketing department for Beijing, Shanghai and Guangzhou markets, the retail department and the business distribution department to further strengthen the management level and capabilities in various aspects including the product coverage of the Group’s healthcare institutions, the accumulation and promotion of evidence related to our core products, the efforts to increase sales volume of low-yield hospitals, the development and expansion of non-prescription drug markets and the optimization of business channel resources. In the meantime, the Group proactively promoted market admission efforts for adjustments to and negotiation based on the new version of national health insurance which involves its key products, addition of provincial health insurance catalogues and product bidding.

As for the research and development of pharmaceutical preparations, the Group has consistently focused on the core technologies of the antibody technology platform, the microsphere sustained-release technology platform and other innovative research and development platforms with a strong foothold in antineoplastic and autoimmunity, assisted reproductive, digestive, mental, neurological and other specialty drugs, and constantly diversified its product offerings under research and development. During the Year, Ilaprazole Sodium Injection and Ilaprazole Enteric Coated Tablet and their respective bulk medicines were approved for production; 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) was approved for production and included in the commercial production preparation stage. The Triptorelin acetate microspheres (醋酸曲普瑞林微球) (1 month sustained release) project received clinical approval and is preparing for relevant clinical work. The high-purity Menotropins for Injection has received clinical approval and entered the clinical research stage. The Orphan Drug Ryanodex for Injection (注射用丹曲林鈉), being one of the drugs included in the list of the 13th batch drugs for priority review, has been granted with clinical approval and has entered the clinical research stage. The Paclitaxel Polymeric Micelle for Injection (注射用紫杉醇聚合物膠束) and its excipients have obtained clinical approval (for details about the progress of key research and development projects in 2017, please refer to relevant content in “Investment in research and development” as set out in Section IV of this annual report).

As for the overseas sales of the Group’s pharmaceutical preparations, in 2017, the Company focused on the registration and sales of reproduction product, gastrointestinal drugs, anti-infective drug, psychotropic pharmaceuticals in countries or location such as Philippines, Pakistan, Commonwealth of Independent States, Central America, Nigeria, Macao, with overseas sales of preparations amounting to RMB23.2179 million.

(II) SUMMARY *(continued)***(2) Bulk medicines business: comprehensively promoted transformation and upgrading to ensure sustainable development and competitiveness**

During the Year, the bulk medicines and intermediates business of the Group recorded a sales revenue of RMB2,102.96 million, representing an increase of 21.16% over the previous year. Following continuous restructuring and optimization of its management structure as well as reorientation and development over the past years, the bulk medicines and intermediates business of the Group has gradually completed the transformation and upgrading from general bulk medicines to high-end specialty bulk medicines, from unregulated markets to regulated markets, and from domestic market to international markets. In 2017, on the basis of the original fermented bulk medicines division, the Group integrated the existing synthetic bulk medicines business into the establishment of the bulk medicines division for overall planning and operation management, and established the strategic thinking of comprehensive transformation and upgrading in aspects of research and development, marketing, production, safety and environmental protection through research and development cooperation. Under the overall management of the division, the management level of each level-2 enterprise in environmental protection, safety and quality has been further improved. In view of the surging price of major raw materials, the Group ensured the stability of production costs and competitive advantages by improving the utilization of production management and capacity resources to save energy and reduce consumption, thereby laying a solid foundation for sustained and steady growth.

As for research and development and international certification, the bulk medicines division focused on improving the research and development management system and established two research and development centers for strain optimization and synthesis research. Currently, the division has established clear product research and development pipelines and sub-sectors, and has registered and carried out research for 11 new products. The international certifications obtained by the Group for bulk medicines and intermediates continued to increase. By the end of the year, 11 products passed the on-site examination of international certification, and 5 products passed the on-site examination of FDA, with 17 international certifications obtained.

(3) Precise pharmaceutical business: diversified the layout of industrial chain to accelerate research and development and clinical progress

Drawing upon the synergistic advantages of the biological preparation and testing reagent business in the field of precise pharmaceutical services the Group has proactively planned its “patient-centric” personalized medicine business, and has initially formulated the preliminary layout of industrial chain of precise pharmaceutical of “Livzon Reagents+Livzon MAB+Livzon Shengmei+Livzon Gene”. During the Year, the progress of the main business of each subsidiary is set out as follows:

(II) SUMMARY *(continued)***(3) Precise pharmaceutical business: diversified the layout of industrial chain to accelerate research and development and clinical progress** *(continued)*

Livzon Reagents: The company introduced the marketing mechanism reform to mobilize the enthusiasm of the marketing team, thereby significantly increasing its product proportion. With increasing investment in research and development, the company established an equipment research and development team and a research and development center in Shanghai, completed the research and development work for a fully automated chemiluminescence instrument, improved the supporting research and development capabilities for instruments and equipment, and accumulated substantial experience in the research and development for automatic multi-detection equipment.

Livzon MAB: The Company further introduced 6 senior management members with overseas experience and strengthened efforts in clinical trials and the medical-related talent succession planning, with a focus on the application for on-going research projects and the progress of clinical projects. A number of products have been approved for clinical trials, and clinical projects were progressing smoothly. In the meantime, the Group further optimized the Company's shareholding structure, thus creating favorable conditions for the internationalization of its business, the implementation of talent incentive scheme and financing plans.

Livzon Shengmei: The company actively promoted the development, registration and declaration of new liquid biopsy products, and completed the filing of the "automatic cell enrichment and separation system" for the liquid biopsy automation platform, which was officially put into production. The company also promoted the localization of equipment parts and reagents, and officially put into use the new equipment and new reagent manufacturing plant. During the Reporting Period, the assembly and production of 28 sets of equipment were completed.

Livzon Gene: The company obtained its medical institution license in August 2017. During the reporting period, the Company basically completed the construction of the technology platform and staff recruitment and training for its medical laboratories, preliminarily established the medical laboratory management system and the sample testing service process, and completed the internal validation of the liquid biopsy project before its launch into the market. At the same time, the company vigorously promoted itself in the third-party test and inspection market, striving to expand its partnership base for clinical and research cooperation.

(II) SUMMARY *(continued)***(4) Quality: Ensuring safety, focusing on quality and strengthening environmental protection**

During the Year, consistently adhering to the principle of “Quality First”, the Group continued to strengthen the quality control over the whole process of production, sales and research and development. The overall quality of production and operation of the Group was desirable and no major environmental accident, safety accident and occupational health accidents occurred in its subsidiaries.

In respect of production quality, the quality control headquarters of the Group conducted 25 audits on 20 major production units under the Group, thus achieving the full coverage of quality audit on its manufacturing enterprises. As of the end of the year, a total of 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.

In respect of sales quality, the Group ensured the quality of pharmaceuticals before storing into inventory by stepping up efforts in the inspection and acceptance of the same, strengthened the monitoring and reporting of adverse reactions of pharmaceuticals and followed up the sampling work in drug markets. In addition, during the Year, the Group completed the quality audit of carriers and third-party logistics enterprises of pharmaceuticals, and organized the GSP internal audit as well as the internal quality audit on the Group’s operating enterprises.

In respect of research and development quality, the quality control headquarters of the Group conducted the quality audit on three research institutes of the Group to ensure that the research projects of the Group were conducted in a compliant and efficient manner.

(5) Functions and strategies: Enhancing internal control management and strengthening capital operation

During the Year, the Group continued to improve and implement various rules and regulations and strengthened internal control of the Company under the core management principle of “Transformation, upgrade and regulated development”. The works performed mainly include the following aspects. Firstly, the Group strengthened the construction of the human resources system and improved the remuneration and benefits management system and personnel training and management system. Secondly, the Group optimized the administrative operation platform and logistics service platform to streamline office management in a scientific manner and standardize logistics services. Thirdly, the Group established and improved an information system focusing on ERP and the Group’s management and control to promote the Group’s IT-based construction work. Fourthly, the Group formulated overall plans for idle funds at hand, improved the management of foreign exchange funds and enhanced the efficiency and effectiveness of the Group’s capital utilization. Fifthly, the Group continuously applied for science and technology projects and government grants.

In respect of strategic development and investment, the Group continued to strengthen the consolidation and management of its internal shareholdings so as to enhance its operational efficiency. During the Year, the Group launched 2017 Share Options Incentive Scheme with a proposed grant of 15,000,000 share options to fully motivate the senior management and core personnel of the Company. 2017 Share Options Incentive Scheme shall be effective upon obtaining approval at the general meeting and the class meetings. A circular containing, among other things, information in respect to the 2017 Share Options Incentive Scheme will be dispatched to the shareholders of the Company as soon as practicable. The Group also further optimized the Livzon MAB shareholding structure and accelerated the process of the Group’s internationalization. In addition, the Group continued to increase investment to proactively seek for potential investment and M&A targets which are in line with the Company’s development strategy, aiming to launch innovative product mix and innovative business portfolios.

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

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

☒ YES ☐ NO

Please refer to the Chapter IV “Summary” to this annual report for relevant information.

2. Segmental information

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

3. Income and Costs**(1) Income composition of principal activities**

		2017		Amount Denominated: RMB 2016		Year-on-year increase/ decrease
		Amount	As a percentage of operating incomes	Amount	As a percentage of operating incomes	
Total operating incomes of principal activities		8,487,126,968.80	100%	7,616,666,638.44	100%	11.43%
By sector						
Western drug preparation products	Gastrointestinal	977,764,495.69	11.52%	717,931,167.60	9.43%	36.19%
	Cardio-cerebral vascular	198,551,756.86	2.34%	166,515,377.99	2.19%	19.24%
	Antibiotics	448,189,035.98	5.28%	385,405,201.31	5.06%	16.29%
	Gonadotropic hormones	1,344,208,264.44	15.84%	1,179,932,094.53	15.49%	13.92%
	Other	733,399,310.16	8.64%	736,193,716.17	9.67%	-0.38%
Bulk medicines and Intermediates		2,102,959,009.12	24.78%	1,735,731,170.74	22.79%	21.16%
Chinese drug preparation products		2,045,244,765.20	24.10%	2,125,646,915.66	27.91%	-3.78%
Diagnostic products and equipment		635,721,525.53	7.49%	567,885,603.44	7.46%	11.95%
Other		1,088,805.82	0.01%	1,425,391.00	0.02%	-23.61%
By product						
Shengqi Fuzheng Injection		1,573,407,878.77	18.54%	1,679,634,525.58	22.05%	-6.32%
By region						
Domestic		7,454,361,371.53	87.83%	6,867,344,285.36	90.16%	8.55%
Overseas		1,032,765,597.27	12.17%	749,322,353.08	9.84%	37.83%
Total		8,487,126,968.80	100.00%	7,616,666,638.44	100%	11.43%

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

Amount Denominated: RMB

	Operating Incomes	Operating Costs	Gross profit margin	Year-on-year change in operating income	Year-on-year change in operating costs	Year-on-year change in gross profit margin
By sector						
Western drug preparation products	3,702,112,863.13	751,976,319.64	79.69%	16.20%	17.47%	Down by 0.22 percentage point
Bulk medicines and intermediates	2,102,959,009.12	1,607,443,270.68	23.56%	21.16%	14.65%	Up by 4.34 percentage points
Chinese drug preparation products	2,045,244,765.20	430,235,760.29	78.96%	-3.78%	0.33%	Down by 0.87 percentage point
Diagnostic reagents and equipment	635,721,525.53	265,741,530.66	58.20%	11.95%	7.63%	Up by 1.68 percentage points
By product						
Shengqi Fuzheng Injection	1,573,407,878.77	289,027,057.60	81.63%	-6.32%	7.34%	Down by 2.34 percentage points
By region						
Domestic	7,454,361,371.53	2,290,342,161.02	69.28%	8.55%	6.50%	Up by 0.60 percentage point
Overseas	1,032,765,597.27	766,032,007.83	25.83%	37.83%	34.01%	Down by 5.26 percentage point

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

☐ Applicable ☒ Not applicable

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

During the Year, the Group's principal activities generated an operating income of RMB8,487.13 million, representing an increase of RMB870.46 million or 11.43% as compared with RMB7,616.67 million of the previous year. Among which, the sales growth in drug preparation products increased by 16.20% year-on-year and sales growth in bulk medicines and intermediates increased by 21.16% year-on-year. The income and growth of key western drug preparation products are as follows: the income from sales of Urofollitropin (尿促卵泡素) and Leuporelin Acetate Microspheres for Injection (注射用醋酸亮丙瑞林微球), being the key products in the gonadotropic hormone field, amounted to RMB549.73 million and RMB542.04 million respectively, representing a year-on-year increase of 1.05% and 40.28% respectively; the income from sales of Ilaprazole Enteric Coated Tablets (艾普拉唑肠溶片), being the key product in the gastrointestinal field, amounted to RMB428.35 million, representing a year-on-year increase of 50.47%; the income from sales of the Bismuth Potassium Citrate Granules series (得樂系列) amounted to RMB166.15 million, representing a year-on-year increase of 34.78%; the income from sales of Rabeprazole (雷貝拉唑) amounted to RMB161.85 million, representing a year-on-year increase of 56.68%; the income from sales of the neurological drug Mouse Nerve Growth Factor (鼠神經生長因數) amounted to RMB517.30 million, representing a year-on-year increase of 5.28%; the income from sales of the neurological drugs Fluvoxamine (氟伏沙明) and Perospirone (呱羅匹隆) amounted to RMB87.22 million and RMB25.75 million respectively, representing a year-on-year increase of 28.46% and 10.36% respectively; the income from sales of Anti-viral Granules (抗病毒顆粒) amounted to RMB300.28 million, representing a year-on-year increase of 12.47%; the income from sales of Voriconazole for Injection (注射用伏立康唑) amounted to RMB194.78 million, representing a year-on-year increase of 24.72%. The income and growth of key bulk medicines and intermediates are as follows: the income from sales of Phenylalanine (苯丙氨酸) was RMB253.78 million, up by 11.47% year-on-year; the income from sales of Ceftriaxone (頭孢曲松) was RMB270.83 million, up by 11.30%; the income from sales of Ceftriaxone Sodium (頭孢曲松粗品) was RMB213.72 million, up by 59.19%; the income from sales of Acarbose (阿卡波糖) was RMB210.13 million, up by 33.61% year-on-year; the income from sales of Mycophenolic acid (霉酚酸) was RMB171.87 million, up by 32.60% year-on-year; the income from sales of the Lincomycin (林可黴素) was RMB134.63 million, up by 47.59% year-on-year; the income from sales of Vancomycin Hydrochloride (鹽酸萬古黴素) was RMB121.94 million, up by 75.19% year-on-year; the income from sales of Milbemycin Oxime (米爾貝肟) was RMB79.17 million, up by 211.85% year-on-year. The sales growth of the above-mentioned products was primarily due to continuous progress in marketing reform which improved channel penetration, the acceleration of the assembling of sales specialty, and the measures through integration of resources, adjusting the product structure, and increasing international certification in sector of Bulk medicines, resulting sustained high growth of the key products.

During the Year, the Group's operating costs of principal activities amounted to RMB3,056.37 million, representing an increase of RMB334.21 million or 12.28% as compared with RMB2,722.17 million for the previous year, which was mainly due to the corresponding increase in operating costs of principal activities resulted from the sales growth.

(3) Operating income of principal activities by regions

Regions	Amount incurred for the year		Amount Denominated: RMB Amount incurred for last year	
	Operating income	Operating cost	Operating income	Operating cost
Domestic	7,454,361,371.53	2,290,342,161.02	6,867,344,285.36	2,150,540,083.10
Overseas	1,032,765,597.27	766,032,007.83	749,322,353.08	571,626,267.68
Total	8,487,126,968.80	3,056,374,168.85	7,616,666,638.44	2,722,166,350.78

(III) ANALYSIS OF PRINCIPAL ACTIVITIES *(continued)***3. Income and Costs** *(continued)***(4) Whether the revenue from physical sales are more than the revenue from rendering of services**✓YES ☐ NO

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

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

Name of the contracted company	Name of the contracted counterparty	Contract subject	Date of contract	Pricing principle	Transaction consideration (RMB'000)	Connected Transaction or not	Connected relationships	Execution as of the end of the Reporting Period	Date of disclosure	Index of disclosure
Livzon Group Xinbeijiang Pharmaceutical Manufacturing Inc. (麗珠集團新北江製藥股份有限公司)	Hangzhou Zhongmei Huadong Pharmaceutical Co., Ltd. (杭州中美華東製藥有限公司)	Acarbose bulk medicines	31 May 2017	Determined by negotiation based on market price	48,060.00	No	Nil	As of the end of the year, an aggregate of RMB139,0188 million transaction amount (tax inclusive) has been recorded, representing 28.93% of the contracted amount	2 June 2017	Announcement of Livzon Pharmaceutical Group Inc. in Relation to the Entering into Material Contracts for Daily Operation by Its Subsidiaries (No.2017-046)

(6) Operating costs composition**By Industry**

		2017		2016		Year-on-year change
By industry	Item	Amount	Proportion to operating costs	Amount	Proportion to operating costs	
Pharmaceutical industry	Material costs	1,989,807,342.97	64.54%	1,841,542,300.71	67.02%	8.05%
	Labour costs	286,736,530.14	9.30%	281,284,145.27	10.24%	1.94%
	Depreciation	217,702,742.13	7.06%	226,255,270.76	8.24%	-3.78%
	Energy and power	268,903,997.94	8.72%	258,438,760.68	9.41%	4.05%
	Others	311,809,994.71	10.11%	275,361,653.93	10.01%	13.24%
	Movement in inventories beginning of the period and end of the period	8,120,428.82	0.26%	-135,093,748.74	-4.92%	106.01%
	Operating costs	3,083,081,036.71	100.00%	2,747,788,382.61	100.00%	12.20%

Amount Denominated: RMB

(III) ANALYSIS OF PRINCIPAL ACTIVITIES *(continued)***3. Income and Costs** *(continued)***(7) Material changes or adjustments in business, products or services during the Year**

☐ Applicable ☒ Not applicable

(8) Major customers and suppliers

During the Year, the sales to the five largest customers contributed to 9.11% (2016: 8.67%) of the total operating income of the Group, while the purchases from the five largest suppliers of the Group contributed to approximately 34.83% (2016: 37.37%) of the Group's total purchase of raw materials. The five largest customers have been the customers of the Group for 10.6 years in average, and the five largest suppliers has been the customers of the Group for 9.8 years in average.

Major Customers of the Company for the year

Total sales amount from top five customers (RMB)	773,352,035.75
Percentage of sales amount from top five clients to total sales of the year (%)	9.11%

Top Five Customers of the Company for the year

☒ Applicable ☐ Not applicable

No.	Name of customers	Sales amount (RMB)	Percentage of sales amount to total sales of the year
1	First	208,760,987.65	2.46%
2	Second	154,743,394.81	1.82%
3	Third	138,597,625.40	1.63%
4	Fourth	135,992,435.74	1.60%
5	Fifth	135,257,592.15	1.59%
Total		773,352,035.75	9.11%

Other information about major customers

☐ Applicable ☒ Not applicable

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

Major Suppliers of the Company for the year

Total purchase amount from top five suppliers (RMB)	692,988,019.49
Percentage of purchase amount from top five suppliers to annual total purchase (%)	34.83%
Percentage of purchase amount from related party among top five suppliers to annual total purchase (%)	16.87%

(III) ANALYSIS OF PRINCIPAL ACTIVITIES *(continued)***3. Income and Costs** *(continued)***(8) Major customers and suppliers** *(continued)***Top Five Suppliers of the Company for the year**✓Applicable ☐ Not applicable

No.	Name of suppliers	Purchase amount (RMB)	Percentage of purchase amount to total purchase of the year
1	First	335,710,283.08	16.87%
2	Second	116,899,158.38	5.87%
3	Third	99,478,042.26	5.00%
4	Fourth	77,467,284.61	3.89%
5	Fifth	63,433,251.16	3.19%
Total		692,988,019.49	34.83%

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

Other information about major suppliers:✓Applicable ☐ Not applicable

The largest supplier to the Company, Jiaozuo Joincare (焦作健康元) is a wholly-owned subsidiary of Joincare (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 annual report.

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

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

During the Year, the Group's three major expense items (selling expenses, administrative expenses and financial expenses) amounted to RMB4,160.13 million, representing a year-on-year increase of RMB359.75 million or 9.47%. Details are as follows:

Amount denominated: RMB

	2017	2016	Year-on-year changes	Reasons for material changes
Selling expenses	3,265,169,717.13	3,070,370,909.10	6.34%	Mainly due to increased expenses in sales related service fee as a result of the increased efforts in development and expansion of the market for key and new products
Administrative expenses	933,971,538.92	724,603,490.65	28.89%	Mainly due to the increased investment in research and development
Financial expenses	-39,007,812.58	5,411,503.60	-820.83%	Mainly due to decreased interest expenses as a result of full repayment of interest-bearing liabilities as well as increased interest income as a result of the increase in bank deposit
Total	4,160,133,443.47	3,800,385,903.35	9.47%	

During the Year, the total income tax expenses were RMB1,237.22 million, representing a year-on-year increase of RMB1,062.07 million or 606.40%, mainly due to the disposal of equity interest in the subsidiary resulting in a significant increase in the profit of the Company and a corresponding increase in income tax expenses.

5. Investment in research and development

✓Applicable ☐Not applicable

During the Year, the Group's expenditures related to research and development amounted to approximately RMB575.50 million (2016: RMB474.78 million), representing a year-on-year increase of 21.22%. The amount accounted for approximately 5.34% of net assets attributable to shareholders of the Company and approximately 6.75% of the Group's total operating income for the year.

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

As at the end of the year, the analysis of overall progress of the Group's research and development by field is as follows: in respect of chemical drug and Chinese drug preparation products, a total of 21 projects have been registered and have begun preclinical studies, 8 projects are undergoing clinical studies and 7 projects have been reported to the competent authorities for production; in respect of consistent assessment project, research and development of a total of 22 varieties is proposed to be commenced, 2 of them have entered into clinical trial and 9 of them have entered into pilot scale-up stage; in respect of biomedicine, a total of 13 projects are being researched, 6 projects are undergoing clinical studies, among which, 1 project has begun clinical studies in China and the U.S., 1 project has obtained approval for and is going to enter into clinical application, 1 project has completed IND filing and have been submitted to CDE, 6 projects are undergoing IND research; in respect of long-term microsphere, 8 projects have been registered and have begun preclinical studies, 1 project has obtained approval for clinical application; in respect of diagnostic reagent, among the in vitro products, 4 of them have completed registration tests and is going to enter into clinical phase, 1 of them is undergoing the phase of registration tests, 6 of them are undergoing the clinical phase, 2 of them will soon complete the registration phase; in respect equipment and device, 2 of them are about to receive registration certificates, 1 of them is undergoing the phase of registration, 1 of them is going to enter into clinical studies. In respect of Shengmei tumour liquid biopsy testing, a total of 4 liquid-state biopsy tumor diagnosis projects are being researched, among which, 1 project is undergoing the registration and inspection phase, 3 projects are entering into technology research stage. In respect of bulk medicines, a total of 15 projects have been registered and commenced new projects development.

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

- (1) Chemical drugs and Chinese drug preparation products: Ilaprazole Sodium Injection (注射用艾普拉唑钠) and bulk medicines have obtained approval for production. Ilaprazole Enteric Coated Tablett (艾普拉唑腸溶片新適應症) have obtained approval for production. The supplemental application of multi-layer co-extrusion film packaging for Shengqi Fuzheng Injection (參芪扶正注射液增加多層共擠輸液用膜制袋包裝) was approved for production and has been prepared for commercialised production. High purity hMG for injection (注射用高純度尿促性素) has obtained the approval of clinical trial and has entered into the clinical research stage. Orphan Drug Ryanodex for injection (注射用丹曲林鈉) under thirteenth batch of priority review procedures has obtained the approval of clinical trial and has entered into clinical research stage. Paclitaxel polymeric micelles for injection and auxiliary raw materials (注射用紫杉醇聚合物膠束及輔料) has obtained the approval for clinical application.

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

- (2) Biopharmaceutical drugs: Recombinant Humanised Anti-tumor Necrosis Factor α Monoclonal Antibody for Injection (注射用重組人源化抗腫瘤壞死因子 α 單克隆抗體) achieved progress in Phase II clinical trial. The clinical research of Recombinant biosimilar human chorionic gonadotropin (rhCG) for injection (注射用重組人絨促性素(rhCG)) Phase I clinical trial has been completed, and has achieved progress in Phase III clinical trial. Recombinant Human/Mouse Chimeric Anti-CD20 Biosimilar Monoclonal Antibody (重組人鼠嵌合抗CD20單克隆抗體) is undergoing Phase I clinical trial. Recombinant anti-HER2 humanized monoclonal antibody for injection project (重組人源化抗HER2單克隆抗體注射液項目) is undergoing Phase I clinical trial. Recombinant humanized anti-PD-1 monoclonal antibody (重組人源化抗PD-1單克隆抗體) is undergoing Phase I clinical trial in the U.S., Phase I clinical trial in China has proceeded to the ethics board and is pending for approval. Recombinant Anti-RANKL Monoclonal Antibody (重組全人抗RANKL單克隆抗體) has obtained clinical application to prepare for Phase I clinical trial. Recombinant Anti-IL-6R Humanized Monoclonal Antibody (重組抗IL-6R人源化單克隆抗體) project has filed report information with CDE (國家食品藥品監督管理總局藥品審評中心) and obtained the acceptance and has been included in the review list. The molecular evaluation and cell strain construction of humanized anti-OX40 monoclonal antibody (全人源抗OX40單克隆抗體) is in the preparation stage of Investigational New Drug (IND) filing with the FDA of China and the USA. 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) is at a research stage of Investigational New Drug (IND) filing with the FDA of China and the USA at the preparation stage of reporting. Recombinant AntiHER2 Domain II Humanised Monoclonal Antibody Cytotoxin Coupling Agent (重組抗HER2結構域II人源化單抗細胞毒素偶聯劑) project is at a research stage of Investigational New Drug (IND) filing at the preparation stage of reporting.
- (3) Long-term microsphere: Triptorelin Acetate Microspheres (醋酸曲普瑞林微球) (1 month) Sustained-Release project has obtained approval for clinical application and is in the preparation of clinical trial-related work. Leuprorelin Acetate Microspheres Injection (注射用醋酸亮丙瑞林微球) (3-month sustained release) project has completed the work for preclinical research and is in the preparation of registration.
- (4) Diagnostic reagents: Gold standard rapid reagent (金標快速診斷試劑) has 1 project undergoing clinical trial and 2 projects entered into registration phase; 4 drug concentration test reagents (藥物濃度檢測試劑) are in clinical trial phase; Molecular diagnostic reagents (分子診斷試劑) has 1 project undergoing the registration and inspection phase; 1 project undergoing clinical trial phase and three projects completed registration and inspection phase; 1 chemiluminescent diagnostic reagent (化學發光診斷試劑) (the first reagent and auxiliary equipment project) has completed registration and inspection phase.

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

- (5) Shengmei tumour liquid biopsy testing: LiquidBiopsy® has filed for Type I products in accordance with the latest classification requirement of China Food and Drug Administration, and has obtained certificates for Type I-medical equipment and has been put into production. In terms of the immunofluorescence platform, HER-2 Reagents has completed registration, inspection and testing. Another antibody test reagents has completed selection of raw materials, and is currently undergoing technical development. For molecular testing platform, two PCR test reagents and selection of raw materials have been completed. As to the technology platform, liquid biopsy detection technology based on FISH technology platform was introduced from CYNVENIO BIOSYSTEMS, INC., a company in the U.S., and has signed technology transfer agreement and will soon enter into technology transfer stage.
- (6) In respect of bulk medicines, two research centres, namely probiotics optimising research centre and synthesis research centre were fully put into operation and took R&D of single product project as breaking point to improve quality and reduce cost. With Antidiabetic, chronic bronchitis treatment, new antibiotics and higher end veterinary medicines formed a clearer R&D product, it has established a clear R&D products management pipeline.

The major government subsidies received by the Group during the Year are as follows: (1) "Traditional Chinese Medicine Injections Advanced Manufacturing Technologies Standard and Application (中藥注射劑大品種先進製造技術標準驗證與應用)" was granted RMB20 million under the grants for "projects conducting industrial transformation and upgrading (Made in China 2025) (工業轉型升級(中國製造2025)項目資金)" by Ministry of Industry and Information Technology in 2017. (2) "Common Key Technological Research and Development of New Drug Preparation on Commercialisation of Long-acting release microspheres (長效緩控釋微球產業化共性關鍵技術與創新製劑研發)" was granted RMB12.7849 million under "National Major Innovative Drug Projects for 2017 (2017年國家重大新藥創制項目)". (3) "Long-acting Release Innovative Drug Preparation Development and Commercialisation Team (長效緩釋創新製劑的研發與產業化團隊)" was granted RMB10 million under the grants for innovative team of "Talent Plan Application of Pearl River (珠江人才計畫)" in 2016. (4) 5 projects were qualified for "Major Scientific and Technological Achievement Commercialisation Project in Guangdong Province (廣東省重大科技成果產業化專項)", in which, "Commercialisation of Liquid Biopsy Testing Enriching, Extracting and Separating Equipment (液態活檢樣本提取富集分離設備產業化)" was funded RMB30 million; "Technology Transfer of Blood Screening(BCI) Nucleic Acid Detection Testing (血液篩查(BCI)核酸檢測試劑成果轉化)" was funded RMB6 million; "Commercialisation of Long-term Microsphere Drug Production (長效微球製劑的產業化)" was funded RMB30 million, "Innovative drug of Ilaprazole phase IV clinical research (co-investment project with the State) (創新藥物艾普拉唑IV期臨床研究(國家跟投項目))" was funded RMB11.21 million, "Commercialisation Project of Ilaprazole Sodium Injection (注射用艾普拉唑鈉產業化項目)" was funded RMB29.10 million. (5) "Technological Upgrade Project for Productivity and Efficiency Enhancement of Laboratories (質檢中心擴產增效技術改造項目)" was subsequently granted RMB10.2602 million under technical transformation special fund of Guangdong Province. (6) "Commercialisation and Technical transformation Project of Mouse Nerve Growth Factor for Injection (注射用鼠神經生長因數產業化技術改造項目)" was subsequently granted RMB24.1967 million under industry and enterprise technical transformation special fund of Guangdong Province. (7) "Research and Commercialisation Team of Innovative Long-acting release new drug preparation (長效緩釋創新製劑的研發與產業化團隊)" was granted RMB5 million under the fund for innovation team in Zhuhai City in 2016. (8) "Technical transformation project of Shengqi Fuzheng Injection with flexible bag (軟袋參芪扶正注射液技術改造項目)" was funded RMB10 million under the grants for Technological Innovation Projects of One Enterprise, One Policy.

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

	2017	2016	Change
Number of R&D staff (person)	586	356	64.61%
Proportion of R&D staff to total employees	8.42%	5.65%	Up by 2.77 percentage points
Amount of investment in R&D (RMB)	575,501,053.28	474,776,639.72	21.22%
Proportion of investment in R&D to operating revenue	6.75%	6.20%	Up by 0.55 percentage point
Amount of capitalized investment in R&D(RMB)	10,507,136.29	1,568,805.95	569.75%
Proportion of capitalized investment in R&D to the total investment in R&D	1.83%	0.33%	Up by 1.50 percentage points

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

☐ Applicable ☒ Not applicable

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

☐ Applicable ☒ Not applicable

(IV) ANALYSIS OF NON-PRINCIPAL ACTIVITIES

☒ Applicable ☐ Not applicable

Amount Denominated: RMB

	Amount	As a percentage of total profits	Reason for occurrence	Sustainability
Investment income	4,297,099,345.96	75.06%	Mainly due to disposal of equity interest in a subsidiary	No
Gains or losses arising from changes in fair value	2,812,281.15	0.05%	Mainly due to fluctuation in the market value of the invested stocks	Yes
Impairment of assets	117,855,127.28	2.06%	Mainly due to the provision for impairment of overseas equity interest investment and the idle production lines	No
Non-operating income	91,912,647.38	1.61%	Mainly due to the receipt of government grants	Yes
Non-operating expenses	24,797,925.12	0.43%	Mainly due to external donation expenses	No

(V) ANALYSIS OF FINANCIAL CONDITIONS

1. Material changes in assets composition

Amount denominated: RMB

	At the end of 2017		At the end of 2016		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	7,415,782,198.83	46.65%	2,061,923,004.89	19.58%	27.07%	Mainly due to the increase in cash at bank and on hand as a result of the amount received from the transfer of the equity interest in a subsidiary
Accounts receivables	1,356,773,152.45	8.53%	1,464,366,229.78	13.91%	-5.38%	No significant changes
Inventories	1,102,620,734.51	6.94%	1,099,199,376.02	10.44%	-3.50%	No significant changes
Investment properties	-	-	-	-	-	Not applicable
Long-term equity investments	92,598,045.44	0.58%	91,109,734.79	0.87%	-0.29%	No significant changes
Fixed assets	3,321,218,058.56	20.89%	3,340,977,856.91	31.73%	-10.84%	Mainly due to the increased total assets after the receipt of the amount from the transfer of the equity interest in a subsidiary
Construction in progress	70,279,348.98	0.44%	201,733,854.47	1.92%	-1.48%	No significant changes
Short-term loans	-	-	-	-	-	Not applicable
Long-term Loans	700,000.00	0.004%	700,000.00	0.007%	-0.003%	No significant changes

2. Assets and liabilities measured at fair value

✓Applicable ☐ Not applicable

Amount denominated: RMB

Item	At the beginning of the year	Change in fair value for the year	Accumulated change in fair value in equity	Impairment provision for the year	Amount purchased during the Year	Amount sold during the Year	At the end of the year
Financial assets							
1. Financial assets at fair value through profit or loss for the current period (excluding derivative financial assets)	6,019,067.02	2,933,611.05	-	-	-	-	8,514,643.07
2. Derivative financial assets	0.00	217,800.00	-	-	-	-	217,800.00
3. Available-for-sale financial assets	6,598,657.13	-	10,125,865.77	-	97,796,454.54	-	114,520,977.44
Sub-total of financial assets	12,617,724.15	3,151,411.05	10,125,865.77	-	97,796,454.54	-	123,253,420.51
Investment properties	-	-	-	-	-	-	-
Productive biological assets	-	-	-	-	-	-	-
Others	-	-	-	-	-	-	-
Total	12,617,724.15	3,151,411.05	10,125,865.77	0.00	97,796,454.54	0.00	123,253,420.51
Financial liabilities							
1. Derivative financial liabilities	0.00	-339,129.90	-	-	-	-	339,129.90

Whether there are material changes in measuring assets during the Year

☐ YES ☒ NO

(V) ANALYSIS OF FINANCIAL CONDITIONS *(continued)*

3. Material changes in assets

Item	Amount denominated: RMB		
	At 31 December 2017	At 31 December 2016	Year-on-year change
Cash at bank and on hand	7,415,782,198.83	2,061,923,004.89	259.65%
Financial assets at fair value through profit or loss for the current period	8,732,443.07	6,019,067.02	45.08%
Bills receivable	1,151,583,176.39	512,986,726.32	124.49%
Prepayments	126,471,958.21	87,734,518.90	44.15%
Interest receivables	5,945,063.41	—	—
Other current assets	124,263,427.92	689,748,423.34	-81.98%
Available-for-sale financial assets	193,530,331.52	147,294,165.97	31.39%
Construction in progress	70,279,348.98	201,733,854.47	-65.16%
Development expenditure	25,328,934.25	14,821,797.96	70.89%
Other non-current assets	234,401,026.41	115,019,206.09	103.79%

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

- (1) Cash at bank and on hand recorded a year-on-year growth of 259.65%, mainly due to the amount received from the transfer of the equity interest in a subsidiary;
- (2) Financial assets at fair value through profit or loss for the current period recorded a year-on-year growth of 45.08%, mainly due to the fluctuation in market value of the stocks invested;
- (3) Bills receivable recorded a year-on-year growth of 124.49%, mainly due to the fact that the Company changed the circulation way of bills according to its daily demand for fund, so as to hold the bills receivables until maturity for collection;
- (4) Prepayments recorded a year-on-year growth of 44.15%, mainly due to the expanded production and the increase in prepayments for procurement of materials;
- (5) Interest receivables for the current period amounted to RMB5,945,063.41, mainly representing the receivable interest from the 7-day notice deposit;
- (6) Other current assets recorded a year-on-year decrease of 81.98%, mainly due to the purchase of principal-guaranteed financial products with idle raised proceeds in the previous year which were redeemed in the current period;
- (7) Available-for-sale financial assets recorded a year-on-year growth of 31.39%, mainly due to the prepayment for the purchase of private funds;
- (8) Construction in progress recorded a year-on-year decrease of 65.16%, mainly due to transfer of fixed assets as the plants newly completed during the current period were ready for their intended use;
- (9) Development expenditure recorded a year-on-year growth of 70.89%, mainly due to the increase in expenditure at the development stage of the project of recombinant biosimilar human chorionic gonadotropin (rhCG) for Injection (注射用重組人絨促性素(rhCG)) in the current period;
- (10) Other non-current assets recorded a year-on-year growth of 103.79%, mainly due to the increase in the prepayment for acquisition of project and equipment.

(V) ANALYSIS OF FINANCIAL CONDITIONS *(continued)***4. Material changes in liabilities and equity**

Item	At 31 December 2017	Amount denominated: RMB	
		At 31 December 2016	Year-on-year change
Financial liabilities at fair value through profit or loss for the current period	339,129.90	–	–
Bills payable	661,858,884.48	323,795,509.11	104.41%
Receipts in advance	115,288,797.94	78,685,240.60	46.52%
Employee benefits payables	161,565,942.97	113,279,912.95	42.63%
Taxes payables	1,045,751,020.24	292,306,699.79	257.76%
Interest payables	–	3,812,602.74	–100.00%
Dividends payables	170,936,288.17	2,531,984.46	6,651.08%
Other current liabilities	–	350,000,000.00	–100.00%
Deferred gain	225,844,273.75	94,997,993.67	137.74%
Deferred tax liabilities	26,532,304.04	17,285,280.40	53.50%
Treasury shares	66,786,741.96	140,321,805.40	–52.40%
Other comprehensive income	–44,546,365.43	602,767.19	–7,490.31%
Retained earnings	8,028,315,370.19	3,812,412,101.62	110.58%

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

- (1) Financial liabilities at fair value through profit or loss for the current period amounted to RMB339,129.90, mainly due to the changing exchange rate of the forward settlement contracts;
- (2) Bills payable recorded a year-on-year growth of 104.41%, mainly due to the increased percentage of bills payment in the sourcing operation;
- (3) Receipts in advance recorded a year-on-year growth of 46.52%, mainly due to the increased advances on sales of pharmaceutical preparations and testing reagents;
- (4) Employee benefits payables recorded a year-on-year growth of 42.63%, mainly due to the increase in employees' salary as a result of the Company's increased profit;
- (5) Taxes payables recorded a year-on-year growth of 257.76%, mainly due to the increase in corporate income tax payable as a result of the disposal of the equity interest in a subsidiary;
- (6) Interest payable recorded a year-on-year decrease of 100.00%, mainly due to the repayment of the interest for the first tranche of ultra short-term financing bills issued in 2016;
- (7) Dividends payable recorded a year-on-year growth of 6,651.08%, mainly due to the increase in dividends payable to the non-controlling shareholders as a result of the distribution by the non-wholly owned subsidiaries.
- (8) Other current liabilities recorded a year-on-year decrease of 100.00%, mainly due to the repayment of the principal for the first tranche of ultra short-term financing bills issued in 2016;
- (9) Deferred gain recorded a year-on-year growth of 137.74%, mainly due to the increased amount received from government grants related to assets;
- (10) Deferred tax liabilities recorded a year-on-year growth of 53.50%, mainly due to the increase in taxable temporary difference arising from accelerated depreciation of fixed assets;
- (11) Treasury shares recorded a year-on-year decrease of 52.40%, mainly due to the unlock of restricted shares issued under the Restricted A Shares Incentive Scheme;
- (12) Other comprehensive income recorded a year-on-year decrease of 7,490.31%, mainly due to the changes in translation differences of foreign currency statements as a result of exchange rate fluctuations;
- (13) Retained earnings recorded a year-on-year growth of 110.58%, mainly due to the higher growth rate of profit attributable to the parent company as a result of the disposal of equity interest in a subsidiary.

(V) ANALYSIS OF FINANCIAL CONDITIONS *(continued)***4. Material changes in liabilities and equity** *(continued)***Debt ratio**

As at 31 December 2017 and 31 December 2016, the debt ratios were calculated by dividing the Group's total liabilities at each respective date by the total assets. The Group's debt ratio decreased from 32.52% as at 31 December 2016 to 29.34% as at 31 December 2017.

5. Material changes in income statement items

	During the Year	Amount denominated: Same period last year	Year-on-year change
Financial expenses	-39,007,812.58	5,411,503.60	-820.83%
Gain from changes in fair value	2,812,281.15	-930,399.32	402.27%
Investment income	4,297,099,345.96	1,340,566.47	320,443.55%
Gains on disposal of assets	225,062,922.66	4,836,855.74	4,553.08%
Other income	91,964,810.95	0	-
Non-operating Income	91,912,647.38	129,599,778.83	-29.08%
Non-operating expenses	24,797,925.12	5,855,733.08	323.48%
Income tax expenses	1,237,220,405.36	175,145,667.01	606.40%
Net profit attributable to the shareholders of the parent company	4,428,684,564.57	784,353,607.06	464.63%
Other comprehensive net income after taxation	-45,429,961.95	13,470,447.03	-437.26%

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

- (1) Financial expenses recorded a year-on-year decrease of 820.83%, mainly due to the decreased interest expenses as a result of full repayment of interest-bearing liabilities as well as the increased interest income as a result of the increase in bank deposit;
- (2) Gain from changes in fair value recorded a year-on-year growth of 402.27%, mainly due to the fluctuation in market value of the stocks invested;
- (3) Investment income recorded a year-on-year growth of 320,443.55%, mainly due to the disposal of equity interest in a subsidiary;
- (4) Gains on disposal of assets recorded a year-on-year growth of 4,553.08%, mainly due to the gain from disposal of fixed assets;
- (5) Other income for the current period amounted to RMB91,964,810.95, mainly due to government grants 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 Income recorded a year-on-year decrease of 29.08%, mainly due to the receipt of government subsidies related to daily business activities were included in other income during the Year;
- (7) Non-operating expenses recorded a year-on-year growth of 323.48%, mainly due to the increase in charitable donation expenses;
- (8) Income tax expenses recorded a year-on-year growth of 606.40%, mainly due to the increase in corporate income tax expenses as a result of the higher growth rate of profit of the Company attributable to the increase in the profit of the Company from the disposal of the equity interest of a subsidiary;
- (9) Net profit attributable to the shareholders of the parent company recorded a year-on-year growth of 464.63%, mainly due to the increase in the profit of the Company resulting from disposal of the equity interest of a subsidiary;
- (10) Other comprehensive net income after taxation recorded a year-on-year decrease of 437.26%, mainly due to the changes in translation differences of foreign currency statements as a result of exchange rate fluctuations.

(V) ANALYSIS OF FINANCIAL CONDITIONS *(continued)*

6. Cash flow

	During the Year	Amount denominated: RMB Same period last year	Year-on-year change
Sub-total of cash inflows from investing activities	5,156,802,404.50	97,791,974.57	5,173.24%
Sub-total of cash outflows from investing activities	484,081,270.94	1,041,034,286.24	-53.50%
Net cash flows from investing activities	4,672,721,133.56	-943,242,311.67	595.39%
Sub-total of cash inflows from financing activities	38,180,507.74	2,729,039,781.88	-98.60%
Sub-total of cash outflows from financing activities	621,313,895.99	1,790,275,027.99	-65.30%
Net cash flows from financing activities	-583,133,388.25	938,764,753.89	-162.12%
Effect of foreign exchange rate changes on cash and cash equivalents	-66,402,282.70	20,092,121.70	-430.49%
Net increase in cash and cash equivalents	5,339,050,930.30	1,294,829,601.44	312.34%

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

- (1) Sub-total of cash inflows from investing activities recorded a year-on-year growth of 5,173.24%, mainly due to the equity transfer amount received from the disposal of equity interest in a subsidiary;
- (2) Sub-total of cash outflows from investing activities recorded a year-on-year decrease of 53.50%, mainly due to the purchase of principal-guaranteed financial products with idle raised proceeds in the corresponding period of the previous year;
- (3) Net cash flows from investing activities recorded a year-on-year growth of 595.39%, mainly due to the equity transfer amount received from the disposal of equity interest in a subsidiary;
- (4) Sub-total of cash inflows from financing activities recorded a year-on-year decrease of 98.60%, mainly due to the fact that there was no additional bank loans as the capital was adequate to meet the operational needs for the current period and attributable to the proceeds from the non-public issuance in the corresponding period of the previous year;
- (5) Sub-total of cash outflows from financing activities recorded a year-on-year decrease of 65.30%, mainly due to the decreased repayment of bank borrowings;
- (6) Net cash flows from financing activities recorded a year-on-year decrease of 162.12%, mainly due to the repayment of ultra short-term financing bills borrowings and no addition of borrowings;
- (7) Effect of foreign exchange rate changes on cash and cash equivalents recorded a year-on-year decrease of 430.49%, mainly due to the exchange loss from foreign currency held as a result of the appreciation of Renminbi of the appreciation of Renminbi;
- (8) Net increase in cash and cash equivalents recorded a year-on-year growth of 312.34%, mainly due to the equity transfer amount received from the disposal of equity interest in a subsidiary.

(V) ANALYSIS OF FINANCIAL CONDITIONS *(continued)*6. Cash flow *(continued)*

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

✓Applicable ☐Not applicable*Amount denominated: RMB*

Net cash flows from operating activities	Net Profit	Difference rate	Reasons
1,315,865,467.69	4,487,702,383.46	-70.68%	Mainly due to the increase in investment income as a result of the disposal of equity interest in a subsidiary

7. Liquidity and financial resources

As at 31 December 2017, the Group's cash at bank and on hand amounted to RMB7,415.78 million (31 December 2016: RMB2,061.92 million) primarily arising from cash inflows from operations and amount received from the transfer of the equity interest in a subsidiary.

During the Year, the Board and annual general meeting of the Group approved granted credit facilities of RMB6,881.00 million may be applied for and the actual granted amount applied to banks was RMB743.60 million.

Amount denominated: RMB

Item	End of the year (31 December 2017)			End of last year (31 December 2016)		
	Foreign currency amount	Translation rate	Amount in RMB	Foreign currency amount	Translation rate	Amount in RMB
Cash on hand:			189,288.49			125,085.29
– RMB	–	–	172,387.93	–	–	87,874.60
– U.S. dollar	700.00	6.5342	4,573.94	3,700.00	6.9370	25,666.90
– Euro	1,579.87	7.8023	12,326.62	1,579.87	7.3068	11,543.79
Bank deposits:			7,400,750,287.84			2,060,784,878.76
– RMB	–	–	6,588,436,280.79	–	–	1,676,739,336.00
– HK dollar	699,709,346.06	0.83591	584,894,039.47	259,790,066.68	0.89451	232,384,812.55
– U.S. dollar	34,047,231.72	6.5342	222,471,421.50	21,327,322.21	6.9370	147,947,634.17
– Japanese Yen	22,381,178.00	0.057883	1,295,489.72	21,111,307.00	0.059591	1,258,043.90
– Euro	276,436.74	7.8023	2,156,842.38	282,060.26	7.3068	2,060,957.91
– MOP	1,842,174.32	0.8122	1,496,213.98	452,565.72	0.8708	394,094.23
Other monetary fund:			14,842,622.50			1,013,040.84
– RMB	–	–	14,143,201.28	–	–	329,886.07
– HKD	836,718.34	0.83591	699,421.22	763,719.54	0.89451	683,154.77
Total	–	–	7,415,782,198.83	–	–	2,061,923,004.89

(V) ANALYSIS OF FINANCIAL CONDITIONS *(continued)***7. Liquidity and financial resources** *(continued)*

As at 31 December 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 0.004% of total assets (31 December 2016: 0.01%). Repayments of bank borrowings denominated in RMB and bank borrowings denominated in Hong Kong dollars during the Year amounted to RMB0.00 million and HK\$0.00 million, respectively. There was no distinct seasonal demand for each of the above bank borrowings.

8. Capital structure

The Group's capital structure comprises the shareholders' equity and liabilities. As at 31 December 2017, the shareholders' equity amounted to RMB11,233.62 million, the total liabilities amounted to RMB4,664.11 million and the total assets amounted to RMB15,897.73 million. Among which, the current liabilities of the Group amounted to RMB4,411.03 million (31 December 2016: RMB3,310.64 million), which increased by 33.24% from the end of previous year; the aggregated non-current liabilities amounted to RMB253.08 million (31 December 2016: RMB112.98 million), which increased by 124.00% from the end of previous year. During the Year, the Group repaid liabilities of RMB350.00 million (31 December 2016: RMB1,510.00 million).

Equity attributable to shareholders of the Company amounted to RMB10,772.74 million (31 December 2016: RMB6,505.99 million), which increased by 65.58% from the end of last year. Minority interests of the Group amounted to RMB460.88 million (31 December 2016: RMB599.65 million), which increased by 23.14% from the end of previous year.

9. Capital commitments

Item	<i>Amount denominated: RMB</i>	
	Balance at the year end	Balance at the beginning of the year
Contracted but not recognised in the financial statements –		
Commitments for purchase and construction of long-term assets	43,824,827.39	37,696,879.21
Total	43,824,827.39	37,696,879.21

10. Interest rate

As at 31 December 2017, total interest-bearing bank borrowings and other borrowings were RMB0.00 million (31 December 2016: RMB350.00 million).

(V) ANALYSIS OF FINANCIAL CONDITIONS *(continued)***11. Ageing analysis of outstanding liabilities**

	<i>Amount denominated: RMB million</i>	
	31 December 2017	31 December 2016
Within one year	662.26	674.20
1-2 years	–	–
2-5 years	–	–
Over 5 years	0.70	0.70
Total	662.96	674.90

12. Capital commitments

As at 31 December 2017, the Group's capital commitments contracted in relation to the purchase of long-term assets amounted to RMB43.82 million (31 December 2016: RMB37.70 million).

13. Bank borrowings and other borrowings

Details of the bank borrowings and other borrowings of the Company and the Group as at 31 December 2017 are set out in "Note VI. 21, 29, 30, 31" to the financial statements in this annual report as prepared in accordance with the China Accounting Standards for Business Enterprises.

14. Gearing ratio

As at 31 December 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 decreased to 5.90% as at 31 December 2017.

15. Issuance of super short-term financing bills

The Company issued the 2016 first tranche of super short-term financing bills on 11 August 2016, which is due on 9 May 2017 with an aggregate principal and interest of RMB357,249,315.07.

Product name	2016 first tranche of super short-term financing bills issued by Livzon Pharmaceutical Group Inc.
Amount (RMB00,000,000)	3.50
Interest rate accrues from	2016-08-12
Maturity (payment) date	2017-05-09
Annual coupon rate (%)	2.800

16. Interest expenses and capitalisation

	<i>Amount denominated: RMB</i>	
	2017	2016
Interest expenses ^(Note)	3,050,424.10	26,966,564.17
Capitalised interest	386,288.23	1,312,613.42
Total interest expenses	3,436,712.33	28,279,177.59

Note: Interest expenses mainly comprised of interests arising from the short-term notes financing issued by the Company.

(V) ANALYSIS OF FINANCIAL CONDITIONS *(continued)***17. Foreign exchange risks**

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

18. Contingent liabilities

As at 31 December 2017, the Group had no significant contingent liabilities.

19. Pledge of assets

	Balance at the year end	Balance at the year end
Deposits under guarantee	14,808,263.64	0.00
Total	14,808,263.64	0.00

The above deposits under guarantee are pledged for letter of credit issuing and foreign currency forward contracts etc.. Apart from that, there is no other charge, pledge or lock up on the assets that may limit its use.

(VI) INVESTMENTS**1. Overall status**

✓Applicable ☐ Not applicable

Investment during the Year (RMB)	Investment during the same period in the previous year (RMB)	Change
257,351,668.30	204,113,250.00	26.08%

(VI) INVESTMENTS *(continued)*

2. Material Equity Investment during the Year

✓Applicable ☐Not applicable

Amount denominated: RMB

Name of invested company	Main business	Investment method	Amount of investment	Percentage of shares held	Sources of fund	Partner(s)	Term of investment	Category of products	Progress at the date of the balance sheet	Expected revenue	Gains and losses for the current year	Involved in lawsuit	Date of disclosure (if any)	Index of disclosure (if any)
Zhuhai Livzon Weiqiu Technology Co., Ltd. (珠海市麗珠微球科技有限公司)	Research and development of microsphere preparations, bulk medicines, pharmaceutical intermediates, biochemical reagents, medical equipment and other products, as well as consulting and transfer of technology.	Establishment	500,000.00	100%	Self-funding	None	Not applicable	Not applicable	Yet to contribute	-	-	No	N/A	N/A
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	Establishment	6,851,158.00 (USD1,000,000.00)	51%	Self-funding	None	Not applicable	Not applicable	Contribution completed	-	-	No	N/A	N/A
Zhuhai Livzon Biomedical Technology Co., Ltd. (珠海市麗珠生物醫藥科技有限公司)	Mainly engaged in the research, development, production and sales of pharmaceutical products; pharmaceutical technology development, technology services, technology transfer, technical consulting.	Establishment	250,000,000.00	100%	Self-funding	None	Not applicable	Not applicable	Yet to contribute	-	-	No	N/A	N/A
Livzon International Limited	Investment holding	Establishment	6.53 (USD1.00)	100%	Self-funding	None	Not applicable	Not applicable	Yet to contribute	-	-	No	N/A	N/A
Livzon Biologics Limited	Investment holding	Consolidated from common control	333.24 (USD 51.00)	51%	Self-funding	Joincare Pharmaceutical Industry Group Co., Ltd. (健康元藥業集團股份有限公司)	Not applicable	Not applicable	Yet to contribute	-	-	No	N/A	N/A
Livzon Biologics Hong Kong Limited (麗珠生物科技香港有限公司)	Investment holding	Establishment	170.53 (HKD 204.00)	51%	Self-funding	None	Not applicable	Not applicable	Yet to contribute	-	-	No	N/A	N/A
Total	-	-	257,351,668.30	-	-	-	-	-	-	-	-	-	-	-

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

☐ Applicable ☒ Not applicable

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

☒ Applicable ☐ Not applicable

Amount denominated: RMB

Types of securities	Securities codes	Securities abbreviation	Initial investment cost	Accounting measurements	Carrying amount at the beginning of the year	Gains or losses on fair value change for the current year	Accumulated change in fair value in equity	Amount purchased during the Year	Amount sold during the Year	Profit or loss for the current year	Carrying amount at the end of the year	Accounting items	Sources of funds
Equity	00135	Kunlun Energy	4,243,647.64	Measured at fair value	5,188,158.00	2,898,453.50	-	-	-	2,962,479.04	7,648,576.50	Financial assets at fair value through profit or loss for the current period	Self-funding
Fund	206001	Penghua Fund	150,000.00	Measured at fair value	830,909.02	35,157.55	-	-	-	35,157.55	866,066.57	Financial assets at fair value through profit or loss for the current period	Self-funding
Other securities investment held at the end of the year			-	-	-	-	-	-	-	-	-	-	-
Total			4,393,647.64	-	6,019,067.02	2,933,611.05	-	-	-	2,997,636.59	8,514,643.07	-	-
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										

(2) Information on Derivatives Investment

☒ Applicable ☐ Not applicable

Name of the operator of derivatives investment	Connected relationships	Connected Transaction or not	Type of derivatives	Initial investment in derivatives investment	Commencement date	Maturity date	Investment amount at the beginning of the period	Purchase amount during the Reporting Period	Purchase amount during the Reporting Period	Impairment provision (if any)	Investment amount at the end of the period	Percentage of investment amount at the end of the period in the net assets of the Company at the end of the Reporting Period	Actual gains or losses during the Reporting Period
Financial institution	Non-related party	No	Forward foreign exchange contract (sell)	26,392.27	2017-8-4	2018-1-4	-	26,392.27	25,052.09	-	975.65	0.09%	385.75
Financial institution	Non-related party	No	Forward foreign exchange contract (buy)	1,122.15	2017-11-29	2018-2-9	-	1,122.15	-	-	1,098.04	0.10%	-
Total				27,514.42	-	-	-	27,514.42	25,052.09	-	2,073.69	0.19%	385.75
Source of funding for derivatives investment				Self-funding									
Litigation involved (if applicable)				Not applicable									
Date of announcement of the Board of Directors regarding the approval of derivatives investment (if any)				21 June 2017									
Date of announcement of the shareholders' general meeting regarding the approval of derivatives investment (if any)				Not applicable									
Risk analysis of derivative positions held during the Reporting Period and explanation of control measures (including but not limited to market risk, liquidity risk, credit risk, operational risk, legal risk, etc.)				To effectively manage the uncertainty risk of assets denominated in foreign currencies of the Company arising from fluctuations in exchange rates, foreign exchange forward contracts and other financial derivatives are employed to fix relevant exchange rates so as to conduct hedging activities. The Company has formulated the "Foreign Exchange Risk Management Measures" for the operation and control of foreign exchange derivatives. 1. Market risk: uncertainties in exchange rate fluctuations in the foreign exchange market leads to relatively high market risk in the foreign exchange forward business. Control measures: The Company's foreign exchange forward business is entered into to hedge exchange rate risks associated with assets denominated in U.S. dollar and fix the future exchange settlement price of assets denominated in U.S. dollar. It is designed to be used as a hedge tool. Such foreign exchange derivatives cannot be subject to speculative trading. The principle of prudence and conservation shall be observed so as to effectively prevent market risk. 2. Operational risk: operational risk is arising from defective internal process, man-made operation and systems. Control measures: The Company has formulated the corresponding management methods to clearly define the responsibilities of all parties, improve the review and approval process and establish supervisory mechanism, so as to effectively reduce operational risk. 3. Legal risk: the Company's foreign exchange forward business shall be operated under applicable laws and regulations and shall clearly stipulate the relationship of rights and obligations with financial institutions. Control measures: in addition to strengthening the research on laws and regulations and market rules, the Company's responsible department also stipulates that the Company's legal department shall strictly review various contracts, agreements and other documents in relation to its business, clarify rights and obligations and strengthen compliance inspection, aiming to ensure that the Company's derivatives investment and operations meet the requirements of applicable laws and regulations as well as the Company's internal systems. Gains and losses arising from changes in fair value of the forward settlement contracts during the Reporting Period were RMB-0.1213 million.									
Change in market price or fair value of invested derivatives during the Reporting Period (the analysis of the fair value of derivatives shall disclose the specific methods applied and the assumptions and parameters set)				No									
Explanation as to whether the Company's accounting policies and accounting principles for derivatives during the Reporting Period have changed significantly as compared with the previous Reporting Period.				No									
Independent Directors' special opinions on the derivatives investment and risk control of the Company				Due to growing import and export business, the Company required a large amount of foreign exchange for transactions. To avert and control foreign exchange risk, we were of the view that the forward foreign exchange derivatives trading business proposed to be launched by the Company and its subsidiaries were in line with the actual development needs of the Company. When the Board considered the above proposal, the relevant procedure was in compliance with the laws, regulations, regulatory documents and the relevant provisions in the Articles of Association of the Company. In view of such, we approved the Company to formulate the management system for the foreign exchange derivative trading business in accordance with the relevant laws and regulations, and conduct such business with its own funds within the limit approved by the Board.									

(VI) INVESTMENTS *(continued)***5. Utilization of raised funds**✓Applicable ☐Not applicable**(1) Overall use of proceeds**✓Applicable ☐Not applicable*Unit: RMB0'000*

Year of fundraising	Method of fundraising	Total proceeds	Total amount of proceeds used during the period	Accumulated amount of proceeds used	Total amount of proceeds involved in change of use during the reporting period	Accumulated amount of proceeds involved in change of use	Proportion of accumulated amount of proceeds involved in change of use	Total amount of proceeds unused	Uses and whereabouts of proceeds unused	Amount of proceeds idle for more than 2 years
2016	Non-public issuance	142,030.04	8,125.63	47,668.39	30,600.00	30,600.00	21.54%	94,361.65	Unused proceeds were deposited in the special account designated for raised fund or cash management and will continue to be used in fund-raising investment	–

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

Explanation on overall use of proceeds

With the "Approval in relation to the Non-public Issuance of Shares by Livzon Pharmaceutical Group Inc." (Zheng Jian Xu Ke [2016] No. 1524) issued by the China Securities Regulatory Commission, the Company has issued 29,098,200 A Shares with a nominal value of RMB1.00 per share at RMB50.10 per share and raised proceeds amounted to RMB1,457.82 million (excluding issuance expenses of RMB37.5196 million). On 2 September 2016, a total of RMB1,420.3004 million was deposited into the Company's account.

The proceeds are mainly used to carry out in-depth development, industrialization and upgrade of innovative Ilaprazole product series, construction of R&D platform of prolonged-action microsphere technologies, the project of relocation and expansion of Livzon Group Xinbeijiang Pharmaceutical Manufacturing Inc. (phase I), the technological transformation project of bag infusion workshop in relation to Livzon Group Livzon Pharmaceutical Factory, replenishment of liquidity and repayment of bank borrowings, which are consistent with the use passed by the Board meeting of the Company. As of 31 December 2017, the unused proceeds remained deposited in the special account designated for raised fund or cash management and will continue to be used in fund-raising investment project.

(VI) INVESTMENTS (continued)

5. Utilization of raised funds (continued)

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

✓Applicable ☐ Not applicable

Unit: RMB0'000

Investment projects undertaken and the use of the excess funds	Change in project (including partial change)	Total amount of proceeds undertaken for investment	Total investment amount after adjustment (1)	Invested amount during the reporting period	Cumulative invested amount as of 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	Expected return being achieved or not	Significant change in project
Investment projects undertaken										
1. In-depth development, industrialization and upgrade of the innovative Ilaprazole product series	No	45,000.00	45,000.00	2,261.67	4,112.58	9.14%	31 December 2018	-	No	No
2. Capital injections to Livzon MAB for its investment in the construction of "Research & Development and Industrialization of therapeutic antibody-based drugs"	Yes	30,600.00	-	-	-	-	-	-	-	-
3. Project of relocation and expansion of Livzon Group Xinbeijiang Pharmaceutical Manufacturing Inc. (phase I)	Yes	-	14,328.94	0.00	0.00	0.00%	30 June 2019	-	No	No
4. Technological transformation project of bag infusion workshop in relation to Livzon Group Livzon Pharmaceutical Factory	Yes	-	5,311.73	2,360.79	2,360.79	44.44%	31 August 2018	-	-	No
5. Construction of R&D platform of prolonged-action microsphere technologies	Yes	30,182.00	41,141.33	3,503.17	4,946.98	12.02%	31 December 2021	-	-	No
6. Replenishment of liquidity and repayment of bank loans	No	36,248.04	36,248.04	0.00	36,248.04	100.00%	Not applicable	Not applicable	Not applicable	No
Sub-total of committed investment projects	-	142,030.04	142,030.04	8,125.63	47,668.39	-	-	-	-	-
Use of the excess proceeds	Not applicable									
Repayment of bank loans (if any)	-	-	-	-	-	-	-	-	-	-
Replenishment of liquidity (if any)	-	-	-	-	-	-	-	-	-	-
Subtotal of the use of the excess proceeds	-	-	-	-	-	-	-	-	-	-
Total	-	142,030.04	142,030.04	8,125.63	47,668.39	-	-	-	-	-

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

✓Applicable □Not applicable

Unit: RMBO'000

Investment projects undertaken and the use of the excess funds	Change in project (including partial change)	Total amount of proceeds undertaken for investment	Total investment amount after adjustment (1)	Invested amount during the reporting period	Cumulative invested amount as of the end of the period(2)	Progress of investment as of the end of the period (3)=(2)/(1)	Date of project reaching the working condition for its intended use	Results realised during the reporting period	Expected return being achieved or not	Significant change in project
Particulars of and reasons for not meeting schedule or estimated income (by specific projects)	1.	llaprazole Project: (1) the timing and progress of the late-stage clinical trials for new indications of llaprazole Sodium for Injection and llaprazole Enteric Coated Tablet were later than expected as the approval for production was obtained at a time later than expected, leading to the failure to meet the expected schedule for use of proceeds; (2) in terms of industrialization upgrade, as the approval for production was obtained at a time later than expected, the timing for upgrade and renovation of the solid preparations workshop was delayed accordingly, leading to the failure to meet the expected schedule for use of proceeds.								
	2.	Project of relocation and expansion of Livzon Group Xinbeijiang Pharmaceutical Manufacturing Inc. as the progress of the environment impact assessment was lower than expected, the relocation and expansion project has not yet been officially launched.								
Particulars of material change in feasibility of project	Not applicable									
Amount and uses of the excess proceeds and the progress of uses	Not applicable									
Particulars of change in place of application of proceeds	For details, please refer to "Changes in projects funded with the proceeds raised"									
Particulars of adjustment to way of application of proceeds	The fund-raising investment project of in-depth development, industrialization and upgrade of innovative llaprazole product series was expected to be implemented by Livzon Pharmaceutical Group Inc., with an investment focus on the in-depth development, industrialization and upgrade of innovative llaprazole product series. In order to ensure the effective implementation of fund-raising projects, further increase production capacity, ensure the quality of products and continuously maintain the Company's technological and market advantages, the Resolution on Addition of Implementing Entity for the Fund-raising Investment Project of the Company was passed at the third Extraordinary Shareholders' Meeting in 2016, pursuant to which Livzon Group Livzon Pharmaceutical Factory, a subsidiary of the Company, was added as an implementing entity of the project. On 19 September 2017, the Resolution on Alteration to the Fund-raising Investment Project of the Non-Public of A Shares of the Company was considered and approved at the first Extraordinary Shareholders' Meeting in 2017, pursuant to which the following adjustments to the sub-projects of the project of "construction of research & development platform of sustained release microsphere technologies" were approved: (1) change the original sub-project of "Renovation Project of Pilot Workshop" to "Microsphere Workshop Construction Project for Livzon Group Livzon Pharmaceutical Factory", and additionally include Livzon Group Livzon Pharmaceutical Factory as one of the implementing entities; and (2) terminate preclinical studies project of "Risperidone Sustained-release Microspheres for Injection (1 month)". The above-mentioned addition of an implementing entity to the fund-raised investment project will not lead to changes in the direction of investment of the Company's raised proceeds, or affect the normal implementation of fund-raised investment projects, or have an adverse impact on the financial position of the Company.									
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 fund-raising investment projects amounted to RMB41.8571 million were used by the Company. On 4 January 2017, the Company has transferred the funds from its special account.									
Particulars of application of idle proceeds for temporary replenishment of working capital	Not applicable									
Amount of balance of proceeds upon commencement of project and the reason thereof	Not applicable									
Uses and whereabouts of unused proceeds	The unused proceeds remained deposited in the special account designated for raised fund or cash management and will continue to be used in fund-raising investment project.									
Issues and other particulars of use of proceeds and the disclosure thereof	Not applicable									

(VI) INVESTMENTS (continued)

5. Utilization of raised funds (continued)

(3) Changes in projects funded with the proceeds raised

✓Applicable ☐ Not applicable

Unit: RMB0'000

Project after change	Corresponding originally committed project	Total amounts of proceeds intended to be invested in the project after change (1)	Actual investment amount for the Reporting Period	Actual accumulated investment amount as of the end of the period (2)	Investment progress as of the end of the period (3) = (2)/(1)	Date on which the project is ready for the intended use	Benefits achieved during the Reporting Period	Expected benefits achieved or not	Significant change in feasibility of the project or not
Project of relocation and expansion of Livzon Group Xinbeijiang Pharmaceutical Manufacturing Inc. (phase I)	Capital injections to Livzon MAB for its investment in the construction of "Research & Development and Industrialization of therapeutic antibody-based drugs"	14,328.94	0.00	0.00	0.00%	30 June 2019	–	–	No
Technological transformation project of bag infusion workshop in relation to Livzon Group Livzon Pharmaceutical Factory	Capital injections to Livzon MAB for its investment in the construction of "Research & Development and Industrialization of therapeutic antibody-based drugs"	5,311.73	2,360.79	2,360.79	44.44%	31 August 2018	–	–	No
Construction of R&D platform of prolonged-action microsphere technologies	Capital injections to Livzon MAB for its investment in the construction of "Research & Development and Industrialization of therapeutic antibody-based drugs"	41,141.33	3,503.17	4,946.98	12.02%	31 December 2021	–	–	No
Total	–	60,782.00	5,863.96	7,307.77	–	–	–	–	–

Description of reasons for the change, decision-making procedures and information disclosure (by specific projects)

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

1. A change was made to the capital injections to Livzon MAB for its investment in the construction of "Research & Development and Industrialization of therapeutic antibody-based drugs" to the effect that the proceeds of RMB306,000,000.00 originally planned to be used in this project are to be utilized as follows: (1) RMB143,289,400.00 for the project of relocation and expansion of Livzon Group Xinbeijiang Pharmaceutical Manufacturing Inc. (phase I); (2) RMB53,117,300.00 for the technological transformation project of bag infusion workshop in relation to Livzon Group Livzon Pharmaceutical Factory; (3) RMB109,593,300.00 for the "Microsphere Workshop Construction Project for Livzon Group Livzon Pharmaceutical Factory", being the sub-project of the "construction of R&D platform of prolonged-action microsphere technologies". Upon the completion of such change, the Company will change to invest its own capital in the capital injections to Livzon MAB for its investment in the construction of "Research & Development and Industrialization of therapeutic antibody-based drugs". The originally invested proceeds will be transferred back to the special fund-raising account for the construction of new projects to be funded with the proceeds raised.
2. Adjustments were made to the sub-projects of the project of "Construction of research & development platform of sustained release microsphere technologies" to (1) change the original sub-project of "Renovation Project of Pilot Workshop" to "Microsphere Workshop Construction Project for Livzon Group Livzon Pharmaceutical Factory", and additionally include Livzon Group Livzon Pharmaceutical Factory as one of the implementing entities; and (b) terminate preclinical studies project of "Risperidone Sustained-release Microspheres for Injection (1 month)".

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

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

Not applicable

Particulars of material change in feasibility of projects after change

Not applicable

(VII) DISPOSAL OF SUBSTANTIAL ASSETS AND EQUITY**1. Disposal of substantial assets**✓Applicable ☐Not applicable

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 IV of this Report for details

2. Disposal of substantial equity✓Applicable ☐Not applicable

Counterparty	Disposed Equity	Date of Disposal	Trading Price (RMB0'000)	Net profit from disposal of the equity to the listed company from the Beginning of the Period to Date of Disposal (RMB0'000)	Effect of the Disposal on the Company (RMB0'000)	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	328,380.58	74.15%	Based on negotiation	No	Not applicable	Yes	Yes

Note: On 18 April 2017, the Company and its subsidiary, Pharmaceutical Factory* (製藥廠) entered into 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. The abovementioned equity transfer has been passed by way of a resolution at the 2016 annual general meeting. As of 5 May 2017, the equity transfer consideration was fully received. The equity interest transfer was completed on 17 July 2017.

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.

(VII) 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. It is expected that the completion of the Disposal would generate unaudited accounting net profit of RMB3,283,805,821.20 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.

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 authorisation 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.

(VIII) ANALYSIS OF MAJOR HOLDING AND INVESTEE COMPANIES

✓Applicable □Not applicable

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

Amount denominated: RMB

Company names	Company categories	Principal business	Registered capital	Total assets	Net assets	Operational income	Operational profit	Net profit
Livzon Group Livzon Pharmaceutical Factory (麗珠集團麗珠製藥廠)	Subsidiary	Primarily engaged in production and sale of self-made chemical drugs, biochemical drugs, microbiological preparations, antibiotics, etc.	450,000,000.00	2,280,703,447.62	1,562,652,168.49	1,884,284,998.67	1,049,898,511.75	895,570,660.44
Sichuan Guangda Pharmaceutical Manufacturing Co., Ltd. (四川光大製藥有限公司)	Subsidiary	Primarily engaged in R&D, production and sale of traditional Chinese medicine, major products include Anti-viral Granules, Dexaltin Oral Paste, etc.	149,000,000.00	961,064,585.60	806,729,760.05	372,334,292.17	107,656,818.30	91,700,274.13
Livzon Group Limin Pharmaceutical Manufacturing Factory (麗珠集團利民製藥廠)	Subsidiary	Primarily 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	924,844,524.59	393,658,782.44	729,270,034.98	276,790,750.15	225,128,852.51
Shanghai Livzon Pharmaceutical Manufacturing Co., Ltd. (上海麗珠製藥有限公司)	Subsidiary	Primarily 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	581,669,543.74	386,348,783.76	756,978,408.86	193,536,625.57	157,167,557.37
Zhuhai FTZ Livzon Hecheng Pharmaceutical Manufacturing Co., Ltd. (珠海保稅區麗珠合成製藥有限公司)	Subsidiary	Primarily engaged in production and operation of chemical bulk medicines, major products include Cefuroxime Sodium, Cefodizime Sodium, Ceftriaxone Sodium, etc.	128,280,000.00	810,380,864.45	295,610,616.17	716,470,445.07	57,407,557.91	52,207,387.95
Livzon Group Xinbeijiang Pharmaceutical Manufacturing Inc. (麗珠集團新北江製藥股份有限公司)	Subsidiary	Primarily engaged in sale of bulk medicines, intermediate products and export of related technologies, major products include Pravastatin, Mevastatin, Salinomycin, etc.	134,925,200.00	608,823,598.96	472,011,079.79	553,170,900.76	102,597,299.17	86,789,392.21
Livzon Group Fuzhou Fuxing Pharmaceutical Co., Ltd. (麗珠集團福州福興製藥有限公司)	Subsidiary	Primarily 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	694,055,662.86	553,736,753.16	442,664,389.58	101,046,528.47	82,132,198.50
Zhuhai Livzon Diagnostic Reagents Inc. (珠海麗珠試劑股份有限公司)	Subsidiary	Primarily 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	823,364,603.30	112,179,898.64	648,507,292.11	85,907,082.04	77,648,518.52
Livzon MABPharm Inc. (珠海市麗珠單抗生物技術有限公司)	Subsidiary	Primarily engaged in technological R&D for biopharmaceutical products and antibiotics.	533,330,000.00	339,202,402.35	271,996,678.88	76,697.72	-127,940,214.41	-127,833,701.27
Livzon Group Ningxia Fuxing Pharmaceutical Manufacturing Co., Ltd. (麗珠集團寧夏福興製藥有限公司)	Subsidiary	Primarily engaged in production and sale of medical intermediates, chemical raw materials	100,000,000.00	849,249,546.33	11,607,150.51	424,545,085.86	-10,483,512.82	-10,597,713.88

Note: 1. 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.

2. During the Reporting Period, Livzon Group Fuxing Pharmaceutical Co., Ltd (麗珠集團寧夏福興製藥有限公司) recorded a loss, mainly due to the decrease in gross profit margin as a result of the decrease in the market price of some major products as well as the increase in exchange loss losses as a result of the exchange rate fluctuations during the Year.

(VIII) ANALYSIS OF MAJOR HOLDING AND INVESTEE COMPANIES *(continued)*

2. Subsidiaries acquired and disposed during the Year

✓Applicable ☐ Not applicable

Name of Company	Method of acquiring and disposing of the subsidiary during the Year	Effect on the general operation and results
Zhuhai Weixing Shiye Co., Ltd. (珠海維星實業有限公司)	Disposal	The equity transfer can improve the Company's financial conditions and will not affect the daily operations and production of the Company.
Zhuhai Livzon Meidaxin Technological Development Co., Ltd. (珠海市麗珠美達信技術開發有限公司)	Deregistration	No material impact
Zhuhai Livzon Weiqiu Technology Co., Ltd. (珠海市麗珠微球科技有限公司)	Establishment	No material impact
Livzon MABPharm (US) Inc. (麗珠單抗生物技術(美國)有限公司)	Establishment	No material impact
Zhuhai Livzon Biomedical Technology Co., Ltd. (珠海市麗珠生物醫藥科技有限公司)	Establishment	No material impact
Livzon International Limited	Establishment	No material impact
Livzon Biologics Limited	Combination under the common control	No material impact
Livzon Biologics Hong Kong Limited (麗珠生物科技香港有限公司)	Establishment	No material impact

(IX) EMPLOYEES

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

(X) STRUCTURAL BODY CONTROLLED BY THE COMPANY

☐Applicable ☒Not applicable

(XI) DETAILS OF MATERIAL INVESTMENTS OR CAPITAL ASSET ACQUISITION PLAN

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

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

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

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

In 2018, the New Drug Administration Law and the Drug Registration Administrative Measures are expected to be introduced in the middle of the year, and the regulatory approach will have relatively large changes. The full implementation of the drug listing permission holders system, the abolition of GCP (Good Clinical Practice), GMP (Good Manufacturing Practice), GSP (Good Supply Practice) certification system are expected to be put into practice. As the punishment gets stricter and more specific, pharmaceutical enterprises will face supervision of higher frequency, which will have a far-reaching impact on the pharmaceutical industry. In addition, the clinic-oriented management mechanism of Center for Drug Review has been gradually formed, which will bring profound changes to the approval and review of drugs, especially that of innovative drugs. Considering the implementation of national two-vote system in 2017, although most provinces and cities have entered the implementation phase, Guangdong, Beijing, Shanghai and other key drug circulation provinces and cities are still in the transition stage of the two-vote system. In this sense, the two-vote system may impact and hit the market in the second half of 2018. In 2018, China will comprehensively promote the “supply-side reform” in the pharmaceutical industry, namely, consistency evaluation, which will have a fundamental impact on the pattern of China’s pharmaceutical industry. Consistency assessment will enhance industry concentration. Large pharmaceutical companies with core competitiveness will gain more market share, and those that have not passed consistency evaluation will make exit from the market, and especially the health care directory. The deadline for the consistency evaluation of oral solid dosage is at the end of December 2018. There are a total of 289 varieties, among which only more than 20 has been approved currently, while most of them will be assessed at the end of 2018; the launch of consistency evaluation for injections that are already put on the market will have more extensive influence for drugs that on sale. In retrospect, the core of health care catalogue adjustment in 2017 lies in “support innovation, encourage competition”, and on the basis of the previous overall consideration, more emphasis has been given to encourage technological innovation in pharmaceutical industry. Thus, taking the road of research and development to form a virtuous circle is the key. Meanwhile, in 2018, drug concentration procurement will continue to develop in the direction of fragmentation, diversification and sustainability.

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

In the long run, the government's continued increase in the investment in medical and health undertakings, the improvement of the level of national consumption, the aging population and the two-child policy will provide a strong support for the long-term sound development of the pharmaceutical industry. The establishment and issue of Thirteenth Five-Year Plan Outline have put forward higher requirements for the overall industrial structure of national pharmaceutical industry. Pharmaceutical enterprises with the advantages of scale, technology, brand and marketing are faced with rare opportunities for development. In addition to these industry policy risks, the Company is also faced with government policy risks, including environmental policies, drug price reduction, restrictions on drug use and changes in tax policy, etc., as well as risks brought by market competition, eliminated products and technologies are eliminated, product development and product safety, etc.

In the face of these risks and opportunities, the Company will take effective measures to respond to the major changes in the pharmaceutical industry policy, and will consider innovative norms as the Group's operating principles. The Company will continuously improve its core competitiveness through the early layout, early transformation, early compliance to deal with the major changes in the pharmaceutical industry policy. The Company will actively increase research and development of new products and strengthen innovation to drive development through R&D and to meet the strict standards of consistency evaluation. The Company will go all out to strengthen health care, continue to promote the sales advantage of products of large varieties, constantly improve market access, strengthen product channels to expand sales scale, enrich the competitive advantage of products, improve production quality management, standardize safety and environmental-protection production, emphasize management with strict compliance, so as to establish a more reasonable market-oriented system and build its own advantages and core competitiveness.

2. Future development strategy

In 2018, the Company will employ effective measures to actively respond to changes in the industry and optimize the business layout, with main tasks focusing on the following aspects:

(1) Drug preparation business

In 2018, the marketing team will closely focus on the sales strategy of "marketing based on evidence, service-oriented marketing and marketing through cooperation" to develop a new landscape of diversified marketing. The Company will fully initiate the marketing towards medical institutions under grade 2 to optimize the incremental activities of low-yield hospitals; make arrangements for the launch of Ilaprazole for Injection (艾普拉唑注射剂) and proactively respond to the additions and supplements to tenders in various provinces to promptly establish effective sales; carry out in-depth academic promotion of its products to comprehensively promote the phase IV clinical practice of some key varieties of products; and step up efforts in the promotion of non-prescription drugs to increase product sales through various channels and further enhance brand influence.

(XIII) PROSPECTS FOR FUTURE DEVELOPMENT *(continued)***2. Future development strategy** *(continued)***(1) Drug preparation business** *(continued)*

In respect of research and development, the Company will further improve the research, development and innovation system, increase efforts in technological innovation and new product development, and optimize incentive and assessment mechanisms. While stressing on the results-oriented business model, the Company will comprehensively speed up the launch of some individual research projects with core competitive advantages in clinical application and marketing, and promote the secondary development of its existing products by product type in a progressive manner, taking into account the corresponding market and promotion needs. In addition, the Company will continue to introduce and develop high-caliber talents and strengthen exchanges and cooperation for international projects.

(2) Bulk medicines business

In 2018, the bulk medicines business division will further strengthen its guidance and supervision functions, and strengthen assessments at all levels. While focusing on safety, environmental protection and quality, the Company will endeavour to promote refined production, improve product quality, cut production costs and make coordinated arrangements for product variety and production capacity among its subsidiaries, aiming to develop its existing product varieties in depth, in strength and in scale. Its key tasks for this business division are as follows: To continuously strengthen the construction of research and development centers and establish and improve the research and development management system for bulk medicines with a focus on the improvement of strains and the introduction of new products; to strengthen technological advancement and production management to provide support to various production companies to achieve technological breakthroughs in key products; to strengthen sales efforts, formulate differentiated marketing strategies and continuously carry out international certification for its bulk medicines, step up efforts in the reserve of international talents and promote team building.

(3) Precise pharmaceutical business

Livzon Reagents: The company will continue to adjust and optimize its sales model. In respect of research and development, the company will formulate reasonable plans to focus on promoting the research and development of autoimmune disease detection products on the molecular detection platform and the multiple immune platform, to optimize the external cooperation with the fluorescence project in Fuji, Japan and to make arrangements for the development of respiratory and infectious reagent products on the chemical fluorescence platform.

Livzon MAB: While focusing on clinical practice and declaration, the company will concentrate on its efforts to accelerate clinical research on key product varieties, actively promote the registration and declaration of new products and gradually speed up the process of positioning and transition from a research and development-oriented enterprise to a research, development and production-oriented enterprise, aiming to get prepared for mass production in various aspects including the production platform, management system and talent reserve. The Company will also strengthen international business expansion and cooperation, actively conduct research on and analysis of the industry and markets at home and abroad and carry out the selection, evaluation and introduction of new drug projects, so as to diversify and improve research and development of product offerings. Furthermore, the company will strengthen quality system building to exercise tighter control over the quality of drug production.

(XIII) PROSPECTS FOR FUTURE DEVELOPMENT *(continued)***2. Future development strategy** *(continued)***(3) Precise pharmaceutical business** *(continued)*

Livzon Shengmei: The company will focus on the research, development and registration of liquid biopsy equipment and reagents, and promote the localization of equipment accessories and reagents as well as the verification of production processes. Taking third-party laboratories as a breakthrough point, the company will promote commercial applications in the CTC lung cancer detection field, increase clinical applications in the equipment procurement field, strengthen market promotion efforts and expand clinical research cooperation units.

Livzon Gene: in close cooperation with the pharmaceutical sales team, the company will strengthen marketing efforts and the training of internal sales teams to comprehensively ensure the efficient and reliable detection of clinical samples. The company will also accelerate and improve the accumulation of clinical data on the “sequencing of three samples for tumor liquid biopsy” project and promote the launch of the laboratory LIS system and the declaration of relevant qualifications. In addition, the company will cooperate with reagent companies in the establishment of service platform, process and marketing model for special projects of immunity examination through cooperation in clinical research.

(4) Quality and Production

In 2018, timely delivery, product quality, and safe production will remain the production focuses of the Group. The quality control efforts will be concentrated on the new drug management law, and the internal quality control system will be revised and improved. Focusing on regulatory compliance, the Group will establish its pharmacovigilance system with clearly defined processes, powers and responsibilities.

The Group will focus on the following major tasks: To exercise risk control over the launch of Ilaprazole Sodium Injection and Shenqi Fuzheng Injection in bags, and issue the quality and technological control points of the conformity assessment of the Group’s generic drugs; to strengthen the research and development, BE, and the quality auditing on production sites; to pay attention to the risks associated with the quality of minority product varieties and the product varieties for non-recurring production while focusing on the Group’s key product varieties; to continuously strengthen GSP daily supervision and management, respond to policy changes, follow up the implementation of new policies such as the electronic supervision on drugs, the two-vote system and the drug tracing system and provide assistance to carry out relevant works so as to ensure legal and compliant operation.

(5) Management and strategy

In 2018, the Group will unswervingly implement the management policy of “innovative and standardized operation”, optimize its management and control processes and improve functional management efficiency and service quality, so as to ensure that plans are made in a comprehensive manner and that standardized governance is in place. From the perspective of its medium and long-term strategic development, the Group will expand and implement the share incentive scheme and the partnership scheme, the reclamation, utilization and disposal of lands and the development and implementation of equity investment projects; and will further research, discuss and endeavor to implement the cooperation in innovative product and technology platforms.

In summary, in 2018, the Company will continue to pay close attention to the changes in industry policies, increase efforts in innovation and regulatory compliance, steadily promote the development of all businesses, fully supports front-line sales and make concerted efforts to accomplish the performance goals under the 2017 Share Options Incentive Scheme.

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

Details of the amount and movements in the reserves of the Group during the Year are set out in the Consolidated Statement of Changes in Shareholders' Equity and Note VI "38. Surplus reserve" to the financial statements in this annual report.

2. Distributable Reserves

As at 31 December 2017, the distributable reserves of the Company calculated in accordance with China Accounting Standards for Business Enterprises amounted to RMB4,725 million (31 December 2016: RMB913 million).

3. Fixed Assets

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

4. Connected/Related Party Transactions

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

5. Management Contracts

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

6. 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 has repurchased 103,974 Restricted Shares under the first grant at the price of RMB18.81 per share and 29,300 Restricted Shares under the reserved grant at the price of RMB24.11 per share, respectively, on the Shenzhen Stock Exchange, totaling 133,274 Restricted Shares (the "Repurchased A Shares") (the "Repurchase"). The aggregate purchase price paid for the Repurchase was RMB2,662,173.94. Pursuant to the Repurchase, the Repurchased A Shares have been cancelled on 8 February 2017.

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

- (2) In view of that one original incentive participants under the first grant and five original incentive participant under the reserved grant of the Restricted A Shares Incentive Scheme have resigned, pursuant to the provisions of "13. Handling unusual changes to the Company/Incentive Participants" under the Restricted A Shares Incentive Scheme, the Company has repurchased and cancelled the 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 on the Shenzhen Stock Exchange at the price of RMB18.81 per share for 6,240 Shares of the first grant and at the price of RMB24.11 per share for 28,020 Restricted Shares (the "Repurchased A 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.

Save as disclosed above, throughout the period from 1 January 2017 to 31 December 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 Chapter IV "the Restricted A Shares Incentive Scheme" of this annual report.

7. Review by Audit Committee

The financial results for the year ended 31 December 2017 have been reviewed by the Audit Committee of the Company. Details of "KEY AUDIT MATTERS" please refer to Chapter XI "AUDITORS' REPORT".

(XIV) OTHER EVENTS *(continued)***8. Relationships with employees, customers and suppliers**

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

9. Permitted indemnity provisions

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

10. Compliance with rules and regulations

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

11. Environmental policies and performance

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

(XV) PROFIT DISTRIBUTION PLAN

For profit distribution plan for 2017, please refer to "PROFIT DISTRIBUTION OF ORDINARY SHARES AND CONVERSION OF CAPITAL RESERVE INTO SHARE CAPITAL OF THE COMPANY" and "PROPOSALS ON PROFIT DISTRIBUTION AND CONVERSION OF CAPITAL RESERVES INTO SHARE CAPITAL DURING THE YEAR " of Chapter V in the annual report.

(XVI) AUDITORS

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

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

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

(XVII) TAXATION AND TAX RELIEF

Shareholders are taxed in accordance with the following tax regulations and the amendments thereof from time to time. They shall enjoy possible tax relief according to the actual situation. The following cited laws, regulations and stipulations are all relevant provisions issued during the year ended 31 December 2017. Shareholders, if necessary, shall seek professional advice from their tax and legal advisors for advices relating to tax payment or its impact:

A Shareholders

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

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

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

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

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

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

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

Save as set out in aforesaid service contracts and this annual report, none of the Directors or Supervisors (or any entities in relation to them) of the Company had a material interest, whether direct or indirect, in any other transactions, arrangements or contacts of significance which had been entered into by the Company, any of its subsidiaries, or its holding company or the holding company's subsidiaries for the year ended 31 December 2017.

(XIX) ARRANGEMENT OF PURCHASING SHARES OR BONDS BY DIRECTORS

Save as the Restricted A Shares Incentive Scheme and the proposed adoption by the Company of the 2017 Share Options Incentive Scheme disclosed in this annual report, the Company or its subsidiaries or the holding company of the Company or its subsidiaries did not enter into any arrangement at anytime during the Year that enabled the Directors, Supervisors and senior management of the Company to acquire benefits by means of purchasing shares or bonds of the Company or any other body corporate.

(XX) THE RESTRICTED A SHARES INCENTIVE SCHEME

In order to set up overall long-term incentive mechanism of the Company, retain and recruit outstanding staff, maximize the proactiveness of core staffs and align the interests of all parties including shareholders, the Company and operators, as considered, approved and authorized at the 2015 First Extraordinary General Meeting, the 2015 First Class Meeting of H Shareholders and the 2015 First Class Meeting of A Shareholders held on 13 March 2015, the Company implemented the Restricted A Shares Incentive Scheme. The validity period of the Restricted A Shares Incentive Scheme shall commence on the date of the Grant of the Restricted Shares and end on the date on which all the Restricted Shares granted to the incentive participants have been unlocked or otherwise repurchased and cancelled with a period for less than 5 years.

During the Year, 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. The repurchase and cancellation of Restricted Shares involved 14 individuals, including 9 incentive participants (who held 103,974 Shares with a repurchase price at RMB18.81 per share) that no longer satisfy the unlocked conditions under the first grant and 5 incentive participants (who held 29,300 Shares with a repurchase price at RMB24.11 per share) that no longer satisfy the unlocked conditions under the reserved grant.

On 28 March 2017, the Thirty-sixth Meeting of the Eighth Session of the board of directors of the Company was convened to approve the Company to (i) proceed with matters concerning the second unlocking period of the first grant under the Restricted A Shares Incentive Scheme, there were a total of 427 incentive participants satisfying the unlocking conditions, and may apply for 3,177,213 shares of Restricted Shares to be unlocked and traded, representing 44.70% of the total number of unlocked Restricted Shares under share incentive scheme. The unlocked Restricted Shares were traded on 7 April 2017; and (ii) repurchase 6,240 shares granted to one incentive participant that no longer satisfy the unlocked conditions of the first grant at RMB18.81 per share and 28,020 shares of the Restricted Shares granted to 5 incentive participants that no longer satisfy the unlocking conditions of the reserved grant at RMB24.11 per share. On 14 June 2017, the Company has completed the repurchase and cancellation. Please refer to "Repurchase, sale or redemption of securities" contained in Section IV of this report for the details of the repurchase and cancellation.

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

On 15 December 2017, the Sixth Meeting of the Ninth Session of the board of directors of the Company was convened to approve the Company, (i) since the Company has completed 2016 annual profit distribution, to adjust the number of Restricted Shares of the first grant from 3,177,213 shares to 4,130,377 shares (excluding the unlocked and repurchased shares), and adjust the repurchase price of the Restricted Shares granted to the incentive participants under the first grant from RMB18.81 per share to RMB14.08 per share and to adjust the number of Restricted Shares under the reserved grant from 719,820 shares to 935,766 shares (excluding the unlocked and repurchased shares), and adjust the repurchase price of the Restricted Shares granted to the incentive participants under the reserved grant from RMB24.11 per share to RMB18.16 per share; (ii) to repurchase 77,774 shares granted to 13 incentive participants that no longer satisfy the unlocked conditions of the first grant at RMB14.08 per share; to repurchase 11,310 locked Restricted Shares granted to 3 incentive participants of the reserved grant and 1,014 Restricted Shares granted to one incentive participant of the reserved grant that then no longer satisfy the unlocking conditions at RMB18.16 per share, with an aggregate of 12,324 Restricted Shares; (iii) proceed with matters concerning unlocking the second unlock period for the reserved grant under the Restricted A Shares Incentive Scheme, there were a total of 162 incentive participants satisfying the unlocking conditions, and may apply for 461,214 Restricted Shares to be unlocked and traded, representing 9.27% of the total number of unlocked Restricted Shares under the Restricted A shares Incentive Scheme. The Restricted Shares unlocked were traded on 2 January 2018.

(XXI) THE NON-PUBLIC ISSUANCE OF A SHARES

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

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

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

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.

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

On 20 September 2017, 37,827,664 restricted A Shares under the Issuance was issued and listed (after the proposed profit distribution plan of the Company for 2016, the number of restricted shares under the Issuance increased from 29,098,203 A Shares to 37,827,664 A Shares), and there are 19 Shareholders applied for unlocking restricted shares.

In 19 October 2017, after the consideration and approval on the Fourth Meeting of the Ninth Session of the Board of the Company, proceed of RMB40,800,000 raised from the Project has been drawn back from a special account of the Company for proceeds set up at China Everbright Bank Co., Ltd. (Zhuhai Renmin Road Sub-branch) (“China Everbright Bank”) to a special account of the Company set up at Industrial and Commercial Bank of China Limited (Zhuhai Branch) (“ICBC”) for raised fund, the cancellation for special account of the Company set up at China Everbright Bank for raised fund has been filed, and the “Regulatory Agreement (三方監管協議)” entered between the Company, Livzon MAB, Minsheng Securities Co., Ltd. and China Everbright Bank was terminated accordingly.

On 17 October 2017, the Company and Minsheng Securities Co., Ltd. have entered into “Regulatory Agreement Relating Raising Fund (募集資金三方監管協定)” with the Sales Department of China Zheshang Bank Co., Ltd. (Shenzhen Branch) and ICBC respectively.

(XXII) ADOPTION OF SHARE OPTIONS INCENTIVE SCHEME

In order to further establish and improve the Company's long-term incentive mechanism, attract and retain outstanding employees, fully motivate the directors, senior management, mid-level management and relevant core personnel of the Company and effectively integrate shareholders' interests, the Company's interests and individual interests of the core team members, the Seventh Meeting of the Ninth Session of the Board of the Company was convened on 21 December 2017 to consider and approve the 2017 Share Options Incentive Scheme (Draft) (the "Share Options Incentive Scheme"), in relation to the proposed grant of 15,000,000 share options to incentive participants, involving a total of 15,000,000 ordinary A Shares, representing approximately 2.71% of the total share capital of the Company as at the date of this report.

Pursuant to the Share Options Incentive Scheme, there are 13,500,000 share options proposed to be granted initially (the "first grant"), representing 90.00% of the total number of share options granted under the Share Options Incentive Scheme, representing approximately 2.44% of the total share capital of the Company as at the date of this report; there are 1,500,000 share options proposed to be granted under the reserved grant, representing 10.00% of the total number of share options granted under the Share Options Incentive Scheme, representing approximately 0.27% of the total share capital of the Company as at the date of this report.

The incentive participants of the Share Options Incentive Scheme under the first grant comprise a total of 1,045 persons who are the directors, senior management, mid-level management and relevant core personnel of the Company; the exercise price of the share options under the first grant shall be RMB67.78 per A Shares; the validity period of the Share Options Incentive Scheme shall commence from the registration date of the grant of the share options and end on the date on which all the share options granted to the incentive participants have been exercised or otherwise cancelled, which shall not be longer than 60 months.

The Share Options Incentive Scheme shall become effective upon consideration and approval of a general meeting of the Company and the class meetings. Within the 60 days from passing of the Share Options Incentive Scheme on a general meeting of the Company and the class meetings (excluding the period during which no grant of interest by listed company is allowed pursuant to the "the Administrative Measures on Share Incentives of Listed Companies"), the Company shall convene meeting of Board for the grant of share options to the incentive participants under relevant rules, and comply with announcement and registration requirements. The vesting period of the share options of the first grant under the Share Options Incentive Scheme is 12 months from the registration date of the first grant.

Pursuant to the Chapter 17 of the Hong Kong Listing Rules, Share Options Incentive Scheme constitutes a share options scheme. On 4 January 2018, the Company is exempted from strict compliance with Note (1) to Rule 17.03(9) of the Hong Kong Listing Rules with respect to the possible exercise price of share options to be granted under the Share Options Incentive Scheme. The Share Options Incentive Scheme shall be effective upon obtaining approval at the general meeting and the class meetings. A circular containing, among other things, information in respect to the Share Options Incentive Scheme will be dispatched to the shareholders of the Company as soon as practicable.

(XXIII) PRE-EMPTIVE RIGHTS

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

(XXIV) CHARITABLE DONATION

During the Year, the expenditure of charitable donation of the Group amounted to approximately RMB12,584,890 (2016: approximately RMB539,440).

(XXV) HOSTING RESEARCHES, COMMUNICATIONS AND INTERVIEWS

1. Registration Form for hosting researches, communications and interviews during the Year

✓Applicable ☐ Not applicable

Date of reception	Type of reception	Type of guests	Index of basic information of research
10 January 2017	On-site investigation	Institution	Please refer to the Investor Relationship Event Record Form on 10 January 2017 which the Company posted on the Cninfo website on 11 January 2017 for detail of said research
18 January 2017	On-site investigation	Institution	Please refer to the Investor Relationship Event Record Form (I) on 18 January 2017 which the Company posted on the Cninfo website on 19 January 2017 for detail of said research
18 January 2017	On-site investigation	Institution	Please refer to the Investor Relationship Event Record Form (II) on 18 January 2017 which the Company posted on the Cninfo website on 19 January 2017 for detail of said research
3 May 2017	On-site investigation	Institution	Please refer to the Investor Relationship Event Record Form on 3 May 2017 which the Company posted on the Cninfo website on 4 May 2017 for detail of said research
23 May 2017	On-site investigation	Institution	Please refer to the Investor Relationship Event Record Form on 23 May 2017 which the Company posted on the Cninfo website on 23 May 2017 for detail of said research
25 May 2017	On-site investigation	Institution	Please refer to the Investor Relationship Event Record Form on 25 May 2017 which the Company posted on the Cninfo website on 26 May 2017 for detail of said research
7 June 2017	On-site investigation	Institution	Please refer to the Investor Relationship Event Record Form on 7 June 2017 which the Company posted on the Cninfo website on 8 June 2017 for detail of said research
9 June 2017	On-site investigation	Institution	Please refer to the Investor Relationship Event Record Form on 9 June 2017 which the Company posted on the Cninfo website on 12 June 2017 for detail of said research
29 June 2017	On-site investigation	Institution	Please refer to the Investor Relationship Event Record Form on 29 June 2017 which the Company posted on the Cninfo website on 3 July 2017 for detail of said research
29 June 2017	On-site investigation	Institution	Please refer to the Investor Relationship Event Record Form on 29 June 2017 which the Company posted on the Cninfo website on 3 July 2017 for detail of said research
14 July 2017	On-site investigation	Institution	Please refer to the Investor Relationship Event Record Form on 14 July 2017 which the Company posted on the Cninfo website on 17 July 2017 for detail of said research
18 July 2017	On-site investigation	Institution	Please refer to the Investor Relationship Event Record Form (I) on 18 July 2017 which the Company posted on the Cninfo website on 18 July 2017 for detail of said research
18 July 2017	On-site investigation	Institution	Please refer to the Investor Relationship Event Record Form (II) on 18 July 2017 which the Company posted on the Cninfo website on 18 July 2017 for detail of said research

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

Date of reception	Type of reception	Type of guests	Index of basic information of research
25 August 2017	On-site investigation	Institution	Please refer to the Investor Relationship Event Record Form on 25 August 2017 which the Company posted on the Cninfo website on 26 August 2017 for detail of said research
8 September 2017	On-site investigation	Institution	Please refer to the Investor Relationship Event Record Form on 8 September 2017 which the Company posted on the Cninfo website on 11 September 2017 for detail of said research
18 September 2017	On-site investigation	Institution	Please refer to the Investor Relationship Event Record Form on 18 September 2017 which the Company posted on the Cninfo website on 20 September 2017 for detail of said research
19 September 2017	On-site investigation	Institution	Please refer to the Investor Relationship Event Record Form on 19 September 2017 which the Company posted on the Cninfo website on 20 September 2017 for detail of said research
1 November 2017	On-site investigation	Institution	Please refer to the Investor Relationship Event Record Form on 1 November 2017 which the Company posted on the Cninfo website on 1 November 2017 for detail of said research
6 November 2017	On-site investigation	Institution	Please refer to the Investor Relationship Event Record Form on 6 November 2017 which the Company posted on the Cninfo website on 6 November 2017 for detail of said research
7 November 2017	On-site investigation	Institution	Please refer to the Investor Relationship Event Record Form on 7 November 2017 which the Company posted on the Cninfo website on 8 November 2017 for detail of said research
9 November 2017	On-site investigation	Institution	Please refer to the Investor Relationship Event Record Form on 9 November 2017 which the Company posted on the Cninfo website on 10 November 2017 for detail of said research
10 November 2017	On-site investigation	Institution	Please refer to the Investor Relationship Event Record Form on 10 November 2017 which the Company posted on the Cninfo website on 13 November 2017 for detail of said research
28 November 2017	On-site investigation	Institution	Please refer to the Investor Relationship Event Record Form on 28 November 2017 which the Company posted on the Cninfo website on 30 November 2017 for detail of said research
7 December 2017	On-site investigation	Institution	Please refer to the Investor Relationship Event Record Form on 7 December 2017 which the Company posted on the Cninfo website on 8 December 2017 for detail of said research
13 December 2017	On-site investigation	Institution	Please refer to the Investor Relationship Event Record Form on 13 December 2017 which the Company posted on the Cninfo website on 13 December 2017 for detail of said research
Number of reception			25
Number of institution reception			127
Number of individual reception			0
Number of others reception			0
Whether disclose, reveal or leak undisclosed information			No

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

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

Executive Directors

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

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

Mr. Yang Daihong (楊代宏先生) (Vice President) (retired on 30 June 2017 upon expiry of tenure of service)

Mr. Xu Guoxiang (徐國祥) (Vice President) (appointed on 30 June 2017)

Non-Executive Directors

Mr. Zhu Baoguo (朱保國先生) (Chairman)

Mr. Qiu Qingfeng (邱慶豐先生)

Mr. Zhong Shan (鍾山先生) (resigned as Non-executive Directors due to personal work and time arrangement with effect from 1 September 2017)

Independent Non-Executive Directors

Mr. Xu Yanjun (徐焱軍先生)

Mr. Guo Guoqing (郭國慶先生)

Mr. Wang Xiaojun (王小軍先生)

Mr. Zheng Zhihua (鄭志華先生)

Mr. Xie Yun (謝耘先生)

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

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

Mr. Huang Huamin (黃華敏先生)

Mr. Tang Yin (湯胤先生)

By order of the Board

Chairman

Zhu Baoguo

23 March 2018

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

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

✓Applicable ☐Not applicable

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

Special Description of Cash Dividends Policy

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

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

The proposed profit distribution plan of the Company for 2017 is as follows: to distribute cash dividend of RMB20.00 (tax inclusive) for every 10 shares to all shareholders of the Company and to issue 3 bonus shares for every 10 shares to all shareholders of the Company by way of conversion of capital reserve, based on the total share capital of the Company of 553,231,369 shares as at 31 December 2017. If the total share capital of the Company changes during the period from the promulgation to implementation of 2017 Annual Profit Distribution Plan, the aggregate distribution will be adjusted based on the total share capital as at the registration date of shareholding as determined by implementation of 2017 Annual Profit Distribution Plan, with the distribution ratio unchanged. The above proposed distribution is subject to the approval at the annual general meeting. A circular of H Shares containing, among other things, further information in respect to the annual general meeting and the Cash Dividend will be dispatched to the shareholders of the Company as soon as practicable.

The profit distribution plan for 2016 was as follows: based on the Company's total share capital of 425,562,592 shares as at the registration date of shareholding determined by implementation of the 2016 annual profit distribution plan, it is expected to distribute a cash dividend of RMB5 per 10 shares (tax inclusive) to all the shareholders of the Company. At the same time, 3 shares would be issued for every 10 shares held to all shareholders of the Company by way of capitalizing our capital reserve.

The profit distribution plan for 2015 was as follows: to distribute cash of RMB5 (including taxes) for every 10 shares held to all shareholders of the Company based on the Company's total share capital of 396,889,547 shares at the end of 2015. The Company will pay RMB198,315,961.50 on profit distribution. The remaining undistributed profit is to be carried forward to the next year.

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

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

Amount denominated: RMB

Distribution years	Cash dividend amount (taxes inclusive)	Net profit attributable to shareholders of the Company as stated in the consolidated financial statements for the year	Proportion of net profit attributable to shareholders of the Company as stated in the consolidated financial statements	Cash dividend amount by other means	Proportion of cash dividend by other means
2017 (Proposed)	1,106,462,738.00	4,428,684,564.57	24.98%	–	–
2016	212,781,296.00	784,353,607.06	27.13%	–	–
2015	198,315,961.50	622,641,033.06	31.85%	–	–

Note: The amount of 2017 cash dividend (taxes inclusive) in the above table is based on 553,231,369 shares of the total share capital of the Company as at 31 December 2017 and the actual cash dividend will be based on the Company's total share capital as at the registration date of shareholding determined by implementation of the proposed 2017 annual profit distribution plan.

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

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

☐ Applicable ☒ Not applicable

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

☒ Applicable ☐ Not applicable

Bonus shares (shares) presented per every 10 shares	0
Dividends (RMB) (tax inclusive) presented per every 10 shares	20
Converted shares per every 10 shares (share)	3
Equity base (share) for distribution proposal	553,231,369
Total cash dividends (RMB) (tax inclusive)	1,106,462,738.00
Distributable Profit (RMB)	4,724,885,078.69
Proportion of cash dividends of the total profit distribution	23.42%

The Cash Dividends

To distribute cash dividend of RMB20.00 (tax inclusive) for every 10 shares to all shareholders of the Company, based on the total share capital of the Company of 553,231,369 shares as at 31 December 2017. If the total share capital of the Company changes during the period from the promulgation to implementation of 2017 Annual Profit Distribution Plan, the aggregate distribution will be adjusted based on the total share capital as at the registration date of shareholding as determined by implementation of 2017 Annual Profit Distribution Plan, with the distribution ratio unchanged.

Particulars of Profit Distribution or Proposal on Conversion of Capital Reserves

To distribute cash dividend of RMB20.00 (tax inclusive) for every 10 shares to all shareholders of the Company and to issue 3 bonus shares for every 10 shares to all shareholders of the Company by way of conversion of capital reserve, based on the total share capital of the Company of 553,231,369 shares as at 31 December 2017. If the total share capital of the Company changes during the period from the promulgation to implementation of 2017 Annual Profit Distribution Plan, the aggregate distribution will be adjusted based on the total share capital as at the registration date of shareholding as determined by implementation of 2017 Annual Profit Distribution Plan, with the distribution ratio unchanged.

(III) MATTERS OF COMMITMENTS

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

✓Applicable ☐ Not applicable

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

(III) MATTERS OF COMMITMENTS *(continued)*

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

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

(III) MATTERS OF COMMITMENTS *(continued)*

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

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

(III) MATTERS OF COMMITMENTS *(continued)*

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

Subject of undertaking	Covenantor	Type of undertaking	Details of undertaking	Undertaking date	Term of undertaking	Performance
	The Company	Other undertaking	<p>The Company will strictly comply with laws and regulations, such as the Company Law, Securities Law and the Administrative Measures on the Issuance of Securities of Listed Companies, and the requirements of the CSRC. The Company also undertakes the following from the listing date of the new shares under the non-public issuance:</p> <ol style="list-style-type: none"> 1. The Company shall publish periodic reports and disclose all information having material impact on investors in a true, accurate, complete, fair and timely manner, and be monitored and administered by the CSRC and the Shenzhen Stock Exchange; 2. The Company shall make public clarification on a timely basis once noticing any news that may have misleading impact on the share price from mass media; 3. The Directors, Supervisors and senior management of the Company shall take full consideration of opinions and recommendations from the public, and shall not be directly or indirectly engaged in the trading of the Company's shares with inside information and in other inappropriate means. <p>The Company guarantees that there is no false statement or any material omission in the documents submitted to the Shenzhen Stock Exchange, and shall not disclose relevant information without permission of the Shenzhen Stock Exchange during the period of listing application.</p>	19 September 2016	Long-term	Performing
	China Huarong Asset Management Co., Ltd.	Undertaking for selling restrictions	3,900,000 shares subscribed and then allotted in the non-public issuance of Livzon Pharmaceutical Group Inc.* will be locked up for 12 months commencing the listing date of the new shares after the completion of the Issuance.	19 September 2016	One year	Performed
	Caitong Fund Management Co., Ltd.		5,200,000 shares subscribed and then allotted in the non-public issuance of Livzon Pharmaceutical Group Inc.* will be locked up for 12 months commencing the listing date of the new shares after the completion of the Issuance.	19 September 2016	One year	Performed
	China Merchants Wealth Asset Management Co., Ltd.		998,203 shares subscribed and then allotted in the non-public issuance of Livzon Pharmaceutical Group Inc.* will be locked up for 12 months commencing the listing date of the new shares after the completion of the Issuance.	19 September 2016	One year	Performed
	Penghua Asset Management (Shenzhen) Co., Ltd.		14,900,000 shares subscribed and then allotted in the non-public issuance of Livzon Pharmaceutical Group Inc.* will be locked up for 12 months commencing the listing date of the new shares after the completion of the Issuance.	19 September 2016	One year	Performed
	Da Cheng Fund Management Co., Ltd.		4,100,000 shares subscribed and then allotted in the non-public issuance of Livzon Pharmaceutical Group Inc.* will be locked up for 12 months commencing the listing date of the new shares after the completion of the Issuance.	19 September 2016	One year	Performed

(III) MATTERS OF COMMITMENTS *(continued)*

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

Subject of undertaking	Covenantor	Type of undertaking	Details of undertaking	Undertaking date	Term of undertaking	Performance
Equity incentive undertaking	–	–	–	–	–	–
Other undertakings to minority shareholders of the Company	Joincare	Undertaking for decrease in shareholding	Joincare, the Company's controlling shareholder, has made undertakings during the elimination of trading moratorium of shares. Details are as follows: 1. Joincare shall strictly follow relevant provisions of the Guiding Opinions on Transfer of Shares subject to Trading Moratorium by Listed Companies (2008 No. 15 notice) issued by the China Securities Regulatory Commission when transferring the Group's shares subject to trading moratorium held by it. 2. If Joincare plans to dispose the released tradable shares held by it through the auction system of stock exchanges and its reduced shareholding amounts to 5% and more within 6 months since its first reduction date, it will disclose an indicative announcement through the Group within two trading days prior to the first reduction of shareholding.	17 December 2008	Long-term	During the reporting period, the Covenanters performed the undertaking in good faith.
Performance of undertaking on time	Yes					
If such undertaking has yet to be fulfilled within the stated timeframe, concrete reasons of unperformed undertaking and future plan (if any) should be explained in detail	Not applicable					

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

☐ Applicable ☒ Not applicable

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

☐ Applicable ☒ Not applicable

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

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

☐ Applicable ☒ Not applicable

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

☐ Applicable ☒ Not applicable

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

☒ Applicable ☐ Not applicable

1. Business combination involving an enterprise under common control

Name of acquiree	Proportion of equity acquired in the business combination (%)	Basis for constituting a business combination involving an enterprise under common control	Date of business combination	Basis for determining the date of business combination
Livzon Biologics Limited	51	Company controlled by parent company	2017.11.29	Registration of change in equity ownership

(VII) COMPARED WITH FINANCIAL STATEMENT OF LAST YEAR, THE EXPLANATION OF CHANGE WITHIN COMBINED STATEMENT *(continued)*

2. Disposal of subsidiaries

Amount denominated: RMB

Name of subsidiary	Consideration from the disposal	Disposal ratio (%)	Disposal method	Time point of loss of control	Basis for determining time point of loss of control	Difference between consideration of disposal and net assets of the subsidiary attributable to the disposed investment based on the consolidated financial statements
Zhuhai Weixing Shiye Co., Ltd. (珠海維星實業有限公司)	4,529,932,115.41	100	Transfer	17 July 2017	Completion of transfer of relevant assets	4,279,239,528.22
Zhuhai Livzon Meidaxin Technological Development Co., Ltd. (珠海市麗珠美達信技術開發有限公司)	0.00	100	Deregistration	25 October 2017	Deregistration at the Administration for Industry and Commerce	0.00

3. Establishment of new subsidiaries

- (1) In March 2017, Livzon MABPharm (US) Inc. (麗珠單抗生物技術(美國)有限公司) was established with 100% registered capital by Livzon MABPharm Inc. (珠海市麗珠單抗生物技術有限公司).
- (2) In July 2017, Zhuhai Livzon Weiqiu Technology Co., Ltd. (珠海市麗珠微球科技有限公司) was established with 100% registered capital by the Company and Livzon Group Livzon Pharmaceutical Factory (麗珠集團麗珠製藥廠).
- (3) In October 2017, both Livzon International Limited and Livzon Biologics Hong Kong Limited (麗珠生物科技香港有限公司) were established with 100% registered capital by Lizhu (Hong Kong) Co., Limited (麗珠(香港)有限公司); In November 2017, Zhuhai Livzon Biomedical Technology Co., Ltd. (珠海市麗珠生物醫藥科技有限公司) was established with 100% registered capital by Livzon Biologics Hong Kong Limited (麗珠生物科技香港有限公司). On 29 November 2017, Lizhu (Hong Kong) Co., Limited (麗珠(香港)有限公司) transferred its 100% equity interest in Livzon Biologics Hong Kong Limited (麗珠生物科技香港有限公司) to Livzon Biologics Limited.

(VIII) APPOINT, DISMISS CERTIFIED PUBLIC ACCOUNTANTS

Current appointed Certified Public Accountants (auditors) and remuneration

On 23 June 2017, after consideration and approval at the 2016 Annual General Meeting of the Company the appointment of Ruihua Certified Public Accountants (LLP) as the auditors firm of the Company for the year 2017 has been approved. As at the end of the year, remunerations payable to Ruihua Certified Public Accountants (LLP) for its annual audit services and non-annual audit services to the Group for 2017 amounted to RMB2.00 million (tax inclusive) (including 2017 annual remuneration for financial statement audit and internal control audit) and RMB0.5505 million (tax inclusive), respectively. The non-annual audit services include review of half yearly financial statements and issue of project acceptance reports and high-tech enterprise assurance reports, etc.

Name of domestic Certified Public Accountants	Ruihua Certified Public Accountants (LLP)
Remuneration of domestic Certified Public Accountants (RMB0'000)	2017 annual remuneration for financial statements audit and internal control audit are RMB1.6400 million (tax inclusive) and RMB0.3600 million (tax inclusive), respectively
Continuous years of audit service of domestic Certified Public Accountants	6 years
Name of Certified Public Accountants of domestic Certified Public Accountants	Wang Shuyan, Zhang Fang
Name of overseas Certified Public Accountants (if any)	N/A
Remuneration of overseas Certified Public Accountants (RMB0'000) (if any)	N/A
Continuous years of audit service of overseas Certified Public Accountants (if any)	N/A
Name of Certified Public Accountants of overseas Certified Public Accountants (if any)	N/A

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

(VIII) APPOINT, DISMISS CERTIFIED PUBLIC ACCOUNTANTS *(continued)*

Whether to change appointment of Certified Public Accountants during the Year

☐ Yes ☒ No

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

☐ Yes ☒ No

Whether to perform approval procedure if change the Certified Public Accountants

☐ Yes ☒ No

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

☒ Applicable ☐ Not applicable

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

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

☐ Applicable ☒ Not applicable

(X) MATTERS RELATED TO BANKRUPTCY RECTIFICATION

☐ Applicable ☒ Not applicable

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

(XI) MATERIAL LITIGATION AND ARBITRATION

☐ Applicable ☒ Not applicable

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

(XII) PUNISHMENT AND RECTIFICATION

☐ Applicable ☒ Not applicable

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

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

☐ Applicable ☒ Not applicable

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

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

1. Connected Transactions in the Ordinary Course of Business

☒ Applicable ☐ Not applicable

Transactions with connected persons	Relationships with connected persons	Type of connected transactions	Description of connected transactions	Pricing principle of connected transactions	Amount of connected transaction (RMB'000)	Proportion to transaction amount of the same category	Settlement method of connected transactions	Disclosure date	Disclosure index
Guangdong Blue Treasure Pharmaceutical Co. Associate Ltd. (廣東藍寶製藥有限公司)		Procurement of commodities	Procurement of raw materials	Determined by negotiation based on market price	113.91	0.06%	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.: 2017-015)
Shenzhen Haibin Pharmaceutical Co., Ltd. (深圳市海濱製藥有限公司)	Subsidiary of the controlling shareholder	Procurement of commodities	Procurement of raw materials	Determined by negotiation based on market price	3,333.18	1.68%	Bank settlement	24 December 2016, 26 October 2016	"Resolution announcement of the 2016 Third Extraordinary General Meeting of Livzon Pharmaceutical Group Inc." (Announcement code: 2016-118)", "Announcement relating to the 2017-2019 three years continuing connected transactions framework agreement entered into by the Company and Joicare" (Announcement No.: 2016-91)
Joicare Pharmaceutical Industry Group Co., Ltd. (健康元藥業集團股份有限公司)	Controlling Shareholder	Procurement of commodities	Procurement of finished products	Determined by negotiation based on market price	143.75	0.07%	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.: 2017-015)
Jiaozuo Joicare Pharmaceutical Industry Group Co., Ltd. (焦作健康元生物製品有限公司)	Subsidiary of the controlling shareholder	Procurement of commodities	Procurement of raw materials	Determined by negotiation based on market price	33,571.03	16.87%	Bank settlement	24 December 2016, 26 October 2016	"Resolution announcement of the 2016 Third Extraordinary General Meeting of Livzon Pharmaceutical Group Inc." (Announcement code: 2016-118)", "Announcement relating to the 2017-2019 three years continuing connected transactions framework agreement entered into by the Company and Joicare" (Announcement No.: 2016-91)

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

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

Transactions with connected persons	Relationships with connected persons	Type of connected transactions	Description of connected transactions	Pricing principle of connected transactions	Amount of connected transaction (RMB'000)	Proportion to transaction amount of the same category	Settlement method of connected transactions	Disclosure date	Disclosure index
Jiaozuo Jincare Pharmaceutical Industry Group Co., Ltd. (焦作健康元生物製品有限公司)	Subsidiary of the controlling shareholder	Acceptance of services	Water, electricity and power	Determined by negotiation based on market price	1,588.28	5.91%	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.:2017-015)
CYNVENIO BIOSYSTEMS, INC.	A company in which Directors are holding position	Acceptance of services	Tests	Determined by negotiation based on market price	2.37	100%	Bank settlement		
Zhuhai Jincare Pharmaceutical Co., Ltd. (珠海健康元生物製藥有限公司)	Subsidiary of the controlling shareholder	Sale of commodities	Sale of finished products	Determined by negotiation based on market price	0.91	0.00%	Bank settlement		
Guangdong Blue Treasure Pharmaceutical Co. Ltd. (廣東藍寶製藥有限公司)	Associate	Sale of commodities	Sale of finished products	Determined by negotiation based on market price	828.43	0.10%	Bank settlement		
Jiaozuo Jincare Pharmaceutical Industry Group Co., Ltd. (焦作健康元生物製品有限公司)	Subsidiary of the controlling shareholder	Sale of commodities	Sale of raw materials	Determined by negotiation based on market price	591.77	0.07%	Bank settlement		
Shenzhen Haibin Pharmaceutical Co., Ltd. (深圳市海濱製藥有限公司)	Subsidiary of the controlling shareholder	Sale of commodities	Sale of finished products	Determined by negotiation based on market price	232.78	0.03%	Bank settlement		
Shenzhen Taitai Pharmaceutical Co., Ltd. (深圳太太藥業有限公司)	Subsidiary of the controlling shareholder	Sale of commodities	Sale of finished products	Determined by negotiation based on market price	46.15	0.01%	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	729.57	55.30%	Bank settlement		
Zhuhai Jincare Pharmaceutical Co., Ltd. (珠海健康元生物製藥有限公司)	Subsidiary of the controlling shareholder	Provision of services	Water, electricity and power	Determined by negotiation based on market price	72.86	5.52%	Bank settlement		
Shenzhen Haibin Pharmaceutical Co., Ltd. (深圳市海濱製藥有限公司)	Subsidiary of the controlling shareholder	Provision of services	Processing fee, testing	Determined by negotiation based on market price	88.84	32.41%	Bank settlement		
Zhuhai Jincare Pharmaceutical Co., Ltd. (珠海健康元生物製藥有限公司)	Subsidiary of the controlling shareholder	Leasing out of assets	Lease of equipment	Determined by negotiation based on market price	17.40	3.61%	Bank settlement		
Health Pharmaceutical (China) Co., Ltd. (健康藥業(中國)有限公司)	Subsidiary of the controlling shareholder	Leasing out of assets	Leasing out of office premise	Determined by negotiation based on market price	9.00	1.87%	Bank settlement		
Jincare Pharmaceutical Industry Group Co., Ltd. (健康元藥業集團股份有限公司)	Controlling Shareholder	Lease of assets	Lease of office premise	Determined by negotiation based on market price	73.31	7.89%	Bank settlement		
Total					41,443.55				

Substantial amount of returned products

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

Not applicable

During the Year, the total amount of the connected transactions actually conducted in the ordinary course was RMB414.4355 million. Among which, the amount of connected transactions actually conducted in the ordinary course between the Company and controlling shareholders (Jincare) and their subsidiaries was RMB397.6927 million, representing 95.34% of the projected amount (RMB417.116 million) approved by the operating management, the Board and the general meeting of shareholders of the Company; the amount of connected transactions actually conducted in the ordinary course between the Company and Blue Treasure Pharma (藍寶製藥) was RMB16.7191 million, representing 94.51% of the projected amount (RMB17.6894 million) approved by the operating management and the Board of the Company; the amount of connected transactions conducted in the ordinary course between the Company and Cynvenio Biosystems, Inc. was RMB0.0237 million, representing 0.13% of the projected amount (RMB18.00 million) approved by the Board of the Company. The above connected transactions have not exceeded the projected amount approved.

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

Not applicable

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

2. Connected Transactions relating to Acquisition and Disposal of Assets or Equity

✓ Applicable ☐ Not applicable

Connected party	Connected relationship	Type of connected transaction	Description of connected transaction	Pricing basis for connected transaction	Carrying value of the assets transferred (RMB'000)	Consideration of transfer (RMB'000)	Settlement method of connected transaction	Profit or loss of the transaction (RMB'000)	Date of disclosure	Index of disclosure
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	Transfer of assets	Sale of equipment	Determined by negotiation based on market price	52.67	57.81	Bank settlement	5.14	N/A	N/A
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	Transfer of assets	Procurement of equipment	Determined by negotiation based on market price	117.46	117.46	Bank settlement	0	N/A	N/A
CYNVENIO BIOSYSTEMS, INC	A company in which Directors are holding position	Transfer of assets	Procurement of equipment	Determined by negotiation based on market price	1,344.28	1,344.28	Bank settlement	0	N/A	N/A
CYNVENIO BIOSYSTEM, INC	A company in which Directors are holding position	Debt restructuring	Subscription of promissory notes	Determined by negotiation based on market price	300.62	300.62	Bank settlement	0	N/A	N/A
Reason for the significant difference between transfer consideration and carrying value or appraisal value (if any)				Not applicable						
Effect on the operating results and financial position of the Company				There is no significant impact on the operation results and financial position of the Company.						
Achievement progress of performance target during the Reporting Period where relevant transaction involves committed performance				Not applicable						

3. Connected Transactions on Joint External Investment

✓ Applicable ☐ Not applicable

Related party	Relationship	Name of investee	Principal Business	Registered capital	Total assets	Net assets	Net profits
Jincare Pharmaceutical Industry Group Co., Ltd. (健康元藥業集團股份有限公司)	Controlling Shareholder	Livzon Biologics Limited	Investment holding	USD50,000.00	-	-	-
Progress of significant construction in progress of the investee company		Nil					

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

4. Credits and Debts with Connected Persons

✓ Applicable ☐ Not applicable

Non-operating credits and debts with connected persons

✓ Yes ☐ No

Liabilities receivable to the connected persons

Connected parties	Relationships with connected parties	Reason for occurrence	Use of extraordinary capital	Balance at the beginning of the year (RMB'000)	Amount increased for the year (RMB'000)	Amount recovered for the year (RMB'000)	Interest rate	Interest of the year (RMB'000)	Balance at the end of the year (RMB'000)
Guangdong Blue Treasure Pharmaceutical Co. Ltd. (廣東藍寶製藥有限公司)	Associate	Sale of finished products, provision of services	No	901.80	1,821.86	1,657.01	–	–	1,066.65
Zhuhai Joicare Pharmaceutical Co., Ltd. (珠海健康元生物醫藥有限公司)	Subsidiary of the controlling shareholder	Water, electricity and power	No	3.27	105.07	108.34	–	–	0.00
Jiaozuo Joicare Pharmaceutical Industry Group Co., Ltd. (焦作健康元生物製品有限公司)	Subsidiary of the controlling shareholder	Sale of raw materials and fixed assets	No	0.00	760.01	487.37	–	–	272.64
Shenzhen Haibin Pharmaceutical Co., Ltd. (深圳市海濱製藥有限公司)	Subsidiary of the controlling shareholder	Sale of finished products	No	0.18	376.13	376.31	–	–	0.00
Shenzhen Taitai Pharmaceutical Co., Ltd. (深圳太太藥業有限公司)	Subsidiary of the controlling shareholder	Sale of finished products	No	0.00	54.00	0.00	–	–	54.00
Joicare Pharmaceutical Industry Group Co., Ltd. (健康元藥業集團股份有限公司)	Controlling shareholder	Prepayments for procurement of finished products	No	10.80	17.94	21.63	–	–	7.11
CYNVENIO BIOSYSTEMS, INC	A company in which Directors are holding position	Prepayments for equipment	No		11.03		–	–	11.03
Health Pharmaceutical (China) Co., Ltd. (健康藥業(中國)有限公司)	Subsidiary of the controlling shareholder	Leasing of assets	No	3.33	9.99	13.32	–	–	0.00
Effect of creditors with connected parties on the operating results and financial position of the Company		The creditors mainly arose from ordinary course of business of the Company. There is no significant effect on the operating results and financial position of the Company.							

(XIV) SUBSTANTIAL CONNECTED TRANSACTION DISCLOSED PURSUANT TO THE SHENZHEN LISTING RULES *(continued)*4. Credits and Debts with Connected Persons *(continued)*

Liabilities payable to the connected persons

Connected parties	Relationships with connected parties	Reason for occurrence	Balance at the beginning of the period (RMB'000)	Amount increased for the year (RMB'000)	Amount recovered for the year (RMB'000)	Interest rate	Interest of the year (RMB'000)	Balance at the end of the year (RMB'000)
Guangdong Blue Treasure Pharmaceutical Co., Ltd. (廣東藍寶製藥有限公司)	Associate	Procurement of raw materials	16.28	133.27	148.38	-	-	1.18
Shenzhen Haibin Pharmaceutical Co., Ltd. (深圳市海濱製藥有限公司)	Subsidiary of the controlling shareholder	Procurement of raw materials	0.34	3,587.98	1,219.21	-	-	2,369.11
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 raw materials	15,840.75	39,146.52	40,492.44	-	-	14,494.83
CYNVENIO BIOSYSTEMS, INC	A company in which Directors are holding position	Procurement of equipment	0.00	1,335.62	1,335.62	-	-	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, hiring of assets	0.00	231.41	230.11	-	-	1.30
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	Water, electricity and power	246.00	2,098.69	1,706.08	-	-	638.60
Shenzhen Haibin Pharmaceutical Co., Ltd. (深圳市海濱製藥有限公司)	Subsidiary of the controlling shareholder	Collection and advance payment to social security fees and provident fund for the staff	0.00	1.15	1.15	-	-	0.00
Zhuhai Zheng He Co., Ltd. (珠海市正合企業有限公司)	Company controlled by the director of the subsidiary of the Company	Dividends payable	-	18,310.43	1,470.00	-	-	16,840.43
Effect of creditors with connected parties on the operating results and financial position of the Company		The creditors mainly arose from ordinary course of business of the Company. There is no significant effect on the operating results and financial position of the Company.						

(XIV) SUBSTANTIAL CONNECTED TRANSACTION DISCLOSED PURSUANT TO THE SHENZHEN LISTING RULES *(continued)***5. Other Major Connected Transactions**

✓ Applicable ☐ Not applicable

For details of other major connected transactions, please refer to Chapter V "Connected Transactions Defined Pursuant to Hong Kong Listing Rules" of this annual report. Save for the above, the Group has no other major connected transactions during the Year.

(XV) CONNECTED TRANSACTIONS DEFINED IN HONG KONG LISTING RULES**1. Connected Persons**

As the controlling shareholder of the Company, Joincare (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. One-Off Connected Transactions**Provision of Financing Guarantees for Livzon MAB**

In order to meet the financing requirements for operation of Livzon MAB (a controlling subsidiary of the Company which is owned as to 51% and 49% respectively by the Company and Joincare), on 28 September 2017, the Company convened the fourth meeting of the ninth session of the Board to consider and approve the provision of joint guarantee liability for the credit facilities of not more than RMB300 million (or the equivalent in foreign currency) applied by Livzon MAB at China ZheShang Bank Co., Ltd., Shenzhen Branch and China Merchants Bank Co., Ltd., Zhuhai Branch, totalling RMB600 million (or the equivalent in foreign currency) for the above two banks, subject to the receipt of the "Letter of Undertaking for Counter Guarantee" issued by Joincare.

On 9 October 2017, Joincare issued the "Letter of Undertaking for Counter Guarantee", where it undertook to provide the joint liability guarantee covering 49% of the obligation of the Company under the guarantee granted to Livzon MAB, with a term ending on the expiry date of the Company's obligation thereunder. Thus, the Company's exposure to guarantee risk is controllable and will not affect the ability for continuous operation.

On 8 December 2017, the Company issued a letter of guarantee to China Merchants Bank Co., Ltd., Zhuhai Branch in an amount of RMB300 million or the equivalent in foreign currency. The letter of guarantee shall be effective upon the date of execution by the guarantor.

Given that Joincare, the controlling shareholder of the Company, holds 49% equity interests of Livzon MAB, pursuant to Chapter 14A of the Listing Rules, Livzon MAB is a connected person of the Company. Accordingly, the provision of joint liability guarantee to China Merchants Bank by the Company for the entire credit facility of RMB300 million granted to Livzon MAB constitutes a connected transaction of the Company. As one of the applicable percentage ratios in respect of the joint liability guarantee of RMB300 million provided by the Company exceeds 0.1% but is below 5%, such guarantee is subject to the reporting and announcement requirements under the Hong Kong Listing Rules, but is exempted from the independent shareholders' approval requirement.

(XV) CONNECTED TRANSACTIONS DEFINED IN HONG KONG LISTING RULES*(continued)***2. One-Off Connected Transactions** *(continued)***Change in the Shareholding Structure of Livzon MAB**

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

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

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

As at the date of this announcement, Joincare directly or indirectly held 247,857,176 Shares of the Company, representing approximately 44.80% of the equity interests of the Company, and was the controlling shareholder and connected person of the Company under the Hong Kong Listing Rules. Therefore, the Capital Contribution and the Equity Acquisition contemplated under the Framework Agreement constituted a connected transaction of the Company, as one of the applicable percentage ratios exceeds 0.1% but is less than 5%, and is subject to the reporting and announcement requirements of the Hong Kong Listing Rules but exempted from the independent shareholders' approval requirement under Chapter 14A of the Hong Kong Listing Rules.

(XV) CONNECTED TRANSACTIONS DEFINED IN HONG KONG LISTING RULES*(continued)***2. One-Off Connected Transactions** *(continued)***Change in the Shareholding Structure of Livzon MAB** *(continued)*

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

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

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

3. Continuing Connected Transactions

On 5 September 2014, 24 September 2015 and 25 October 2016, the Company and Joincare (健康元) entered into the 2014 Joincare (健康元) Purchases Agreement, Supplementary Agreement, 2017 Joincare (健康元) Purchases Framework Agreement respectively, pursuant to which, the Company and Joincare (健康元) revised the annual caps of the continuing connected transactions for the three years ending 31 December 2014, 2015 and 2016, and obtained the annual caps of the continuing connected transactions for the three years ending 31 December 2017, 2018 and 2019.

The annual cap of products to be procured from the Joincare Group by the Group for the year ended 31 December 2017 is RMB382.00 million, while the aggregate amount of purchase for the year arising from the transactions between the Group and Joincare (健康元) constituting “continuing connected transactions” under Chapter 14A of the Hong Kong Listing Rules was RMB370.48 million. During the Year, both parties complied with the pricing principles and transaction terms as set out in 2014 Joincare (健康元) Purchases Agreement, Supplementary Agreement and 2017 Joincare (健康元) Purchases Framework Agreement when undergoing the above continuing connected transactions.

(XV) CONNECTED TRANSACTIONS DEFINED IN HONG KONG LISTING RULES

(continued)

3. Continuing Connected Transactions (continued)

Connected Persons	Relationships	Type of connected transactions	Pricing principle of connected transactions	Amount of connected transactions in 2017 (RMB'000)	Proportion to transaction amount of the same category
Shenzhen Haibin Pharmaceutical Co., Ltd. (深圳市海濱製藥有限公司)	Subsidiary of the controlling shareholder	Procurement of commodities	Determined by negotiation based on market price	3,333.18	1.68%
Joincare Pharmaceutical Industry Group Co., Ltd. (健康元藥業集團股份有限公司)	Controlling Shareholder	Procurement of commodities	Determined by negotiation based on market price	143.75	0.07%
Jiaozuo Joincare Pharmaceutical Industry Group Co., Ltd. (焦作健康元生物製品有限公司)	Subsidiary of the controlling shareholder	Procurement of commodities	Determined by negotiation based on market price	33,571.03	16.87%
Zhuhai Joincare Pharmaceutical Co., Ltd. (珠海健康元生物醫藥有限公司)	Subsidiary of the controlling shareholder	Sale of commodities	Determined by negotiation based on market price	0.91	0.00%
Shenzhen Haibin Pharmaceutical Co., Ltd. (深圳市海濱製藥有限公司)	Subsidiary of the controlling shareholder	Sale of commodities	Determined by negotiation based on market price	232.78	0.03%
Shenzhen Taitai Pharmaceutical Co., Ltd. (深圳太太藥業有限公司)	Subsidiary of the controlling shareholder	Sale of commodities	Determined by negotiation based on market price	46.15	0.01%
Zhuhai Joincare Pharmaceutical Co., Ltd. (珠海健康元生物醫藥有限公司)	Subsidiary of the controlling shareholder	Provision of services	Determined by negotiation based on market price	72.86	5.52%
Shenzhen Haibin Pharmaceutical Co., Ltd. (深圳市海濱製藥有限公司)	Subsidiary of the controlling shareholder	Provision of services	Determined by negotiation based on market price	88.84	32.41%
Zhuhai Joincare Pharmaceutical Co., Ltd. (珠海健康元生物醫藥有限公司)	Subsidiary of the controlling shareholder	Leasing out of assets	Determined by negotiation based on market price	17.40	3.61%
Health Pharmaceutical (China) Co., Ltd. (健康藥業(中國)有限公司)	Subsidiary of the controlling shareholder	Leasing out of assets	Determined by negotiation based on market price	9.00	1.87%
Joincare Pharmaceutical Industry Group Co., Ltd. (健康元藥業集團股份有限公司)	Controlling Shareholder	Lease of assets	Determined by negotiation based on market price	73.31	7.89%
Total				37,589.21	

(XV) CONNECTED TRANSACTIONS DEFINED IN HONG KONG LISTING RULES*(continued)***3. Continuing Connected Transactions** *(continued)***Confirmation from Independent Non-Executive Directors in respect of the above Connected Transactions**

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

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

Confirmation from the Auditors in respect of the above Connected Transactions

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

- The auditors did not notice any matter which caused them to believe that the above transactions had not been approved by the Board of the Company;
- In respect of transactions for provision of goods or services by the Group, the auditors did not notice any matter which caused them to believe that the above transactions had not been conducted in accordance with the pricing policies of the Group;
- The auditors did not notice any matter which caused them to believe that the above transactions had not been conducted in accordance with the relevant agreements governing such transactions; and
- The auditors did not notice any matter which caused them to believe that the amounts of such transactions had exceeded the Group's annual cap of transactions for the year ended 31 December 2017.

4. Connected Transactions and Related Party Transactions

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

(XVI) MAJOR CONTRACTS AND ITS ENFORCEMENT**1. Custody, Hiring and Leasing Matters****Custody**

☐ Applicable ☒ Not applicable

During the Year, the Company has no custody.

Hiring

☐ Applicable ☒ Not applicable

During the Year, the Company has no hiring.

Leasing

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

☐ Applicable ☒ Not applicable

2. Major Guarantees

☒ Applicable ☐ Not applicable

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

Guarantees

Unit: RMB0'000

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

(XVI) MAJOR CONTRACTS AND ITS ENFORCEMENT (continued)

2. Major Guarantees (continued)

Guarantees (continued)

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	349.56	Joint obligation guarantee	2016.6.22-2019.6.22	No	No
Zhuhai Livzon Diagnostic Reagents Inc. (珠海麗珠試劑股份有限公司)	2017.06.24	10,000.00	2017.10.09	3,407.37	Joint obligation guarantee	2017.08.22-2022.08.21	No	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	483.25	Joint obligation guarantee	2015.09.11-2018.09.11	No	No
Livzon Group Livzon Pharmaceutical Factory (麗珠集團麗珠製藥廠)	2017.06.24	17,000.00	2016.11.30	64.06	Joint obligation guarantee	2016.11.30-2019.11.30	No	No
Zhuhai FTZ Livzon Hecheng Pharmaceutical Manufacturing Co., Ltd. (珠海保稅區麗珠合成製藥有限公司)	2017.06.24	20,000.00	2016.12.26	4,892.64	Joint obligation guarantee	2016.12.26-2019.12.26	No	No
Zhuhai FTZ Livzon Hecheng Pharmaceutical Manufacturing Co., Ltd. (珠海保稅區麗珠合成製藥有限公司)	2017.06.24	10,000.00	2017.10.09	3,592.58	Joint obligation guarantee	2017.08.22-2022.08.21	No	No
Livzon Group Xinbeijiang Pharmaceutical Manufacturing Inc. (麗珠集團新北江製藥股份有限公司)	2017.06.24	4,000.00	2017.12.27	1,353.39	Joint obligation guarantee	2016.12.26-2019.12.26	No	No
Livzon Group Ningxia Fuxing Pharmaceutical Manufacturing Co., Ltd. (麗珠集團寧夏福興製藥有限公司)	2017.06.24	18,000.00	2017.11.14	296.84	Joint obligation guarantee	2017.11.14-2018.11.13	No	No
Livzon Group Ningxia Xinbeijiang Pharmaceutical Manufacturing Co., Ltd. (麗珠集團寧夏新北江製藥有限公司)	2017.06.24	10,000.00	2017.11.14	223.16	Joint obligation guarantee	2017.11.14-2018.11.13	No	No
Total of guaranteed amount to its subsidiaries approved during the Year (B1)		422,500.00		Total of actual guaranteed amount to its subsidiaries approved during the Year (B2)				20,328.27
Total of guaranteed amount to its subsidiaries approved at the end of the year (B3)		422,500.00		Total of actual guaranteed amount to its subsidiaries approved at the end of the year (B4)				14,662.86

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

(XVI) MAJOR CONTRACTS AND ITS ENFORCEMENT (continued)

2. Major Guarantees (continued)

Guarantees (continued)

Total guaranteed amount of the Company (the total of the above three items)			
Total of guaranteed amount approved during the Year (A1+B1+C1)	422,500.00	Total of actual guaranteed amount approved during the Year (A2+B2+C2)	20,328.27
Total of guaranteed amount approved at the end of the year (A3+B3+C3)	422,500.00	Total of actual guaranteed amount approved at the end of the year (A4+B4+C4)	14,662.86
Total of actual guaranteed amount (A4+B4+C4) proportion to the net assets of the Company			1.36%
Among which:			
Guaranteed amount provided to shareholders, the ultimate beneficial owner and their related parties (D)			–
Debt guaranteed amount to guaranteed party asset-liability ratio exceeding 70% directly or indirectly (E)			–
The amount exceeding 50% of net assets in total guaranteed amount (F)			–
Total of guaranteed amount of the above three items (D+E+F)			–
For not yet mature guarantees, guaranteed obligation or may undertake joint obligation during the Year (if any)		Not applicable	
Illegal external guarantees (if any)		Not applicable	

Information on illegal external guarantees

☐ Applicable ☒ Not applicable

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

3. Entrusted cash assets management

Entrusted wealth management

☒ Applicable ☐ Not applicable

										Unit: RMB0'000	
Name of Trustee	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 Year	Gains or losses recovered during the Year
China Resources Bank of Zhuhai Co., Ltd.	No	Principal-protected with variable income	25,000.00	2016.10.26	2017.10.10	By agreement	25,000.00	Not applicable	Not applicable	753.30	Fully recovered
China Zheshang Bank Co., Ltd	No	Deposit	10,000.00	2016.10.26	2017.03.06	By agreement	10,000.00	Not applicable	Not applicable	76.50	Fully recovered
Xiamen International Bank Co., Ltd	No	Principal-protected with variable income	30,000.00	2016.10.26	2017.03.06	By agreement	30,000.00	Not applicable	Not applicable	308.99	Fully recovered
Total			65,000.00	–	–	–	65,000.00	–	–	1,138.79	–
Source of funds for entrusted investment			Funds raised								
Aggregate amount of overdue and outstanding principal and gain			Not applicable								
Litigation incurred (if applicable)			Not applicable								
Date of announcement of the Board of Directors regarding the approval of entrusted investment (if any)			2016-10-27								
Date of announcement of the general meeting regarding the approval of entrusted investment (if any)			Not applicable								
Whether there are entrusted investment plans in future			Not applicable								

Entrusted loans

☐ Applicable ☒ Not applicable

During the Year, the Company had no entrusted loans.

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

Name of the contracted company	Name of the contracted counterparty	Contract subject	Date of contract	Pricing principle	Consideration of transaction (RMB'000)	Connected Transaction or not	Connected relationship	Execution as of the end of the Reporting Period	Date of disclosure	Index of disclosure
Livzon Group Xinbeijiang Pharmaceutical Manufacturing Inc. (麗珠集團新北江製藥股份有限公司)	Hangzhou 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 RMB139.0188 million transaction amount (tax inclusive) has been recorded, representing 28.93% of the contracted amount	2 June 2017	Announcement of Livzon Pharmaceutical Group Inc. in Relation to the Entering into Material Contracts for Daily Operation by Its Subsidiaries (No.2017-046)

On 31 May 2017, Livzon Group Xinbeijiang Pharmaceutical Manufacturing Inc. ("Xinbeijiang Pharmaceutical"), a controlled subsidiary of the Company, entered into Materials Procurement Agreement ("Agreement") with Hangzhou Zhongmei Huadong Pharmaceutical Co., Ltd ("Zhongmei Huadong"). Pursuant to the Agreement, Zhongmei Huadong will purchase acarbose bulk medicines from Xinbeijiang Pharmaceutical at a total amount of RMB480,600,000 (tax inclusive), for a supply term commencing from 9 May 2017 and ending on 31 May 2019. Entering into the Agreement will have a positive impact on the bulk medicines segment business of the Company and make a significant contribution to the operation results of the Company for 2017 and 2018.

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

5. Other Material Transactions

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

(XVII) SHARES PLEDGED BY THE CONTROLLING SHAREHOLDER

The Company noted on 29 May 2014, by a notice from Topsino, a wholly-owned subsidiary of Joicare (健康元), the controlling shareholder of the Company, that Topsino had entered into an equity interests pledge agreement with Nanyang Commercial Bank to pledge its 16,000,000 H Shares (the number of shares was increased to 20,800,000 shares after the Company's implementation of 2014 Equity Distribution) of the Company to Nanyang Commercial Bank as security for the bank loans granted by Nanyang Commercial Bank to Topsino and Jiaozuo Joicare, another wholly-owned subsidiary of Joicare (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, and relevant release procedures have completed. 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 completed, and the released shares approximately accounting for 2.94% of the total issued shares of the Company (553,231,369 shares). As at the date of this annual report, no shares of the Company held by Topsino are pledged.

As at the date of this annual report, Joicare (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 17.47% of the Company's total issued shares.

(XVIII) SIGNIFICANT EVENT OF SUBSIDIARIES OF THE COMPANY

☒ Applicable ☐ Not applicable

For the details of the significant event of the subsidiaries of the Company, please refer to “Disposal of substantial equity” in Section IV of this Report.

(XIX) SOCIAL RESPONSIBILITY**1. Fulfilling social responsibility of targeted poverty alleviation****(1) Summary of annual targeted poverty alleviation**

☐ Applicable ☒ Not applicable

During the Year, the Group did not carry out any targeted poverty alleviation work.

(2) Annual targeted poverty alleviation of Listing Company

☐ Applicable ☒ Not applicable

(3) Follow up program of targeted poverty alleviation

☐ Applicable ☒ Not applicable

2. Fulfilling other social responsibilities

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

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

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

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

(XIX) SOCIAL RESPONSIBILITY *(continued)***2. Fulfilling other social responsibilities** *(continued)***(1) Protection of Shareholders and Creditors' Rights and Interests** *(continued)*

During the Year, the Group attached great importance to the return on the investment made by investors and, in strict compliance with the relevant provisions of the Articles of Association, proposed the 2017 dividend plan. For details, please refer to "PROFIT DISTRIBUTION OF ORDINARY SHARES AND CONVERSION OF CAPITAL RESERVE INTO SHARE CAPITAL OF THE COMPANY" and "PROPOSALS ON PROFIT DISTRIBUTION AND CONVERSION OF CAPITAL RESERVES INTO SHARE CAPITAL DURING THE YEAR " of Chapter V in the annual report.

(2) Protection of workers' rights and interests

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

In order to further implement the protection of workers' rights and interests, the Group has formulated and improved remuneration system and welfare mechanism, including salary system and employee incentive mechanism. During the Year, the Group successfully completed the second unlocking of the first and reserved grant under the Restricted A Shares Incentive Scheme.

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

(3) Safe production and environmental protection

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

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

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

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

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

☒ Yes ☐ No ☐ Not applicable

(i) Livzon Group Fuzhou Fuxing Pharmaceutical Co., Ltd.(麗珠集團福州福興醫藥有限公司)

Name of company and subsidiary	Name of major pollutants and special types of pollutants	Discharge mode	Number of discharge outlets	Distribution of discharge outlets	Discharge concentration (mg/L)	Implemented standards for discharge of (mg/L)	Total amount of discharge (t/a)	Approved total amount of discharge (t/a)	Excessive discharge
Livzon Group Fuzhou Fuxing Pharmaceutical Co., Ltd.	Chemical oxygen demand	Interval	1	The northwest side of the factory	65.075	100	55.45	124.5	None
	Ammonia nitrogen				0.5375	15	0.46	18.7	None

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

Construction and operation of pollution prevention & treatment facilities:

As the production begins, "Three wastes" will be collected and treated effectively in accordance with the requirements of the "Three Simultaneous", the designed sewage treatment capacity is 4000 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 700 KW, 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.

(XIX) SOCIAL RESPONSIBILITY *(continued)***2. Fulfilling other social responsibilities** *(continued)***(3) Safe production and environmental protection** *(continued)***(i) Livzon Group Fuzhou Fuxing Pharmaceutical Co., Ltd. (麗珠集團福州福興醫藥有限公司)** *(continued)*

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

"Environmental Impact Report on Product Upgrading Project of Livzon Group Fuzhou Fuxing Pharmaceutical Co., Ltd." was approved on 7 March 2017; and environmental protection inspection upon the completion of construction was passed on 25 November 2017. While the company is strictly complying with "Three Simultaneous" to implement environmental protection measures in accordance with environment assessment, the environmental protection facilities function properly. On 27 December 2017, new pollutant emission license was obtained from the State, the company operates the discharge of pollutants strictly in compliance with the license requirements and various administrative requirements.

Environmental Emergency Response Plan:

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

When environmental emergency incidents happens, immediate, quick, effective and disciplined implementation of emergency rescues will control and prevent the spread of contamination, protect the surrounding environment effectively and ensure the personal life and property safety of all of the employees, the company and the society. In accordance with the content and requirements of the plan, the company provides training and drills for the employer to get them well-prepared for environmental emergency incidents, so that rescue work could be carried out in a timely manner and incidents could be controlled effectively in a short period of time in case of any environmental emergency incidents.

Environmental Self-monitoring Program:

According to the relevant requirement of "Measures for Self-Monitoring and Information Disclosure by the Enterprises subject to Intensive Monitoring and Control of the State (Trial Implementation) (國家重點監控企業自行監測及信息公開辦法(試行))", the company implemented and completed the self-monitoring programme based on its own situation in a timely manner, and it was made available to the public after examining by and filing with the Fuzhou Environment Protection Bureau and Fuzhou Environment Protection Bureau. The analysis methodology of the monitoring program is in accordance with the environment technical regulations standard and methodology by the State; The calibration and qualification of monitoring analysers is in strict compliance with the relevant requirement of the State; The automated monitoring equipment is installed in accordance with the requirement of environment assessment technical code, connected to the department of environmental protection, inspected by environmental protection authorities. The automated monitoring equipment functions properly, and the monitoring information is accurate, valid and authentic. Information publicity website: 1. Online information search engine <http://218.66.59.96:8088/peams/pelInfo/viewByRgnCode> 2. Self-monitoring publication <http://wryfb.fjemc.org.cn>

(XIX) SOCIAL RESPONSIBILITY *(continued)***2. Fulfilling other social responsibilities** *(continued)***(3) Safe production and environmental protection** *(continued)***(ii) Livzon Group Xinbeijiang Pharmaceutical Manufacturing Inc. (麗珠集團新北江製藥股份有限公司)**

Name of company and subsidiary	Name of major pollutants and special types of pollutants	Discharge mode	Number of discharge outlets	Distribution of discharge outlets	Discharge concentration (mg/L)	Implemented standards for discharge of (mg/L)	Total amount of discharge (t/a)	Approved total amount of discharge (t/a)	Excessive discharge
Livzon Group Xinbeijiang Pharmaceutical Manufacturing Inc.	Chemical oxygen demand	Interval	1	sewage treatment workshop	106.01	240	92.73	162.46	None
	Ammonia nitrogen				9.44	70	8.26	24.5	None

(Note: discharge concentration is the actual discharge concentration, the data of which was obtained from Qingyuan Environmental Protection Bureau)

Construction and operation of pollution prevention & treatment facilities:

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

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

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

Environmental Emergency Response Plan:

Pursuant to the relevant regulations and requirement, "Environmental Emergency Response Plan of Livzon Group Xinbeijiang Pharmaceutical Manufacturing Inc." was prepared based on the following principle "Prevention, On-alert; Division of Management, Division of Response; Department Cooperation, Division of Responsibility; Scientific Prevention, Effective Disposal" and passed and announced in June 2015 (Certificate No. Yue Environmental Emergency Response Plan (粵環應急備) [2015]142). The company regularly identifies internal environmental factors and source of hazards and carries out drills in accordance with emergency response plan, to improve the emergency response plan's operability, enhance the performance level of the emergency rescue persons, enhance the emergency response capacity of the rescue team and enhance the collaboration capabilities relating to interconnection between different positions.

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

Environmental Self-monitoring Program:

According to the relevant requirement of “Measures for Self-Monitoring and Information Disclosure by the Enterprises subject to Intensive Monitoring and Control of the State (Trial Implementation)” (國家重點監控企業自行監測及信息公開辦法(試行)), the company implemented and completed the self-monitoring programme based on its own situation in a timely manner, and it was made available to the public after examining by and filing with the Qingyuan Environment Protection Bureau. The analysis methodology of the monitoring program is in accordance with the environment technical regulations standard and methodology by the State; The calibration and qualification of monitoring analysers is in strict compliance with the relevant requirement of the State; The automated monitoring equipment is installed in accordance with the requirement of environment assessment technical code; The online monitoring equipment is inspected by environmental protection authorities and the connection between online information and national development platform and Qingyuan Province platform; The automated monitoring equipment functions properly, and the monitoring information is accurate, valid and authentic. 1. Self-monitoring publication <https://app.gdep.gov.cn/epinfo/>

Company or Subsidiary Name	Names of Key Pollutant and Specific Pollutant	Way of Emission	Quantity of Outlets	Distribution of Outlets	Concentration of Emission (mg/L)	Implemented Pollutant	Total Amount of Emission (t/a)	Approved Total Amount of Emission (t/a)	Excessive Emission
						Emission Standard (mg/L)			
Zhuhai FTZ Livzon Hecheng Pharmaceutical Manufacturing Co., Ltd.	Chemical oxygen demand	Indirect	1	Waste water	65.95	200	11.83	49.10	None
	Ammonia nitrogen (NH3-N)			treatment station	17.37	40	3.11	4.91	None
	PH value				8.4	6-9	/	/	None
	Volatile phenol				<0.01	0.5	/	/	None
	Suspended matter				<4	70	/	/	None
	BOD5				6.2	40	1.1118	/	None

Construction and operation of pollution prevention facilities:

The “three simultaneous” system was strictly implemented, the “three wastes” were treated in a centralized and effective manner, and the maintenance and management of pollution prevention facilities was paid more attention to, so as to ensure the stable up-to-standard emission of pollutants. An investment of RMB2.60 million was made in environmental protection projects in 2015, of which RMB2.40 million was invested in waste water treatment, thus the designed waste water treatment capacity increased from 600t/d to 1,200t/d and the advanced treatment process was increased. The treatment process of “pretreatment of drainage from main production process + hydrolytic acidification + upflow anaerobic sludge blanket (UASB) + advanced oxidation + CASS process + ozonation” was adopted. The treated sewage was discharged through the municipal sewage pipe network into Zhuhai Leaguer Environmental Protection Co., Ltd. (water purification plant in the south district)

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

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

"Environmental Impact Assessment Report on Product Structure and Current Development of Production Capacity Adjustment Programme of Livzon Group Fuzhou Fuxing Pharmaceutical Co., Ltd." was approved on December 2016. While the company is strictly complying with "Three Simultaneous" to implement environmental protection measures in accordance with environment assessment, the environmental protection facilities function properly. On 8 December 2017, new pollutant emission license was obtained from the State, the company operates the discharge of pollutants strictly in compliance with the license requirements and various administrative requirements.

Environmental Emergency Response Plan:

The Contingency Plan of Zhuhai FTZ Livzon Hecheng Pharmaceutical Manufacturing Co., Ltd. for Environmental Emergencies (filing number: 440462-2015-006-M) was drawn up in accordance with relevant provisions and requirements and in line with the principle of "prevention and self-rescue first, unified command, and division of labor with individual responsibility". Employees are provided with emergency training and advise them of treatment measures on a regular basis so that, in case of any environmental emergency, they can take safety measures in a timely, rapid, effective and orderly manner to control and prevent the extension of the emergency and pollution, effectively reduce or eliminate consequences of such accidents and restore the disciplined production as soon as possible.

Environmental self-monitoring scheme:

Conducting self-monitoring to strictly implement the Technical Specification for Application and Issuance of Pollutant Permit Pharmacy Industry – Active Pharmaceutical Ingredient Manufacturing (HJ858.1-2017), and carrying out the verification and calibration of monitoring analyzers in strict accordance with relevant provisions; installing automatic monitoring equipment according to the requirements of the technical specification for environmental monitoring and having on-line monitoring equipment accepted by the competent environmental department.

(XIX) SOCIAL RESPONSIBILITY *(continued)***2. Fulfilling other social responsibilities** *(continued)***(3) Safe production and environmental protection** *(continued)***(iv) Livzon Group Livzon Pharmaceutical Factory (麗珠集團麗珠製藥廠)**

Company or Subsidiary Name	Names of Key Pollutant and Specific Pollutant	Way of Emission	Quantity of Outlets	Distribution of Outlets	Concentration of Emission (mg/L)	Carried Pollutant Emission Standard	Total Amount of Emission	Approved Total Amount of Emission	Excessive Emission
Livzon Group Livzon Pharmaceutical Factory	COD	No emission	1	North by east	18	60	\	10.37	None
	Ammonia nitrogen			of the factory	4.18	10	\		None
	Total nitrogen				15.8	20	\		None

(Note: the concentration of emission is the data of supervisory test)

Construction and operation of pollution prevention facilities:

The “three wastes” were collected and treated in accordance with the “three simultaneous” system while the enterprise was starting the production. The designed sewage treatment capacity was 500t/d, the investment in the earlier stage was RMB15.20 million, the treatment process was the advanced “regulating reservoir + hydrolytic acidification + CASS + BAF (biological aerated filter) + mechanical filter” waste water treatment process, the effective tank capacity of the treatment system was 590 m³, and 1 set of treatment equipment was available, thus ensuring that all waste water treatment indicators come to standard stably.

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

An official reply was made to the Environmental Impact Report of Phases I and II of the Relocation Project of Livzon Group Livzon Pharmaceutical Factory on January 24, 2006/May 29, 2017; the staged acceptance of Phases I and II and the boiler construction project was passed on January 18, 2016. An official reply was made to the boiler expansion project on December 30, 2016, and the project was accepted on September 30, 2017. The company passed the new permit review of pollutant discharge of the State on October 27, 2017. The company discharges pollutants in strict accordance with the requirements of the permit and strictly complies with all management requirements.

Environmental Emergency Response Plan:

The Contingency Plan for Environmental Emergencies of Livzon Group Livzon Pharmaceutical Factory was drawn up in accordance with relevant provisions and requirements and in line with the principle of “prevention and self-rescue first, unified command, and division of labor with individual responsibility”. This plan was reviewed and filed (filing form number: 440404-2015-009-L) and published in March 2015.

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

(XIX) SOCIAL RESPONSIBILITY *(continued)***2. Fulfilling other social responsibilities** *(continued)***(3) Safe production and environmental protection** *(continued)***(iv) Livzon Group Livzon Pharmaceutical Factory (麗珠集團麗珠製藥廠)** *(continued)*

Environmental self-monitoring scheme:

According to the requirements of the State, Livzon Group Livzon Pharmaceutical Factory is municipally controlled and entrusts a qualified environmental monitoring company to conduct monitoring each year as required.

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

Company or Subsidiary Name	Names of Key Pollutant and Specific Pollutant	Way of Emission	Quantity of Outlets	Distribution of Outlets	Concentration of Emission (mg/L)	Carried Pollutant Emission Standard (mg/L)	Total Amount of Emission (t/a)	Approved Total Amount of Emission (t/a)	Excessive Emission
Gutian Fuxing Pharmaceutical Co., Ltd.	Chemical oxygen demand	Continuous	1	Southeast of the factory	80.3	120	27.3	108	None
	Ammonia nitrogen				13.2	35	4.88	31.5	None

(Note: the concentration of emission is the concentration of final emission into the environment, and the data is provided by Fuzhou Municipal Environmental Protection Bureau)

Construction and operation of pollution prevention facilities:

The “three wastes” were collected and treated in accordance with the “three simultaneous” system while the enterprise was starting the production. The designed sewage treatment capacity was 1,200t/d, the front-end investment was more than RMB3.00 million, the treatment process was the advanced “A/O + SBR + Fenton decolorizing + air flotation” waste water treatment process, the effective reservoir capacity of the treatment system was 14,000 m³, and more than 20 sets of treatment equipment were available, whose installed capacity was 100 KW; and so far, about RMB1.00 million has been invested in succession to improve the water treatment process, thus ensuring that all waste water treatment indicators reach the standard stably. The treated sewage reached the grade-II discharge standard and was directly discharged into Minjiang River.

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

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

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

Environmental Emergency Response Plan:

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

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

Environmental self-monitoring scheme:

In accordance with relevant requirements of the Measures for the Self-Monitoring and Information Disclosure by the Enterprises subject to Intensive Monitoring and Control of the State (for Trial Implementation) and according to its own situation, the company timely drew up and completed self-monitoring scheme, which was filed and publicly disclosed after being reviewed by Ningde Municipal Environmental Protection Bureau and Gutian County Environmental Protection Bureau. The monitoring project analysis method complies with the technical specification and measures of the State for environmental monitoring; the company verifies and calibrates monitoring analyzers strictly according to relevant provisions of the State; the company installs automatic monitoring equipment according to the requirements of the technical specification of environmental monitoring, which is connected with and accepted by the competent environmental protection department; the automatic monitoring equipment is sound and the monitoring data is accurate, effective and true. Public disclosure websites: 1. On-line data query: <http://218.66.59.96:8088/peams/pelInfo/viewByRgnCode> 2. Public disclosure of self-monitoring: <http://wryfb.fjemc.org.cn>

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

Company or Subsidiary Name	Names of Key Pollutant and Specific Pollutant	Way of Emission	Quantity of Outlets	Distribution of Outlets	Concentration of Emission	Carried Pollutant	Total	Approved Total	Excessive Emission
						Emission Standard	Amount of Emission	Amount of Emission	
Livzon Group Limin Pharmaceutical Manufacturing Factory	Chemical oxygen demand	Intermittent	1	Waste water treatment station	53 mg/L	110 mg/L	19.1 t/a	21.52 t/a	None
	Ammonia nitrogen				0.264 mg/L	15 mg/L	0.11 t/a	0.24 t/a	None

Construction and operation of pollution prevention facilities:

The “three simultaneous” system was strictly implemented in the treatment of the three wastes, the “three wastes” were effectively collected and treated, and an amount of more than RMB13.00 million was invested in sewage treatment, thus having a designed treatment capacity of 1,500 t/d; the treatment process of “pretreatment + hydrolytic acidification tank + facultative tank + aerobic tank + secondary precipitation” was adopted; the treated sewage was discharged through the municipal pipe network into the Second Sewage Treatment Plant of Shaoguan City; in respect of waste gas treatment, an amount of more than RMB200,000 was invested to treat boiler fuel gas; in respect of noise pollution prevention, an amount of more than RMB100,000 was invested to build sound-insulating walls so as to reduce noise.

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

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

Environmental Emergency Response Plan:

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

(XIX) SOCIAL RESPONSIBILITY *(continued)***2. Fulfilling other social responsibilities** *(continued)***(3) Safe production and environmental protection** *(continued)***(vii) Livzon Group Ningxia Fuxing Pharmaceutical Manufacturing Co., Ltd (麗珠集團寧夏福興製藥有限公司)**

Environmental self-monitoring scheme:

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

Company or Subsidiary Name	Names of Key Pollutant and Specific Pollutant	Way of Emission	Quantity of Outlets	Distribution of Outlets	Concentration of Emission (mg/L)	Carried Pollutant	Total	Approved Total	Excessive Emission
						Emission Standard (mg/L)	Amount of Emission (t/a)	Amount of Emission (t/a)	
Livzon Group Ningxia Fuxing Pharmaceutical Manufacturing Co., Ltd	Chemical oxygen demand	Continuous	1	Sewage treatment plant at the north side of the factory	150	200	65.7	66.97	None
	Ammonia nitrogen				2	25	0.876	16.74	None
	Sulfur dioxide	Continuous	1	Boiler plant at the north side of the factory	108	400	93.36	156.816	None
	Nitrogen oxide	Continuous			84	400	72.62	156.816	None
	Particulate matter	Continuous			57	80	49.3	23.522	None

(Remark: The waste water from Ningxia Fuxing Company is not directly discharged into the environment but into the sewage plant of Ningxia Xin'an Company for re-treatment, and the concentration of emission is the concentration of emission of the waste water from Ningxia Fuxing Company at the inlet of the sewage treatment system of Xin'an Company. The data is from Ningxia Xin'an Company. The data concerning the concentration of emission, carried standard and total amount of emission of sulfur dioxide, nitrogen oxide and particulate matter is the data of 2017, and the approved total amount of emission is the data of 2018)

(XIX) SOCIAL RESPONSIBILITY *(continued)***2. Fulfilling other social responsibilities** *(continued)***(3) Safe production and environmental protection** *(continued)***(vii) Livzon Group Ningxia Fuxing Pharmaceutical Manufacturing Co., Ltd (麗珠集團寧夏福興製藥有限公司)** *(continued)*

Construction and operation of pollution prevention facilities:

The “three simultaneous” system was strictly implemented and the “three wastes” were effectively collected and treated. An amount of RMB25.00 million was invested in sewage treatment and the pretreatment (magnesium ammonium phosphate (MAP) precipitation pretreatment) + improved A/O treatment process was adopted. The designed treatment scale was 5,000m³/d, and the sewage, after being treated to reach the standard set forth in the agreement with Ningxia Xin'an Sewage Treatment Plant, was discharged through the sewage pipe network of the industrial park into Ningxia Xin'an Sewage Treatment Plant. The present boiler fuel gas control process is the “inside-boiler mixed burning of limestone flour + bag dedusting + water film dedusting, alkali liquor desulfurization + spraying defogging” process; since January 2018, the company has carried special emission limit standard set out in the Emission Standard of Air Pollutants for Boiler (GB13271-2014).

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

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

Environmental Emergency Response Plan:

The company drew up the Emergency Plan of Livzon Group Ningxia Fuxing Pharmaceutical Manufacturing Co., Ltd for Environmental Emergencies, which was reviewed and filed (filing form number: 640221-2017-008-L) and published in May 2017. Organize the identification of environmental factors and sources of danger and emergency drills within the company on a regular basis. Improve the operability of the emergency plan and the working level of emergency rescue personnel and the comprehensive coordination ability of the rescue team.

Environmental self-monitoring scheme:

According to the planning requirements of Shizuishan Environmental Protection Bureau, Ningxia Fuxing Company has conducted self-monitoring since January 2018 and will conduct it once each quarter; the self-monitoring plan of the first quarter of 2018 has been submitted to Shizuishan Environmental Protection Bureau for review, and the monitoring is planned to be completed on March 31, 2018 and then disclosed to the public.

The automatic monitoring equipment has been connected with and accepted by the competent environmental protection department; the automatic monitoring equipment is sound and the monitoring data is accurate, effective and true.

(XIX) SOCIAL RESPONSIBILITY (continued)

2. Fulfilling other social responsibilities (continued)

(3) Safe production and environmental protection (continued)

(viii) Livzon Group Ningxia Xinbeijiang Pharmaceutical Manufacturing Co., Ltd. (麗珠集團寧夏新北江製藥有限公司)

Company or Subsidiary Name	Names of Key Pollutant and Specific Pollutant	Way of Emission	Quantity of Outlets	Distribution of Outlets	Concentration of Emission (mg/L)	Carried Pollutant Emission Standard (mg/L)	Total Amount of Emission (t/a)	Approved Total Amount of Emission (t/a)	Excessive Emission
Livzon Group Ningxia Xinbeijiang Pharmaceutical Manufacturing Co., Ltd.	Chemical oxygen demand	Continuous	1	Sewage treatment plant at the north side of the factory	150	200	153.3	180.74	None
	Ammonia nitrogen				2	25	2.04	45.19	None
	Sulfur dioxide	Continuous	1	Boiler plant at the north side of the factory	120	400	60.14	None	None
	Nitrogen oxide	Continuous			89	400	44.6	None	None
	Particulate matter	Continuous			50	80	25.1	None	None

(Remark: The waste water from Ningxia Xinbeijiang Company is not directly discharged into the environment but into the sewage plant of Ningxia Xin'an Company for re-treatment, and the concentration of emission is the concentration of emission of the waste water from Ningxia Fuxing Company at the inlet of the sewage treatment system of Xin'an Company. The data is from Ningxia Xin'an Company. The data concerning the concentration of emission, carried standard and total amount of emission of sulfur dioxide, nitrogen oxide and particulate matter is the data of 2017. In November 2017, Xinbeijiang Company applied for shutting down and demolishing its boiler, so there was no total amount of emission since 2018.)

Construction and operation of pollution prevention facilities:

The "three simultaneous" system was strictly implemented and the "three wastes" were effectively collected and treated. An amount of RMB22.00 million was invested in sewage treatment and the process of "Fe catalytic reaction-precipitation pretreatment + improved A/O biological treatment process + H₂O₂ catalytic oxidative coupling" was adopted. The designed treatment scale was 2,500 m³/d, and the sewage, after being treated to reach the standard set forth in the agreement with Ningxia Xin'an Sewage Treatment Plant, was discharged through the sewage pipe network of the industrial park into Ningxia Xin'an Sewage Treatment Plant. The boiler has been shut down and ceased to operate since November 2017.

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

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

(XIX) SOCIAL RESPONSIBILITY *(continued)***2. Fulfilling other social responsibilities** *(continued)***(3) Safe production and environmental protection** *(continued)***(viii) Livzon Group Ningxia Xinbeijiang Pharmaceutical Manufacturing Co., Ltd.** (麗珠集團寧夏新北江製藥有限公司) *(continued)*

Environmental Emergency Response Plan:

The company drew up the Emergency Plan for Environmental Emergencies of Livzon Group Ningxia Xinbeijiang Pharmaceutical Manufacturing Co., Ltd., which was reviewed and filed (filing form number: 640221-2017-007-L) and published in May 2017. Organizing the identification of environmental factors and sources of danger and emergency drills within the company on a regular basis. Improving the operability of the emergency plan and the working level of emergency rescue personnel and the comprehensive coordination ability of the rescue team.

Environmental self-monitoring scheme:

According to the planning requirements of Shizuishan Environmental Protection Bureau, Ningxia Xinbeijiang Company has conducted self-monitoring since January 2018 and will conduct it once in each quarter; the self-monitoring plan of the first quarter of 2018 has been submitted to Shizuishan Environmental Protection Bureau for review, and the monitoring is planned to be completed on March 31, 2018 and then disclosed to the public.

The automatic monitoring equipment has been connected with and accepted by the competent environmental protection department; the automatic monitoring equipment is sound and the monitoring data is accurate, effective and true.

Issue social responsibility report

☐ Yes ☒ No

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

(XX) OTHER SIGNIFICANT EVENT

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

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

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

As at 31 December 2017, the share capital structure of the Company is as follows:

Unit: Share

		Before the current change		Increase/Decrease (+, -) due to the current change			After the current change	
		Number	Percentage	Reserve fund capitalised	Others	Sub-total	Number	Percentage
I.	Shares subject to selling restrictions	44,392,430	10.43%	+12,261,747	-41,150,422	-28,888,675	15,503,755	2.80%
1	State-owned shares							
2	State-owned legal person shares	11,777,256	2.77%	+3,533,176	-5,070,000	-1,536,824	10,240,432	1.85%
3	Other domestic shares	32,615,174	7.66%	+8,728,571	-36,080,422	-27,351,851	5,263,323	0.95%
	Of which: Domestic legal person shares							
	Domestic natural person shares	7,416,971	1.74%	+1,169,110	-3,322,758	-2,153,648	5,263,323	0.95%
	Funds and asset management products	25,198,203	5.92%	+7,559,461	-32,757,664	-25,198,203	0	0.00%
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%	+115,407,030	+40,982,888	+156,389,918	537,727,614	97.20%
1	Ordinary shares denominated in Renminbi	235,746,336	55.37%	+71,729,622	+40,982,888	+112,712,510	348,458,846	62.99%
2	Domestically listed foreign shares							
3	Overseas listed foreign shares	145,591,360	34.20%	+43,677,408		+43,677,408	189,268,768	34.21%
4	Others							
III.	Total number of shares	425,730,126	100.00%	+127,668,777	-167,534	+127,501,243	553,231,369	100.00%

Reasons for changes in equity

✓ Applicable ☐ Not applicable

In February 2017, the Company repurchased and cancelled 133,274 Restricted Shares of the total share capital of the Company held by 14 incentive participants.

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 and has accumulated locked shares of 658,394 shares, resulted in an actual increase of 2,845,947 non-restricted shares of the Company and listed on 7 April 2017.

In June 2017, the Company repurchased and cancelled 34,260 Restricted Shares of the total share capital of the Company held by 6 Incentive Participants.

In July 2017, the Company has completed 2016 Annual Profit Distribution Plan and issued 3 bonus shares for every 10 shares to all shareholders of the Company by way of conversion of capital reserve. Upon the conversion, the A Shares and H Shares of the Company has increased by 83,991,369 shares and 43,677,408 shares respectively.

In September 2017, the Company has completed unlocking the non-public issuance of A Shares and 37,827,664 shares have been unlocked and listed on 20 September 2017.

The Company has completed the second unlocking under reserved grant of the Restricted A Shares Incentive Scheme in December 2017 with 461,214 shares unlocked and listed on 2 January 2018.

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

☒ Applicable ☐ Not applicable

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

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

Transfer of changes in equity

☐ Applicable ☒ Not applicable

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

☐ Applicable ☒ Not applicable

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

☐ Applicable ☒ Not applicable

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

✓ Applicable □ Not applicable

Name of shareholder	Number of shares with selling restrictions at the beginning of the year	Number of shares relieved from restrictions for the year	Increase in number of shares with selling restrictions in the year	Number of shares with selling restrictions at the end of the year	Reasons for selling restrictions	Date of relieving from restrictions
Guangzhou Begol Trading Corporation	7,877,256	—	2,363,176	10,240,432	shares pledged, shares locked, shares with selling restriction before initial issue	not confirmed
Penghua Asset Management (Shenzhen) Co., Ltd.	14,900,000	19,370,000	4,470,000	—	non-public issuance of locked shares	20 September 2017
Caitong Fund Management Co., Ltd.	5,200,000	6,760,000	1,560,000	—	non-public issuance of locked shares	20 September 2017
Da Cheng Fund Management Co., Ltd.	4,100,000	5,330,000	1,230,000	—	non-public issuance of locked shares	20 September 2017
China Huarong Asset Management Co., Ltd.	3,900,000	5,070,000	1,170,000	—	non-public issuance of locked shares	20 September 2017
China Merchants Wealth Asset Management Co., Ltd	998,203	1,297,664	299,461	—	non-public issuance of locked shares	20 September 2017
Tao Desheng	206,992	82,797	144,895 <i>(Note 2)</i>	269,090	restricted shares under the share incentive scheme, locked shares held by the senior management	7 April 2017; 7 July 2017
Yang Daihong	132,405	52,962	92,683 <i>(Note 2)</i>	172,126	restricted shares under the share incentive scheme, locked shares held by the senior management	7 April 2017; 7 July 2017
Xu Guoxiang	206,992	82,797	144,895 <i>(Note 2)</i>	269,090	restricted shares under the share incentive scheme, locked shares held by the senior management	7 April 2017; 7 July 2017
Lu Wenqi	132,405	52,962	92,683 <i>(Note 2)</i>	172,126	restricted shares under the share incentive scheme, locked shares held by the senior management	7 April 2017; 7 July 2017
Si Yanxia	82,777	33,111	57,944 <i>(Note 2)</i>	107,610	restricted shares under the share incentive scheme, locked shares held by the senior management	7 April 2017; 7 July 2017
Zhou Peng	58,524	21,762	25,175 <i>(Note 2)</i>	61,937	restricted shares under the share incentive scheme, locked shares held by the senior management	7 April 2017; 7 July 2017
Yang Liang	39,390	15,756	27,573 <i>(Note 2)</i>	51,207	restricted shares under the share incentive scheme, locked shares held by the senior management	7 April 2017; 7 July 2017
Total 584 of the incentive participants (non-senior management)	6,557,486	3,463,814 <i>(Note 1)</i>	1,066,465 <i>(Note 1)</i>	4,160,137 <i>(Note 1)</i>	restricted shares under the share incentive scheme	8 February 2017; 7 April 2017; 14 June 2017; 7 July 2017; 2 January 2018
Total	44,392,430	41,633,625	12,744,950	15,503,755	—	—

Note 1: During the Year, apart from 2,835,066 shares and 461,214 shares were released from the selling restrictions under the first grant and the reserved grant of the Restricted A Shares Incentive Scheme, shares with selling restrictions held by incentive participants (excluding senior management) were repurchased by 167,534 shares and then increased by 1,066,465 shares because of the bonus conversion.. As a result, the number of shares with selling restrictions was 4,160,137 shares as at the end of the Year.

Note 2: During the Year, additional restricted shares held by the senior management resulted from conversion to bonus shares and restricted shares of the senior management, which will be released from the lock-up at a certain percentage in accordance with the Securities Law of the PRC and other relevant laws and regulations.

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

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

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

☐ Applicable ☒ Not applicable

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

☒ Applicable ☐ Not applicable

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

Existing Staff Shares

☐ Applicable ☒ Not applicable

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

As of the end of the year, the Company had a total of 35,681 Shareholders which included 9 H Shareholders (Note 1) and 35,672 A Shareholders.

						<i>Unit: Share</i>	
Total number of ordinary shareholders as at the end of the year	35,681 holders (35,672 A Shareholders)	Total number of ordinary shareholders as at the end of the month prior to the disclosure date of the annual report	41,073 holders (41,064 A Shareholders)	Total number of preferential shareholders with voting rights resumed at the end of the year (if any)	0	Total number of preferential shareholders with voting rights resumed as at the end of the month prior to the disclosure date of the annual report (if any)	0

(III) SHAREHOLDERS AND ULTIMATE BENEFICIAL OWNER (continued)

2. Shareholdings of Shareholders Holding Above 5% Or Top Ten Shareholders of the Company

Name of shareholder (Full name)	Nature of shareholder	Class of shares	Shareholding percentage	Number of shares held at the end of the year	Change during the Year (Shares)	Number of shares with selling restrictions (Shares)	Number of shares without selling restrictions (Shares)	Pledge or lock up	
								Share status	Number
HKSCC Nominees Limited ^(Note 2)	Foreign legal person	H Share	34.20%	189,219,713	+43,631,643	-	189,219,713	-	-
Joincare Pharmaceutical Industry Group Co., Ltd.	Domestic non-state owned legal person	A Share	23.68%	130,992,183	+30,228,965	-	130,992,183	-	-
Penghua Asset Management-SPDB-Hwabao Trust – Hwabao-Kang Sheng Tian Tian Xiang Shang Assembled Funds Trust Scheme ^(Note 3)	Others	A Share	2.51%	13,872,865	-1,027,135	-	13,872,865	-	-
Guangzhou Begol Trading Corporation	State owned legal person	A Share	1.85%	10,240,432	+2,363,176	10,240,432	-	Pledge and lock up	10,240,432
Shenzhen Haibin Pharmaceutical Co., Ltd.	Domestic non-state owned legal person	A Share	1.80%	9,959,074	+2,298,248	-	9,959,074	-	-
Central Huijin Investment Company Limited	State owned legal person	A Share	1.29%	7,134,166	+1,646,346	-	7,134,166	-	-
China Huarong Asset Management Co., Ltd. ^(Note 3)	State owned legal person	A Share	0.87%	4,800,000	+900,000	-	4,800,000	-	-
National Social Security Fund 413	Others	A Share	0.72%	4,000,044	+4,000,044	-	4,000,044	-	-
Hong Kong Securities Clearing Company Limited	Foreign legal person	A Share	0.67%	3,725,107	+3,725,107	-	3,725,107	-	-
National Social Security Fund 116	Others	A Share	0.50%	2,759,754	+2,759,754	-	2,759,754	-	-

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

Not applicable

Description on connection and concert in actions among the aforesaid shareholders

(1) On 2 January 2004, Joincare and Begol (保科力) entered into a share transfer and custody agreement and a share pledge agreement, pursuant to which the 6,059,428 original domestic legal person shares (the number of shares was increased to 7,877,256 shares after the Company's implementation of 2014 Equity Distribution, the number of shares was increased to 10,240,432 shares after the Company's implementation of 2016 Equity Distribution) of the Company held by Begol have been directly transferred, entrusted and pledged to Joincare; (2) Haibin Pharma (海濱製藥) is Joincare's directly and indirectly wholly owned subsidiary; (3) both National Social Security Fund 413 and National Social Security Fund 116 belong to the National Social Security Fund; (4) the Company does not aware whether the other Shareholders mentioned above are related parties or persons acting-in-concert as defined in the Administration Procedures of the Takeover of Listed Companies.

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

Name of shareholder	Number of shares held without selling restriction at the year end (Shares)	Type of shares	
		Category of shares	Number (Shares)
HKSCC Nominees Limited <i>(Note 2)</i>	189,219,713	Overseas listed foreign shares	189,219,713
Joincare Pharmaceutical Industry Group Co., Ltd.	130,992,183	Ordinary shares denominated in Renminbi	130,992,183
Penghua Asset Management-SPDB-Hwabao Trust – Hwabao-Kang Sheng Tian Tian Xiang Shang Assembled Funds Trust Scheme <i>(Note 3)</i>	13,872,865	Ordinary shares denominated in Renminbi	13,872,865
Shenzhen Haibin Pharmaceutical Co., Ltd.	9,959,074	Ordinary shares denominated in Renminbi	9,959,074
Central Huijin Investment Company Limited	7,134,166	Ordinary shares denominated in Renminbi	7,134,166
China Huarong Asset Management Co., Ltd <i>(Note 3)</i>	4,800,000	Ordinary shares denominated in Renminbi	4,800,000
National Social Security Fund 413	4,000,044	Ordinary shares denominated in Renminbi	4,000,044
Hong Kong Securities Clearing Company Limited	3,725,107	Ordinary shares denominated in Renminbi	3,725,107
National Social Security Fund 116	2,759,754	Ordinary shares denominated in Renminbi	2,759,754
The Bank of China — Jiashi Growth and shareholder Yield Securities Investment Fund	2,746,500	Ordinary shares denominated in Renminbi	2,746,500

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

Description on connection and concert in actions among top ten shareholders without selling restrictions themselves and between top ten shareholders without selling restrictions and top ten shareholders	(1) On 2 January 2004, Joincare (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, the number of shares was increased to 10,240,432 shares after the Company's implementation of 2016 Equity Distribution) of the Company held by Begol have been directly transferred, entrusted and pledged to Joincare (健康元); (2) Haibin Pharma (海濱製藥) is Joincare's directly and indirectly wholly-owned subsidiary; (3) both National Social Security Fund 413 and National Social Security Fund 116 belong to the National Social Security Fund; (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 shareholders of ordinary shares involved in the margin financing and securities lending business (if any)	Not Applicable
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Note 1: Total number of H Shareholders is calculated based on the record of Tricor Investor Services Limited, the H Share Registrar of the Company.

Note 2: HKSCC Nominees Limited is a nominee holder of H Shares of the Company, and the Company cannot ascertain whether such H Shares are subject to any pledge or lock-up, and the shareholdings under HKSCC Nominees Limited's name for others include 96,665,487 H Shares held by Topsino (天誠實業), which is a wholly-owned subsidiary of Joincare (健康元), the Company's controlling shareholder (Topsino 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 H Shares and 16,250,000 H Shares of the Company pledged to Nanyang Commercial Bank respectively. Upon the completion of release, no shares of the Company held by Topsino are pledged. Please see the section headed "Shares Pledged by the Controlling Shareholder" in Chapter V of this annual report for details.

Note 3: Both of Penghua Asset Management-SPDB-Hwabao Trust – Hwabao-Kang Sheng Tian Tian Xiang Shang Assembled Funds Trust Scheme and China Huarong Asset Management Co., Ltd. are allottees of the Company's non-public issuance of A Shares (The corresponding allottees are Penghua Asset Management (Shenzhen) Co., Ltd. and China Huarong Management Co., Ltd.), with allotted non-public A Shares of the Company of 14,900,000 and 3,900,000 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 circulation date of the listed new shares shall be 20 September 2017.

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

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.

4. Controlling Shareholder of the Company

Name of Controlling Shareholder	Legal representative	Date of establishment	Unified social credit code	Registered capital	Principal activities
Joincare Pharmaceutical Industry Group Co., Ltd. (健康元藥業集團股份有限公司)	Zhu Baoguo (朱保國)	18 December 1992	91440300618874367T	RMB1,573,778,272	Research and development of Chinese medicines, chemical bulk medicines, chemical drug preparation products, antibiotics bulk medicines and their preparations, food, health food supplements, cosmetics, (exclusive of research and development of state protected resources for Chinese herbal medicines, secret recipe of Chinese medicines), wholesale, import and export and related supplementary businesses (except the commodities subject to the state-run trade management with regard to the commodities subject to quota and license management, make applications in accordance with the relevant regulations of the State)

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

Joincare (Stock Abbreviation: Joincare and Stock Code: 600380) is listed on the Shanghai Stock Exchange and please see the full text of annual report for 2017 as disclosed in the website of the Shanghai Stock Exchange (<http://www.sse.com.cn>) for more details about its operating results, financial position, cash flow and future development strategy.

Changes in controlling shareholders during the Year

☐ Applicable ☒ Not applicable

No change occurred on controlling shareholders of the Company during the reporting period.

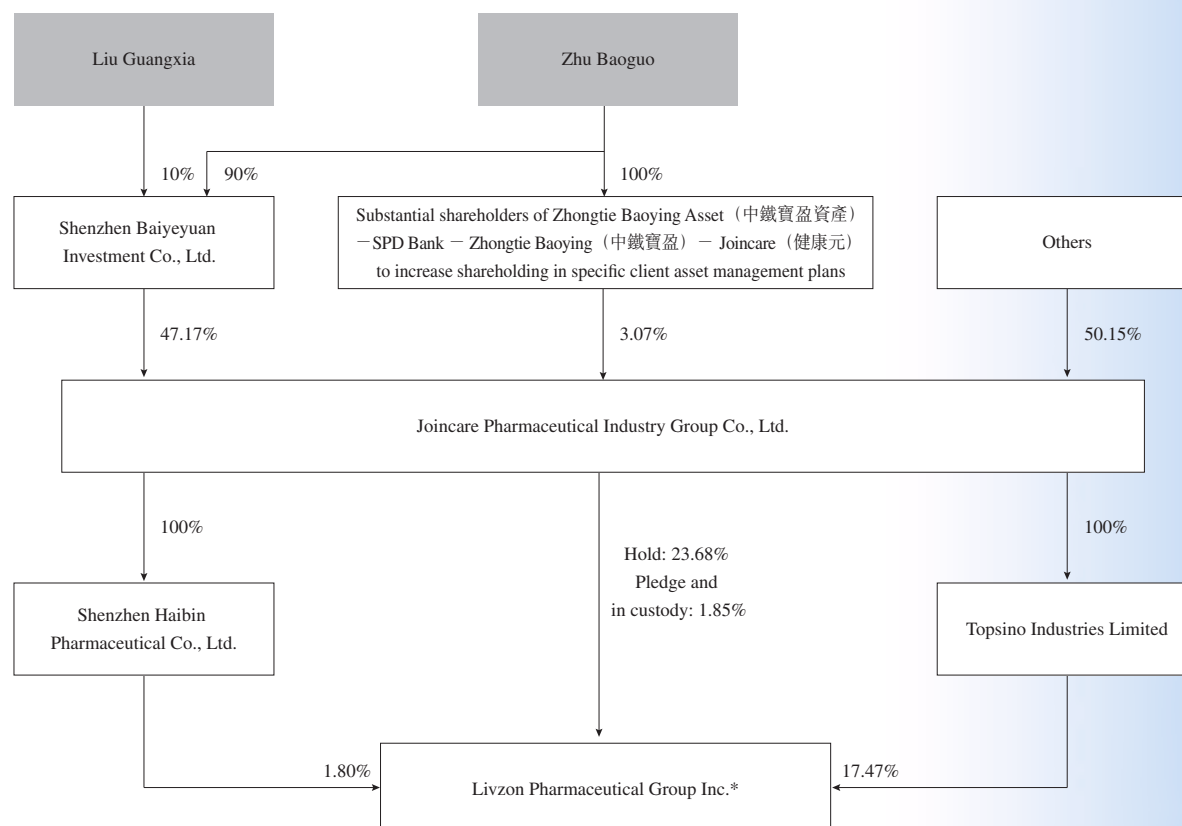
(III) SHAREHOLDERS AND ULTIMATE BENEFICIAL OWNER *(continued)***5. Ultimate Beneficial Owner of the Company**

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

Changes in the ultimate beneficial owner during the Year

☐ Applicable ☒ Not applicable

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

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

(III) SHAREHOLDERS AND ULTIMATE BENEFICIAL OWNER *(continued)***5. Ultimate Beneficial Owner of the Company** *(continued)***Structure chart on ownership and controlling relationship between the Company and its ultimate beneficial owner** *(continued)*

- Notes:
1. Zhu Baoguo (朱保國) is the spouse of Liu Guangxia (劉廣霞).
 2. On 25 January 2017, 1,238,000 restricted shares have been repurchased and cancelled by Joicare, therefore the share capital of Joicare decreased from 1,587,139,292 shares to 1,585,901,292 shares. On 19 July 2017, 12,123,020 restricted shares have been repurchased and cancelled by Joicare, therefore the share capital of Joicare decreased from 1,585,901,292 shares to 1,573,778,272 shares. As such, the shareholding of Baiyeyuan (百業源) in Joicare increased to 47.17% 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 an increase in the proportion to the total share capital of Joicare from 3.04% to 3.07%.

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

☐ Applicable ☒ Not applicable

6. Other legal shareholders holding more than 10%

☐ Applicable ☒ Not applicable

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

☐ Applicable ☒ Not applicable

(III) SHAREHOLDERS AND ULTIMATE BENEFICIAL OWNER *(continued)*

8. As at 31 December 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 shareholder	Capacity	Number of the Shares interested/subject to the short position	Position	As a percentage to the specific class of issued share of the Company	As a percentage to the total issued shares of the Company
Major Shareholders					
Baiyeyuan	Interest of controlled corporations	151,191,689 A Shares ⁽¹⁾	Long position	41.54%	27.33%
	Interest of controlled corporations	96,665,487 H Shares ⁽²⁾	Long position	51.07%	17.47%
Ms. Liu Guangxia	Spouse interest	151,191,689 A Shares ⁽³⁾	Long position	41.54%	27.33%
		96,665,487 H Shares ⁽³⁾	Long position	51.07%	17.47%
Joincare	Beneficial owner	130,992,183 A Shares	Long position		
	Interest of controlled corporations	9,959,074 A Shares ⁽⁴⁾	Long position		
	Person having a security interest in shares	10,240,432 A Shares ⁽⁵⁾	Long position		
		151,191,689 A Shares		41.54%	27.33%
	Interest of controlled corporations	96,665,487 H Shares ⁽²⁾	Long position	51.07%	17.47%
Topsino	Beneficial owner	96,665,487 H Shares ⁽²⁾	Long position	51.07%	17.47%
Other persons					
UBS Group AG	Person having a security interest in shares	435,143 H Shares ⁽⁶⁾	Long position		
	Interest of controlled corporations	12,680,398 H Shares ⁽⁶⁾			
		13,115,541 H Shares	Long position	6.93%	2.37%
	Interest of controlled corporations	221,000 H Shares ⁽⁷⁾	Short position	0.12%	0.04%

Notes:

- (1) Among these shares, 141,232,615 shares and 9,959,074 shares are held directly by Joincare (健康元) and its wholly-owned subsidiary, Haibin Pharma (海濱製藥).
- (2) These shares are held directly by Topsino, a wholly-owned subsidiary of Joincare (健康元).
- (3) As Ms. Liu Guangxia is the spouse of Mr. Zhu Baoguo, Ms. Liu Guangxia is deemed to be interested in Mr. Zhu Baoguo's equities in which he is deemed to be interested.
- (4) These shares are held directly by Haibin Pharma, a wholly-owned subsidiary of Joincare (健康元).
- (5) These shares were directly transferred from, entrusted and pledged by Begol in favor of Joincare (健康元) in accordance with the share transfer, custody and pledge agreement with Joincare (健康元) and Zhuhai Lishi Investment Co., Ltd. (珠海市麗士投資有限公司) dated 2 January 2014, the share transfer and custody agreement and the share pledge agreement with Joincare (健康元).
- (6) These shares include 435,143 shares with security interest and 12,680,398 shares that are interest of controlled corporations. Among which 221,000 shares are derivatives settled by cash. Interest of controlled corporations is held as to 222,733 shares, 5,600 shares, 3,154,868 shares, 227,774 shares, 11,440 shares, 2,600 shares, 9,052,523 shares and 2,860 shares by its wholly-owned UBS AG, UBS Asset Management (Americas) Inc., UBS Asset Management (Hong Kong) Ltd, UBS Asset Management (Singapore) Ltd, UBS Asset Management Trust Company, UBS Asset Management (UK) Limited, 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.

☐ Applicable ☒ Not applicable

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

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

✓Applicable □Not Applicable

According to the 2016 profit distribution proposal, the Company completed the issue of 3 A Shares for every 10 Shares to all A Shareholders by way of conversion of capital reserve on 7 July 2017, which increased the A Share capital of the Company from 279,971,232 Shares to 363,962,601 Shares. Given that the Directors and the senior management of the Company held A Shares of the Company through the Restricted A Shares Incentive Scheme, there was a change in shareholding. Save as disclosed above, there were no changes in shareholdings of Directors, Supervisors and Senior Management of the Company. Details of shareholdings of these persons are as follows:

Name	Position	Status of Office	Sex	Age	Date of the beginning of the term	Date of the end of the term	Number of shares held at the Beginning of the Period (shares)	Additional shareholdings this year (shares)	Reduction of shareholding this year (shares)	Other changes (shares)	Number of shares held at the end of the year (shares)
Tao Desheng (陶德勝)	Vice Chairman, Executive Director, President	Current	Male	53	July 2009	–	275,990	–	–	82,797	358,787
Yang Daihong (楊代宏)	Vice President	Current	Male	51	May 2006	–	176,540	–	–	52,962	229,502
Xu Guoxiang (徐國祥)	Vice President	Current	Male	55	December 2007	–	275,990	–	–	82,797	358,787
Lu Wenqi (陸文岐)	Vice President	Current	Male	50	October 2006	–	176,540	–	–	52,962	229,502
Si Yanxia (司燕霞)	Vice President	Current	Female	49	June 2014	–	110,370	–	–	33,111	143,481
Zhou Peng (周鵬)	Vice President	Current	Male	54	November 2016	–	63,524	–	–	19,058	82,582
Yang Liang (楊亮)	Secretary to the Board	Current	Male	34	June 2014	–	52,520	–	–	15,756	68,276
Total	–	–	–	–	–	–	1,131,474	–	–	339,443	1,470,917

Note: Date of the beginning of the term is effective since the date of first appointment.

1. As at 31 December 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 of the specific class to issued shares of the Company	As a percentage to the total issued shares of the Company
Mr. Zhu Baoguo (朱保國先生)	Interest of controlled corporations	151,191,689 A Shares ^{(1) (2)} 96,665,487 H Shares ^{(1) (3)}	41.54% 51.07%	27.33% 17.47%
Mr. Tao Desheng (陶德勝先生)	Beneficial owner Spouse interest	358,787 A Shares 62,868 A Shares ⁽⁴⁾ 421,655 A Shares	0.12%	0.08%
Mr. Xu Guoxiang (徐國祥先生)	Beneficial owner	358,787 A Shares	0.10%	0.06%

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

1. As at 31 December 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 (Long position) (RMB)	As a percentage of the equity interest of associated corporation
Mr. Zhu Baoguo	Baiyeyuan	Beneficial owner	72,000,000	90.00%
	Joincare	Beneficial owner	48,277,046	
		Interest of controlled corporations	742,415,520 ⁽⁵⁾	
			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 47.17% 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, 141,232,615 shares and 9,959,074 shares are held directly by Joincare (健康元) and its wholly-owned subsidiary, Haibin Pharma, respectively.
- (3) These shares are held directly by Topsino, a wholly-owned subsidiary of Joincare (健康元).
- (4) 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).

(II) CHANGES IN DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Name	Occupation	Type	Date	Reason
Yang Daihong	Executive Director	Retired upon expiry of tenure of service	30 June 2017	Retired due to expiration of his term of office with effect from 30 June 2017.
Xu Guoxiang	Executive Director	Appointed	30 June 2017	Appointed as Executive Director of the Company after the approval at the 2016 Annual General Meeting of the Company.
Zhong Shan	Non-executive Director, a member of the Strategy Committee of the Board	Resigned	1 September 2017	Due to personal work and time arrangement, his resignation effects from 1 September 2017.

(III) HOLD POSITION

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

1. Brief Biography of Executive Director

Mr. Tao Desheng (陶德勝先生), aged 53, who joined the Company in 1985 is currently our Executive Director, Vice Chairman, President, authorised representative and a committee member of Strategic Committee, Nomination Committee and Remuneration and Assessment Committee, and also served as a Director in other subsidiaries of the Group. Mr. Tao graduated with a bachelor's degree in chemistry from the faculty of pharmaceutical chemistry of the Nanjing School of Pharmaceutical Sciences (南京藥學院). From 2000 to 2002, Mr. Tao attended a postgraduate advanced course in enterprise management organised by Sun Yat-Sen University (中山大學). Mr. Tao obtained his licensed pharmacist qualification (執業藥師) in October 2002 and the title of senior engineer in pharmaceutical manufacturing (professor) (製藥專業高級工程師(教授)職稱) in 2013. Mr. Tao has been the vice president and president of our Company since June 2005 and March 2014, respectively. He has been our Vice Chairman and our Executive Director from August 2014 and July 2009 onwards, respectively.

Mr. Xu Guoxiang (徐國祥先生), aged 55, is currently our Executive Director and Vice President. From November 2010 to November 2011, Mr. Xu attended an advanced EMBA course in the PRC's pharmaceutical industry organised by the Medical School of Peking University (北京大學醫學部) and obtained a completion certificate. From 2000 to 2005, Mr. Xu was the director of Yangtze River Pharmaceutical Co., Ltd. (揚子江製藥股份有限公司). In March 2007, he was our Chief Sale Supervisor and the general manager of our branch company in Henan Province. Mr. Xu has been our Vice President from December 2007 to present. He is currently the vice president of China Association of Pharmaceutical Commerce, the standing council member of the Chinese Hospital Association and the council member of the Bethune Charitable Foundation. Since June 2017, he has been our executive Director.

Mr. Fu Daotian (傅道田先生), aged 55, is currently our Executive Director and Vice President and serves as a Director of the Company's subsidiary. Mr. Fu graduated from Iowa State University and obtained his doctorate degree in 1989, and carried out his postdoctoral research at the Complex Carbohydrate Research Center in University of Georgia in 1990. He served as the analysis and research manager and the quality control manager of Neose Pharmaceuticals from 1992 to 1998, as a director at Primedica division of Genzyme Transgenics Corporation in the United States from 1998 to 2001, as the technology director, senior technology director and deputy president in technology research from 2001 to 2012. He has been the director of EPIRUS BIOPHARMACEUTICALS, INC. (NASDAQ: EPRS) from July 2014 to July 2016 and the deputy general manager and the current general manager of Livzon MABPharm Inc. from 2012 to present, and our Vice President and our Executive Director from March 2014 and from June 2014 to present, respectively. From May 2015 to present, he has served as a director of Cynvenio Biosystems, Inc. From May 2016 to present, he has served as the Chairman of Biological Committee of International Society of Pharmaceutical Engineering (ISPE). From March 2017 to present, he has served as the General Manager of Livzon MABPharm (US) Inc. (麗珠單抗生物技術(美國)有限公司).

(III) HOLD POSITION *(continued)***2. Brief Biographies of Non-executive Directors**

Mr. Zhu Baoguo (朱保國先生), aged 55, is currently our Chairman, Non-executive Director and the Chairman of our Strategic Committee, and also served as a Director in other subsidiaries of the Group. Mr. Zhu obtained his bachelor's degree in chemistry from Henan Normal University (河南師範大學) in 1985. Since 2002 to present, Mr. Zhu has been the chairman of our Board and since April 2006 to September 2013, he has also been the president of our Company. Mr. Zhu is also the founder of Joincare (健康元), and is currently the chairman of Joincare (健康元). Since November 2014, he has been honorary vice president of Shenzhen General Chamber of Commerce (深圳市工商聯 (總商會)). Mr. Zhu Baoguo is the spouse of Ms. Liu Guangxia (劉廣霞女士), being one of our controlling shareholders.

Mr. Qiu Qingfeng (邱慶豐先生), aged 46, is currently our Non-executive Director. Mr. Qiu obtained his EMBA from China Europe International Business School (中歐國際工商學院) in September 2007. He is a non-practicing number of the Chinese Institute of Certified Public Accountants, Mr. Qiu joined Shenzhen Taitai Pharmaceutical Company Limited (深圳太太藥業有限公司) in 1996 and is currently a director and the vice president of Joincare Pharmaceutical Industry Group Co., Ltd. (健康元藥業集團股份有限公司). Mr. Qiu was the Supervisor and the Chief Supervisor of the Company from June 2005 to April 2007. Mr. Qiu has been our Non-executive Director from April 2007 to present.

3. Brief Biographies of Independent Non-executive Directors

Mr. Xu Yanjun (徐焱軍先生), aged 45, is currently our Independent Non-executive Director, chairman of our Audit Committee and a member of our Remuneration and Assessment Committee and an associate professor and a postgraduate tutor at the International Business School of Jinan University (暨南大學), and a Chinese certified public accountant. He is also a member of China Association Promoting Democracy and member of Zhuhai Committee of Chinese People's Political Consultative Conference. Mr. Xu graduated from Wuhan University (武漢大學) and obtained his bachelor degree of science in 1995, graduated from Zhongnan University of Economics and Law (中南財經政法大學) and obtained his master degree in accounting in 2003, and graduated from Jinan University (暨南大學) and obtained his doctorate degree in management (accounting) in 2010. He had served as a quality controller at Wuhan Research Institute of Biological Products of Sinopharm Group, a project manager of Hubei An Yong Xin Accounting Firm (湖北安永信會計師事務所) and a project manager at Guangdong Branch of Zhongxingcai Guanghua CPA (formerly Zhuhai Yoanda CPA). He has been an independent director of Zhuhai Hokai Medical Instruments Co., Ltd. (300273.SZ) from April 2013 to present. He has been our Independent Non-executive Director from June 2014 to present.

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

Mr. Guo Guoqing (郭國慶先生), aged 55, is currently our Independent Non-executive Director, the Chairman of our Remuneration and Assessment Committee and a member of our Audit Committee and Nomination Committee. Mr. Guo obtained his doctoral degree in economics from Renmin University of China (中國人民大學) in January 1998. Mr. Guo is a committee member of 7th All-China Youth Federation (全國青聯會), 8th, 9th and 10th CPPCC National Committee (全國政協) and a member of the 11th National People's Congress (全國人民代表大會). He was one of the experts entitled to special subsidy granted by the State Council of the PRC. Mr. Guo has successively been a deputy director of the School of Trade Economics, the vice-president of the Faculty of Business Administration of Renmin University of China and the vice chairman of China Marketing Association of University (中國高校市場學研究會). Mr. Guo is currently a professor and doctoral tutor of the School of Business of Renmin University of China (中國人民大學) and the director of PRC marketing research centre of Renmin University of China (中國人民大學). Mr. Guo is also a consultant of China Marketing Association of University (中國高校市場學研究會), the vice-president of PRC Business History Society (中國商業史學會), an expert of the National Natural Science Foundation of Management Science Review Panel (國家自然科學基金委員會管理科學部評審組) and deputy editor of Journal of Chinese Marketing (《中國營銷學報》). Mr. Guo has been our Independent Non-executive Director from June 2013 to present.

Mr. Wang Xiaojun (王小軍先生), aged 63, is currently our Independent Non-executive Director. Mr. Wang graduated from Renmin University of China (中國人民大學) majoring in law in July 1983 and graduated from the Graduate School of the Chinese Academy of Social Sciences (中國社會科學院) in December 1986. Mr. Wang qualified as a lawyer in the PRC in 1988, and passed solicitor qualifying examinations in Hong Kong in 1992. Mr. Wang currently holds lawyer licences in Hong Kong, England and the PRC. During the period from 1992 to 2001, Mr. Wang served as an assistant manager in the China Listing Affairs Unit of the Hong Kong Stock Exchange, a solicitor of Richards Butler, an assistant director of Peregrine Capital Limited and a director of ING Barings Investment Bank. In 2001, he established X.J. Wang & Co. Mr. Wang is currently a partner of Junhe Law Offices. Mr. Wang was named as "Leading Lawyers in Capital Markets and Corporate Finance" by Asialaw from 2008 to 2016. Mr. Wang has been our Independent Non-executive Director from September 2013 to present.

Mr. Zheng Zhihua (鄭志華先生), aged 47, is currently our Independent Non-executive Director. He graduated from Medical Enterprises Management, China Pharmaceutical University with a Bachelor of Science degree in July 1992. In July 2002, he received an MSc in Biochemistry (pharmacy direction) from Sun Yat-sen University. Since 1992, Mr. Zheng has worked in Guangdong Pharmaceutical Association, and served as a committee member, deputy head of the Information Division, head of the Academic Division and the deputy secretary-general, and is currently as the secretary-general. He was qualified as a director pharmacist by the Department of Personnel of Guangdong Province in 2007. Mr. Zheng has been our Independent Non-executive Director from June 2015 to present.

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

Mr. Xie Yun (謝耘先生), aged 47, is currently our Independent Non-executive Director, Chairman of the Nomination Committee and a member of the Audit Committee. Mr. Xie Yun graduated from the School of Finance, Shanghai University of Finance and Economics with a Bachelor Degree in 1993, and has obtained a Master of Business Administration Degree from the International East-West University in the United States in 2000. From 1993 to 2011, he has worked as an office director and financial manager in Zhuhai Airport Power Station Limited Company* (珠海機場電廠有限公司); as a sales manager, general manager assistant and vice-general manager in Zhuhai Huidafeng Electric Power Development (Group) Co., Ltd. of Zhuhai Electrical Bureau* (珠海電力局珠海匯達豐電力發展(集團)有限公司); as a director and general manager in Southern Zhuhai Hua Litong Special Transformer Limited Company* (珠海南方華力通特種變壓器有限公司); as a director of human resources department and director of business development in Zhuhai Water Affairs Group Limited* (珠海水務集團有限公司). He is currently the vice president of Zhuhai Huajin Capital Co., Ltd. (珠海華金資本股份有限公司) (formerly known as Leaguer Stock Co., Ltd. (力合股份有限公司)) (000532.SZ). Mr. Xie has been our Independent Non-executive Director, Chairman of the Nomination Committee and a member of the Audit Committee from June 2015 to present. Mr. Xie has been an independent director of Shenzhen Click Technology Co., Ltd. (深圳可立克科技股份有限公司) (002782.SZ) since 27 May 2016.

4. Brief Biographies of Supervisors of the Company

Mr. Wang Maolin (汪卯林先生), aged 52, graduated from the Law Department of Anhui University (安徽大學) and was awarded with a bachelor's degree in Law. From January 2001 to present, Mr. Wang has been our Chief Supervisor of the legal supervision head office. Mr. Wang has been the chairman of our labour union and the employee representative supervisor of our Supervisory Committee from January 2010 to present. In January 2012, Mr. Wang was elected as a representative of 8th Zhuhai People's Congress (珠海市第八屆人民代表大會). Mr. Wang has served as the deputy chairman of the Zhuhai Committee of Jiusan Society (九三學社珠海市委員會) from July 2016 to present and representative of 9th Zhuhai People's Congress (珠海市第九屆人民代表大會) from January 2017 to present. He has served as the Chief Supervisor of our Supervisory Committee since June 2014 to present.

Mr. Huang Huamin (黃華敏先生), aged 46, an accountant and the Supervisor of the Company, obtained a bachelor's degree in Economics from the Shanghai University of Finance and Economics (上海財經大學) in 1993. Mr. Huang has been the chief financial officer and assistant to the general manager of Livzon Group Lixin Co. Ltd. (麗珠集團麗新公司), the manager of the finance department and business department of Livzon Group Liwei Co., Ltd. (麗珠集團麗威公司) as well as the manager of our finance clearing centre. From September 2008 to May 2009, Mr. Huang was employed by Zhuhai Gree Real Estate Co., Ltd. (珠海格力房產有限公司). Mr. Huang has been the Chief Financial Controller, the secretary to the board of directors and vice president of Gree Real Estate Co., Ltd. (格力地產股份有限公司) from May 2009, October 2009 and March 2016 to March 2017, respectively. He is currently a deputy general manager of Shenzhen Qianhai Golden Eagle Asset Management Co., Ltd. (深圳前海金鷹資產管理有限公司). Mr. Huang has been the Supervisor of our Supervisory Committee from June 2013 to present.

(III) HOLD POSITION *(continued)***4. Brief Biographies of Supervisors of the Company** *(continued)*

Mr. Tang Yin (湯胤先生), aged 43, is currently our Supervisor. He obtained a double degree in mechanics and mathematics from the South China Institute of Technology in 1996, a master degree in science from the Department of Applied Mathematics from the South China Institute of Technology in 1999, and a doctor degree in the Intelligent Calculation Team of the Faculty of Computer in 2004. Since 2004 to present, he has been the deputy professor and master tutor of the Management Faculty of Jinan University, an assistant to director of the Faculty of Entrepreneurship and the director of Internet Innovation Institute of Jinan University. Since 2013 to 2015, he has held the position of the consultant in information technology and e-commerce of Guangdong Wellfull Holding Group. He is also the deputy secretary of Guangzhou Internet Association, committee member of Guangdong Electronic Commerce Association, vice president of Guangzhou Electronic Commerce and Internet Economy Association and council member of Guangdong Mobile Economy Association. He has been our Supervisor of the Supervisory Committee since February 2016 to present.

5. Brief Biographies of Other Senior Management of the Company

Mr. Yang Daihong (楊代宏先生), aged 51, who joined the Company in 1997 is currently our Vice President, pharmaceutical engineer and a licensed pharmacist. He studied at China Pharmaceutical University (中國藥科大學) from 1984 to 1988 and was awarded a bachelor's degree in science. From 2000 to 2002, Mr. Yang attended a course in enterprise management organised by the Business School of Sun Yat-Sen University (中山大學). Mr. Yang obtained qualifications as a pharmaceutical engineer and a licensed pharmacist. From 1999 to 2009, Mr. Yang was the deputy factory manager and factory manager of Livzon Group Livzon Pharmaceutical Factory (麗珠集團麗珠製藥廠). Mr. Yang has been our Vice President from May 2006, and our Executive Director from October 2014 to June 2017.

Mr. Lu Wenqi (陸文岐先生), aged 50, is currently our Vice President. Mr. Lu obtained his bachelor's degree in industrial electrical automation from Huazhong University of Science and Technology (華中科技理工大學) in 1988. From 1995 to 2006, Mr. Lu worked as the manager of the project development department of Shenzhen Taitai Pharmaceutical Co., Ltd. (深圳太太藥業有限公司) and a director of the research institute of Joincare Pharmaceutical Industry Group Co., Ltd. (健康元藥業集團股份有限公司) (600380.SH). Mr. Lu has been our Vice President from October 2006 to present.

Ms. Si Yanxia (司燕霞女士), aged 49, is currently the Vice President and Chief Financial Officer of the Company. She graduated from the Department of Accounting at Shanxi University of Finance and Economics (山西財經學院) with a bachelor degree in July 1990. She is an accountant and finished part-time CFO study at China Europe International Business School (中歐國際工商學院) from July 2005 to November 2005. She joined the Company since April 1993 and was the manager of the Capital Settlement Center and the manager of the Accounting Center of the Finance & Accounting Head Office of the Group. She has been our Director of Finance & Accounting Head Office from April 2004 to June 2014 and our Vice President and Chief Financial Officer since June 2014 to present.

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

Mr. Zhou Peng (周鵬先生), aged 54, is currently the Vice President of the Company. He graduated from the Hubei University of Medicine (湖北醫學院) with a bachelor degree in medicine in 1985. He obtained attending physician title in 1994. He completed the course of postgraduate course training class of corporation management at Management School of Sun Yat-Sen University (中山大學) from 2000 to 2002. He joined the Group since 1999 and served as director assistant of Office of General Manager of the Group, general manager of Livzon Chain Drugstore Co., Ltd, director of Human Resources Headquarter of the Group, vice-general manager of Livzon Group Marketing Co. Ltd. (麗珠集團營銷公司), vice-general manager of OTC Drug Business Division of Livzon Group and director of Administration Headquarter of Livzon Group. From March 2014 to present, he has been president assistant of Livzon Group, the general manager of Administration Headquarter and Human Resources Headquarter of Livzon Group, and deputy secretary of Party Committee and executive deputy general manager of Livzon Pharmaceutical Industrial Co., Ltd. (麗珠醫藥工業有限公司). He is also the vice president of Zhuhai Medical Association (珠海藥學會), visiting professor of Beijing Normal University Zhuhai Campus (北京師範大學珠海分校), etc. Mr. Zhou has been the vice president of the Company since November 2016.

Mr. Yang Liang (楊亮先生), aged 34, is currently the Secretary to the Board, Company Secretary and authorised representative of the Company. In 2006, he graduated from Jinan University with a Bachelor Degree in Management. He then graduated from the College of Business Administration at South China University of Technology (華南理工大學) with a Master Degree in Management in 2008. He has worked as senior investment project manager in the Secretariat of the Board of the Company since August 2011. From May 2008 to June 2010, Mr. Yang worked successively as strategic development director and investment and acquisition manager in Zhuhai W.S.M Ltd. From July 2010 to July 2011, he served as the strategic performance director in the Department of Enterprises Management of China International Marine Containers (Group) Ltd. (CIMC, 000039.SZ, 02039.HK). He has worked as Senior Investment Project Manager in the Secretariat of the Board of the Company since August 2011. He has been the Secretary to the Board, the Company Secretary and authorised representative of the Company since June 2014.

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

Name of person	Name of shareholder's company	Position in shareholder's company	Commencement of period		Whether receive remuneration allowance at shareholder's company
			of period	End of period	
Zhu Baoguo (朱保國)	Joincare (健康元)	Chairman of the Board	August 2015	August 2018	Yes
Qiu Qingfeng (邱慶豐)	Joincare (健康元)	Director, Vice President	August 2015	August 2018	Yes
Zhong Shan (鍾山)	Joincare (健康元)	Vice President	August 2015	September 2017	Yes
(Resigned from Joincare (健康元) in September 2017 due to personal reasons)					

Note to the directorship held in shareholder's company

The periods above are tenures that they are elected as directors or senior management at the Sixth General Meeting of Joincare.

(III) HOLD POSITION *(continued)*

7. Hold directorship in other companies as follows:

✓Applicable □ Not Applicable

Name of person	Name of other companies	Position in other companies	Commencement of period	End of period	Whether receive remuneration allowance at other companies
Zhu Baoguo (朱保國)	Shenzhen General Chamber of Commerce (深圳市工商聯 (總商會))	Honorary Vice chairman	November 2014		No
Xu Guoxiang (徐國祥)	Chinese Hospital Association (中國醫院協會)	Standing council member	January 2012		No
	China Association of Pharmaceutical Commerce (中國醫藥商業協會)	Vice President	November 2012		No
Fu Daotian (傅道田)	EPIDUS BIOPHARMACEUTICAL (NASDAQ:EPRS)	Director	July 2014	July 2016	Yes
	Cynvenio Biosystems, Inc.	Director	May 2015		No
	International Society of Pharmaceutical Engineering (ISPE)	Chairman of Biological Committee	May 2016		No
Xu Yanjun (徐焱軍)	Zhuhai Hokai Medical Instruments Co., Ltd. (珠海和佳醫療設備股份有限公司) (300273.SZ)	Independent Director	April 2013		Yes
Guo Guoqing (郭國慶)	Commercial College of Zhongguo Renmin University (中國人民大學商學院)	Professor and Supervisor for doctorate students	June 1995		Yes
	Research Center of China Marketing of Zhongguo Renmin University (中國人民大學中國市場營銷研究中心)	Director	September 1995		No
	National Natural Science Foundation of China (國家自然科學基金委員會)	Expert of the Management Science Review Panel	August 2000		No
	Longrun Tea Group Company Limited (龍潤茶集團有限公司) (02898.HK)	Independent Non-executive Director	August 2002		Yes
	Journal of Chinese Marketing (《中國營銷學報》)	Associate Editor	December 2008		No
	PRC Business History Society (中國商業史學會)	Vice President	May 2010		No
	Beijing Wangfujing Department Store (Group) Co., Ltd. (北京王府井百貨(集團)股份有限公司) (600859.SH)	Independent Director	June 2011	December 2016	Yes
	China Marketing Association of University(CMAU) (中國高校市場學研究會)	Consultant	July 2012		No
	Gree Real Estate Co., Ltd. (格力地產股份有限公司) (600185.SH)	Director	July 2015		Yes
	Fengrun Bio-Technology and Science Incorporation (豐潤生物科技股份有限公司) (New OTC Market 871329)	Independent Director	December 2017		Yes
	OP Financial Investments Limited (東英金融投資有限公司) (01140.HK)	Independent Non-executive Director	August 2004		Yes

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

Name of person	Name of other companies	Position in other companies	Commencement of period	End of period	Whether receive remuneration allowance at other companies
	Junhe Law Offices (君合律師事務所)	Partner	June 2006		Yes
	Yanzhou Coal Mining Company Limited (兗州煤業股份有限公司) (01171.HK)	Independent Non-executive Director	May 2011	May 2017	Yes
	China Aerospace International Holdings Limited (中國航天國際控股有限公司) (00031.HK)	Independent Non-executive Director	March 2013		Yes
Zheng Zhihua (鄭志華)	Guangdong Pharmaceutical Association (廣東省藥學會)	Secretary-general	May 2014		Yes
Xie Yun (謝耘)	Zhuhai Huajin Capital Co., Ltd. (珠海華金資本股份有限公司) (formerly known as Leaguer Stock Co., Ltd. (力合股份有限公司)) (000532.SZ)	Vice President	May 2011		Yes
	Shenzhen Click Technology Co., Ltd. (002782.SZ)	Independent director	May 2016		Yes
Wang Maolin (汪卯林)	Zhuhai Committee of Jiusan Society (九三學社珠海市委會)	Deputy chairman	July 2016		No
Huang Huamin (黃華敏)	Gree Real Estate Co., Ltd. (格力地產股份有限公司)	Chief Financial Controller	May 2009	March 2017	Yes
		Secretary to the Board of Directors	October 2009	March 2017	Yes
	Shenzhen Qianhai Golden Eagle Asset Management Co., Ltd. (深圳前海鷹資產管理有限公司)	Vice President Deputy General Manager	March 2016 August 2017	March 2017	Yes Yes
Tang Yin (湯胤)	Management Faculty of Jinan University (暨南大學管理學院)	Deputy Professor, Master Tutor	September 2004		Yes
	Faculty of Entrepreneurship of Jinan University (暨南大學創業學院)	Assistant to director	January 2012		Yes
	Internet Innovation Institute of Jinan University (互聯網創新研究所)	Director	January 2012		No
	Guangdong Electronic Commerce Association (廣東省電子商務協會)	Committee	December 2012		No
	Guangdong Mobile Economy Association (廣東省移動經濟協會)	Council member	December 2012		No
	Guangzhou Internet Association (廣州互聯網協會)	Deputy Secretary	September 2013		No
	Guangzhou Electronic Commerce and Internet Economy Association (廣州市電子商務與網絡經濟學會)	Vice President	September 2013		No
Zhou Peng (周鵬)	Beijing Normal University Zhuhai Campus (北京師範大學珠海分校)	Visiting Professor	September 2015		No
	Zhuhai Medical Association (珠海市藥學會)	Vice President	March 2016		No
Note to positions held in other companies	Not applicable				

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

☐ Applicable ☒ Not Applicable

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

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

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

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

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

3. Appraisal and incentive in respect of senior management

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

(IV) REMUNERATION OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT OF THE COMPANY *(continued)*

4. Remuneration of directors, supervisors and senior management of the Company during the Year

Unit: RMB0'000

Name	Position	Gender	Age	Status	Total amount of remuneration before tax from the Company	Whether receive remuneration from related party of the Company
Zhu Baoguo (朱保國)	Chairman of the Board	Male	55	Current	9.00	Yes
Tao Desheng (陶德勝)	Vice Chairman, President	Male	53	Current	288.20	No
				Resigned,		
Yang Daihong (楊代宏)	Director, Vice President	Male	51	Current	205.16	No
Xu Guoxiang (徐國祥)	Director, Vice President	Male	55	Current	291.48	No
Fu Daotian (傅道田)	Director, Vice President	Male	55	Current	118.21	No
Qiu Qingfeng (邱慶豐)	Director	Male	46	Current	7.20	Yes
Zhong Shan (鍾山)	Director	Male	46	Resigned	4.80	Yes
Xu Yanjun (徐焱軍)	Independent Director	Male	45	Current	9.60	No
Guo Guoqing (郭國慶)	Independent Director	Male	55	Current	9.60	No
Wang Xiaojun (王小軍)	Independent Director	Male	63	Current	9.60	No
Zheng Zhihua (鄭志華)	Independent Director	Male	47	Current	9.60	No
Xie Yun (謝耘)	Independent Director	Male	47	Current	9.60	No
Wang Maolin (汪卯林)	Chief Supervisor	Male	52	Current	119.43	No
Huang Huamin (黃華敏)	Supervisor	Male	46	Current	3.60	No
Tang Yin (湯胤)	Supervisor	Male	43	Current	3.60	No
Lu Wenqi (陸文岐)	Vice President	Male	50	Current	193.34	No
Si Yanxia (司燕霞)	Vice President	Female	49	Current	173.80	No
Zhou Peng (周鵬)	Vice President	Male	54	Current	143.01	No
Yang Liang (楊亮)	Secretary of the Board	Male	34	Current	128.58	No
Total	–	–	–	–	1,737.41	–

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

☐ Applicable ☒ Not Applicable

(V) EMPLOYEES OF THE COMPANY

As of the end of the year, the Company, its wholly-owned subsidiaries and controlling subsidiaries had a total of 6,963 current employees (31 December 2016: 6,297).

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

Number of current employees of parent company	1,417
Number of current employees of principal subsidiaries	5,546
Total of current employees	6,963
Total of employees receive remuneration during the Year	6,963
Total of retired employees to whom parent company and its principal subsidiaries had distributed pension	617

Speciality composition

Speciality composition type	Speciality composition number
Production staff	3,377
Sales staff	1,189
Technical staff	1,251
Financial staff	182
Administrative staff	964
Total	6,963

Education level

Education level type	Number
Below post-secondary	3,005
Post-secondary	1,779
Undergraduate	1,818
Postgraduate	312
Doctor	49
Total	6,963

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

Remuneration of our staff was determined by the Group mainly according to the PRC laws and regulations and linked to the Company's performance with reference to general remuneration level in the society. During the Year, the Company's remuneration policies are in line with the provisions of relevant national laws and regulations, by reference to the industry and regional remuneration level, and consideration of internal equity, depending on the position value, and the basis of the performance and ability of individual employees, the Company determined the Company's employees salary level, formulation and revision of remuneration system are to solicit the views of the majority of employees. To reflect incentive remuneration, employee remuneration comprises of two portions: fixed income and variable income. Variable income was affected by performance of the Company and individual performance, which has fully boosted the morale and initiative of staff, to achieve the Company's goal of promoting sustainable development. The Company completed the second unlocking under the first grant and the reserved grant of the Restricted A Shares Incentive Scheme in 2017. Please refer to "the Restricted A Shares Incentive Scheme" in Chapter IV of the annual report for more details.

During the Year, the total wages, bonuses, allowances, compensation, welfare, housing funds and social insurance paid to the employees by the Group amounted to approximately RMB657.14 million (31 December 2016: RMB575.45 million).

3. Pension Scheme

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

4. Employees' Training Plan

In 2017, the Company enriched the operating model of Livzon Business School and set up a library for students. It also rolled out diverse offline learning programmes based on their needs and grade levels, which covered sharing session on government projects reporting, reading club on craftsmanship, sharing of green knowledge, target management training, orientation program for graduates, project management, internal lectures and TTT training, personal planning methods and oral English. In addition, the Company offered 45-hour online courses to newly promoted management members. Management officers at higher levels were required to prepare essays on their management roles and submit book report as a part of their learning. With the second term of the Livzon Business School coming to a conclusion, the inauguration of the third term took place. The Company has been setting up branches of the Livzon Business School and five branches were established at the subsidiaries of the Group as of the end of the Year.

Meanwhile, the Company improved the training model for new employees. Not only did it increase the training time, it also invited internal lecturers and external industry experts to educate staff on production, quality, personnel system, administrative system, safety and environmental protection and information system, so that they would have full understanding of our corporate culture and professional and technical knowledge.

5. Labour outsourcing

☐ Applicable ☒ Not Applicable

(I) BASIC CORPORATE GOVERNANCE

During the year ended 31 December 2017, in strict accordance with the Company Law, the Securities Law, the Guidelines for Corporate Governance of Listed Companies, the Shenzhen Listing Rules, the Guidelines for Standardised Operation of Companies Listed on the Main Board of the Shenzhen Stock Exchange, and other requirements of normative documents relating to the governance of listed companies announced by the CSRC, the Shenzhen Stock Exchange and the Hong Kong Stock Exchange. The Company constantly enhanced the corporate governance structure and strengthened the internal control systems of the Company to achieve higher corporate governance standards. The Board believed that the actual conditions of corporate governance of the Company are compliant with the rules and requirements of normative documents including the Guidelines for Corporate Governance of Listed Companies without deviation.

During the Year, the decision-making and supervisory authorities of the Company (i.e. shareholders' general meetings, the Board, supervisory committee, etc.) all 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.

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

☐ Yes ☒ No

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

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

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

(III) COMPETING BUSINESS

✓Applicable ☐Not applicable

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

Each of the Covenantors hereby confirmed that from the date they signed the "non-competition undertaking letter " (i.e. 10 January 2014) up to 31 December 2017, the Covenantor and the companies under his/her/its control (other than the Company and its subsidiaries) have strictly complied with and enforced the terms of the "non-competition undertaking" without breaching any terms of the "non-competition undertaking letter" under any circumstances.

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

(IV) GENERAL MEETINGS CONVENED DURING THE YEAR

General Meetings during the Year

Session of meeting	Type of meeting	Date of meeting	Date of A Shares disclosure	Resolutions	Disclosure index
2016 Annual General Meeting	Annual General Meeting	23 June 2017	24 June 2017	<p>"the work report of the Board of the Company for the year 2016", "the work report of the Supervisory Committee of the Company for the year 2016", "the financial accounts report of the Company for the year 2016", "the reappointment of Ruihua Certified Public Accountants (LLP) (瑞華會計師事務所(特殊普通合伙)) as the auditor of the Company for the year 2017 and fix its remuneration", "the 2016 annual report of Livzon Pharmaceutical Group Inc.", "the election of non-independent directors of the 9th session of the Board", "the election of independent directors of the 9th session of the Board", "the election of supervisor of the 9th session of the Board", "the adjustment to the fund-raising investment project plan of the non-public issuance of A Shares", "the proposed transfer of 100% equity interest in a subsidiary Zhuhai Weixing Shiye Co., Ltd. (珠海維星實業有限公司)", "the grant of full mandate to the board and its authorizers for conducting the equity transfer of Zhuhai Weixing Shiye Co., Ltd. (珠海維星實業有限公司)", "the 2016 annual profit distribution plan", "Company's facility financing and provision of financing guarantees to its subsidiaries", "the grant of general mandate to the Board for issuing of shares"</p>	Announcement on Livzon Pharmaceutical Group Inc.'s 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	23 June 2017	24 June 2017	"the 2016 annual profit distribution plan"	
The 2017 First Class Meeting of H Shareholders	Class Meeting	23 June 2017	24 June 2017	"the 2016 annual profit distribution plan"	

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

Session of meeting	Type of meeting	Date of meeting	Date of A Shares disclosure	Resolution(s)	Disclosure index
2017 First Extraordinary General Meeting	Extraordinary General Meeting	19 September 2017	20 September 2017	"the adjustment to the fund-raising investment project plan of the non-public issuance of A Shares", "increase the registered capital of the Company" "expand the scope of the Company's business" and "amendments to Articles of Association"	Announcement on Livzon Pharmaceutical Group Inc. 2017 First Extraordinary General Meeting (Announcement No.: 2017-083), Published on the website of Cninfo (http://www.cninfo.com.cn/)

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

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

☐ Applicable ☒ Not applicable

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

Attendance of Board meetings during their term of office							Attendance of general meeting(s) during their term of office
Name of Independent Director	Required attendance at Board meetings during the Year	Attendance in person	Attendance by communication	Attendance by proxy	Absence	Unable to attend in person for two consecutive meetings	Attendance of general meeting(s)/ Number of general meetings convened
Guo Guoqing (郭國慶)	13	3	10	0	0	No	4/4
Wang Xiaojun (王小軍)	13	0	13	0	0	No	0/4
Xu Yanjun (徐焱軍)	13	2	11	0	0	No	3/4
Zheng Zhihua (鄭志華)	13	0	13	0	0	No	0/4
Xie Yun (謝耘)	13	1	12	0	0	No	0/4

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

Note to unable to attend in person for two consecutive meetings

☐ Applicable ☒ Not applicable

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

☐ Yes ☒ No

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

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

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

Independent opinion on matters considered at the 35th meeting of the eighth session of the Board of the Company:

The independent opinion in relation to 2016 profit distribution plan of the Company: we approved the 2016 profit distribution plan of the Company, and the plan was submitted to the general meeting of the Company for consideration. The independent opinion in relation to 2016 internal control self-evaluation report: we approved the 2016 internal control self-evaluation report of the Company. The report is an objective, fair and effective reflection of the internal control of the Company, and the report meets the relevant regulatory requirements. The independent opinion in relation to the store and usage of the proceeds of the Company in 2016: we approved the report prepared by the Company on the store and usage of the proceeds in 2016. The independent opinion in relation to the usage of non-business capital by affiliates and other capital dealings in 2016: we approved the above-mentioned audit report. The independent opinion in relation to the payment of the capital for the fund-raising investment project by the Company's acceptance bills and the proceed exchange; we approved the payment of the capital for the fund-raising investment project by the Company's acceptance bills and the proceed exchange. The independent opinion in relation to the expected general connected transactions in 2017: we believe that the expected general connected transactions of the Company in 2017 is based on the actual business need of the Company, and there were no non-compliances with the relevant laws, regulations and the Company's dealing system of connected transactions. We approved the submission of the above-mentioned general connected transactions to the Board of the Company for consideration and the execution of the general connected transactions in 2017 when the necessary approval processes are completed. The independent opinion in relation to the remuneration of the senior management of the Company in 2016: we approved the remuneration of the senior management of the Company in 2016. The independent opinion in relation to the provision for assets impairment in 2016: We approved the provision for assets impairment. The independent opinion in relation to the amendments to the non-public issuance of fund-raising investment projects: we approved the amendments and the submission of the amendments to the general meeting of the Company for consideration.

The independent opinion of the Company's external guarantee in 2016: we believe that the guarantee provided by the Company to the subsidiary is in the interest of the Company, and the guarantee does not under the interest of the Company and the whole shareholders. The decision-making processes of the guarantee executed meet the relevant laws, regulations and other requirements.

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

Independent opinion on matters considered at the 36th meeting of the eighth session of the Board of the Company:

The independent opinion in relation to the first grant of unlocking of second tranche of the Company's restricted shares under the Company's incentive scheme: we approved the first grant of unlocking of second tranche of the Company's restricted shares according to the "incentive plan" and "management regulations. The independent opinion in relation to the repurchase and cancellation of locked restricted shares granted to the incentive participants no longer satisfying the conditions for incentive: the repurchase and cancellation of locked restricted shares granted to the incentive participants no longer satisfying the conditions for incentive is in compliance with the incentive plan and the requirements of relevant laws and regulations, thus, we approved the repurchase and cancellation of part of the restricted shares pursuant to relevant requirements.

The independent opinion in relation to the transfer of 100% equity interest of our subsidiary Zhuhai Weixing Shiye Co., Ltd.: we unanimously agree the transfer of 100% equity interest of Zhuhai Weixing Shiye Co., Ltd, and the transfer was submitted to the general meeting of the Company for consideration.

Independent opinion on matters considered at the 38th meeting of the eighth session of the Board of the Company:

The resolution on the appointment of financial report auditor and internal control auditor of the Company in 2017: we unanimously agree reappoint Ruihua Certified Public Accountants (Special General Partnership) as the financial report auditor and internal control auditor of the Company in 2017, and the reappointment was submitted to the general meeting of the Company for consideration. The independent opinion in relation to the elections of the Board of the Company: we unanimously agreed to nominate Mr. Zhu Baoguo, Mr. Qiu Qingfeng, Mr. Zhongshan as candidates for the non-executive directors of the ninth session of the Board of the Company; to nominate Mr. Tao Desheng, Mr. Fu Daotian, Mr. Xu Guoxiang as candidates for executive directors of the ninth session of the Board of the Company; to nominate Mr. Guo Guoqing, Mr. Wang Xiaojun, Mr. Xu Yanjun, Mr. Zheng Zhihua, Mr. Xie Yun as candidates for the independent non-executive directors of the ninth session of the Board of the Company. The above-mentioned candidates for directors will be submitted to the general meeting of the Company for consideration and election one by one. The resolution on the credit facility and providing financing guarantee to the subsidiary: we unanimously agreed to provide financing guarantee to the subsidiary.

Independent opinion on matters considered at the 39th meeting of the eighth session of the Board of the Company. Independent opinion on the foreign exchange derivative trading business: we agreed the Company to formulate foreign exchange derivative trading business according to relevant laws and regulations, and to use our own capital within the range approved by the Board to do foreign exchange derivative trading business.

Independent opinion on the appointment of senior management of the Company: we agreed to appoint Mr. Tao Desheng as President of the Company at the ninth session of the Board, to appoint Mr. Yang Daihong, Mr. Lu Wenqi, Mr. Xu Guoxiang, Mr. Fu Daotian, Mr. Zhou Peng as Vice President of the Company, to appoint Si Yanxia as Vice President and Chief Financial Officer, to appoint Mr. Yang Liang as Company Secretary.

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

The independent opinion in relation to the amendments to the non-public issuance of A Share fund-raising investment projects: we agreed the amendments to the fund-raising investment projects, and the amendments will be submitted to the general meeting of the Company for consideration and approval.

Independent opinion on the matters considered at the third meeting of the ninth session of the board of directors of the Company:

Independent opinion on the changes in the accounting policy of the Company: The changes in the accounting policy will not prejudice the interest of the Company and the shareholders. Therefore, we approve the changes in accounting policy. Independent opinion on the on the deposit and the actual use of the fund raised by the Company as at 30 June 2017: We approved the "Special Report on the Deposit and the Actual Use of the Fund Raised by the Company as at 30 June 2017" prepared by the Company.

Description and independent opinion on appropriation of the Company's funds by controlling shareholders and other connected parties and external guarantees by the Company for the first half of 2017: After reviewing, in the first half of 2017, there was no non-operating use of funds of the Company by the controlling shareholder of the Company and its related parties, and cash flow between related parties has not been found in violation of the requirement of "Notice Concerning Some Issues on Regulating the Funds between Listed Companies and Related Parties and Listed Companies' Provision of Guarantee to Other Parties (《關於規範上市公司與關聯方資金往來及上市公司對外擔保若干問題的通知》)" in all material aspects. During the reporting period, the company is in strict compliance with the relevant requirements of "Notice of Certain Issues Relating to the Standards of Capital Dealings with Related Parties by Listed Companies and Provisions of External Guarantees by Listed Company (《關於規範上市公司與關聯方資金往來及上市公司對外擔保若干問題的通知》)", its guarantees offer to the controlled subsidiaries is in the interest of the Company as a whole and there was no damage to the interests of the Company, in particular, the interest of medium and minority shareholders; and relevant decision making process is in compliance with relevant requirements of laws and regulations and Articles of Association and is legal and valid.

Independent opinion on the provision of financing guarantee to its controlled subsidiary Livzon MAB by the Company: In the opinion of us, the guarantee of Company is in the interest of the Company as a whole, and the decision of fulfilling the guarantee is in accordance with relevant requirements of laws and regulations and the Company, and there was no damage to the interests of medium and minority shareholders, we therefore approved the provision of the guarantee by the Company.

Independent opinion on matters considered on the fifth meeting of the ninth session of the Board: independent opinion on the resolution on the use of the idle funds raised for cash management purpose: we agreed the Company to use idle funds raised for cash management.

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

Independent opinion on the matters considered at the sixth meeting of the ninth session of the board of directors of the Company:

Independent opinion on the Resolution on Adjustment to the Restricted Shares Incentive Scheme: In accordance with the relevant requirements of Administrative Measures on Share Incentives of Listed Companies (Trial) (《上市公司股權激勵管理辦法(試行)》), we seriously examined the relevant matters concerning the adjustment and believed that the adjustment is in compliance with law and regulations, therefore, we approved the adjustment to the number of and the repurchase price of Restricted Shares granted and under the First grant and Reserved Grant. Independent opinion on the Resolution on Repurchase and Cancellation of Certain Restricted Shares: The matters on repurchase and cancellation of the Restricted Shares held by above incentive participants is in accordance with the requirement of 'Incentive Scheme' by the Company and relevant rules and regulations, therefore we approve the repurchase and cancellation of certain above-mentioned Restricted Shares by the Company pursuant to the relevant requirements. Independent opinion on Resolution on the Unlocking of the Second Unlock Period for the Reserved Grant Under the Restricted Shares Incentive Scheme of the Company: We approved the relevant matters concerning the unlock of the second unlock period for the Reserved Grant under the Restricted Shares Incentive Scheme by the Company in accordance with the Incentive Scheme and Administrative Measures.

Prior approval and independent opinion on matters considered at the seventh meeting of the ninth session of the Board:

Prior approval in relation to the change in shareholding structure and connected transaction of Livzon MABPharm Inc., a controlling subsidiary of the Company: We agreed to submit the above resolution to the seventh meeting of the ninth session of the Board for consideration. The independent opinion on the "Resolution on the Change in shareholding structure and connected traction of Livzon MABPharm Inc., a controlling subsidiary of the Company": 1. The procedures of convening of and voting at the seventh meeting of the ninth session of the Board were in compliance with relevant laws, regulations and the Articles of Association, the resolution in relation to the transaction was considered in accordance with legal procedures. 2. The transaction constitutes a connected transaction, and the related Directors have abstained from voting as required by laws and did not appoint non-related Directors as their proxies to exercise the voting rights when considering the resolution in relation to the connected transaction. The voting procedures were in compliance with relevant laws, regulations and the Articles of Association. 3. The connected transaction does not constitute a material assets restructuring under the "Administrative Measures for Material Assets Restructuring by Listed Companies". 4. The consideration agreed for the connected transaction is fair, the terms of the agreement are fair and do not prejudice the interests of shareholders, in particular the minority shareholders. The independent opinions on the "2017 Share Options Incentive Scheme (Draft)" and its summary: We unanimously agree the implementation of the Share Options Incentive Scheme. The independent opinion on the scientificity and reasonableness of the objective set in the share options scheme: the evaluation system of the share options scheme is comprehensive, integrated and feasible, the performance indicators are set in a scientific and reasonable manner, and the incentive scheme is binding to the participants, thereby facilitating the objectives of the incentive scheme.

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

☐ Yes ☐ No ☒ Not applicable

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

1. Compliance with the Corporate Governance Code

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

The Company confirmed that since 1 January 2017 up to 31 December 2017, the Company strictly complied with principles and all of the code provisions (the “Code”) in the Corporate Governance Code as set out in the new Appendix 14 of Hong Kong Listing Rules, excluded the following deviation:

According to the E.1.2 under the Code, the chairman of the Board shall attend the Annual Meeting. Mr. Zhu Baoguo, the chairman of the Board did not attend the Annual Meeting for the year 2016 due to urgent business trip.

2. Securities Transactions of Directors and Supervisors

The Company adopted the Model Code as set out in Appendix 10 of the Hong Kong Listing Rules as its own Model Code regarding the securities transactions in the H Shares of the Company by the Company’s Directors, Supervisors and the “Relevant Employees” as defined in the Corporate Governance Code as set out in Appendix 14 of the Hong Kong Listing Rules. After making sufficient and specific enquiries to all of the Directors and Supervisors of the Company, the Company was not informed of any information which reasonably revealed that each of the Directors and Supervisors had not complied with the standard required by the above codes during the period from 1 January 2017 to the date of this annual report. All Directors and Supervisors have confirmed that they had complied with the standards as set out in the above codes during the period from 1 January 2017 to the date of this annual report. The Company also made specific enquiry to all of the employees in respect of the codes in the above mentioned Code by the employees, and note that there has been no incident of non-compliance with the codes in the above mentioned Code.

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

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

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

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

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

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

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

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

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

Name	Position	Attendance of relevant meetings during their term of office/ Number of relevant meetings held during their term of office	
		Board meetings	Shareholders' general meetings (including class meetings)
I. Executive Directors			
Tao Desheng (陶德勝)	Vice Chairman and President	13/13	4/4
Fu Daotian (傅道田)	Director, Vice President	13/13	3/4
Yang Daihong (楊代宏) <i>(Note)</i>	Director, Vice President	6/6	3/3
Xu Guoxiang (徐國祥) <i>(Note)</i>	Director, Vice President	7/7	0/1
II. Non-executive Directors			
Zhu Baoguo (朱保國)	Chairman	13/13	0/4
Qiu Qingfeng (邱慶豐)	Director	13/13	3/4
Zhong Shan (鍾山) <i>(Note)</i>	Director	9/9	0/3
III. Independent Non-executive Directors			
Xu Yanjun (徐焱軍)	Independent Director	13/13	3/4
Guo Guoqing (郭國慶)	Independent Director	13/13	4/4
Wang Xiaojun (王小軍)	Independent Director	13/13	0/4
Zheng Zhihua (鄭志華)	Independent Director	13/13	0/4
Xie Yun (謝耘)	Independent Director	13/13	0/4

Note: Mr. Yang Daihong retired from office as an Executive Director of the Company due to expiration of his term of office with effect from 30 June 2017. Mr. Xu Guoxiang was appointed as an Executive Director of the Company at the 2016 annual general meeting with effect from 30 June 2017. Mr. Zhong Shan has tendered his registration of the Company's non-executive director due to personal work and time arrangement with effect from 1 September 2017.

Save as thirteen Board meetings as above, the Chairman also held one meeting with non-executive directors (including independent non-executive directors) during the Year.

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

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

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

Training and professional development: the Company arranged professional trainings organised by CSRC and the Shenzhen Stock Exchange for its Directors on irregular basis, for obtaining training certificates or qualification certificates recognised by relevant authority. The Company also provides the latest information in relation to updates of laws and rules, industry information and the Directors' responsibilities in a regular basis. The Directors are encouraged to attend lessons and lectures held by professional groups to enhance their continuing professional development and refresh their knowledge and skills. Each director has provided records of training they have taken during the year ended 31 December 2017 and attended trainings rendered by professional groups and/or learned materials about his/her duty and responsibility.

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

Note: Mr. Yang Daihong resigned as Executive Director of the Company due to the expiry of his term of office, effective from 30 June 2017. Mr. Xu Guoxiang was appointed as Executive Director of the Company at the general meeting 2016, effective from 30 June 2017. Mr. Zhong Shan resigned as Non-Executive Director of the Company due to personal work and time arrangement, effective from 1 September 2017.

(VI) CORPORATE GOVERNANCE SITUATION DISCLOSED PURSUANT TO THE HONG KONG LISTING RULES *(continued)***4. Chairman and President**

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

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

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

5. Independent Non-Executive Directors

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

6. Directors' Term of Office

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

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

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

8. Special Committees of the Board

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

Audit Committee

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

During the Year, the Audit Committee had discussed the Group's annual, interim and quarterly financial statements, review the accounting principles and practices, internal supervision system and consider audit conducted and fees charged by auditors. On 7 March 2018, the Committee reviewed the 2017 Self-Evaluation Report on Risk Management and Internal Control.

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

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

- (1) On 28 February 2017, the Sixteenth Meeting of the Audit Committee of the Eighth Session of the Board of the Company was held through written communication and voting, during which the resolution on consideration of the draft auditors' report for the year 2016 and the resolution on consideration of the final financial report were considered and approved.
- (2) On 7 March 2017, the Seventeenth Meeting of the Audit Committee of the Eighth Session of the Board of the Company was held on-site in the meeting room on the fourth floor of our office building, during which the resolution on consideration of the auditors' report for the year 2016, the resolution on consideration of the results announcement for the year 2016 and the draft of the annual report, the resolution on consideration of continuing connected transactions, the resolution on consideration of the 2016 Self-Evaluation Report On Internal Control, the resolution in relation to review arrangements of employees to raise concern about misconduct and the resolution of the evaluation report on the audit work carried out by Ruihua Certified Public Accountants (LLP) for the year 2016 and the resolution on consideration in relation to the re-appointment of Ruihua Certified Public Accountants (LLP) as the audit firm of the Company for the year 2017 were considered and approved.
- (3) On 20 April 2017, the Eighteenth Meeting of the Audit Committee of the Eighth Session of the Board of the Company was held through written communication and voting, during which the resolution of the Company's and its subsidiaries' unaudited consolidated financial statements and the quarterly results announcement for three months ended 31 March 2017 were considered and approved.
- (4) On 7 August 2017, the First Meeting of the Audit Committee of the Ninth Session of the Board of the Company was held through written communication and voting, during which the resolution on consideration of the Company's unaudited half-yearly results announcement, the half-yearly report, consolidated financial reports for the six months ended 30 June 2017 Continuing Connected Transaction of the Company in the Half Year of 2017 and Deposit and the Actual Use of the Fund Raised from Non-public Issuance of A Shares by the Company as at 30 June 2017 were considered and approved.
- (5) On 20 October 2017, the Second Meeting of the Audit Committee of the Ninth Session of the Board of the Company was held through written communication and voting, during which the resolution on consideration of the Company's and its subsidiaries' unaudited consolidated financial statements and the quarterly results announcement for nine months ended 30 September 2017 and Special Report of the Company on the Deposit and the Actual Use of the Fund Raised as at 30 September 2017.

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

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

During the Year, the Remuneration and Assessment Committee held six meetings to assess, review and make recommendations to the Board on remuneration, remuneration policy and framework of the Directors and senior management of the Company and the interests of the Company as a whole, remuneration matters of the newly appointed Directors, the Restricted A Shares Incentive Scheme and 2017 Share Option Incentive Scheme.

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

Nomination Committee

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

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

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

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

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

Strategic Committee

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

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

Attendance of Special Committees of the Board

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

Name	Position	Attendance of relevant meetings during their term of office/ Number of relevant meetings held during their term of office			
		Meetings of Audit Committee	Meetings of Nomination Committee	Meetings of Remuneration and Assessment Committee	Meetings of Strategic Committee
Tao Desheng (陶德勝)	Executive Director/Vice Chairman and President	N/A	3/3	6/6	0/0
Zhu Baoguo (朱保國)	Non-executive Director/Chairman	N/A	N/A	N/A	0/0
Zhong Shan (鍾山) <i>(Note)</i>	Non-executive Director	N/A	N/A	N/A	0/0
Xu Yanjun (徐焱軍)	Independent Non-executive Director	5/5	N/A	6/6	N/A
Xie Yun (謝耘)	Independent Non-executive Director	5/5	3/3	N/A	N/A
Guo Guoqing (郭國慶)	Independent Non-executive Director	5/5	3/3	6/6	N/A

Note: Mr. Zhong Shan resigned as Non-Executive Director of the Company due to personal work and time arrangement, effective from 1 September 2017.

9. Communication with Shareholders

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

Information disclosure on the Company's website

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

Convening of shareholders' general meetings

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Investors' relations

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

(VI) CORPORATE GOVERNANCE SITUATION DISCLOSED PURSUANT TO THE HONG KONG LISTING RULES *(continued)***11. Articles of Association**

During the Year, the Company amended the Articles of Association thrice.

The board has been granted mandate to handle matters related to the Restricted A Shares Incentive Scheme (including appropriate amendments to the Articles of Association) by the Company on the 2015 First Extraordinary General Meeting, the 2015 First Class Meeting of A Shareholders and the 2015 First Class Meeting of H Shareholders convened on 13 March 2015. On 20 February 2017, since there were changes in the share capital and the registered capital of the Company as a result of the repurchase and cancellation of unlocked restricted shares granted to the incentive participants who have resigned under the Restricted A Shares Incentive Scheme, the Company convened a Board meeting to consider, approve and give effect to the amendments to the terms of the Articles of Association in relation to the share capital, registered capital, details of which is available in the announcement of the Company dated 20 February 2017 as posted on <http://www.cninfo.com.cn/>, the websites of the Company and the Hong Kong Stock Exchange.

On 20 June 2016, since there were changes in the share capital and the registered capital of the Company as a result of the repurchase and cancellation of unlocked Restricted Shares granted to the incentive participants who have resigned under the Restricted A Shares Incentive Scheme, the Company convened a Board meeting to consider, approve and give effect to the amendments to the terms of the Articles of Association in relation to the share capital, registered capital, details of which is available in the announcement of the Company dated 20 June 2017 as posted on <http://www.cninfo.com.cn/>, the websites of the Company and the Hong Kong Stock Exchange.

On 19 September 2017, the Company convened the 2017 First Extraordinary General Meeting to approve the increase of the registered capital of the Company (as a result of the completion of 2016 Annual Profit Distribution Plan), the expansion of business scope of the Company and the amendments to the Articles of Association of the Company. Therefore, the Company made amendments to the terms of the Articles of Association in relation to the share capital, registered capital and business scope on 19 September 2017, details of which is available in the announcement of the Company dated 19 September 2017 as posted on <http://www.cninfo.com.cn/>, the websites of the Company and the Hong Kong Stock Exchange.

(VII) AUDITORS' REMUNERATION

Disclosure of auditors' remuneration is set out in the "APPOINT, DISMISS CERTIFIED PUBLIC ACCOUNTANTS" in Chapter V of the annual report.

(VIII) COMPANY SECRETARY

Ms. Cheng Pik Yuk of Tricor Services Limited, an external service provider of the Company, has been engaged by the Company as Assistant Company Secretary. The primary contact person at the Company is Mr. Yang Liang, the Secretary to the Board of the Company (Company Secretary). Ms. Cheng Pik Yuk has resigned as Assistant Company Secretary and Alternate to Authorised Representative on 27 June 2017 with effect from 3 July 2017. 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.

Mr. Yang Liang took no less than 15 hours of relevant professional training during the Year.

(IX) WORK OF THE SUPERVISORY COMMITTEE

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

Whether the Supervisory Committee of the Company discovered risks in its supervisory activities during the Year

☐ Yes ☒ No

The Supervisory Committee has no objection of the supervisory matters during the Year.

(X) RISK MANAGEMENT AND INTERNAL CONTROL

In 2017, the Risk management and internal control of the Company mainly focus on internal environment, risk assessment, control, information and communication and internal supervision. The scope includes principal business and major events of the Company and its subsidiaries with an emphasis on risk management and internal control for high risk areas including fund management, R&D, quality control, asset management, sales, connected transactions.

Responsible persons of each departments of the Company and its subsidiaries have performed self-assessments and evaluation regarding the business practice and risk management and internal control to ensure compliance of control policies and review instruction and review from the management department of the Company. The management of the Company collaborated with department supervisors to assess possibilities of risks, provided solutions and oversaw progress of risk management. The management is responsible for monitoring the assessment of risk management and internal control and reported to the Audit Committee and the Board on effects in relation to the risk management and internal control system during the Year.

The Company has established the Department of Audit and Integrity which is responsible for the auditing of each department of the Company. Department of Audit and Integrity is independent of each department, it carries out audit work in accordance with the audit plan implemented by the Audit Committee of Group, performs audit on the risk management, internal control system and financial position of each department, confirms and assess the comprehensiveness and effectiveness of risk management and internal control system of each department and continue to supervise and review regularly. In accordance with the audit needs, the Company has engaged audit professional to consolidate internal audit resource of the Group, and established an audit team comprising the department of Audit and Integrity (as the lead) and professionals from joint legal action, human resources, finance and chief engineers' office to carry out a comprehensive and specialised audit work on class II enterprise of the Group and the off-office auditing for the management in 2017, organised and completed internal audit correction and self-inspection of class II enterprise. Department of Audit and Integrity shall prepare corresponding audit report in accordance with specific audit contents, and supervise any remedy simultaneously, report to the management of the Group, the Management of the Group shall regularly reported to the Audit Committee and the Board on effectiveness of risk management and internal control system.

(X) RISK MANAGEMENT AND INTERNAL CONTROL *(continued)*

According to the requirement of optimising corporate governance structure and internal control system of the Company, the Company is devoted to strengthen and optimise risk management and internal control system, and internal audit work is gradually professionalised, formulated and standardised. The Company will continue to strengthen the system establishment, build internal audit system which is aligned with corporate development, established risk management procedure and guidance for various terms of reference, amend and optimise relevant audit system, code of conduct for audit personnel, auditing standards, audit business guidelines, complaints reporting management system and audit files management system.

The Board assumes its responsibilities to the risk management and internal control system and necessities of reviewing its effectiveness. The purpose of such risk management and internal control system is to manage rather than eliminate risks failing to meet the business objectives and can only provide reasonable but not absolute assurance against material misstatements or losses. The Company has obtained confirmation from the management in respect of the effectiveness of risk management and internal control by the Company.

The inside information is normally limited to circulation in relevant departments only. Necessary approval procedures from the Company and departments of subsidiaries are required in case of inside information distributed among the Company the departments of subsidiaries after approval from department supervisors. The Company shall make a record of all relevant insiders involved with reporting, circulation, compiling, review and disclosure and time for such inside information available to insiders faithfully completely for enquiry from the Company, as well as regulatory bodies.

The insiders shall be obligated to keep inside information confidential. The Directors, Supervisors, the senior management of the Company and relevant insiders shall minimize the number of insiders of inside information before public disclosure through obligatory measures. The Company shall inspect and make penalty decisions to any insider dealer or any suggestion from insiders to utilize inside information in a timely manner, and also file such penalty results to Guangdong Securities Regulatory Bureau of CSRC and Shenzhen Stock Exchange.

(XI) INTERNAL CONTROL**The material weakness discovered in internal control during the Year**☐ Yes ☒ No**Self-Evaluation Report on Risk Management and Internal Control**

During the Year, the Board had conducted a review of effectiveness and adequacy of the risk management and internal control of the Group for the year ended 31 December 2017, including the supervision on finance, operation, and compliance, as well as an assessment on internal environment and risks. The review had shown no significant and important default that indicates inefficient internal control of the Group. The Board considers the risk management and internal control systems of the Group are effective and adequate.

The disclosure date of the text of Evaluation Report on Internal Control	24 March 2018
The index of the text of Evaluation Report on Internal Control	Please refer to the 2017 Self-Evaluation Report on Risk Management and Internal Control of Livzon Pharmaceutical Group Inc. disclosed on the website of http://www.cninfo.com.cn/ .
The proportion of unit of the total assets within the scope of evaluation of the Company's combined financial statements	99.78%
The proportion of unit of the operation income within the scope of evaluation of the operation income of the Company's combined financial statements	100%

(XI) INTERNAL CONTROL *(continued)***Self-Evaluation Report on Risk Management and Internal Control** *(continued)***Weakness identification standard**

Type	Financial statement	Non-financial statement
Qualifying standard	<ol style="list-style-type: none"> Weakness with the following character shall be identified as material weakness: <ol style="list-style-type: none"> ineffective control environment; the management of the Company has fraud at any degree; the material mistakes found by external auditor were not first found by the Company; the weakness relating to the total of affected connected transactions exceeds the quota of connected transactions approved by the shareholders; Significant weakness: one or more weaknesses, the severity of which is lower than material weakness, but it is severe to cause the Company not to prevent or discover the deviation of overall control target, which shall raise the attention from the management. General weakness: represent other control weaknesses other than material or significant weaknesses. 	<ol style="list-style-type: none"> Weakness with the following character shall be identified as material weakness: <ol style="list-style-type: none"> severe violation against laws and regulations; the material weaknesses of internal control already found and reported to the management are not corrected after a reasonable period of time; other than losses permitted by policy, the Company's continuing operation is subject to challenges, with losses in successive years; failure of merger and acquisition reorganization, or the newly expanded subsidiaries are difficult to sustain the operation; the management of the Company resigned or severe brain drain of critical position, repeated negative news coverage by the media. Significant weakness: one or more weaknesses, the severity of which is lower than material weakness, but it is severe to cause the Company not to prevent or discover the deviation of overall control target, which shall raise the attention from the management. General weakness: represent other control weaknesses other than material or significant weaknesses.

(XI) INTERNAL CONTROL *(continued)***Self-Evaluation Report on Risk Management and Internal Control** *(continued)***Weakness identification standard**

Type	Financial statement	Non-financial statement
Quantifying standard	1. General weakness: merge misstatement < 3% of the profit before tax of combined statement; 2. Significant weakness: 3% of the profit before tax of combined statement ≤ merge misstatement < 5% of the profit before tax of combined statement; 3. Material weakness: merge misstatement ≥ 5% of the profit before tax of combined statement	1. General weakness: direct loss amount ≤ 3% of the total assets of combined statement; 2. Significant weakness: 3% of the total assets of combined statement < direct loss amount ≤ 5% of the total assets of combined statement; 3. Material weakness: direct loss amount > 5% of the total assets of combined statement
Number of material weakness in financial statement		0
Number of material weakness in non-financial statement		0
Number of significant weakness in financial statement		0
Number of significant in non-financial statement		0

(XII) AUDITORS' REPORT ON INTERNAL CONTROL✓Applicable ☐ Not applicable**The paragraph of auditing opinion in Auditors' Report on Internal Control**

Ruihua Certified Public Accountants (LLP) issued a standard unqualified audit report Rui Hua Shen Zi, [2018] No. 40030004 endorsed by Ruihua for the Company during the year of 2017, with the following auditing opinion: on 31 December 2017, Livzon Pharmaceutical Group Inc. maintained effective financial statement internal control in all material aspects pursuant to "Basic Ordinance of Corporation Internal Control" and relevant provisions.

Disclosure of the Auditors' Report on Internal Control	Disclosed
The disclosure date of the text of the Auditors' Report on Internal Control	24 March 2018
The index of the text of the Auditors' Report on Internal Control	Please refer to the Auditors' Report on Internal Control disclosed on the website of http://www.cninfo.com.cn/
Opinion type of the Auditors' Report on Internal Control	Standard unqualified opinion
Whether the non-financial statement exist material weakness	No

Whether the Certified Public Accountants issued a non-standard audit report on internal control☐ Yes ☒ No**Whether the audit report on internal control issued by Certified Public Accountants in in line with the self-evaluation report of the Board of directors**✓Yes ☐ No

☐ Applicable ☒ Not applicable

There are no bonds of the Company issued publicly and listed on Stock Exchange.



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AUDITORS' REPORT

Rui Hua Shen Zi No. [2018]40030004

To the Shareholders of Livzon Pharmaceutical Group Inc:

I. AUDIT OPINIONS

We have audited the financial statements of Livzon Pharmaceutical Group Inc. (麗珠醫藥集團股份有限公司) (hereinafter referred to as the "Company"), which comprise the consolidated balance sheet and the balance sheet of the Company as at 31 December 2017 and the consolidated revenue statement, consolidated cash flow statement and consolidated statement of changes in equity and the revenue statement, cash flow statement and statement of changes in equity of the Company for the year 2017 together with the notes thereto.

In our opinion, the attached financial statements are, in all material aspects, prepared in accordance with the Accounting Standards for Business Enterprises and give a fair view on the consolidation of the Company as at 31 December 2017 and the financial conditions of the Company and the consolidation for the year 2017 as well as the operation results and cash flows of the Company

II. BASIS FOR OPINION

We conducted our audit in accordance with China Standards on Auditing for Certified Public Accountants. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the Code of Ethics for Professional Accountants of the Chinese Institute of Certified Public Accountants ("CICPA Code"), and we have fulfilled our other ethical responsibilities in accordance with the CICPA Code. We believe the audit evidences obtained by us are sufficient and appropriate and provide basis for our audit opinions.

III. KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. We determine that the following are key audit matters that need to be communicated in the audit report.

(I) Revenue recognition

1. Details

Drug preparation products of the Company are mainly sold by distribution. In 2017, operating revenue of such type of products was RMB5,747.3576 million, accounting for 67.37% of total operating revenue, of which RMB5,645.2885 million are sold by distribution, accounting for 66.17% of total operating revenue.

Usually speaking, distribution model is divided into buyout and dealership. The time for revenue recognition of these two modes differs. The criteria for distinguishing between the two distribution models are based on the terms of the distribution agreement to determine the time when the major risks and rewards of the ownership of the commodities have been transferred. Under the buyout model, as the Company's control over dealers differ, whether it may hoard unreasonable inventory through the dealership, so that revenues is recognized in advance or even overstated by the Company

Under the dealership model, there is inherent risk of material misstatement in revenue recognition.

2. Application for auditing

We have tested the design and implementation of key internal controls on the revenue cycle to confirm the effectiveness of internal controls;

We have obtained the distribution agreement entered into by the Company with the dealer and verified the key terms of the contract, such as (1) delivery and acceptance; (2) payment and settlement; (3) replacement and return policy;

We confirmed whether dealers are connected with the Company by inquiring about the business information of the dealers and asking relevant personnel; and whether the goods stored at dealers are still controlled by the Company by understanding the changes of dealers, implementation of the contract by both parties, reasonable inventory of dealers and end-users sales, etc.;

We obtained the records of returns of goods in the supply chain system of the Company and checked to confirm whether there is significant abnormal returns affecting revenue recognition.

We confirmed the authenticity and integrity of current revenue in connection with other revenue audit procedures such as (1) checking information such as contracts entered into by the Company and the dealers, purchase orders, invoices, shipping documents, accounting source documents, refund documents, regular reconciliation reports; (2) seeking written confirmation of balance and current sales from dealers.

(II) Equity Transfer

1. Description

As described in "2. Disposal of Subsidiaries" in Note VII to the financial statement, Livzon Group transfers 100% of equity of Zhuhai Weixing Shiye Co., Ltd.(hereinafter referred to as "Weixing Shiye"), realizing an equity transfer income of RMB4.279 billion; after such disposal, this company will no longer be included in the consolidated statement; therefore, this transaction has a great impact on current financial statement of Livzon Group.

2. Audit

We consulted the resolutions of the board of directors and the general meeting of shareholders of Livzon Group on the transfer of Weixing Shiye's equity;

We obtained the equity transfer agreement entered into between both parties and verified key clauses of the agreement, including transaction pricing, payment of equity transfer fund, assets delivery and other clauses;

We checked relevant accounting treatment of equity transfer, including (1) checking receipts of equity transfer fund, including bank deposit receipt, capital flow record, etc.; (2) checking assets delivery records; (3) checking the calculation of the equity transfer income;

We checked the compilation process of consolidated statements of Livzon Group;

We checked the presentation and disclosure of information about equity transfer in financial statements.

IV. OTHER INFORMATION

The management of the Company (hereinafter referred to as the "Management") is responsible for other information, which includes the information included in 2017 Annual Report of the Company but excludes the financial statements and our auditors' report.

Our opinion on the financial statements does not cover the other information, and we will not express any form of assurance conclusion thereon.

In connection with our audit of financial statements, our responsibility is to read the other information and in the process, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

Based on the work we have performed, if we conclude that there is a material misstatement therein, we should report the fact. In this respect, we are not required to report other matters.

V. RESPONSIBILITIES OF MANAGEMENT AND THOSE CHARGED WITH GOVERNANCE FOR THE FINANCIAL STATEMENTS

Management (hereinafter referred to as the "Management") is responsible for the preparation and fair presentation of these financial statements in accordance with the CASs, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing these financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

VI. AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether these financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with CSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with CSAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- (I) Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- (II) Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances.
- (III) Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- (IV) Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in these financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- (V) Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- (VI) Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Ruihua Certified Public Accountants (LLP)

Beijing, the People's Republic of China

Wang Shuyan
Chinese Certified Public Accountants
(The engagement partner)

Zhang Fang
Chinese Certified Public Accountants

23 March 2018

Prepared by: Livzon Pharmaceutical Group Inc.

Amount denominated: RMB

Item	Notes	At the end of the year	At the beginning of the year
Current assets:			
Cash at bank and on hand	VI.1	7,415,782,198.83	2,061,923,004.89
Financial assets at fair value through profit or loss for the current period	VI.2	8,732,443.07	6,019,067.02
Derivative financial assets			
Bills receivables	VI.3	1,151,583,176.39	512,986,726.32
Accounts receivables	VI.4	1,356,773,152.45	1,464,366,229.78
Prepayments	VI.5	126,471,958.21	87,734,518.90
Interest receivables	VI.6	5,945,063.41	
Dividends receivables			
Other receivables	VI.7	57,695,538.55	48,808,469.78
Inventories	VI.8	1,102,620,734.51	1,099,199,376.02
Held-for-sale assets			
Non-current assets due within one year			
Other current assets	VI.9	124,263,427.92	689,748,423.34
Total current assets		11,349,867,693.34	5,970,785,816.05
Non-current assets:			
Available-for-sale financial assets	VI.10	193,530,331.52	147,294,165.97
Held-to-maturity investments			
Long-term receivables			
Long-term equity investments	VI.11	92,598,045.44	91,109,734.79
Investment properties			
Fixed assets	VI.12	3,321,218,058.56	3,340,977,856.91
Construction in progress	VI.13	70,279,348.98	201,733,854.47
Construction supplies			
Fixed assets to be disposed			
Bearer biological assets			
Oil and gas assets			
Intangible assets	VI.14	263,804,161.52	298,903,312.95
Development costs	VI.15	25,328,934.25	14,821,797.96
Goodwill	VI.16	103,040,497.85	103,040,497.85
Long-term deferred expenses	VI.17	116,453,732.68	92,477,000.88
Deferred tax assets	VI.18	127,208,887.08	153,099,708.49
Other non-current assets	VI.19	234,401,026.41	115,019,206.09
Total non-current assets		4,547,863,024.29	4,558,477,136.36
Total assets		15,897,730,717.63	10,529,262,952.41

Prepared by: Livzon Pharmaceutical Group Inc.

Amount denominated: RMB

Item	Notes	At the end of the year	At the beginning of the year
Current liabilities:			
Short-term loans			
Financial liabilities at fair value through profit or loss	VI.20	339,129.90	
Derivatives financial liabilities			
Bills payables	VI.21	661,858,884.48	323,795,509.11
Accounts payables	VI.22	501,668,543.26	587,715,946.84
Receipts in advance	VI.23	115,288,797.94	78,685,240.60
Employee benefits payables	VI.24	161,565,942.97	113,279,912.95
Taxes payables	VI.25	1,045,751,020.24	292,306,699.79
Interest payables	VI.26		3,812,602.74
Dividends payables	VI.27	170,936,288.17	2,531,984.46
Other payables	VI.28	1,753,221,979.28	1,558,113,278.30
Held-for-sale liabilities			
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		4,411,030,586.24	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	225,844,273.75	94,997,993.67
Deferred tax liabilities	VI.18	26,532,304.04	17,285,280.40
Other non-current liabilities			
Total non-current liabilities		253,076,577.79	112,983,274.07
Total liabilities		4,664,107,164.03	3,423,624,448.86
Shareholders' equity:			
Share capital	VI.34	553,231,369.00	425,730,126.00
Other equities			
Of which: Preferred shares			
Perpetual bonds			
Capital reserve	VI.35	1,715,270,973.93	1,820,309,052.12
Less: Treasury shares	VI.36	66,786,741.96	140,321,805.40
Other consolidated earnings	VI.37	-44,546,365.43	602,767.19
Special reserve			
Surplus reserve	VI.38	587,255,162.90	587,255,162.90
General risks provision			
Unallocated earnings	VI.39	8,028,315,370.19	3,812,412,101.62
Total equity attributable to shareholders of the parent company		10,772,739,768.63	6,505,987,404.43
Non-controlling interests		460,883,784.97	599,651,099.12
Total shareholders' equity		11,233,623,553.60	7,105,638,503.55
Total liabilities and shareholders' equity		15,897,730,717.63	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

Prepared by: Livzon Pharmaceutical Group Inc.

Amount denominated: RMB

Item	Notes	At the end of the year	At the beginning of the year
I. Total operating income		8,530,968,596.54	7,651,775,285.49
Including: Operating income	VI.40	8,530,968,596.54	7,651,775,285.49
II. Total operating costs		7,490,099,890.70	6,775,705,178.20
Including: Operating costs	VI.40	3,083,081,036.71	2,747,788,382.61
Business taxes and surcharges	VI.41	129,030,283.24	120,352,338.58
Selling expenses	VI.42	3,265,169,717.13	3,070,370,909.10
Administrative expenses	VI.43	933,971,538.92	724,603,490.65
Financial expenses	VI.44	-39,007,812.58	5,411,503.60
Impairment loss	VI.45	117,855,127.28	107,178,553.66
Add: Gains from changes in fair value ("-" represents losses)	VI.46	2,812,281.15	-930,399.32
Investment income ("-" represents losses)	VI.47	4,297,099,345.96	1,340,566.47
Including: Income from investment in associates and jointly controlled entities		1,488,310.65	-373,776.28
Gain from disposal of assets ("-" represents losses)	VI.48	225,062,922.66	4,836,855.74
Other income	VI.49	91,964,810.95	
III. Operating profit ("-" represents losses)		5,657,808,066.56	881,317,130.18
Add: Non-operating income	VI.50	91,912,647.38	129,599,778.83
Including: Profit from destroyed and damaged non-current assets			
Less: Non-operating expenses	VI.51	24,797,925.12	5,855,733.08
Including: Loss from destroyed and damaged non-current assets		1,518,793.75	114,186.99
IV. Profit before income tax ("-" represents total losses)		5,724,922,788.82	1,005,061,175.93
Less: Income tax expenses	VI.52	1,237,220,405.36	175,145,667.01
V. Net profit ("-" represents net losses)		4,487,702,383.46	829,915,508.92
(I) By continuity of operations			
1. Net profit from continuing operations ("-" represents net losses)		4,487,702,383.46	829,915,508.92
2. Net profit from discontinued operations ("-" represents net losses)			
(II) By ownership			
1. Profit or loss from non-controlling interests("-" represents net losses)		59,017,818.89	45,561,901.86
2. Net profit attributable to the shareholders of the parent company ("-" represents net losses)		4,428,684,564.57	784,353,607.06

Prepared by: Livzon Pharmaceutical Group Inc.

Amount denominated: RMB

Item	Notes	At the end of the year	At the beginning of the year
VI. Other comprehensive net income after taxation	VI.53	-45,429,961.95	13,470,447.03
Other comprehensive net income after taxation attributable to the shareholders of the parent company		-45,149,132.62	13,355,995.04
(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		-45,149,132.62	13,355,995.04
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		8,504,114.02	-769,690.73
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		-51,433,981.64	14,125,685.77
6. Others		-2,219,265.00	
Other comprehensive net income after taxation attributable to non-controlling interests		-280,829.33	114,451.99
VII. Total comprehensive income		4,442,272,421.51	843,385,955.95
Total comprehensive income attributable to the shareholders of the parent company		4,383,535,431.95	797,709,602.10
Total comprehensive income attributable to non-controlling interests		58,736,989.56	45,676,353.85
VIII. Earnings per share:			
(I) Basic earnings per share	XVIII.2	8.09	1.52
(II) Diluted earnings per share	XVIII.2	8.06	1.51

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

Prepared by: Livzon Pharmaceutical Group Inc.

Amount denominated: RMB

Item	Notes	At the end of the year	At the beginning of the year
I. Cash flows from operating activities:			
Cash received from sale of goods and rendering of services		9,078,790,988.35	7,560,331,979.01
Refund of taxes		50,921,127.41	58,362,092.04
Cash received relating to other operating activities	VI.54	437,237,165.81	196,876,570.95
Sub-total of cash inflows from operating activities		9,566,949,281.57	7,815,570,642.00
Cash paid for purchasing goods and services		2,546,620,235.15	1,860,472,221.15
Cash paid to and for employees		662,009,765.09	574,562,680.75
Cash paid for all types of taxes		1,341,216,092.81	1,011,327,737.01
Cash paid relating to other operating activities	VI.54	3,701,237,720.83	3,089,992,965.57
Sub-total of cash outflows from operating activities		8,251,083,813.88	6,536,355,604.48
Net cash flows from operating activities		1,315,865,467.69	1,279,215,037.52
II. Cash flows from investing activities:			
Cash received from disposal of investments		657,688,484.55	
Cash received from return on investments		16,644,722.54	1,240,847.25
Net cash received from disposal of fixed assets, intangible assets and other long-term assets		2,537,082.00	4,040,878.54
Net cash received from disposal of subsidiaries and other operating entities		4,479,932,115.41	77,999,265.69
Cash received relating to other investing activities	VI.54		14,510,983.09
Sub-total of cash inflows from investing activities		5,156,802,404.50	97,791,974.57
Cash paid for acquisition of fixed assets, intangible assets and other long-term assets		294,151,955.40	368,459,286.24
Cash paid for investments		188,717,615.54	672,575,000.00
Net cash paid for acquisition of subsidiaries and other operating entities			
Cash paid relating to other investing activities	VI.54	1,211,700.00	
Sub-total of cash outflows from investing activities		484,081,270.94	1,041,034,286.24
Net cash flows from investing activities		4,672,721,133.56	-943,242,311.67

Prepared by: Livzon Pharmaceutical Group Inc.

Amount denominated: RMB

Item	Notes	At the end of the year	At the beginning of the year
III. Cash flows from financing activities:			
Cash received from investors		15,000,000.00	1,518,300,366.76
Including: Cash received from non-controlling shareholders of subsidiaries		15,000,000.00	98,000,000.00
Cash received from borrowings			860,000,000.00
Cash received from issue of financing bills			350,000,000.00
Cash received relating to other financing activities	VI.54	23,180,507.74	739,415.12
Sub-total of cash inflows from financing activities		38,180,507.74	2,729,039,781.88
Cash repayments of borrowings		350,000,000.00	1,510,000,000.00
Cash paid for dividends, profit distributions or interest		265,263,274.97	275,247,803.79
Including: Dividends and profits paid to non-controlling shareholders of subsidiaries		49,000,000.00	44,100,000.00
Cash paid relating to other financing activities	VI.54	6,050,621.02	5,027,224.20
Sub-total of cash outflows from financing activities		621,313,895.99	1,790,275,027.99
Net cash flows from financing activities		-583,133,388.25	938,764,753.89
IV. Effect of foreign exchange rate changes on cash and cash equivalents		-66,402,282.70	20,092,121.70
V. Net increase in cash and cash equivalents		5,339,050,930.30	1,294,829,601.44
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		7,400,973,935.19	2,061,923,004.89

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

Prepared by: Livzon Pharmaceutical Group Inc.

Amount denominated: RMB

Item	For the year										For the previous year				
	Attributable to shareholders of the Parent Company										Attributable to shareholders of the Parent Company				
	Share capital	Other Equity	Other Equity	Capital reserve	Other Comprehensive Income	Special reserve	Surplus reserve	General reserve	Retained earnings	Others	Share capital	Other Equity	Other Equity	Capital reserve	Other Comprehensive Income
I. Balance at 31 December 2016	425,739,125.00	1,824,308,022.12	1,802,271,065.40	60,276.19	599,651,086.12	7,705,634,535.55	3,842,442,746.62	3,842,442,746.62	3,842,442,746.62	3,842,442,746.62	3,842,442,746.62	3,842,442,746.62	3,842,442,746.62	3,842,442,746.62	3,842,442,746.62
II. Add effects of change in accounting policies															
III. Effects of corrections in errors in prior period															
IV. Balance at 1 January 2017	425,739,125.00	1,824,308,022.12	1,802,271,065.40	60,276.19	599,651,086.12	7,705,634,535.55	3,842,442,746.62	3,842,442,746.62	3,842,442,746.62	3,842,442,746.62	3,842,442,746.62	3,842,442,746.62	3,842,442,746.62	3,842,442,746.62	3,842,442,746.62
V. Changes in equity for the period															
(I) Total comprehensive income	127,007,243.00	-415,038,008.19	-713,530,063.44	-45,149,152.62	-130,762,744.53	4,427,965,996.05	4,427,965,996.05	4,427,965,996.05	4,427,965,996.05	4,427,965,996.05	1,424,599,781.97	-186,888,151.60	13,353,956.04	13,353,956.04	13,353,956.04
(II) Shareholders' contributions and income of capital	-107,534.00	-3,207,574.14	-713,530,063.44		15,000,000.00	85,079,959.30					1,386,529,762.49	-186,888,151.60			
1. Ordinary paid-in invested by shareholders					15,000,000.00	15,000,000.00					1,386,529,762.49	-186,888,151.60			
2. Capital contributed by holders of other equities											1,386,529,762.49	-186,888,151.60			
3. Increase in shareholders' equity resulted from share-based payments															
4. Others															
(III) Appropriation of profits															
1. Appropriation of surplus reserve															
2. Appropriation of general risk provision															
3. Distribution to shareholders															
4. Others															
(IV) Transfer of shareholders' equity internally															
1. Capital reserve transferred to capital for share capital															
2. Surplus reserve transferred to capital for share capital															
3. Surplus reserve transferred to retained earnings for losses incurred															
4. Others															
(V) Special income															
1. Appropriation of special reserve															
2. Utilization of special reserve															
VI. Balance at 31 December 2017	552,746,368.00	1,715,270,013.93	66,786,741.96	-44,543,656.63	599,651,086.12	11,238,613,535.60	8,262,395,743.19	8,262,395,743.19	8,262,395,743.19	8,262,395,743.19	3,842,442,746.62	1,424,599,781.97	13,353,956.04	13,353,956.04	13,353,956.04

Chairman of the Board and legal representatives:
Zhu BaoguoVice Chairman and President:
Tao DeshengPrincipal in charge of accounting work:
Si YanxiaName of the accounting firm's principal:
Zhuang Jianying

Prepared by: Livzon Pharmaceutical Group Inc.

Item	Notes	At the end of the year	Amount denominated: RMB At the beginning of the year
Current assets:			
Cash at bank and on hand		6,494,605,142.51	1,606,485,665.85
Financial assets at fair value through profit or loss			
Derivative financial assets			
Bills receivables		636,582,349.82	378,167,573.35
Accounts receivables	XVII.1	637,179,064.67	750,555,294.60
Prepayments		23,947,297.19	7,714,173.54
Interest receivables		5,945,063.41	
Dividends receivables		566,928,924.56	177,917,013.08
Other receivables	XVII.2	1,662,285,306.91	1,597,868,171.05
Inventories		324,451,425.51	544,807,287.12
Held-for-sale assets			
Non-current assets due within one year			
Other current assets		14,802,063.57	659,787,830.58
Total current assets		10,366,726,638.15	5,723,303,009.17
Non-current assets:			
Available-for-sale financial assets		85,369,506.68	146,794,165.97
Held-to-maturity investments			
Long-term receivables			
Long-term equity investments	XVII.3	1,921,512,447.08	2,129,168,228.64
Investment properties			
Fixed assets		64,002,756.47	57,527,592.11
Construction in progress			
Construction supplies			
Fixed assets to be disposed			
Bearer biological assets			
Oil and gas assets			
Intangible assets		13,384,939.00	27,692,003.80
Development costs		15,227,566.18	14,821,797.96
Goodwill			
Long-term deferred expenses		1,900,875.67	120,000.00
Deferred tax assets		34,887,407.91	23,188,326.48
Other non-current assets		84,665,592.70	13,151,166.62
Non-Total current assets		2,220,951,091.69	2,412,463,281.58
Total assets		12,587,677,729.84	8,135,766,290.75

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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

Prepared by: Livzon Pharmaceutical Group Inc.

Amount denominated: RMB

Item	Notes	At the end of the year	At the beginning of the year
Current liabilities:			
Short-term loans			
Financial liabilities at fair value through profit and loss			
Derivative financial liabilities			
Bills payables		586,471,643.46	357,658,571.27
Accounts payables		885,478,188.96	959,772,950.49
Receipts in advance		39,100,755.02	27,009,355.74
Employee benefits payables		28,957,166.37	21,646,582.84
Taxes payables		739,087,798.63	33,984,535.88
Interest payables			3,812,602.74
Dividends payables		20,174.46	20,174.46
Other payables		2,810,748,903.74	2,818,149,364.34
Held-for-sale liabilities			
Non-current liabilities due within one year			
Other current liabilities			350,000,000.00
Total current liabilities		5,089,864,630.64	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 income		54,183,338.51	28,983,338.51
Deferred tax liabilities		4,857,099.27	4,026,425.14
Other non-current liabilities			
Total non-current liabilities		59,040,437.78	33,009,763.65
Total liabilities		5,148,905,068.42	4,605,063,901.41
Shareholders' equity:			
Share capital		553,231,369.00	425,730,126.00
Other equity instruments			
of which: preferred shares			
perpetual bonds			
Capital reserve		1,836,798,282.28	1,941,836,360.47
Less: Treasury shares		66,786,741.96	140,321,805.40
Other comprehensive income		8,352,564.09	7,794,249.49
Special reserve			
Surplus reserve		382,292,109.32	382,292,109.32
General risks provision			
Retained earnings		4,724,885,078.69	913,371,349.46
Total shareholders' equity		7,438,772,661.42	3,530,702,389.34
Total liabilities and shareholders' equity		12,587,677,729.84	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

Prepared by: Livzon Pharmaceutical Group Inc.

Amount denominated: RMB

Item	Notes	At the end of the year	At the beginning of the year
I. Operating income	XVII.4	4,849,700,613.45	4,561,899,914.14
Less: Operating costs	XVII.4	2,779,831,319.99	2,320,736,961.44
Business taxes and surcharges	XVII.5	39,929,241.75	38,307,488.62
Selling expenses		1,920,406,720.65	1,993,177,875.24
Administrative expenses		294,001,882.79	254,501,940.30
Financial expenses		-95,034,838.85	-24,629,036.78
Impairment loss		57,328,008.90	11,397,051.44
Add: Gains from changes in fair value ("—" represents losses)			
Investment income ("—" represents losses)	XVII.6	4,968,268,491.77	365,735,853.61
Including: Gains from investment in associates and joint ventures		-1,014,681.56	-1,974,148.87
Gain from disposal of asset ("—" represents losses)		-503,672.43	-16,823.84
Other income		20,021,912.90	
II. Operating profit ("—" represents losses)		4,841,025,010.46	334,126,663.65
Add: Non-operating income		79,931,480.46	78,545,813.22
Including: Profit from destroyed and damaged noncurrent assets			
Less: Non-operating expenses		23,928,488.40	4,353,984.67
Including: Profit from destroyed and damaged non-current assets			
III. Total profit ("—" represents total losses)		4,897,028,002.52	408,318,492.20
Less: Income tax expenses		872,732,977.29	1,872,379.84
IV. Net profit ("—" represents net losses)		4,024,295,025.23	406,446,112.36
(I) Net profit from continuing operations ("—" represents net losses)		4,024,295,025.23	406,446,112.36
(II) Net profit from discontinued operations ("—" represents net losses)			
V. Other comprehensive income after tax, net		558,314.60	-769,690.73
(I) Other comprehensive income items subsequently not to be re-classified as profit or loss			
1. Changes caused by re-measurement of net liabilities or net assets of benefit plans			
2. Other comprehensive income portions subsequently not to be re-classified as profit or loss of investment units using the equity method			

Prepared by: Livzon Pharmaceutical Group Inc.

Amount denominated: RMB

Item	Notes	At the end of the year	At the beginning of the year
(II) Other comprehensive income items subsequently to be re-classified as profit or loss		558,314.60	-769,690.73
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		2,777,579.60	-769,690.73
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		-2,219,265.00	
VI. Total comprehensive income		4,024,853,339.83	405,676,421.63

Chairman of the Board and
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accounting work:
Si Yanxia

Name of the accounting
firm's principal:
Zhuang Jianying

Prepared by: Livzon Pharmaceutical Group Inc.

Amount denominated: RMB

Item	Notes	At the end of the year	At the beginning of the year
I. Cash flows from operating activities:			
Cash received from sale of goods and rendering of services		5,466,433,778.87	5,048,120,001.61
Refund of taxes			
Cash received relating to other operating activities		196,411,777.42	129,764,449.18
Sub-total of cash inflows from operating activities		5,662,845,556.29	5,177,884,450.79
Cash paid for purchasing goods and services		3,036,011,217.23	2,611,436,113.42
Cash paid to and for employees		127,761,669.62	103,587,990.70
Cash paid for all types of taxes		502,437,752.77	371,335,700.54
Cash paid relating to other operating activities		2,160,227,581.80	1,990,888,638.18
Sub-total of cash outflows from operating activities		5,826,438,221.42	5,077,248,442.84
Net cash flows from operating activities		-163,592,665.13	100,636,007.95
II. Cash flows from investing activities:			
Cash received from disposal of investments		656,732,954.55	
Cash received from return on investments		1,029,900,804.75	45,790,073.75
Net cash received from disposal of fixed assets, intangible assets and other long-term assets		455,700.00	358,857.53
Net cash received from disposal of subsidiaries and other operating entities		3,740,295,323.16	
Cash received relating to other investing activities			
Sub-total of cash inflows from investing activities		5,427,384,782.46	46,148,931.28
Cash paid for acquisition of fixed assets, intangible assets and other long-term assets		13,477,130.33	26,205,478.40
Cash paid for acquisition of investments		30,000,000.00	755,000,000.00
Cash paid relating to other investing activities			
Sub-total of cash outflows from investing activities		43,477,130.33	781,205,478.40
Net cash flows from investing activities		5,383,907,652.13	-735,056,547.12

Prepared by: Livzon Pharmaceutical Group Inc.

Amount denominated: RMB

Item	Notes	At the end of the year	At the beginning of the year
III. Cash flows from financing activities:			
Cash received from investors			1,420,300,366.76
Borrowings received from subsidiaries		1,422,907,591.95	1,774,206,108.07
Cash received from borrowings			430,000,000.00
Cash received from issue of bonds			350,000,000.00
Cash received relating to other financing activities		23,180,507.74	739,415.12
Sub-total of cash inflows from financing activities		1,446,088,099.69	3,975,245,889.95
Cash repayments of borrowings		350,000,000.00	830,000,000.00
Cash paid for dividends, profit distributions or interest		216,263,274.97	222,187,070.43
Advances to subsidiaries			
Cash paid relating to other financing activities		1,204,594,156.80	1,359,629,004.94
Sub-total of cash outflows from financing activities		1,770,857,431.77	2,411,816,075.37
Net cash flows from financing activities		-324,769,332.08	1,563,429,814.58
IV. Effect of foreign exchange rate changes on cash and cash equivalents		-7,426,178.26	11,151.57
V. Net increase in cash and cash equivalents		4,888,119,476.66	929,020,426.98
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		6,494,605,142.51	1,606,485,665.85

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Zhuang Jianying

Prepared by: Livzon Pharmaceutical Group Inc.

Amount denominated: RMB

Item	For the year										For the previous year				
	Share capital	Preferred Shares	Other equities	Others	Capital reserve	Treasury shares	Less: comprehensive income	Other income	Special reserves	Surplus reserve	General risks provision	Retained earnings	Total shareholders' equity		
	457,730,126.00			1,940,835,360.47	140,321,065.40	7,794,248.49				382,252,109.32		913,371,348.46	3,590,702,383.34		
Balance at 31 December 2016															
Add: effects of changes in accounting policies															
Effects of corrections on errors in prior periods															
Others															
Balance at 1 January 2017	457,730,126.00			1,940,835,360.47	140,321,065.40	7,794,248.49				382,252,109.32		913,371,348.46	3,590,702,383.34		
(I) Changes in equity for the year															
(+/-) Represents decrease	127,591,743.00			-105,038,078.19	-73,335,063.44	538,314.60						167,485,339.62	1,767,686,892.70		
(II) Total comprehensive income						538,314.60						485,446,112.35	485,446,112.35		
(I) Shareholders' contributions and decrease of capital	-167,534.00			-3,287,575.14	-73,335,063.44							1,521,278,493.09	1,420,300,366.76		
1. Ordinary shares issued by shareholders															
2. Capital contributed by holders of other equities															
3. Increase in shareholders' equity resulted from share-based payments															
4. Others	-167,534.00			-3,287,575.14	-73,335,063.44										
(II) Appropriation of profits															
1. Appropriation of surplus reserve												101,978,126.33			
2. Appropriation of general risks provision												-238,960,571.74	-198,315,961.50		
3. Distributions to shareholders												-40,644,611.24			
4. Others															
(III) Transfer of shareholders' equity															
1. Capital reserve transferred to capital (or share capital)	127,668,777.00			-127,668,777.00											
2. Surplus reserve transferred to capital (or share capital)															
3. Surplus reserves transferred to retained earnings (or losses incurred)															
4. Others															
(IV) Special reserve															
1. Appropriation of special reserve															
2. Utilization of special reserve															
(V) Others															
Balance at 31 December 2017	585,321,869.00			1,836,798,302.28	66,786,001.96	8,332,562.89				382,252,109.32		913,371,348.46	3,530,702,383.34		

Chairman of the Board and
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Zhu BaoguoVice Chairman and
President:
Tao DeshengPrincipal in charge of
accounting work:
Si YanxiaName of the accounting
firm's principal:
Zhuang Jianying

I. COMPANY STATUS

1. History and development

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

In 1993, pursuant to Yue Zheng Jian Fa Zi 1993 No. 001 document (粵證監發字1993001號文) issued by Guangdong Securities Regulatory Commission (廣東省證券監督管理委員會), Shen Ren Yin Fu Zi 1993 No. 239 document (深人銀復字1993第239號文) issued by Shenzhen Special Economic Zone branch of the People's Bank of China (中國人民銀行深圳經濟特區分行) and Zheng Jian Fa Shen Zi 1993 No. 19 document (證監發審字1993 19 號文) issued by China Securities Regulatory Commission, the Company was listed on the Shenzhen Stock Exchange.

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

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

I. COMPANY STATUS *(continued)*

1. History and development *(continued)*

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

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

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

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

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

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

I. COMPANY STATUS *(continued)*

1. History and development *(continued)*

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

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

Pursuant to “the Resolution on Repurchase and Cancellation of Locked Restricted Shares Granted to Incentive Participants No Longer Satisfying the Conditions for Incentive” considered and approved by the 23th Board Meeting of the 8th Session of the Board (28 March 2016) and 26th Board Meeting of the 8th Session of the Board (16 May 2016), 257,624 shares were repurchased. After the repurchase, the Company’s share capital has changed to RMB396,631,923. This capital reduction was validated and confirmed by Capital Verification Report Rui Hua Yan Zi [2016] 40030011 issued by Ruihua issued by Ruihua Certified Public Accountants.

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

Pursuant to the “Resolution on Repurchase and Cancellation of Locked Restricted Shares Granted to Incentive Participants No Longer Satisfying the Conditions for Incentive” passed at the Thirty-second Meeting of the Eighth Session of the Board on 30 November 2016 and the Thirty-sixth Meeting of the Eighth Session of the Board on 28 March 2017, 167,534 shares were repurchased. The Company’s share capital following the repurchase has changed to RMB425,562,592. This capital reduction was validated and confirmed by Capital Verification Report Rui Hua Yan Zi [2017]40030001 and [2017]40030007 issued by Ruihua Certified Public Accountants.

Pursuant to the requirements of the Articles of Association considered and amended at 2016 general meeting, 2017 first class meeting of A Shareholders and 2017 first class meeting of H Shareholders, based on the Company’s total share capital of 425,562,592 shares, the Company made a bonus issue of 127,668,777 shares, each RMB1 by way of capitalising our capital reserve on the basis of 3 shares for every 10 shares held to all shareholder. After completion of issue, the registered capital of the Company has changed to RMB553,231,369. This capital increase was validated and confirmed by Capital Verification Report Rui Hua Yan Zi [2017]40030010 issued by Ruihua Certified Public Accountants.

I. COMPANY STATUS *(continued)***2. Industry of the Company**

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

3. Scope of business

The scope of business for the Company as approved was the production and sales of bulk medicines for traditional Chinese and western medicines, pharmaceutical intermediates, traditional Chinese herbal medicines, traditional Chinese medicine drink tablets, medical equipment, sanitary materials, healthcare products, medical cosmetics, over-the-counter drugs for traditional Chinese and western medicines biochemical reagents, as well as chemicals, food, information business, bulk medicines. pharmaceutical diagnostic equipment and reagents; research and development of new medical products, transfer of technical achievements; management service; rental of pharmaceutical diagnostic equipment; import & export of proprietary products of the Company and relevant auxiliary service; wholesale of over-the-counter traditional Chinese medicines, chemical bulk medicines and their preparations, antibiotics bulk medicines and their preparations, biological products (except for preventive biological products), biochemical drugs (where those products are administrated with quota 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 has been approved and published by the Board meeting on 23 March 2018.

Please refer to note. VIII "Equity in other entities" for names of subsidiaries included into the consolidation in 2017. Six more subsidiaries are added during the Year compared with the previous year while two subsidiaries are excluded, 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 amount existing when the sale conditions are satisfied, whichever is the lower. In case of impairment, the impairment loss shall be determined in accordance with applicable provisions.

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

The financial statements prepared by the Company comply with the Accounting Standards for Business Enterprises, which truly and completely present the information on the financial conditions of the Company as at 31 December 2017 and the results and cash flow of the Company for the year 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.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

1. Accounting period

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

2. Operating cycle

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

3. Functional currency

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

4. Accounting treatments for business combinations

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

(1) Business combinations involving enterprises under common control

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

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(continued)

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

(1) Business combinations involving enterprises under common control *(continued)*

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

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

(2) Business combinations involving enterprises not under common control

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

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

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)

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

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

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

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

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(continued)

5. Preparation of consolidated financial statements

(1) Determination in the scope of consolidation

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

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

(2) Preparation of consolidated financial statements

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

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

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

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

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 loses its control over the original subsidiary due to the disposal of some equity investment or other reasons, the remaining equity is re-measured at its fair value on the date when the Company loses its control. The different between the sum of the consideration acquired due to the disposal of the equity and the fair value of the remaining equity and the Company's share in the net assets of the original subsidiary calculated on an on-going basis from the acquisition date based on the original shareholding proportion is recognised in the investment income for the current period when the control is lost. Other comprehensive income in relation to the subsidiary are accounted on the same basis as the investee when control cease (i.e. except for changes due to net liabilities or net assets from such investee's re-measured defined benefits plan, the rest are reclassified as investment income during the period). After that, the remaining equity is subject to subsequent measurement in accordance with such rules as the "Accounting Standards for Business Enterprises No. 2 – Long-term Equity Investment" and the "Accounting Standards for Business Enterprises No. 22 – Recognition and Measurement of Financial Instruments". Please see note IV 12 (Long-term equity investment) and note IV 8 (Financial Instruments) for details.

Where the Company disposes of the equity investment in the subsidiary through several transactions until the Company loses control, it shall be determined whether such transactions are a basket of transactions. Where the terms, conditions and economic impacts of various transactions involved in the disposal of the equity investment in the subsidiary satisfy one or several of the following circumstances, such several transactions shall be normally deemed as a basket of transactions in accounting treatment: (1) such transactions are entered into simultaneously or upon the consideration of the mutual impacts; (2) no complete commercial result will be realised without such transactions as a whole; (3) the occurrence of one transaction depends on the occurrence of at least another transaction; (4) one transaction is not economical independently but economical together with other transactions. In case no basket of transactions is constituted, each transaction is subject to the accounting treatment separately based on the applicable principles stipulated in "Partial disposal of the long-term equity investment in subsidiaries without losing control" (note IV 12(2)4) and "Loss of control over original subsidiaries due to the disposal of partial equity investment or other reasons" (above paragraph) as the case may be. Where such transactions constitute a basket of transactions, such transactions are together subject to the accounting treatment as a transaction of disposal subsidiaries and losing control; provided that the difference between the consideration of each disposal and the Company's share in the net assets of the subsidiary corresponding to the investment disposal before the loss of the control is recognised as the other comprehensive income and carried forward to the profit or loss for the current period when the control is lost.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(continued)

6. Cash and Cash Equivalents

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

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

(1) Translation of foreign currency transactions

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

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

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

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

(3) Translation of financial statements in foreign currency

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

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(continued)

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

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

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

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

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

8. Financial Instruments

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

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

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

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(continued)

8. Financial Instruments (continued)

(2) Classification, recognition and measurement of financial instruments

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

1 Financial assets at fair value through profit or loss

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

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

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

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

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(continued)

8. Financial Instruments (continued)

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

2 Held-to-maturity investments

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

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

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

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

3 Loans and receivables

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

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

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(continued)

8. Financial Instruments (continued)

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

4 Available-for-sale financial assets

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

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

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

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

(3) Impairment of financial assets

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

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

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(continued)

8. Financial Instruments (continued)

(3) Impairment of financial assets (continued)

1 Impairment of held-to-maturity investments, loans and receivables

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

2 Impairment of available-for-sale financial assets

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

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

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

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

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(continued)

8. Financial Instruments *(continued)*

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

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

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

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

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

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

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(continued)

8. Financial Instruments (continued)

(5) Classification and measurement of financial liabilities

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

1 Financial liabilities at fair value through profit or loss

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

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

2 Other financial liabilities

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

3 Financial guarantee contracts and loan commitments

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

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(continued)

8. Financial Instruments *(continued)*

(6) De-recognition of financial liabilities

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

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

(7) 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.

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

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(continued)

9. Receivables

Receivables include accounts receivables and other receivables.

(1) Treatment of bad debts provision

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

- 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

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

Amount of more than 10% of the balance of receivables

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

- Bad debt provision for receivables by portfolio

Basis for determining the portfolio

Method of bad debts provision based on portfolio

Basis for determining portfolio of credit risk by ageing

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 year)	6%	6%
2-3 years (including 3 year)	20%	20%
3-4 years (including 4 year)	70%	70%
4-5 years (including 5 year)	90%	90%
over 5 years	100%	100%

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

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 amount over the estimated present value of future cash flow. If the present value of future cash flow cannot be estimated accurately, provisions for bad debts are made based on the portfolio of credit risk using ageing analysis method.

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

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

(2) Reversal of bad debts provision

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

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(continued)

10. Inventories

(1) Classification of inventories

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

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

(3) Method of measurement

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

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

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

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

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

11. 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.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(continued)

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

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

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

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

12. Long-term equity investment

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

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

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

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(continued)

12. Long-term equity investment (continued)

(1) Determination of investment cost

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

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

(2) Subsequent measurement and recognition of profit or loss

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

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

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

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

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(continued)

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

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

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

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

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

3 Acquisition of non-controlling interests

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

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(continued)

12. Long-term equity investment (continued)

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

4 Disposal of long-term equity investment

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

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

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

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

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

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

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(continued)

12. Long-term equity investment (continued)

(4) Impairment test and provision for impairment

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

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

13. Investment Properties

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

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

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

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

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

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

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

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(continued)

14. Fixed Assets

(1) Recognition of fixed assets

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

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

(2) Classification of fixed assets

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

(3) Measurement of fixed assets

Fixed assets are initially measured at cost.

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

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.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(continued)

15. Construction in progress

(1) Classification of construction in progress

Construction in progress is classified into individual projects.

(2) Conversion of construction in progress to fixed assets

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

(3) Impairment of construction in progress

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

16. Borrowing Costs

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

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

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(continued)

16. Borrowing Costs (continued)

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

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(continued)

17. Biological Assets

(1) Determination and classification of biological assets

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

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

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

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

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

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

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(continued)

18. Intangible Assets

(1) Intangible assets

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

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

Intangible assets are measured initially at cost.

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

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(continued)

18. Intangible Assets (continued)

(1) Intangible assets (continued)

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

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

(2) Research and development expenditures

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

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

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

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

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

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(continued)

18. Intangible Assets (continued)

(2) Research and development expenditures (continued)

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

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

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

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

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

19. Long-term deferred expenses

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

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(continued)

20. Impairment of Non-fixed Non-financial Assets

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

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

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

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

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(continued)

21. Employee compensation

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

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

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

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

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

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(continued)

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.

(2) Determination for the best estimate of provisions

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

- 1 If the provision is related to a single outcome, the best estimate is determined by the amount required to settle the obligation of the most likely outcome;
- 2 If the provision is related to several outcomes, the best estimate is calculated and determined in accordance with all possible outcomes with the relevant probabilities. When all or part of the liabilities of the Company is expected to be compensated by a third-party, the compensation is separately recognised as an asset only when it is virtually certain that the compensation will be received. The amount of asset recognised in respect of compensation should not exceed the carrying amounts of the liabilities recognised.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(continued)

23. Share-based payments

(1) Accounting treatment for share-based payments

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

1 *Equity-settled share-based payments*

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

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

Equity-settled share-based payments in exchange for services rendered by other parties are measured at the fair value of the services rendered by other parties on the receiving date if such fair value can be reliably measured. If the fair value of the services rendered by other parties cannot be reliably measured, equity-settled share-based payments in exchange for services rendered by other parties are measured at the fair value of equity instruments on the date of receiving services and charged to relevant costs or expenses and shareholders' equity is credited accordingly, provided that the fair value of equity instruments can be reliably measured.

2 *Cash-settled share-based payments*

Cash-settled share-based payments are measured at the fair value of the liabilities (share-based or other equity instrument-based) assumed by the Company. Instruments which are vested immediately upon the grant are charged to relevant costs or expenses on the date of grant and liabilities are increased accordingly. If vesting is conditional upon completion of services in the pending period or fulfillment of performance conditions, at each balance sheet date during the pending period, based on the best estimates of the vesting situation, according to the amount of fair value of the liabilities assumed by the Company, the services received for the period are charged to costs or expenses and liabilities are increased accordingly.

At each balance sheet date and settlement date before the relevant liabilities are settled, the fair value of liabilities are re-measured and the resulting changes are included in the profit and loss for the period.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(continued)

23. Share-based payments (continued)

(2) Accounting treatment in relation to share-based payment plan modification and termination

When the Company modifies the share-based payment plan, and if such modification increases the fair value of the equity instruments granted, the increase in services received will be recognized accordingly following the increase in fair value of the equity instruments. The increase in fair value of the equity instruments refers to the difference in fair value on the date of modification before and after the modification in respect of the equity instruments. If the modification reduces the total fair value of the share-based payments or adopts any form that is unfavorable to employees, accounting treatment will be continued to be conducted in respect of the services received and the modification will be deemed to have never occurred, unless the Company had cancelled part or all of the equity instruments granted.

During the pending period, if the equity instruments granted are cancelled, the Company will undertake an accelerated vesting in respect of the cancelled equity instruments that had been granted, include the remaining amount that shall be recognized during the pending period in the profit and loss for the period immediately and recognize capital reserve accordingly. Where employees or other parties are permitted to choose to fulfill non-vesting conditions but have not fulfilled during the pending period, the Company will treat the granted equity instruments as cancelled.

(3) Accounting treatment for share-based payments involving the Company and the shareholders of the Company or the actual controller

For share-based payment transactions involving the Company and the shareholders of the Company or the actual controller, the settlement enterprise and the enterprise receiving services (one under the Company while another external to the Company) shall follow the requirements below to conduct accounting treatment in the Company's consolidated financial statements:

- 1 For settlement enterprises settling through their own equity instruments, such share-based payment transaction will be treated as equity-settled share-based payment; except for this, such share-based payment transaction will be treated as cash-settled share-based payment.

Where a settlement enterprise is an investor of an enterprise receiving services, the fair value of the equity instruments on the date of grant or the fair value of the liabilities that shall be assumed are recognized as long-term equity investment in the enterprise receiving services, at the same time, capital reserve (other capital reserve) or liabilities are recognized.

- 2 Where an enterprise receiving services has no settlement obligations or grants its own equity instruments to employees, such share-based payment transaction will be treated as equity-settled share-based payment; where an enterprise receiving services has settlement obligations and grants equity instruments (other than its own) to employees, such share-based payment transaction will be treated as cash-settled share-based payment.

For a share-based payment transaction occurring between each enterprise under the Company where the enterprise receiving services and the settlement enterprise are not the same enterprise, such share-based payment transaction shall be recognized and measured in each of the respective financial statements of the enterprise receiving services and the settlement enterprise (as compared with the above principles).

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(continued)

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.

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 primarily sells goods by the way of distribution and enters into sales contracts with dealers. Revenue from sales is recognised according to the invoiced amount upon the delivery of goods according to the orders received from dealers.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(continued)

25. Revenue (continued)

(2) Rendering of services

At the balance sheet date, where the outcome of a transaction involving the rendering of services can be estimated reliably, revenue from the rendering of services is recognised by reference to the stage of completion of the transaction. The stage of completion of the transaction is determined according to the progress of work performed by the following methods:

- 1 Survey of work performed.
- 2 Services performed to date as a percentage of total services to be performed.
- 3 The proportion of the costs incurred to date bear to the estimated total costs of the transaction.

Total revenue from rendering of services is determined by the amount received or receivable from the party receiving the service as stated in the contract or agreement unless the amount received or receivable as stated in the contract or agreement is not at fair value. At the balance sheet date, the revenue arising from the rendering of services for the current period is recognised with reference to the total revenue of rendering of services multiplied by percentage of completion less the cumulative amount of revenue recognised in the prior accounting periods.

Where outcome of rendering of services cannot be estimated reliably at the balance sheet date, the revenue is determined as follows:

- 1 If the costs incurred are expected to be recoverable, revenues are recognised as costs incurred, and an equivalent amount is charged as service cost.
- 2 If the costs incurred are not expected to be recoverable, the costs incurred are recognised in profit or loss for the current period and no service revenue is recognised.

(3) Assignment of asset use right

If it is probable that economic benefits associated with the transaction will flow to the Company, and the amount of revenue can be reliably estimated, the Company recognises the revenue from the assignment of asset use rights by the following methods:

- 1 Interest income is recognised on a time proportion basis with reference to the principal outstanding at the applicable effective interest rate.
- 2 Licensing revenue is recognised with reference to the period and method stated under relevant contract or agreement.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(continued)

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.

(3) Accounting treatment

A government grant related to assets is recognised initially as deferred income and amortised to profit or loss on a straight-line basis over the useful life of the asset. A government grant related to income is recognised by the following methods: a grant that compensates the Group for expenses or loss to be incurred in the subsequent periods is recognised initially as deferred income and recognised in profit or loss in the same periods in which the expenses are recognised; and a grant that compensates for expenses incurred is recognised in profit or loss for the current period.

Government grant relating to daily activities is recognised in other income based on the nature of business; government grant not relating to daily activities is recognised in non-operating income and expenses.

Where the recognised government grant is to be returned, the balance of the related deferred income, if any, is to offset the carrying amount of the related deferred income; and the excess, if any, is to be recognised in profit or loss for the current period; and the grant is to be directly recognised in profit or loss for the current period in case of no related deferred income.

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.

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 current period are recognised as income tax expenses or incomes in the profit or loss for the current period, except for the income taxes arising from the following circumstances:

- 1 Business combinations;
- 2 The transactions or events directly recognised in the shareholders' equity.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(continued)

29. Other Comprehensive Income

The Company stipulates that the gains and losses not recognised in profit or loss for the current period are presented as the other comprehensive income in accordance with applicable accounting standards. The other comprehensive income is presented by the following two groups in accordance with applicable accounting standards:

- (1) The other comprehensive income items not eligible to be re-classified as profit or loss in the subsequent accounting periods mainly include the changes caused by re-measurement and re-definition of net liabilities or net assets of benefit plans and the Company's share in the other comprehensive income not eligible to be re-classified as profit or loss in the subsequent accounting periods of the investee and accounted for using the equity method;
- (2) The other comprehensive income items to be re-classified as profit or loss in the subsequent accounting periods upon the satisfaction of stipulated conditions mainly include the Company's share in the other comprehensive income to be re-classified as profit or loss in the subsequent accounting periods of the investee upon the satisfaction of stipulated conditions and accounted for using the equity method, the gains or losses arising from the hold-to-maturity investment re-classified as available-for-sale financial assets, such a portion of the gains or losses arising from cash flow hedges instrument as may be attributable to hedging activities and difference in translation of financial statements in foreign currency.

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

(2) The Company books operating leases as a lessor.

Rent income of operating leases is recognised in profit or loss for current period by the straight-line method in various periods within the term of lease. Initial direct costs with large amount are capitalised when actually taking place and recognised in profit or loss for current period in different stages on the same basis as that to recognise rent income; and other initial direct costs with small amount are recognised in profit or loss for current period directly at the time of occurrence. Contingent rent is recognised in profit or loss for current period when actually taking place.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(continued)

30. Leases *(continued)*

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

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

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

(4) The Company books finance leases as a lessor.

On the commencement date of the term of lease, the sum of the minimum lease receipt on the commencement date of the lease and the initial direct costs are recognised as the cost of finance lease accounts receivables and the unsecured balance is recognised at the same time; the difference between the sum of the minimum lease receipt, the initial direct costs and the unsecured balance and the present value thereof is recognised as the unrealised finance income. The balance of the finance lease accounts receivables less the unrealised finance income is presented in long-term credits and long-term credits due within one year.

Unrealised financing income is calculated and recognised in financing income for the current period by the effective interest rate method. Contingent rent is recognised in profit or loss for current period when actually taking place.

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

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(continued)

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

(1) Changes Of Accounting Policies

Change of accounting policies due to adoption 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 on 22 August 2017, the Company commenced the two accounting standards above at the time as required by the MOF.
- In accordance with the “Notice on the Revision of the Format for Issuing General Enterprise Financial Statements” (CaiKuai [2017] No. 30) issued by the Ministry of Finance, the Previous Period’s figures are adjusted as follows:

Items	2016					
	Consolidated financial statements			Parent Company's financial statements		
	Amount before adjustment	Changes	Amount after adjustment	Amount before adjustment	Changes	Amount after adjustment
Gain from disposal of assets	0.00	4,836,855.74	4,836,855.74	0.00	-16,823.84	-16,823.84
Non-operating income	136,029,232.75	-6,429,453.92	129,599,778.83	78,630,003.18	-84,189.96	78,545,813.22
Non-operating expenses	7,448,331.26	-1,592,598.18	5,855,733.08	4,454,998.47	-101,013.8	4,353,984.67

(2) Changes of accounting estimates and correction of accounting errors

Nil.

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

V. TAXATION

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

Types of tax	Basis of taxation	Tax rate
Value added tax	Income from sales of products and raw materials	Value added tax rate for sales of biological preparation: 3%, value added tax rate for other sales: 17%.
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), Li An (Hong Kong) Co., Ltd. (麗安香港有限公司), Livzon Biologics Hong Kong Limited (麗珠生物科技香港有限公司)	16.5%	Policies regarding Hong Kong Profits Tax are applicable
Companhia de Macau Carason Limitada (澳門嘉安信有限公司), Li Zhu (Macau) Limitada (麗珠(澳門)有限公司)	0-12%	Tax rate is 12% where the taxable income is Macau dollar 600,000 or more; for those with taxable income less than Macau dollar 600,000, they are exempted from income taxes.
Livzon Group Limin Pharmaceutical Manufacturing Factory (麗珠集團利民製藥廠), Livzon Group Livzon Pharmaceutical Factory (麗珠集團麗珠製藥廠), Zhuhai FTZ Livzon Hecheng Pharmaceutical Manufacturing Co., Ltd. (珠海保稅區麗珠合成製藥有限公司), Shanghai Livzon Pharmaceutical Manufacturing Co., Ltd. (上海麗珠製藥有限公司), Livzon Group Xinbeijiang Pharmaceutical Manufacturing Inc. (麗珠集團新北江製藥股份有限公司), Sichuan Guangda Pharmaceutical Manufacturing Co., Ltd. (四川光大製藥有限公司), Zhuhai Livzon Diagnostic Reagents Inc. (珠海麗珠試劑股份有限公司), Livzon Group Fuzhou Fuxing Pharmaceutical Co., Ltd. (麗珠集團福州福興醫藥有限公司), Shanghai Livzon Biotechnology Co., Ltd. (上海麗珠生物科技有限公司)	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 Xinbeijiang Pharmaceutical Manufacturing Inc. (麗珠集團新北江製藥股份有限公司) and Zhuhai Livzon Diagnostic Reagents Inc. (珠海麗珠試劑股份有限公司) was recognised as a high and new technology enterprise in 2016 for a valid period of three years; 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) and Livzon Group Fuzhou Fuxing Pharmaceutical Co., Ltd. (麗珠集團福州福興醫藥有限公司) were recognised as the high and new technology enterprise during the Year for a valid period of three years; other companies have reapplied and recognised as the high and new technology enterprises during the Year.

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

V. TAXATION *(continued)*

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

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

Name	Actual tax rate	Remarks
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.
Livzon MABPharm (US) Inc. (麗珠單抗生物技術(美國)有限公司)	35%	
Livzon International Limited, Livzon Biologics Limited	0%	A company incorporated in Cayman Islands which is not required to pay enterprise income tax
Livzon Pharmaceutical Group Inc. (麗珠醫藥集團股份有限公司)	25%	The Company has reapplied and recognised as the high and new technology enterprises during the Year. Due to the transfer of equity interests in Zhuhai Weixing Shiye Co., Ltd. (珠海維星實業有限公司), revenue from high and new technology products accounted for less than 60% of the total revenue, therefore enterprise income tax rate applicable for the year is 25%.
Other subsidiaries	25%	

V. TAXATION *(continued)*

2. Tax Preference and Approvals

Preferential value added tax:

In accordance with the Announcement on Value Added Tax on Biological Products Sold by Pharmaceutical Operation Enterprises (Announcement of State Administration of Taxation 2012 No. 20), the biological products sold by the Company are subject to value added tax at 3% by the simple approach.

Preferential enterprise income tax:

The subsidiaries of the Company, 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) was recognised as the high and new technology enterprise during the Year, and is entitled to the preferential taxation policies applicable to high and new technology enterprises for three years from the year; Livzon Group Limin Pharmaceutical Manufacturing Factory (麗珠集團利民製藥廠), Livzon Group Livzon Pharmaceutical Factory (麗珠集團麗珠製藥廠) and Zhuhai FTZ Livzon Hecheng Pharmaceutical Manufacturing Co., Ltd. (珠海保稅區麗珠合成製藥有限公司) have reapplied and recognized as the 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 for three years since 2016; 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 Year.

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

In accordance with the Revenue Bill 2008 passed by the Legislative Council of the Hong Kong Special Administrative Region on 26 June 2008, the subsidiaries of the Company, Livzon Pharmaceutical Biotechnology Co., Limited (麗珠醫藥生物科技股份有限公司), Li An (Hong Kong) Co. Ltd. (麗安香港有限公司), Livzon Biologics Hong Kong Limited (麗珠生物科技香港有限公司) paid enterprise income tax rate at 16.5% during the Year.

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

VI. NOTES TO THE COMPONENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS

1. Cash at bank and on hand

Item	Balance at the year end	Balance at the beginning of the year
Cash on hand	189,288.49	125,085.29
Bank deposits	7,400,750,287.84	2,060,784,878.76
Other cash at bank and on hand	14,842,622.50	1,013,040.84
Total	7,415,782,198.83	2,061,923,004.89
In which: total overseas deposit	592,055,577.73	233,154,094.99

- (1) Other cash at bank and on hand are mainly deposits under guarantee such as deposits for investments, letter of credit issuing and foreign currency forward contracts.
- (2) The above mentioned deposits under guarantee such as restricted funds of bank deposits, and bank acceptance bills of cash at bank and on hand, and foreign currency forward contracts were deducted from cash and cash equivalents in cash flow statement. Apart from the restricted funds, there is no other charge, pledge or lock up on the balance of cash at bank and on hand that may limit its use, kept outside China and may have probable risks in its collection. Below is the details of the use of restricted funds:

	Balance at the year end	Balance at the beginning of the year
Deposits under guarantee	14,808,263.64	0.00
Total	14,808,263.64	0.00

2. Financial assets at fair value through profit or loss

(1) Classification

Item	Balance at the year end	Balance at the beginning of the year
Financial assets at fair value through profit or loss	8,732,443.07	6,019,067.02
Of which: Shares	7,648,576.50	5,188,158.00
Funds	866,066.57	830,909.02
Derivative financial assets	217,800.00	0.00

- 1 The Company's shares and fund products measured at fair value, with the change in fair value included in the profit or loss for the year were listed for trading on Shenzhen Stock Exchange and Hong Kong Stock Exchange. The fair value was determined based on the closing price on the last trading date in the year.
- 2 Derivative financial assets represents foreign currency forward contracts, gain from unexpired contracts measured at fair value was recognised as financial assets at balance sheet date.
- (2) No restrictive financial asset measured at fair value through profit or loss was realised in the ending balance.
- (3) No hedges instruments in the ending balance and no hedges transactions during the Year.

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

3. Bills receivables

(1) Classification of bills receivables

Type	Balance at the year end	Balance at the beginning of the year
Bank acceptance bills	1,151,583,176.39	512,986,726.32
Total	1,151,583,176.39	512,986,726.32

(2) At the end of this year, no bills receivables of the Group was pledged.

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

Item	Recognised amount by year end	Unrecognised amount by year end
Bank acceptance bills not yet mature but already endorsed	43,384,352.00	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 year end.

(5) For the year, the Company discounted RMB0.00 bank acceptance bills (RMB0.00 in the previous year). As the main risks (such as interest risks) related to these bank acceptance bills were transferred to the bank, the Company derecognized the undue bank acceptance bills that had been discounted. The discounted fee was RMB0.00 (RMB0.00 in the previous year).

4. Accounts receivables

(1) Accounts receivables disclosed by types

Type	Balance at the year end				
	Balance		Provision for bad debts		Carrying Value
	Amount	Percentage (%)	Amount	Percentage (%)	
Accounts receivables that are individually significant and impairment provided on an individual basis	0.00	0.00	0.00	0.00	
Accounts receivables assessed for impairment collectively	1,437,927,063.76	99.71	81,153,911.31	5.64	1,356,773,152.45
Accounts receivables that are individually insignificant but impairment provided on an individual basis	4,209,793.24	0.29	4,209,793.24	100.00	0.00
Total	1,442,136,857.00	100.00	85,363,704.55	5.92	1,356,773,152.45

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

VI. NOTES TO THE COMPONENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)***4. Accounts receivables** *(continued)***(1) Accounts receivables disclosed by types** *(continued)*

Type	Balance at the beginning of the year				
	Balance		Provision for bad debts		Carrying Value
	Amount	Percentage (%)	Amount	Percentage (%)	
Accounts receivables that are individually significant and impairment provided on an individual basis	0.00	0.00	0.00	0.00	
Accounts receivables assessed for impairment collectively	1,550,361,240.55	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

- 1 *Accounts receivables for which provision for bad debts has been made using the ageing analysis method in the portfolio*

Ageing	Balance at the year end		
	Account receivables	Provision for bad debts	Percentage (%)
Within 1 year	1,397,408,478.29	69,870,423.91	5.00
1 to 2 years	24,413,433.19	1,464,806.00	6.00
2 to 3 years	6,150,384.95	1,230,076.99	20.00
3 to 4 years	3,770,818.30	2,639,572.81	70.00
4 to 5 years	2,349,174.34	2,114,256.91	90.00
Over 5 years	3,834,774.69	3,834,774.69	100.00
Total	1,437,927,063.76	81,153,911.31	

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

Accounts receivables description	Balance	Provision for bad debts	Percentage (%)	Reason for provision made
Loans	4,209,793.24	4,209,793.24	100.00	not expected to be recoverable

According to the credit policies of the Company, the Company usually grants a credit period ranging from 30 to 90 days to its customers.

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

4. Accounts receivables *(continued)*

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

Item	Balance at the year end		Balance at the beginning of the year	
	Amount	Percentage (%)	Amount	Percentage (%)
1 to 90 days	1,206,167,251.38	83.64	1,277,695,733.87	82.10
91 to 180 days	139,624,695.33	9.68	147,348,953.76	9.47
181 days to 1 year	51,616,531.58	3.58	91,909,884.28	5.91
1 to 2 years	24,882,590.19	1.73	19,847,303.22	1.28
2 to 3 years	7,836,274.00	0.54	7,980,583.68	0.51
3 to 4 years	4,700,365.95	0.33	4,908,199.74	0.31
4 to 5 years	2,955,512.47	0.20	3,371,193.64	0.22
Over 5 years	4,353,636.10	0.30	3,120,615.49	0.20
Total	1,442,136,857.00	100.00	1,556,182,467.68	100.00

At 31 December 2017 and 31 December 2016, the Company did not have accounts receivables due but not impaired.

- (3) Provisions for bad debts made for the year was RMB-6,166,163.20; no provision for bad debts was recovered or reversed.

(4) Actual write-off of accounts receivables for the year

Item	Amount written-off
Receivables actually written off	267,512.34

- (5) The total of account receivables with five largest amount by creditors was RMB209,091,746.76, or 14.50% of the total account receivables by the year end, total provision for bad debts by the year end was RMB10,471,347.57.

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

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

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

VI. NOTES TO THE COMPONENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)***5. Prepayments****(1) Ageing analysis of prepayments was as follows**

Ageing	Balance at the year end		Balance at the beginning of the year	
	Amount	Percentage (%)	Amount	Percentage (%)
Within 1 year	118,988,396.64	94.08	76,523,370.05	87.22
1 to 2 years	3,750,068.63	2.97	8,349,790.80	9.52
2 to 3 years	2,570,481.33	2.03	562,270.35	0.64
Over 3 years	1,163,011.61	0.92	2,299,087.70	2.62
Total	126,471,958.21	100.00	87,734,518.90	100.00

- (2) The total of prepayments with five largest amount by receiver of prepayments was RMB44,227,425.58, or 34.97% of the prepayments by the year end.

6. Interest receivables

Items	Balance at the year end	Balance at the beginning of the year
Fixed deposit	5,945,063.41	0.00
Total	5,945,063.41	0.00

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

VI. NOTES TO THE COMPONENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)***7. Other receivables****(1) Other receivables presented by types**

Type	Balance at the year end				
	Balance		Provision for bad debts		Carrying value
	Amount	Percentage (%)	Amount	Percentage (%)	
Other receivables that are individually significant and impairment provided on an individual basis	0.00	0.00	0.00	0.00	0.00
Other receivables that are assessed for impairment collectively	67,775,228.56	96.54	10,079,690.01	14.87	57,695,538.55
Other receivables that are individually insignificant but impairment provided on an individual basis	2,429,365.99	3.46	2,429,365.99	100.00	0.00
Total	70,204,594.55	100.00	12,509,056.00	17.82	57,695,538.55

Type	Balance at the beginning of the year				
	Balance		Provision for bad debts		Carrying value
	Amount	Percentage (%)	Amount	Percentage (%)	
Other receivables that are individually significant and impairment provided on an individual basis	0.00	0.00	0.00	0.00	0.00
Other receivables that are assessed for impairment collectively	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

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

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

7. Other receivables *(continued)*

(1) Other receivables presented by types *(continued)*

- 1 *Other receivables for which provisions for bad debts has been made using the ageing analysis method in the portfolio*

Ageing	Balance at the year end		
	Other receivables	Provision for bad debts	Percentage (%)
Within 1 year	55,797,547.70	2,789,877.41	5.00
1 to 2 years	3,667,207.65	220,032.47	6.00
2 to 3 years	1,181,593.29	236,318.65	20.00
3 to 4 years	883,238.24	618,266.77	70.00
4 to 5 years	304,469.78	274,022.81	90.00
Over 5 years	5,941,171.90	5,941,171.90	100.00
Total	67,775,228.56	10,079,690.01	

- 2 *As at the year end, ageing analysis of other receivables that are individually insignificant but impairment provided on an individual basis*

Other receivables description	Gross amount	Provision for bad debts	Percentage of provision (%)	Reason for provision made
Current account	2,429,365.99	2,429,365.99	100.00	Not expected to be recoverable
Total	2,429,365.99	2,429,365.99	100.00	

- (2) Provisions for bad debts made for the year was RMB691,948.6; no provision for bad debts was recovered or reversed.

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

7. Other receivables *(continued)*

(3) Actual write-off of other receivables for the year

Item	Amount written-off
Other receivable actually written off	78,188.00

(4) Other receivables by the nature of receivables

Nature of receivables	Balance at the year end	Balance at the beginning of the year
Deposits under guarantee	2,500,492.65	8,899,921.66
Reserve fund	11,000,505.42	14,164,735.70
Related party balances	976,511.66	2,184,030.10
Borrowing due from external entities	5,000,000.00	5,000,000.00
Tax refunds on exports	15,421,773.75	6,041,905.94
Lease expenses and deposits	1,505,736.32	4,814,789.50
Staff advances	22,994,136.84	10,145,092.64
Others	10,805,437.91	9,480,628.56
Total	70,204,594.55	60,731,104.10

(5) Other receivables with five largest amount by creditors by the year end

Name of unit	Nature of receivables	Balance at the year end	Ageing	Proportion to receivables at the end of the year(%)	Provision for bad debts at the end of the year
Tax refunds on exports	Tax refunds on exports	15,421,773.75	Within 1 year	21.97	771,088.69
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	7.12	5,000,000.00
Zhuhai City Pipeline Gas Co. Ltd. (珠海城市管道燃氣有限公司)	Guarantee	1,750,000.00	Within 1 year	2.49	87,500.00
Guangdong Blue Treasure Pharmaceutical Co. Ltd. (廣東藍寶製藥有限公司)	Energy and power	976,511.66	Within 1 year	1.39	48,825.58
Guangdong Power Grid Corporation Shaoguan Power Supply Bureau (廣東電網公司韶關供電局)	Deposits	961,752.93	1-2 years	1.37	57,705.18
Total	—	24,110,038.34	—	34.34	5,965,119.45

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

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

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

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

8. Inventories

(1) Classification of inventories

Item	Balance at the year end		
	Balance	Provision for diminution in value	Carrying amount
Raw materials	268,950,389.63	2,671,662.29	266,278,727.34
Packaging materials	19,782,530.05	1,048,859.25	18,733,670.80
Goods in process	269,395,810.49	4,359,815.26	265,035,995.23
Finished goods	537,664,477.74	21,906,846.25	515,757,631.49
Sub-contracting materials	930,038.48	487,179.50	442,858.98
Low-valued consumables	4,885,477.21	1,326.55	4,884,150.66
Goods in transit	5,567,475.26	0.00	5,567,475.26
Consumable biological assets	8,601,115.78	0.00	8,601,115.78
Proprietary semi-finished goods	17,319,108.97	0.00	17,319,108.97
Total	1,133,096,423.61	30,475,689.10	1,102,620,734.51

Item	Balance at the beginning of the year		
	Balance	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-valued 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.

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

8. Inventories *(continued)*

(2) Provision for diminution in value of inventories

Item	Balance at the beginning of the year	Increase during the Year		Decrease during the Year		Balance at the year end
		Provision	Other	Reversed	Written off	
Raw materials	762,653.88	2,464,016.46	0.00	6,687.49	548,320.56	2,671,662.29
packaging materials	0.00	1,284,730.40	0.00	0.00	235,871.15	1,048,859.25
Goods in progress	8,404,429.48	5,416,273.39	0.00	0.00	9,460,887.61	4,359,815.26
Finished goods	32,850,393.05	20,516,238.44	0.00	0.00	31,459,785.24	21,906,846.25
Sub-contracting materials	0.00	487,179.50	0.00	0.00	0.00	487,179.50
Low-valued consumables	0.00	1,326.55	0.00	0.00	0.00	1,326.55
Total	42,017,476.41	30,169,764.74	0.00	6,687.49	41,704,864.56	30,475,689.10

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

Item	Basis for provision for diminution in value of inventories	Reason for reversal provision for diminution in value of inventories during the Year	Reason for written off provision for diminution in value of inventories during the Year
Raw materials and packaging materials	Net realisable value is less than carrying amount	Increase in value	Sale and discard of finished goods
Finished goods	Net realisable value is less than carrying amount		Sale and discard
Other inventories	Net realisable value is less than carrying amount		Sales of finished goods

9. Other current assets

Item	Balance at the end of the year	Balance at the beginning of the year
Input VAT pending deduction/attestation	21,115,469.80	4,566,465.14
Remaining VAT credit	18,766,340.33	35,181,958.20
Cash management	84,381,617.79	650,000,000.00
Total	124,263,427.92	689,748,423.34

(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 year end			Balance at the beginning of the year		
	Balance	Impairment provision	Carrying value	Balance	Impairment provision	Carrying value
Available-for-sale debt instrument	3,006,245.24	0.00	3,006,245.24	0.00	0.00	0.00
Available-for-sale equity instruments	362,821,481.37	172,297,395.09	190,524,086.28	261,149,161.06	113,854,995.09	147,294,165.97
Of which: measured at fair value	207,775,972.53	93,254,995.09	114,520,977.44	99,853,652.22	93,254,995.09	6,598,657.13
measured at cost	155,045,508.84	79,042,400.00	76,003,108.84	161,295,508.84	20,600,000.00	140,695,508.84
Total	365,827,726.61	172,297,395.09	193,530,331.52	261,149,161.06	113,854,995.09	147,294,165.97

(2) Available-for-sale financial assets measured by fair value at the end of the year

Classification of available-for-sale financial assets	Available-for-sale equity instruments	Available-for-sale debt instrument	Total
Cost of equity instruments/Amortised cost of debt instruments	191,091,301.49	0.00	191,091,301.49
Fair value	114,520,977.44	0.00	114,520,977.44
Change in fair value accrued through other comprehensive income	14,079,098.51	0.00	14,079,098.51
Accrued impairment provision	93,254,995.09	0.00	93,254,995.09

The equity instruments held by the Company at the end of the year were listed on Shenzhen Stock Exchange and the fair value was determined by the closing price on the last day of dealings of the reporting period. The fair value of other equity instruments held was determined by the amount stated in the statement of investor provided by the counterparty.

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

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

(3) Available-for-sale financial assets measured by cost at the end of the year

Investee	Balance				Impairment provision				Proportion of equity hold in investee (%)	Cash dividend for the period
	At the beginning of the year	Increase during the Year	Decrease during the Year	at the end of the year	At the beginning of the year	Increase during the Year	Decrease during the Year	at the end of the year		
CYNVENIO BIOSYSTEMS, INC (Promissory Note)	0.00	3,006,245.24	0.00	3,006,245.24	0.00	0.00	0.00	0.00	—	—
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公司)	6,250,000.00	0.00	6,250,000.00	0.00	0.00	0.00	0.00	0.00	0.00	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	58,442,400.00	0.00	58,442,400.00	13.64	0.00
Total	161,295,508.84	3,006,245.24	6,250,000.00	158,051,754.08	20,600,000.00	58,442,400.00	0.00	79,042,400.00	—	0.00

(4) Movement in impairment for available-for-sale financial assets by the year end

Categorised available-for-sale financial assets	Available-for-sale equity instruments	Total
Provision for Impairment at the beginning of the year	113,854,995.09	113,854,995.09
Provision for Impairment for the year	58,442,400.00	58,442,400.00
In which: transferred from other comprehensive income	2,219,265.00	2,219,265.00
Decrease during the Year	0.00	0.00
In which: transferred upon increase in fair value after the period	0.00	0.00
Provision for Impairment by the year end	172,297,395.09	172,297,395.09

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

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

11. Long-term equity investments

Investee	Balance at the beginning of the year	Change during the Year				
		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	5,236,659.16	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	-2,097,303.66	0.00	0.00
Yobbo (深圳市有寶科技有限公司)	1,133,011.55	0.00	0.00	-81,079.94	0.00	0.00
AbCyte Therapeutics Inc.	18,985,166.54	0.00	0.00	-1,569,964.91	0.00	0.00
Total	92,309,734.79	0.00	0.00	1,488,310.65	0.00	0.00

Investee	Change during the Year				Balance at the end of the year	Impairment provision at the end of the year
	Cash dividend or profit distribution declared	Impairment provision	Others			
Associates						
Livzon Medical Electronic Equipment (Plant) Co., Ltd. (麗珠醫用電子設備(廠)有限公司)	0.00	0.00	0.00	1,200,000.00	1,200,000.00	
Guangdong Blue Treasure Pharmaceutical Co. Ltd. (廣東藍寶製藥有限公司)	0.00	0.00	0.00	52,700,984.57		0.00
Minitech Medical (Jiangsu) Ltd (江蘇尼科醫療器械有限公司)	0.00	0.00	0.00	21,429,927.63		0.00
Yobbo (深圳市有寶科技有限公司)	0.00	0.00	0.00	1,051,931.61		0.00
AbCyte Therapeutics Inc.	0.00	0.00	0.00	17,415,201.63		0.00
Total	0.00	0.00	0.00	93,798,045.44	1,200,000.00	

(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 year	213,725,948.86	115,090,593.69	11,940,625.82	48,993,255.74	389,750,424.11
(1) Acquisition	30,626,455.26	61,881,165.19	11,633,471.70	37,345,708.77	141,486,800.92
(2) Construction in progress transferred	183,099,493.60	53,209,428.50	307,154.12	11,647,546.97	248,263,623.19
3. Decrease for the year	271,523,060.94	108,649,865.51	6,461,321.43	50,764,237.34	437,398,485.22
(1) Disposal or written-off	271,523,060.94	108,649,865.51	6,461,321.43	50,764,237.34	437,398,485.22
(2) Transferring to a disposal group classified as held for sale	0.00	0.00	0.00	0.00	0.00
4. Balance at the year end	2,747,876,752.38	2,300,545,998.81	70,906,981.19	309,306,468.69	5,428,636,201.07
II. Accumulated depreciation					
1. Balance at the beginning of the 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 year	121,968,443.19	166,423,892.35	8,505,900.85	36,367,784.98	333,266,021.37
(1) Provision	121,968,443.19	166,423,892.35	8,505,900.85	36,367,784.98	333,266,021.37
(2) Other additions	0.00	0.00	0.00	0.00	0.00
3. Decrease for the year	220,766,909.82	87,447,402.46	5,359,716.11	46,682,843.39	360,256,871.78
(1) Disposal or written-off	220,766,909.82	87,447,402.46	5,359,716.11	46,682,843.39	360,256,871.78
(2) Transferring to a disposal group classified as held for sale	0.00	0.00	0.00	0.00	0.00
4. Balance at the year end	683,143,434.34	1,100,081,168.65	43,715,981.38	189,334,631.99	2,016,275,216.36
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 year	778,599.69	36,431,612.87	25,619.85	98,932.22	37,334,764.63
(1) Provision	778,599.69	36,431,612.87	25,619.85	98,932.22	37,334,764.63
3. Decrease for the year	26,911,572.33	10,966,071.31	18,097.68	336,435.66	38,232,176.98
(1) Disposal or written-off	26,911,572.33	10,966,071.31	18,097.68	336,435.66	38,232,176.98
(2) Transferring to a disposal group classified as held for sale	0.00	0.00	0.00	0.00	0.00
4. Balance at the year end	21,010,653.11	69,244,533.75	72,835.46	814,903.83	91,142,926.15
IV. Carrying amounts					
1. Carrying amount at the year end	2,043,722,664.93	1,131,220,296.41	27,118,164.35	119,156,932.87	3,321,218,058.56
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 Year, the amount of depreciation was RMB333,266,021.37 (RMB335,587,144.90 in the last year). During the Year, construction in progress transferred to cost of fixed assets was RMB248,263,623.19 (RMB226,077,028.19 in the last year).

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

VI. NOTES TO THE COMPONENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)***12. Fixed assets** *(continued)***(2) As at the year end, temporarily idled fixed assets**

Item	Cost	Accumulated depreciation	Provision for impairment	Carrying amount	Remarks
Plant & buildings	38,403,325.51	15,962,108.68	592,096.20	21,849,120.63	
Machinery & equipment	114,912,359.33	59,058,706.47	36,387,204.23	19,466,448.63	
Electronic devices and others	4,328,463.10	3,979,823.80	17,898.55	330,740.75	
Total	157,644,147.94	79,000,638.95	36,997,198.98	41,646,310.01	

(3) The Company has no fixed assets leased in under finance leases.**(4) Fixed assets leased out under operating leases**

Item	Carrying amount at the year end
Plant and building	1,299,997.54
Machinery & equipment	795,775.14
Electronic devices and others	31,493,541.46
Total	33,589,314.14

(5) Fixed assets with pending certificates for ownership at the year end

Item	Carrying amount	Reason for pending certificates for ownership
Plant & buildings	543,923,181.73	Being in progress

(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 at the year end			Balance at the beginning of the year		
	Balance	Provision for impairment	Carrying amount	Balance	Provision for impairment	Carrying amount
Guangda New Factory Project (光大新廠項目)	5,819,684.62	0.00	5,819,684.62	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)	2,744,696.94	0.00	2,744,696.94	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)	0.00	0.00	0.00	121,205,122.02	0.00	121,205,122.02
Project of Shijiao New Factory (石角新廠項目)	6,430,121.05	0.00	6,430,121.05	682,930.46	0.00	682,930.46
Transformation Project of Pharmaceutical Factory Workshop (藥廠車間改造 項目)	24,917,332.06	0.00	24,917,332.06	22,634,029.13	0.00	22,634,029.13
Transformation Project of Weiqiu Zhongshi Workshop (微球中 試車間項目)	0.00	0.00	0.00	0.00	0.00	0.00
Technological Transformation Project of Bag Infusion Workshop in Relation to Livzon Group Livzon Pharmaceutical Factory (麗珠集團利民製藥廠袋裝 輸液車間技改項目)	6,932,975.92	0.00	6,932,975.92	0.00	0.00	0.00
Microsphere Workshop Construction Project For Livzon Group Livzon Pharmaceutical Factory (麗珠集團麗珠製藥廠微球 車間建設項目)	1,310,796.47	0.00	1,310,796.47	0.00	0.00	0.00
Others	22,123,741.92	0.00	22,123,741.92	38,613,444.92	0.00	38,613,444.92
Total	70,279,348.98	0.00	70,279,348.98	201,733,854.47	0.00	201,733,854.47

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

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

13. Construction in progress *(continued)*

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

Categories of project	Budgeted amount	Balance at the beginning of the year	Additions for the year	Transferred to fixed asset for the year	Other deduction	Balance at the year end
Guangda New Factory Project (光大新廠項目)	365,816,500.00	5,784,851.29	34,833.33	0.00	0.00	5,819,684.62
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	4,704,955.20	13,864,535.32	909,199.59	2,744,696.94
Project of New Factory of Reagent Co. (試劑公司新廠項目)	148,315,000.00	121,205,122.02	33,770,526.13	154,975,648.15	0.00	0.00
Project of Shijiao New Factory (石角新廠項目)	46,664,000.00	682,930.46	5,747,190.59	0.00	0.00	6,430,121.05
Transformation Project of Pharmaceutical Factory Workshop (藥廠車間改造項目)	47,752,151.44	22,634,029.13	20,822,182.17	18,538,879.24	0.00	24,917,332.06
Transformation Project of Weiqiu Zhongshi Workshop (微球中試車間項目)	33,450,000.00	0.00	1,522,366.67	0.00	1,522,366.67	0.00
Technological Transformation Project of Bag Infusion Workshop in Relation to Livzon Group Livzon Pharmaceutical Factory (麗珠集團利民製藥廠袋裝輸液車間技改項目)	63,117,300.00	0.00	6,932,975.92	0.00	0.00	6,932,975.92
Microsphere Workshop Construction Project For Livzon Group Livzon Pharmaceutical Factory (麗珠集團麗珠製藥廠微球車間建設項目)	163,933,300.00	0.00	1,310,796.47	0.00	0.00	1,310,796.47
Others	0.00	38,613,444.92	70,867,763.02	60,884,560.48	26,472,905.54	22,123,741.92
Total	895,888,258.94	201,733,854.47	145,713,589.50	248,263,623.19	28,904,471.80	70,279,348.98

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	Including: interest capitalised for the year	Interest capitalised rate for the year (%)	Percentage of cost incurred over budgeted amount (%)	Construction progress	Sources of funds
Guangda New Factory Project (光大新廠項目)	0.00	0.00	0.00	1.59	Designing process	Self-funding
Improvement Project of Workshop of Hecheng Co. (合成公司車間改造項目)	0.00	0.00	0.00	90.34	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	100.00	Completion	Self-funding
Project of Shijiao New Factory (石角新廠項目)	0.00	0.00	0.00	73.91	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	91.00	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	4.55	Adjustment of projects	Self-funding
Technological Transformation Project of Bag Infusion Workshop in Relation to Livzon Group Livzon Pharmaceutical Factory (麗珠集團利民製藥廠袋裝輸液車間技改項目)	0.00	0.00	0.00	10.98	Under Construction	Fund-raising and self-funding
Microsphere Workshop Construction Project For Livzon Group Livzon Pharmaceutical Factory (麗珠集團麗珠製藥廠微球車間建設項目)	0.00	0.00	0.00	0.80	Under Construction	Fund-raising Borrowing and self-funding
Others	50,749.94	166,601.27	2.80			
Total	50,749.94	386,288.23				

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

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

VI. NOTES TO THE COMPONENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)***14. Intangible assets****(1) Status of intangible assets**

Items	Land use rights	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 year	340,454.88	1,546,645.69	1,639,606.91	0.00	0.00	3,526,707.48
(1) Acquisition	340,454.88	1,546,645.69	1,639,606.91	0.00	0.00	3,526,707.48
3. Decrease for the year	16,673,844.62	0.00	0.00	0.00	0.00	16,673,844.62
(1) Disposal	16,673,844.62	0.00	0.00	0.00	0.00	16,673,844.62
4. Balance at the year end	259,891,035.84	224,995,091.01	33,420,150.95	24,000.00	10,985,294.53	529,315,572.33
II. Accumulated amortization						
1. Balance at the beginning of the 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 year	4,935,433.94	16,585,417.71	3,288,283.21	0.00	1,098,529.45	25,907,664.31
(1) Provision	4,935,433.94	16,585,417.71	3,288,283.21	0.00	1,098,529.45	25,907,664.31
3. Decrease for the year	3,952,979.09	0.00	2,670.93	0.00	0.00	3,955,650.02
(1) Disposal	3,952,979.09	0.00	2,670.93	0.00	0.00	3,955,650.02
4. Balance at the year end	67,017,930.61	156,948,428.10	29,139,984.80	24,000.00	1,190,073.57	254,320,417.08
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 year	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 year	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 year end	981,826.94	10,209,166.79	0.00	0.00	0.00	11,190,993.73
IV. Carrying amount						
1. Carrying amount at the year end	191,891,278.29	57,837,496.12	4,280,166.15	0.00	9,795,220.96	263,804,161.52
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 year is RMB25,907,664.31 (RMB26,509,987.15 in the last year).

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

Item	Carrying amount	Reason for pending certificates for ownership
Land use rights	27,002,421.22	Being in progress

(3) Notes to intangible assets

The Company obtained the State-owned land use rights in accordance with Chinese laws in China, and there will be 50 years of grant term commencing from the date of obtaining the land use rights.

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

15. Development costs

Item	Balance at the beginning of the year	Additions for the year	Decrease for the year		Balance at the year end
			Recognised in profit or loss	Recognised as intangible assets	
Expensing costs	0.00	427,152,448.64	427,152,448.64	0.00	0.00
Capitalised expenses	14,821,797.96	10,507,136.29	0.00	0.00	25,328,934.25
In which: western drug preparation	14,821,797.96	405,768.22	0.00	0.00	15,227,566.18
In which: biopharmaceutical drugs	0.00	10,101,368.07	0.00	0.00	10,101,368.07
Total	14,821,797.96	437,659,584.93	427,152,448.64	0.00	25,328,934.25

16. Goodwill

(1) Total goodwill value at book

Name of investee or the matter of goodwill arisen	Balance at the beginning of the year	Additions for the year	Decrease for the year	Balance at the year end
Livzon Group Livzon Pharmaceutical Factory (麗珠集團麗珠製藥廠)	47,912,269.66	0.00	0.00	47,912,269.66
Sichuan Guangda Pharmaceutical Manufacturing Co., Ltd. (四川光大製藥有限公司)	13,863,330.24	0.00	0.00	13,863,330.24
Livzon Group Fuzhou Fuxing Pharmaceutical Co., Ltd. (麗珠集團福州福興醫藥有限公司)	46,926,155.25	0.00	0.00	46,926,155.25
Livzon Group Xinbeijiang Pharmaceutical Manufacturing Inc. (麗珠集團新北江製藥股份有限公司)	7,271,307.03	0.00	0.00	7,271,307.03
Zhuhai Livzon Meidaxin Technological Development Co., Ltd. (珠海市麗珠美達信技術開發有限公司)	287,756.12	0.00	287,756.12	0.00
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	287,756.12	121,511,804.88

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

VI. NOTES TO THE COMPONENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)***16. 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 year	Decrease for the year	Balance at the year end
Livzon Group Fuzhou Fuxing Pharmaceutical Co., Ltd. (麗珠集團福州福興醫藥有限公司)	11,200,000.00	0.00	0.00	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	287,756.12	0.00
Total	18,759,063.15	0.00	287,756.12	18,471,307.03

(3) Impairment test and provision for impairment on goodwill

Goodwill of the Company arose from its business combination involving enterprises under common control in previous years.

On the balance sheet date, the Company conducted impairment test on goodwill and adopted the asset groups related to goodwill to estimate the present value of the future cash flow when estimating the recoverable amount of the investment cost. The present value of future cash flow is calculated according to the five-year financial plan made by the management and a discount rate of 12%. The cash flows in the years beyond the years in the five-year plan are deemed stable.

Key assumptions of discounted future cash flow for goodwill impairment test are as follows:

For future cash flow of Livzon Group Livzon Pharmaceutical Factory (麗珠集團麗珠製藥廠), key assumptions are a gross margin of 64.9%-69.4% and a business revenue growth rate of 0~28.1%. The management took into account historical conditions and predictions for future market development in making above assumptions.

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

16. Goodwill *(continued)*

(3) Impairment test and provision for impairment on goodwill *(continued)*

For future cash flow of Sichuan Guangda Pharmaceutical Manufacturing Co., Ltd. (四川光大製藥有限公司), key assumptions are a gross margin of 66.1%-67.5% and a business revenue growth rate of 0~20.8%. 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 53%-55% and a business revenue growth rate of -23%~9.5%. The management took into account historical conditions and predictions for future market development in making above assumptions.

As tested, the management of the Company believes that no impairment provision is needed during the reporting period.

17. Long-term deferred expenses

Item	Balance at the beginning of the year	Additions for the year	Amortisation for the year	Other decrease	Balance at the year end	Reason for other decrease
Overhaul costs of fixed assets	3,038,437.77	2,156,831.83	1,701,150.71	0.00	3,494,118.89	
Renovation costs of offices	17,984,172.67	4,043,625.38	2,063,402.69	0.00	19,964,395.36	
Renovation costs of plants	63,695,566.78	23,035,808.24	5,867,079.99	0.00	80,864,295.03	
Share of costs for public utilities	48,750.06	650,000.00	68,611.08	0.00	630,138.98	
Resin and filler	6,691,473.14	7,816,923.09	4,868,766.06	0.00	9,639,630.17	
Others	1,018,600.46	1,605,860.54	763,306.75	0.00	1,861,154.25	
Total	92,477,000.88	39,309,049.08	15,332,317.28	0.00	116,453,732.68	

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

VI. NOTES TO THE COMPONENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)***18. Deferred tax assets/Deferred tax liabilities****(1) Breakdown of deferred tax assets**

Item	Balance at the year end		Balance at the beginning of the year	
	Deductible temporary difference	Deferred tax assets	Deductible temporary difference	Deferred tax assets
Deductible temporary difference arising from provision for impairment	244,616,318.10	37,523,774.91	231,892,133.71	29,929,197.82
Deductible temporary difference arising from accrued expenses	203,403,098.95	30,489,354.50	141,166,101.17	21,174,915.04
Deductible temporary difference arising from tax losses carried forward	34,207,535.93	5,131,130.39	34,207,535.93	5,131,130.39
Deductible temporary difference arising from deferred income	175,727,981.47	26,359,197.22	62,888,581.97	9,433,287.29
Deductible temporary difference arising from gains from unrealized intra-company transactions	153,545,941.58	23,031,891.24	549,114,425.28	82,367,163.80
Deductible temporary difference arising from share incentive cost	23,909,083.45	4,673,538.82	33,760,094.36	5,064,014.15
Total	835,409,959.48	127,208,887.08	1,053,028,872.42	153,099,708.49

(2) Breakdown of deferred tax liabilities

Item	Balance at the year end		Balance at the beginning of the year	
	Taxable temporary difference	Deferred tax liabilities	Taxable temporary difference	Deferred tax liabilities
Taxable temporary difference arising from financial assets held for trading	933,866.57	161,859.99	680,909.00	102,136.35
Taxable temporary difference arising from available-for-sale financial assets	16,684,671.04	2,605,572.53	9,169,705.27	1,375,455.79
Taxable temporary difference arising from long-term equity investments under in equity method	27,070,634.69	4,060,595.21	24,012,359.13	3,601,853.87
Taxable temporary difference arising from accelerated depreciation of fixed assets	130,708,014.01	19,704,276.31	81,080,134.67	12,205,834.39
Total	175,397,186.31	26,532,304.04	114,943,108.07	17,285,280.40

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

VI. NOTES TO THE COMPONENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)***18. Deferred tax assets/Deferred tax liabilities** *(continued)***(3) Breakdown of deferred tax assets not recognised**

Item	Balance at the year end	Balance at the beginning of the year
Deductible temporary difference	185,120,577.37	144,620,046.23
Deductible loss	444,367,873.41	341,889,829.68
Total	629,488,450.78	486,509,875.91

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

Year	Balance at the year end	Balance at the beginning of the year	Remarks
2017	0.00	20,911,633.82	
2018	27,827,822.05	27,888,663.82	
2019	57,516,237.66	59,410,126.67	
2020	83,820,693.24	84,685,649.76	
2021	108,055,857.34	124,537,726.45	
2022	159,484,870.14	0.00	
2032	1,245,859.22	0.00	
Indefinitely	6,416,533.76	24,456,029.16	
Total	444,367,873.41	341,889,829.68	

19. Other non-current assets

Item	Balance at the year end	Balance at the year beginning
Input VAT pending deduction/attestation	85,312.14	238,726.86
Remaining VAT credit	46,700,907.82	39,590,963.11
Prepayment for acquisition of project and equipment	125,645,846.27	26,666,529.37
Prepayment for acquisition of technical know-how	61,968,960.18	48,522,986.75
Total	234,401,026.41	115,019,206.09

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

VI. NOTES TO THE COMPONENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)***20. Financial liabilities measured at fair value and changes recorded in current profit and loss**

Item	Balance at the year end	Balance at the beginning of the year
Held-for-trading financial liabilities	339,129.90	0.00
In which: derivative financial liabilities	339,129.90	0.00

Derivative financial liabilities represents foreign currency forward contracts, loss from unexpired contracts measured at fair value was recognised as financial liabilities at balance sheet date.

21. Bills payables

Type	Balance at the year end	Balance at the beginning of the year
Bank acceptance bills	661,858,884.48	323,795,509.11

The amount of RMB661,858,884.48 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)**

Type	Balance at the year end	Balance at the beginning of the year
1 to 90 days	405,860,860.51	309,091,528.70
91 to 180 days	29,269,772.96	149,853,279.51
181 days to 1 year	26,915,684.21	46,024,114.99
1 to 2 years	13,217,832.56	48,792,716.60
Over 2 years	26,404,393.02	33,954,307.04
Total	501,668,543.26	587,715,946.84

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

22. Accounts payables *(continued)*

(2) Important payables ageing over 1 year

Item	Balance at the year end	Reason for non-payment or non-transfer
ABC Building Systems (China) Co., Ltd (美建建築系統(中國)有限公司)	3,199,378.85	Holdback
Guangdong Jian'an Changsheng Engineering Co., Ltd. (廣東建安昌盛工程有限公司)	2,226,324.65	Holdback
Total	5,425,703.50	

23. Receipts in advance

(1) Presentation of receipts in advance

Type	Balance at the year end	Balance at the beginning of the year
Within 1 year	85,837,055.50	51,374,594.76
Over 1 year	29,451,742.44	27,310,645.84
Total	115,288,797.94	78,685,240.60

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

Item	Balance at the year end	Reason for not being charged
Guangdong Province Centre for Disease Prevention and Control (廣東省疾病預防控制中心)	12,392,573.27	The customer has not required the delivery of goods
Total	12,392,573.27	

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

VI. NOTES TO THE COMPONENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)***24. Employee benefits payables****(1) Presentation of salary payables**

Item	Balance at the beginning of the year	Accruals for the year	Decrease for the year	Balance at the year end
I. Short-term salary	110,251,790.51	659,752,316.58	610,030,849.59	159,973,257.50
II. Post-resignation benefits – designated provision	28,122.44	49,177,229.70	49,020,666.67	184,685.47
III. Dismiss benefits	3,000,000.00	856,324.00	2,448,324.00	1,408,000.00
IV. Other benefits due within 1 year	0.00	0.00	0.00	0.00
Total	113,279,912.95	709,785,870.28	661,499,840.26	161,565,942.97

(2) Presentation of short-term salary

Item	Balance at the beginning of the year	Accruals for the period	Decrease for the period	Balance at the year end
1. Salaries, bonuses, allowances and subsidies	108,738,713.76	586,760,237.20	537,149,018.65	158,349,932.31
2. Employee welfare	914,091.50	28,542,211.02	28,537,943.72	918,358.80
3. Social insurance	14,150.10	23,019,797.21	22,959,176.02	74,771.29
Of which: Medical insurances	11,394.47	19,904,684.51	19,851,642.71	64,436.27
Work-related injury insurances	1,925.21	1,730,303.54	1,727,019.24	5,209.51
Maternity insurances	830.42	1,384,809.16	1,380,514.07	5,125.51
4. Housing funds	522,789.00	19,523,256.00	19,468,641.00	577,404.00
5. Labour union fees and employee education fees	62,046.15	1,906,815.15	1,916,070.20	52,791.10
6. Short-term compensated absence	0.00	0.00	0.00	0.00
7. Performance-linked bonuses of subsidiaries	0.00	0.00	0.00	0.00
Total	110,251,790.51	659,752,316.58	610,030,849.59	159,973,257.50

(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 the beginning of the year	Accruals for the period	Decrease for the period	Balance at the year end
1. Basic pension insurance	27,151.02	46,961,646.50	46,816,978.30	171,819.22
2. Unemployment insurance	971.42	2,215,583.20	2,203,688.37	12,866.25
Total	28,122.44	49,177,229.70	49,020,666.67	184,685.47

25. Taxes payables

Item	Balance at the year end	Balance at the beginning of the year
Value added tax payable	67,164,312.63	95,848,978.18
Urban maintenance and construction tax payable	3,374,878.22	4,998,468.60
Enterprise income tax payable	952,634,566.51	163,284,148.94
Property tax payable	8,713,726.12	8,325,607.88
Land use tax payable	2,466,854.37	1,982,305.92
Individual income tax payable	5,680,421.06	11,448,173.56
Stamp duty payable	1,761,327.56	1,505,696.22
Education surcharges payable	3,672,792.21	4,666,899.96
Flood prevention fee payable	20,300.76	24,082.65
Others	261,840.80	222,337.88
Total	1,045,751,020.24	292,306,699.79

26. Interest payables

Item	Balance at the year end	Balance at the beginning of the year
Interest for short-term loans	0.00	3,812,602.74
Total	0.00	3,812,602.74

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

VI. NOTES TO THE COMPONENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)***27. Dividends payables**

Item	Balance at the year end	Balance at the beginning of the year	Reason for outstanding over 1 year
Dividends on ordinary shares	20,174.46	20,174.46	Not yet paid
Qingyuan Xinbeijiang (Group) Company (清遠新北江企業(集團)公司)	1,200,710.00	1,200,710.00	Not yet paid
Other legal persons and individual shares of subsidiaries	1,051,300.00	1,051,300.00	Not yet paid
Staff shares of subsidiaries	259,800.00	259,800.00	Not yet paid
Zhuhai Zhenghe Co., Ltd. (珠海正禾企業有限公司)	168,404,303.71	0.00	
Total	170,936,288.17	2,531,984.46	

28. Other payables**(1) Breakdown of other payables**

Item	Balance at the year end	Balance at the beginning of the year
Within 1 year	1,481,151,895.69	1,468,382,831.50
Over 1 year	272,070,083.59	89,730,446.80
Total	1,753,221,979.28	1,558,113,278.30

(2) Other payables by nature

Item	Balance at the year end	Balance at the beginning of the year
Office expenses	63,450,319.76	46,432,084.92
Deposits under guarantees	30,217,935.64	21,425,431.13
Business promotion expenses	689,655,614.57	479,228,514.39
Obligations of repurchasing restricted shares	66,786,741.96	140,321,805.40
Technology transfer funds	12,089,410.31	13,490,101.79
Related party balances	6,386,047.07	2,459,992.87
Accrued expenses	840,584,530.57	807,309,319.37
Others	44,051,379.40	47,446,028.43
Total	1,753,221,979.28	1,558,113,278.30

The repurchase of the Restricted shares obligation of the Directors, the senior management and their spouses amounted to RMB6,528,220.16 by the end of the year.

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

28. Other payables *(continued)*

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

Item	Balance at the year end	Balance at the beginning of the year	Reason for outstanding
Utilities expenses	7,612,905.00	6,726,545.55	Not yet paid
Research expenses	46,866,877.63	21,267,803.56	Not yet paid
Business promotion expenses	710,442,395.63	715,786,697.44	Not yet paid
Advertising expenses	738,681.75	873,776.16	Not yet paid
Business meeting expenses	29,026,606.91	8,366,673.40	Not yet paid
Auditing and information disclosure expenses	5,686,083.60	5,668,454.20	Not yet paid
Others	40,210,980.05	48,619,369.06	Not yet paid
Total	840,584,530.57	807,309,319.37	

29. Non-current liabilities due within one year

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

30. Other current liabilities

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

Of which: changes in short-term payable notes

Name of Bond	Nominal Amount	Date of issue	Term of bond	Issue amount	Interest payables at the beginning of the year	Interest payables for the year	Interest paid for the year	Interest payables at the year end	Balance at the year end
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

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

VI. NOTES TO THE COMPONENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)***31. Long-term loans****(1) Classification of long-term loans**

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

At the end of the year, there was no overdue long-term loans that were unpaid.

(2) Long-term loans with five largest amount

Name of lender	Starting date of loans	Termination date of loans	Currency	Interest rates (%)	Balance at the year end		Balance at the beginning of the year	
					Foreign amount	Local currency amount	Foreign amount	Local currency amount
Fuzhou Bureau of Finance	Indefinite	Indefinite	RMB	Interest-free	—	700,000.00	—	700,000.00
Total						700,000.00		700,000.00

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

32. Government grants

(1) Basic information of government grants recognised at the beginning of year

Items	Amount	Related to assets		Related to income			Written down of costs	Received
		Deferred income	Written down of carrying amount of assets	Deferred income	Other income	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)	16,190,000.00	16,190,000.00	0.00	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))	16,700,000.00	16,700,000.00	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)	2,310,000.00	2,310,000.00	0.00	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)	24,196,700.00	24,196,700.00	0.00	0.00	0.00	0.00	0.00	Yes
Technical transformation project of Shengqi Fuzheng Injection with flexible bag (軟袋參芪扶正注射液技改項目)	30,000,000.00	30,000,000.00	0.00	0.00	0.00	0.00	0.00	Yes
Provision for Technology Transformation Funds and subsequent grants (技術改造資金撥款及事後補獎)	10,260,200.00	10,260,200.00	0.00	0.00	0.00	0.00	0.00	Yes
Provision for Technology Transformation Funds and subsequent grants (技術改造資金撥款及事後補獎)	3,000,000.00	3,000,000.00	0.00	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)	2,800,000.00	0.00	0.00	2,800,000.00	0.00	0.00	0.00	Yes

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

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

32. Government grants (continued)

(1) Basic information of government grants recognised at the beginning of year (continued)

Items	Amount	Related to assets		Related to income				Received
		Deferred income	Written down of carrying amount of assets	Deferred income	Other income	Non-operating income	Written down of costs	
Technology Transfer of Blood Screening (BCI) Nucleic Acid Detection Testing (血液篩查 (BCI)核酸檢測試劑成果轉化)	6,000,000.00	6,000,000.00	0.00	0.00	0.00	0.00	0.00	Yes
Commercialisation of Liquid Biopsy Testing Enriching, Extracting and Separating Equipment (液態活檢樣本提取富集分離設備產業化)	30,000,000.00	30,000,000.00	0.00	0.00	0.00	0.00	0.00	Yes
Subsidy for Rental and Property of the Investment and Promotion Center (區投促中心租金及物業費補貼)	841,557.60	0.00	0.00	841,557.60	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	1,000,000.00	0.00	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)	150,000.00	150,000.00	0.00	0.00	0.00	0.00	0.00	Yes
Scientific Technology Incentive and Subsidy for Technological Innovative Project (科學技術獎及科技創新項目資助)	500,000.00	500,000.00	0.00	0.00	0.00	0.00	0.00	Yes
Scientific Technology Incentive and Subsidy for Technological Innovative Project (科學技術獎及科技創新項目資助)	1,800,000.00	0.00	0.00	1,800,000.00	0.00	0.00	0.00	Yes

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

VI. NOTES TO THE COMPONENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)***32. Government grants** *(continued)***(1) Basic information of government grants recognised at the beginning of year** *(continued)*

Items	Amount	Related to assets			Related to income			Received
		Deferred income	Written down of carrying amount of assets	Deferred income	Other income	Non-operating income	Written down of costs	
Commissioner workstation (特派員工作站)	300,000.00	300,000.00	0.00	0.00	0.00	0.00	0.00	Yes
New R&D Institution Subsidy (新型研發機構補助)	1,000,000.00	0.00	0.00	1,000,000.00	0.00	0.00	0.00	Yes
Capital projects of Innovation and Entrepreneurship Team Funding Program (創新創業團隊資助計劃資金項目)	1,250,000.00	0.00	0.00	1,250,000.00	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)	8,500,000.00	8,500,000.00	0.00	0.00	0.00	0.00	0.00	Yes
Subsidy for Online Monitoring Equipment for Coal-fired Boilers (燃煤鍋爐在線監控設備裝置補助資金)	450,000.00	450,000.00	0.00	0.00	0.00	0.00	0.00	Yes
Guangdong Province Strategic Industry Core Technology Breakthrough Research Fund (2011) for MAB for Class I Treatment of Necrosis Factor in Human Tumour from Human Source (廣東省戰略新興產業核心技術攻關(2011)I類治療用人類化抗人腫瘤壞死因子α單克隆抗體新藥的研製資金)	9,820,000.00	0.00	0.00	0.00	9,820,000.00	0.00	0.00	Yes
Fund for Innovative drug of Ilaprazole phase IV clinical research (co-investment project with the State) (創新藥物艾普拉唑IV期臨床研究(國家跟投項目)款項)	6,270,000.00	0.00	0.00	0.00	6,270,000.00	0.00	0.00	Yes
Fiscal Subsidy and Operating Subsidy (財政補貼及經營運營補貼)	7,400,845.00	0.00	0.00	0.00	7,400,845.00	0.00	0.00	Yes

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

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

32. Government grants *(continued)*

(1) Basic information of government grants recognised at the beginning of year *(continued)*

Items	Amount	Related to assets		Related to income				Received
		Deferred income	Written down of carrying amount of assets	Deferred income	Other income	Non-operating income	Written down of costs	
Interest Discount Fund for Supporting Outstanding and Strong Enterprises (扶優扶強貼息資金)	2,563,900.00	0.00	0.00	0.00	0.00	2,563,900.00	0.00	Yes
Astragalus GAP Projects (黃芪GAP項目)	890,000.00	0.00	0.00	0.00	890,000.00	0.00	0.00	Yes
Supporting Funds for Headquarter Enterprises (總部企業扶持資金)	3,399,077.76	0.00	0.00	0.00	0.00	3,399,077.76	0.00	Yes
Interest Discount and Relevant Funds for Promoting Imports (進口貼息及配套資金)	363,840.00	0.00	0.00	0.00	363,840.00	0.00	0.00	Yes
10KV Pharmaceutical Factory Line Relocation and Improvement Project at Tieta Road in Qingyuan City (清遠市鐵塔路10KV藥廠線路遷改項目)	39,460.86	0.00	0.00	0.00	39,460.86	0.00	0.00	Yes
Electricity Incentive Funds (用電獎勵資金)	43,000.00	0.00	0.00	0.00	43,000.00	0.00	0.00	Yes
Subsidies for high and new technology enterprises and high and new technology products (高新技術企業及高新技術產品項目補貼)	818,000.00	0.00	0.00	0.00	818,000.00	0.00	0.00	Yes
Local Education Surcharges and Training Subsidy from Jinqiao Management Committee (金橋管委會地方教育費附加培訓補貼)	214,664.00	0.00	0.00	0.00	214,664.00	0.00	0.00	Yes
Market Development Fund For Small and Medium Enterprises (中小企業開拓市場項目資金)	2,036,500.00	0.00	0.00	0.00	2,036,500.00	0.00	0.00	Yes
Provision for Technology Transformation Funds and subsequent grants (技術改造資金撥款及事後補獎)	7,546,246.74	0.00	0.00	0.00	7,546,246.74	0.00	0.00	Yes
Special Fund and Encouraging funds for Energy Saving and Emission Reduction (節能減排專項資金及獎勵金)	4,999,250.00	0.00	0.00	0.00	4,999,250.00	0.00	0.00	Yes

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

32. Government grants *(continued)*

(1) Basic information of government grants recognised at the beginning of year *(continued)*

Items	Amount	Related to assets			Related to income			Received
		Deferred income	Written down of carrying amount of assets	Deferred income	Other income	Non-operating income	Written down of costs	
R&D and Commercialisation of Fermentation technology for New Resisting Parasite Doramectin (新型抗寄生蟲藥多拉菌素的發酵技術研發及產業化項目)	500,000.00	0.00	0.00	0.00	500,000.00	0.00	0.00	Yes
Scientific Technology Incentive and Subsidy for Technological Innovative Project (科學技術獎及科技創新項目資助)	4,324,720.00	0.00	0.00	0.00	4,324,720.00	0.00	0.00	Yes
Set-up and Research Fund for Post-doc Station (博士後建站和科研補貼)	287,000.00	0.00	0.00	0.00	287,000.00	0.00	0.00	Yes
Financial Support Funds (財政扶持資金)	58,585,400.00	0.00	0.00	0.00	0.00	58,585,400.00	0.00	Yes
Provincial development funds for the service and trade industry (省級服務貿易發展資金)	1,500,000.00	0.00	0.00	0.00	1,500,000.00	0.00	0.00	Yes
Patent (Intellectual Property) Support Fund (專利(知識產權)資助資金)	467,000.00	0.00	0.00	0.00	467,000.00	0.00	0.00	Yes
Reward Fund for Industry Growth and Production Expansion (工業保值增長及增產獎勵)	95,000.00	0.00	0.00	0.00	95,000.00	0.00	0.00	Yes
Industrial Supporting Fund (產業扶持資金)	3,603,200.00	0.00	0.00	0.00	3,603,200.00	0.00	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 and Attraction to Graduates of Tertiary Academic Institutions Subsidy (企業穩崗及再就業和吸納高校畢業生補貼款)	825,191.43	0.00	0.00	0.00	825,191.43	0.00	0.00	Yes
New Scientific Research Institution Subsidy (新型科研機構補助資金)	1,000,000.00	0.00	0.00	0.00	1,000,000.00	0.00	0.00	Yes

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

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

32. Government grants *(continued)*

(1) Basic information of government grants recognised at the beginning of year *(continued)*

Items	Amount	Related to assets		Related to income				Received
		Deferred income	Written down of carrying amount of assets	Deferred income	Other income	Non-operating income	Written down of costs	
Special Funds for Expanding Overseas by Enterprises in Zhuhai (珠海市「走出去」專項資金)	195,600.00	0.00	0.00	0.00	195,600.00	0.00	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
Special Funds for Industry and Information (工業和信息化專項資金)	2,000,000.00	0.00	0.00	0.00	2,000,000.00	0.00	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	1,000,000.00	0.00	0.00	Yes
Funds for International and Regional Brand Building and Incentive Funds for Brand (創建國際與區域品牌項目資金及名牌名標獎勵資金)	500,000.00	0.00	0.00	0.00	0.00	500,000.00	0.00	Yes
Shares Refinancing Bonus (股票再融資獎勵款)	1,600,000.00	0.00	0.00	0.00	0.00	1,600,000.00	0.00	Yes
Others	674,849.23	0.00	0.00	0.00	0.00	674,849.23	0.00	Yes
Export credit insurance subsidies (出口信保補貼)	2,996,192.40	0.00	0.00	0.00	2,996,192.40	0.00	0.00	Yes
Research and Development Fee Subsidy (研究開發費補助)	6,626,923.00	0.00	0.00	0.00	6,626,923.00	0.00	0.00	Yes
Total	- 149,556,900.00		0.00	7,691,557.60	65,862,633.43	69,757,065.99	0.00	-

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

32. Government grants *(continued)*

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

Item	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	2,996,192.40	0.00	0.00
R&D Subsidy (研究開發費補助)	Related to income	6,626,923.00	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	5,587,400.47	0.00	0.00
Guangdong Province Strategic Industry Core Technology Breakthrough Research Fund (2011) for MAB for Class I Treatment of Necrosis Factor in Human Tumour from Human Source (廣東省戰略新興產業核心技術攻關(2011) I類治療用人源化抗人腫瘤壞死因子 α 單克隆抗體新藥的研製資金)	Related to income	9,820,000.00	0.00	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 assets	2,134,916.71	0.00	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	748,129.80	0.00	0.00
Fund for Innovative drug of Ilaprazole phase IV clinical research (co-investment project with the State) (創新藥物艾普拉唑IV期臨床研究(國家跟投項目)款項)	Related to income	6,270,000.00	0.00	0.00
Fiscal Subsidy and Operating Subsidy (財政補貼及經營運營補貼)	Related to income	8,250,845.00	0.00	0.00
Interest Discount for Supporting Excellent and Strong Enterprises (扶優扶強貼息資金)	Related to income	0.00	2,563,900.00	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	701,639.21	0.00	0.00

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

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

32. Government grants *(continued)*

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

Item	Assets/Income	Recognised in other incomes	Recognised in non-operating income	Written down of costs
Capital projects of Innovation and Entrepreneurship Team Funding Program (創新創業團隊資助計劃資金項目)	Related to income	3,383,333.33	0.00	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	420,442.09	0.00	0.00
Astragalus GAP Projects (黃芪GAP項目)	Related to income	890,000.00	0.00	0.00
Supporting Funds for Headquarter Enterprises (總部企業扶持資金)	Related to income	0.00	3,399,077.76	0.00
Interest Discount and Relevant Funds for Promoting Imports (進口貼息及配套資金)	Related to income	363,840.00	0.00	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	189,725.00	0.00	0.00
Subsidy for Rental and Property of the Investment and Promotion Center (區投促中心租金及物業費補貼)	Related to income	514,285.20	0.00	0.00
Technological Upgrading and Transformation Projects of Workshop for Acarbose (Bulk Medicine of Glucosidase Inhibitor) (α-葡萄糖甘苷酶抑制劑類原料藥阿卡波糖生產車間工藝升級技術改造項目)	Related to assets	107,142.84	0.00	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	39,460.86	0.00	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	259,032.46	0.00	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	243,062.00	0.00	0.00

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

VI. NOTES TO THE COMPONENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)***32. Government grants** *(continued)***(2) Government grant recognised as profit or loss for the Current Period** *(continued)*

Item	Assets/Income	Recognised in other incomes	Recognised in non-operating income	Written down of costs
The 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	1,102,000.08	0.00	0.00
Electricity Incentive Funds (用電獎勵資金)	Related to income	43,000.00	0.00	0.00
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)	Related to income	818,000.00	0.00	0.00
Special Funds for Cooperative Innovation and Platform Environmental Construction (協同創新與平台環境建設專項資金)	Related to assets	572,222.22	0.00	0.00
Local Education Surcharges and Training Subsidy from Jingqiao Management Committee (金橋管委會地方教育費附加培訓補貼)	Related to income	214,664.00	0.00	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	2,036,500.00	0.00	0.00
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)	Related to income	2,100,000.00	0.00	0.00
Provision for Technology Transformation Funds and subsequent grants (技術改造資金撥款及事後補獎)	Related to income	7,546,246.74	0.00	0.00
Provision for Technology Transformation Funds and subsequent grants (技術改造資金撥款及事後補獎)	Related to assets	307,390.84	0.00	0.00
Special Fund and Encouraging funds for Energy Saving and Emission Reduction (節能減排專項資金及獎勵金)	Related to income	4,999,250.00	0.00	0.00
R&D and Commercialisation of Fermentation technology for New Resisting Parasite Doramectin (新型抗寄生蟲藥多拉菌素的發酵技術研發及產業化項目)	Related to income	500,000.00	0.00	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	4,488,356.36	0.00	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 assets	27,731.40	0.00	0.00
Set-up and Research Fund for Post-doc Station (博士後建站和科研補貼)	Related to income	2,316,300.00	0.00	0.00

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

VI. NOTES TO THE COMPONENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)***32. Government grants** *(continued)***(2) Government grant recognised as profit or loss for the Current Period** *(continued)*

Item	Assets/Income	Recognised in other incomes	Recognised in non-operating income	Written down of costs
Financial Support Funds (財政扶持資金)	Related to income	0.00	58,585,400.00	0.00
Provincial development funds for the service and trade industry (省級服務貿易發展資金)	Related to income	1,500,000.00	0.00	0.00
Patent (Intellectual Property) Support Fund (專利(知識產權)資助資金)	Related to income	467,000.00	0.00	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	200,000.04	0.00	0.00
Government grant for industrial transformation (工業轉型政府扶持資金)	Related to assets	249,999.96	0.00	0.00
Reward Fund for Industry Growth and Production Expansion (工業保值增長及增產獎勵)	Related to income	95,000.00	0.00	0.00
New Industrialization Development Grant (新型工業化發展獎金)	Related to assets	300,000.00	0.00	0.00
Industrial Revitalisation Supporting Funds (產業振興扶持資金)	Related to assets	1,158,000.00	0.00	0.00
Industrial Supporting Fund (產業扶持資金)	Related to income	3,603,200.00	0.00	0.00
Five Goods and One New Supporting Funds (五優一新扶持資金)	Related to assets	99,999.96	0.00	0.00
Leading Enterprise Development Bonus (龍頭企業做大做强獎勵款)	Related to income	0.00	180,000.00	0.00
Employment Assurance and Re-employment and Attraction to Graduates of Tertiary Academic Institutions Subsidy (企業穩崗及再就業和吸納高校畢業生補貼款)	Related to income	825,191.43	0.00	0.00
New Scientific Research Institution Subsidy (新型科研機構補助資金)	Related to assets	346,878.69	0.00	0.00
New Scientific Research Institution Subsidy (新型科研機構補助資金)	Related to income	1,981,707.90	0.00	0.00

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

VI. NOTES TO THE COMPONENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)***32. Government grants** *(continued)***(2) Government grant recognised as profit or loss for the Current Period** *(continued)*

Item	Assets/Income	Recognised in other incomes	Recognised in non-operating income	Written down of costs
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	1,113,034.48	0.00	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	86,916.48	0.00	0.00
Special Funds for Expanding Overseas by Enterprises in Zhuhai (珠海市「走出去」專項資金)	Related to income	195,600.00	0.00	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
Special Funds for Industry and Information (工業和信息化專項資金)	Related to income	2,000,000.00	0.00	0.00
Special Funds for Industry and Information (工業和信息化專項資金)	Related to assets	19,250.00	0.00	0.00
Supporting Subsidy for "The Thousand Talents Plan" (「千人計劃」配套補貼)	Related to income	1,000,000.00	0.00	0.00
Funds for International and Regional Brand Building and Incentive Funds for Brand (創建國際與區域品牌項目資金及名牌名標獎勵資金)	Related to income	0.00	500,000.00	0.00
Shares Refinancing Bonus (股票再融資獎勵款)	Related to income	0.00	1,600,000.00	0.00
Subsidy for Online Monitoring Equipment for Coal-fired Boilers (燃煤鍋爐在線監控設備裝置補助)	Related to assets	105,000.00	0.00	0.00
Others	Related to income	0.00	674,849.23	0.00
Total	–	91,964,810.95	69,757,065.99	0.00

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

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

32. Government grants (continued)

(3) Return of the government grant for the Year

Nil.

33. Deferred income

Item	Balance at the beginning of the year	Increase during the Year	Decrease during the Year	Balance at the year end	Reason
Government grant	94,997,993.67	157,248,457.60	26,402,177.52	225,844,273.75	

Items related to government grant:

Item	Balances at the beginning of the year	Amount of new additional subsidy for the year	Recognised in other incomes	Decrease during the Year			Balances at the year end	Related to assets/ Related to income
				Recognised in non-operating income	Written down of costs	Other deduction		
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	16,190,000.00	2,134,916.71	0.00	0.00	0.00	19,886,458.11	Related to assets
R&D and commercialisation of innovative drug of Ilaprazole series (艾普拉唑系列創新藥物研發及產業化)	5,161,143.88	0.00	748,129.80	0.00	0.00	0.00	4,413,014.08	Related to income
Team for research, development and commercialisation of protein drugs (2012) under the scientific research team for introduction of innovation technologies in Guangdong Province (廣東省引進創新科研團隊 (2012)蛋白質藥物研究開發及產業化團隊)	5,587,400.47	0.00	5,587,400.47	0.00	0.00	0.00	0.00	Related to assets
2014 Strategic Emerging Industries (Sustained Release Microsphere) (2014年戰略性新興產業(緩釋微球))	2,000,000.00	16,700,000.00	0.00	0.00	0.00	0.00	18,700,000.00	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)	2,400,000.00	0.00	0.00	0.00	0.00	0.00	2,400,000.00	Related to assets
2015 Special Fund for Innovation-driven Projects (2015 年度創新驅動項目專項資金)	93,000.00	0.00	0.00	0.00	0.00	0.00	93,000.00	Related to assets
Project subsidy from Ministry of Industry and Information Technology (工業和信息化部項目補助款)	2,400,000.00	0.00	0.00	0.00	0.00	0.00	2,400,000.00	Related to assets
Project subsidy from Ministry of Industry and Information Technology (工業和信息化部項目補助款)	0.00	2,310,000.00	19,250.00	0.00	0.00	0.00	2,290,750.00	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)	1,029,300.00	0.00	1,029,300.00	0.00	0.00	0.00	0.00	Related to income

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

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

33. Deferred income (continued)

Item	Balances at the beginning of the year	Amount of new additional subsidy for the year	Decrease during the Year				Balances at the year end	Related to assets/ Related to income
			Recognised in other incomes	Recognised in non-operating income	Written down of costs	Other deduction		
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)	189,725.00	0.00	189,725.00	0.00	0.00	0.00	0.00	Related to assets
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	24,196,700.00	701,639.21	0.00	0.00	0.00	26,745,060.72	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	1,102,000.08	0.00	0.00	0.00	6,863,499.75	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	259,032.46	0.00	0.00	0.00	2,321,947.6	Related to assets
Technical transformation project of Shengqi Fuzheng Injection with flexible bag (軟袋參芪扶正注射液技改項目)	0.00	30,000,000.00	0.00	0.00	0.00	0.00	30,000,000.00	Related to assets
Provision for Technology Transformation Funds and subsequent grants (技術改造資金撥款及事後補獎)	0.00	10,260,200.00	282,390.84	0.00	0.00	0.00	9,977,809.16	Related to assets
Provision for Technology Transformation Funds and subsequent grants (技術改造資金撥款及事後補獎)	0.00	3,000,000.00	25,000.00	0.00	0.00	0.00	2,975,000.00	Related to assets
Traditional Chinese Medicine Standardization Project of State Administration of Traditional Chinese Medicine (國家中醫藥管理局中藥標準化項目)	1,000,000.00	0.00	0.00	0.00	0.00	300,000.00	700,000.00	Related to assets
Traditional Chinese Medicine Standardization Project of State Administration of Traditional Chinese Medicine (國家中醫藥管理局中藥標準化項目)	0.00	2,800,000.00	2,100,000.00	0.00	0.00	0.00	700,000.00	Related to income
Shengqi Fuzheng Injection (參芪扶正注射液)	1,029,987.68	0.00	0.00	0.00	0.00	0.00	1,029,987.68	Related to assets
Shengqi Fuzheng Injection (參芪扶正注射液)	960,523.19	0.00	0.00	0.00	0.00	0.00	960,523.19	Related to income
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	243,062.00	0.00	0.00	0.00	0.00	Related to assets

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

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

33. Deferred income (continued)

Item	Balances at the beginning of the year	Amount of new additional subsidy for the year	Decrease during the Year				Balances at the year end	Related to assets/ Related to income
			Recognised in other incomes	Recognised in non-operating income	Written down of costs	Other deduction		
Construction of production facilities for the GAP commercialisation of astragalus at Hunyuan in Shanxi (山西澤源黃芪GAP產業化生產基地建設)	4,641,357.94	0.00	0.00	0.00	0.00	0.00	4,641,357.94	Related to assets
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	850,000.00	0.00	0.00	0.00	0.00	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 (廣東省水產品中有毒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
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	1,113,034.48	0.00	0.00	0.00	4,299,935.92	Related to assets
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	86,916.48	0.00	0.00	0.00	502,519.08	Related to income
Second Batch of Science and Technology R&D Funding in 2012 (2012年第二批科技研發經費)	1,000,000.00	0.00	1,000,000.00	0.00	0.00	0.00	0.00	Related to income
Technology Transfer of Blood Screening (BCI) Nucleic Acid Detection Testing (血液篩查(BCI)核酸檢測試劑成果轉化)	0.00	6,000,000.00	0.00	0.00	0.00	0.00	6,000,000.00	Related to assets
Commercialisation of Liquid Biopsy Testing Enriching, Extracting and Separating Equipment (液態活檢樣本提取富集分離設備產業化)	0.00	30,000,000.00	0.00	0.00	0.00	0.00	30,000,000.00	Related to assets
Subsidy for Rental and Property of the Investment and Promotion Center (區投促中心租金及物業費補貼)	0.00	841,557.60	514,285.20	0.00	0.00	0.00	327,272.40	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	107,142.84	0.00	0.00	0.00	892,857.16	Related to assets

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

33. Deferred income *(continued)*

Item	Balances at the beginning of the year	Amount of new additional subsidy for the year	Decrease during the Year				Balances at the year end	Related to assets/ Related to income
			Recognised in other incomes	Recognised in non-operating income	Written down of costs	Other deduction		
R&D and Commercialisation of Statins (降血脂他汀類藥物的研發與產業化)	0.00	150,000.00	0.00	0.00	0.00	0.00	150,000.00	Related to assets
Scientific Technology Incentive and Subsidy for Technological Innovative Project (科學技術獎及科技創新項目資助)	0.00	500,000.00	27,731.40	0.00	0.00	0.00	472,268.60	Related to assets
Scientific Technology Incentive and Subsidy for Technological Innovative Project (科學技術獎及科技創新項目資助)	0.00	1,800,000.00	163,636.36	0.00	0.00	0.00	1,636,363.64	Related to income
Commissioner workstation (特派員工作站)	0.00	300,000.00	0.00	0.00	0.00	0.00	300,000.00	Related to assets
Industrial Revitalisation Supporting Funds (產業振興扶持資金)	8,235,500.01	0.00	1,158,000.00	0.00	0.00	0.00	7,077,500.01	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	249,999.96	0.00	0.00	0.00	1,108,333.38	Related to assets
New Industrialization Development Grant (新型工業化發展獎金)	2,654,166.67	0.00	300,000.00	0.00	0.00	0.00	2,354,166.67	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	200,000.04	0.00	0.00	0.00	1,166,666.65	Related to assets
Five Goods and One New Supporting Funds (五優一新扶持資金)	800,000.00	0.00	99,999.96	0.00	0.00	0.00	700,000.04	Related to assets
Set-up and Research Fund for Post-doc Station (博士後建站和科研補貼)	100,000.00	0.00	0.00	0.00	0.00	0.00	100,000.00	Related to assets
Set-up and Research Fund for Post-doc Station (博士後建站和科研補貼)	5,142.15	0.00	0.00	0.00	0.00	0.00	5,142.15	Related to income
New R&D Institution Subsidy (新型研發機構補助)	2,560,454.41	0.00	346,878.69	0.00	0.00	0.00	2,213,575.72	Related to assets
New R&D Institution Subsidy (新型研發機構補助)	0.00	1,000,000.00	981,707.90	0.00	0.00	0.00	18,292.10	Related to income
Capital projects of Innovation and Entrepreneurship Team Funding Program (創新創業團隊資助計劃資金項目)	2,500,000.00	1,250,000.00	3,383,333.33	0.00	0.00	0.00	366,666.67	Related to income
Capital projects of Innovation and Entrepreneurship Team Funding Program (創新創業團隊資助計劃資金項目)	0.00	8,500,000.00	0.00	0.00	0.00	0.00	8,500,000.00	Related to assets

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

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

33. Deferred income (continued)

Item	Balances at the beginning of the year	Amount of new additional subsidy for the year	Decrease during the Year				Balances at the year end	Related to assets/ Related to income
			Recognised in other incomes	Recognised in non-operating income	Written down of costs	Other deduction		
Special Funds for Cooperative Innovation and Platform Environmental Construction (協同創新與平台環境建設專項資金)	1,000,000.00	0.00	572,222.22	0.00	0.00	0.00	427,777.78	Related to assets
R&D of Innovative Traditional Chinese Medicine Qihuo Sugar (芪薺糖) Capsule for Kidney for cure for diabetes and kidney disease (治療糖尿病腎病創新中藥“芪薺糖膠囊”的研究開發)	1,000,000.00	0.00	0.00	0.00	0.00	0.00	1,000,000.00	Related to assets
Zhuhai Strategic Emerging Industries Special Funds (珠海市戰略性新興產業專項資金)	3,270,000.00	0.00	0.00	0.00	0.00	0.00	3,270,000.00	Related to assets
Funds for R&D and commercialisation of innovative drug of Ilaprazole series (艾普拉唑系列創新藥物研發及產業化項目資金)	5,600,000.00	0.00	0.00	0.00	0.00	0.00	5,600,000.00	Related to assets
Innovative drug of Ilaprazole for Injection (創新藥注射用艾普拉唑鈉針劑)	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
Subsidy for Online Monitoring Equipment for Coal-fired Boilers (燃煤鍋爐在線監控設備裝置補助資金)	0.00	450,000.00	105,000.00	0.00	0.00	0.00	345,000.00	Related to assets
Funds for Joint R&D and Commercialisation of Integrated Platform for molecular diagnostics (集成一體化分子診斷平台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	157,248,457.60	26,102,177.52	0.00	0.00	300,000.00	225,844,273.75	

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

34. Share capital

2017

Item	Balance at the beginning of the year		Movement for the year					Balance at the year end	
	Amount	Percentage (%)	Issue of new shares	Number of bonus shares	Reserve fund capitalised	Others	Sub-total	Amount	Percentage (%)
I. Shares subject to selling restrictions									
1. State-owned shares	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
2. State-owned legal person shares	11,777,256	2.77	0.00	0.00	3,533,176	-5,070,000	-1,536,824	10,240,432	1.85
3. Other domestic shares	32,615,174	7.66	0.00	0.00	8,728,571	-36,080,422	-27,351,851	5,263,323	0.96
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	1,169,110	-3,322,758	-2,153,648	5,263,323	0.96
Funds and wealth management product, etc.	25,198,203	5.92	0.00	0.00	7,559,461	-32,757,664	-25,198,203	0.00	0.00
4. Foreign shares	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Of which: 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	44,392,430	10.43	0.00	0.00	12,261,747	-41,150,422	-28,888,675	15,503,755	2.81
II. Shares not subject to selling restrictions									
1. Ordinary shares denominated in Renminbi	235,746,336	55.37	0.00	0.00	71,729,622	40,982,888	112,712,510	348,458,846	62.99
2. Domestically listed foreign shares (B Shares)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
3. Overseas listed foreign shares (H Shares)	145,591,360	34.20	0.00	0.00	43,677,408	0.00	43,677,408	189,268,768	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	115,407,030	40,982,888	156,389,918	537,727,614	97.19
III. Total number of shares	425,730,126	100.00	0.00	0.00	127,668,777	-167,534	127,501,243	553,231,369	100.00

On 28 March 2017 and 15 December 2017, the "Resolution on first grant of Shares to be Unlocked during the Second Unlocking Period under the Restricted Shares Incentive Scheme of the Company" and "Resolution on Granting of Reserved Shares to be Unlocked during the Second Unlocking Period under the Restricted Shares Incentive Scheme of the Company" was being passed at the Thirty-Sixth Meeting of the Eighth Session of the Board and the Sixth Meeting of the Ninth Session of the Supervisory Committee of the Company. 3,177,213 shares and 461,214 shares were been unlocked respectively during the Second Unlocking Period of the Second grant of shares and Second Unlocking Period of granting of reserved shares. 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 and 2 January 2018, resulted in a change in the number of shares. According to the Guidelines of the Shenzhen Stock Exchange for the Standard Operation of Companies Listed on the Main Board, upon completion of these two unlock procedures, there are 658,394 locked shares held by the senior management.

Please refer to Note I. Company Status for details of changes in the share capital of the Company for the year.

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

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

34. Share capital *(continued)*

2016

Item	Balance at the beginning of the year		Movement for the year					Balance at the year end	
	Amount	Percentage (%)	Issue of new shares	Number of bonus shares	Reserve fund capitalised	Others	Sub-total	Amount	Percentage (%)
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	3,900,000	0.00	0.00	0.00	3,900,000	11,777,256	2.77
3. Other domestic shares	12,451,140	3.14	25,198,203	0.00	0.00	-5,034,169	20,164,034	32,615,174	7.66
<i>Of which: Domestic legal person shares</i>	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
<i>Domestic natural person shares</i>	12,451,140	3.14	0.00	0.00	0.00	-5,034,169	-5,034,169	7,416,971	1.74
<i>Funds and wealth management products</i>	0.00	0.00	25,198,203	0.00	0.00	0.00	25,198,203	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
<i>Of which: Overseas legal person shares</i>	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
<i>Overseas natural person shares</i>	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
<i>Shares subject to selling restrictions in aggregate</i>	20,328,396	5.12	29,098,203	0.00	0.00	-5,034,169	24,064,034	44,392,430	10.43
II. Shares not subject to selling restrictions									
1. Ordinary shares denominated in Renminbi	230,969,791	58.19	0.00	0.00	0.00	4,776,545	4,776,545	235,746,336	55.37
2. Domestically listed foreign shares (B Shares)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
3. Overseas listed foreign shares (H Shares)	145,591,360	36.68	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
<i>Shares not subject to selling restrictions in aggregate</i>	376,561,151	94.88	0.00	0.00	0.00	4,776,545	4,776,545	381,337,696	89.57
III. Total number of shares	396,889,547	100.00	29,098,203	0.00	0.00	-257,624	28,840,579	425,730,126	100.00

On 28 March 2016 and 30 November 2016, the “Resolution on first grant of Shares to be Unlocked during the First Unlocking Period under the Restricted Shares Incentive Scheme of the Company” and “Resolution on Granting of Reserved Shares to be Unlocked during the First Unlocking Period under the Restricted Shares Incentive Scheme of the Company” was being passed at the Twenty-third and Thirty-second Meeting of the Eighth Session of the Board and the Twentieth Meeting of the Eighth Session of the Supervisory Committee of the Company. 4,453,176 shares and 498,560 shares were been unlocked respectively during the First Unlocking Period of the first grant of shares and First Unlocking Period of granting of reserved shares. 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 and 16 December 2016, resulted in a change in the number of shares. According to the Guidelines of the Shenzhen Stock Exchange for the Standard Operation of Companies Listed on the Main Board, upon completion of these two unlock procedures, there are 175,191 locked shares held by the senior management.

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

35. Capital reserve

2017

Item	Balance at the beginning of the year	Increase for the year	Decrease for the year	Balance at the end of the year
Capital premiums	1,766,067,775.00	35,298,062.42	130,956,353.14	1,670,409,484.28
Other capital reserve	54,241,277.12	14,075,644.32	23,455,431.79	44,861,489.65
Total	1,820,309,052.12	49,373,706.74	154,411,784.93	1,715,270,973.93

The increase in the share premium in the year includes: (1) releasing conditions of 3,638,427 Restricted Shares from the first grant and Reserved Grant have been fulfilled, and the corresponding withdrawal of share incentive expenses RMB23,455,431.79 is transferred from other capital reserve to the share premium reserve; (2) upon unlocking of Restricted Shares, the difference between expenses deductible for tax purpose and the accrued expenses reduced income tax payable by RMB11,842,630.63 according to taxation requirements and capital premiums is increased accordingly. The decrease of share premium in the year was attributable to (1) the decrease of share premium in the sum of RMB3,287,576.14 by the repurchase and cancellation of 167,534 shares restricted shares granted to incentive participants no longer satisfying the conditions of incentive; (2) the decrease of share premium in the sum of RMB127,668,777.00 by the conversion of capital.

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

2016

Item	Balance at the beginning of the year	Increase for the year	Decrease for the year	Balance at the year end
Capital premiums	339,139,167.39	1,431,698,207.80	4,769,600.19	1,766,067,775.00
Other capital reserve	56,570,182.76	30,398,870.92	32,727,776.56	54,241,277.12
Total	395,709,350.15	1,462,097,078.72	37,497,376.75	1,820,309,052.12

The increase in the share premium in the year includes: (1) capital premiums of RMB1,391,202,163.76 arising from the non-public issuance of shares; (2) releasing conditions of 4,951,736 Restricted Shares from the first grant and Reserved Grant have been fulfilled, and the corresponding withdrawal of share incentive expenses RMB32,727,776.56 is transferred from other capital reserve to the share premium reserve; (3) the transfer amounting to RMB107,198.92 by eradicating fractional shares; (4) upon unlocking of Restricted Shares, the difference between expenses deductible for tax purpose and the accrued expenses reduced income tax payable by RMB7,661,068.56 according to taxation requirements and capital premiums is increased accordingly. The decrease of share premium in the year was attributable to the decrease of share premium in the sum of RMB4,769,600.19 by the repurchase and cancellation of 257,624 shares restricted shares granted to incentive participants no longer satisfying the conditions of incentive.

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

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

VI. NOTES TO THE COMPONENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)***36. Treasury shares****2017**

Item	Balance at the beginning of the year	Increase for the year	Decrease for the year	Balance at the end of the year
Repurchase arising from the Share Incentive Scheme	140,321,805.40	0.00	73,535,063.44	66,786,741.96
Total	140,321,805.40	0.00	73,535,063.44	66,786,741.96

The decrease in our repurchase obligation during the Year represents: (1) the releasing conditions of 3,638,427 Restricted Shares from the First Grant and Reserved Grant have been fulfilled, resulting in a corresponding decrease in our repurchase obligation of RMB68,139,022.77; (2) the decrease of treasury shares of RMB1,940,930.53 was due to cash dividends distributed to the holders of Restricted Shares during the Year; (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.

2016

Item	Balances at the beginning of the year	Increase for the year	Decrease for the year	Balances at the end of the year
Repurchase arising from the Share Incentive Scheme	247,219,957.00	0.00	106,898,151.60	140,321,805.40
Total	247,219,957.00	0.00	106,898,151.60	140,321,805.40

The decrease in our repurchase obligation during the Year represents: (1) the releasing conditions of 4,951,736 Restricted Shares from the first grant and Reserved Grant have been fulfilled, resulting in a corresponding decrease in our repurchase obligation of RMB98,000,757.41; (2) the decrease of treasury shares of RMB3,870,170.00 was due to cash dividends distributed to the holders of Restricted Shares during the Year; (3) the repurchase and cancellation of 257,624 shares Restricted Shares granted to the Incentive Participants who no longer satisfying the incentive conditions, resulting in a repurchase payment of RMB5,027,224.19, among which the decrease of share capital of RMB257,624 and capital reserve of RMB4,769,600.19 were attributable to the cancellation of treasury shares.

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

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

37. Other comprehensive income

2017

Item	Balance at the beginning of the year	For the year					Balance at the year end
		Amount incurred before income tax for the year	Less: amount recognised in other comprehensive income in previous period transferred to profit or loss for the period	Less: income tax expenses	Attributable to the parent company after tax	Attributable to the non-controlling shareholders after tax	
(I) Other comprehensive income items subsequently not to be re-classified as profit or loss	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Of which: changes caused by re-measurement of net liabilities or net assets of benefit plans	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Other comprehensive income portions subsequently not to be re-classified as profit or loss of investment units using the equity method	0.00	0.00	0.00	0.00	0.00	0.00	0.00
(II) Other comprehensive income items subsequently to be re-classified as profit or loss	602,767.19	-41,588,945.20	2,219,265.00	1,621,751.75	-45,149,132.62	-280,829.33	-44,546,365.43
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	10,125,865.77	0.00	1,621,751.75	8,504,114.02	0.00	14,079,098.51
Held-to-maturity investment to be re-classified as available-for-sale financial asset profit and loss	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Valid portion of the gains or losses arising from cash flow hedges instrument	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Translation differences of financial statements denominated in foreign currency	-7,191,482.30	-51,714,810.97	0.00	0.00	-51,433,981.64	-280,829.33	-58,625,463.94
Others	2,219,265.00	0.00	2,219,265.00	0.00	-2,219,265.00	0.00	0.00
Total of other comprehensive income	602,767.19	-41,588,945.20	2,219,265.00	1,621,751.75	-45,149,132.62	-280,829.33	-44,546,365.43

(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)*

2016

Item	Balance at the beginning of the year	For the year					Balance at the year end
		Amount incurred before income tax for the year	Less: amount recognised in other comprehensive income in previous period transferred to profit or loss for the period	Less: income tax expenses	Attributable to the parent company after tax	Attributable to the non-controlling shareholders after tax	
(I) Other comprehensive income items subsequently not to be re-classified as profit or loss	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Of which: changes caused by re-measurement of net liabilities or net assets of benefit plans	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Other comprehensive income portions subsequently not to be re-classified as profit or loss of investment units using the equity method	0.00	0.00	0.00	0.00	0.00	0.00	0.00
(II) Other comprehensive income items subsequently to be re-classified as profit or loss	-12,753,227.85	13,334,619.25	0.00	-135,827.78	13,355,995.04	114,451.99	602,767.19
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	-905,518.51	0.00	-135,827.78	-769,690.73	0.00	5,574,984.49
Held-to-maturity investment to be re-classified as available-for-sale financial asset profit and loss	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Valid portion of the gains or losses arising from cash flow hedges instrument	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Translation differences of financial statements denominated in foreign currency	-21,317,168.07	14,240,137.76	0.00	0.00	14,125,685.77	114,451.99	-7,191,482.30
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	13,334,619.25	0.00	-135,827.78	13,355,995.04	114,451.99	602,767.19

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

VI. NOTES TO THE COMPONENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)***38. Surplus reserve****2017**

Item	Balance at the beginning of the year	Increase for the year	Decrease for the year	Balance at the year end
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

2016

Item	Balance at the beginning of the year	Increase for the year	Decrease for the year	Balance at the year end
Statutory surplus reserve	379,022,231.26	40,644,611.24	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	546,610,551.66	40,644,611.24	0.00	587,255,162.90

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

VI. NOTES TO THE COMPONENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)***39. Retained earnings****(1) Movement in retained earnings**

Item	For the period	For the previous year	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 year	4,428,684,564.57	784,353,607.06	
Less: Appropriation to statutory surplus reserve	0.00	40,644,611.24	10%
Appropriation to discretionary surplus reserve	0.00	0.00	
Dividends payable to ordinary shares	212,781,296.00	198,315,961.50	
Dividends of ordinary shares capitalised	0.00	0.00	
Retained earnings at the year end	8,028,315,370.19	3,812,412,101.62	

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.

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

39. Retained earnings *(continued)*

(2) Notes to appropriation of profits

Item	For the period	Unit: RMB'000
		For the previous year
Dividends:		
Final dividends in respect of the year 2016 paid during the Year (Note 2)	212,781.30	—
Final dividends in respect of the year 2015 paid during the Year (Note 3)	—	198,315.96
Dividends proposed after the balance sheet date:		
Final dividends proposed for the year 2017 (Note 1)	—	—
Final dividends proposed for the year 2016 (Note 2)	—	212,781.30

Note 1: On 23 March 2018, the Company held the Eleventh Meeting of the Ninth Session of the Board to consider and approve 2017 annual profit distribution, based on the Company's total share capital as at the registration date of shareholding determined by implementation of the 2017 annual profit distribution plan, a cash dividend of RMB2 per share (tax inclusive) would be distributed to all the shareholders of the Company. At the same time, 3 shares would be issued for every 10 shares held to all shareholders of the Company by way of capitalizing our capital reserve. Such profit contribution plan is subject to the approval at the 2017 annual general meeting.

Note 2: 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 was approved at the general meeting on 23 June 2017, and RMB212,781,296 was paid.

Note 3: On 24 March 2016, the Company held the 22nd Meeting of the 8th Board, which passed the resolution of 2015 annual profit distribution plan to distribute a cash dividend (RMB0.5 per share (tax inclusive)) to all shareholders with reference to the total number of 396,889,547 shares of the Company at the end of the year. 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.

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

VI. NOTES TO THE COMPONENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)***40. Operating income and operating cost**

Item	For the year		For the previous year	
	Income	Cost	Income	Cost
Principal activities	8,487,126,968.80	3,056,374,168.85	7,616,666,638.44	2,722,166,350.78
Other activities	43,841,627.74	26,706,867.86	35,108,647.05	25,622,031.83
Total	8,530,968,596.54	3,083,081,036.71	7,651,775,285.49	2,747,788,382.61

The Company operates in a single operating segment in the PRC, i.e. the manufacture of pharmaceuticals. Accordingly, no operating segment for geographical information of the Company are presented.

41. Business taxes and surcharges

Item	For the year	For the previous year
Urban maintenance and construction tax payable	51,642,240.64	50,173,824.64
Education surcharges payable	41,945,048.54	39,999,903.15
Flood prevention fee payable	251,571.93	2,108,791.75
Business tax payable	0.00	2,786,956.71
Land use tax	5,949,015.12	7,068,436.68
Property tax	19,191,680.17	14,840,672.16
Stamp duty	9,491,616.59	2,837,827.22
Vehicle and vessel usage tax	73,393.43	60,414.78
Others	485,716.82	475,511.49
Total	129,030,283.24	120,352,338.58

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

42. Selling expenses

Item	For the year	For the previous year
Marketing and promotional expenses	2,963,479,279.43	2,799,657,963.61
Staff salaries	128,180,140.41	108,042,605.38
Transportation costs	55,503,646.63	58,581,280.33
Travelling expenses and entertainment	35,922,079.55	32,908,940.20
Business meeting expenses	39,422,532.00	32,496,781.41
Others	42,662,039.11	38,683,338.17
Total	3,265,169,717.13	3,070,370,909.10

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

43. Administrative expenses

Item	For the year	For the previous year
Research and development costs	427,152,448.64	291,118,557.69
Staff salaries	177,308,865.66	140,353,218.47
Share incentive costs	14,075,644.32	30,398,870.92
Depreciation and amortisation	55,049,291.20	61,509,153.91
Loss on suspension of operations	56,570,059.42	52,879,046.48
Auditor Remuneration	2,324,528.31	2,165,094.34
Others	201,490,701.37	146,179,548.84
Total	933,971,538.92	724,603,490.65

44. Financial expenses

Item	For the year	For the previous year
Interest expenses	3,050,424.10	26,966,564.17
Less: Interest income	78,084,383.47	9,030,359.23
Exchange (gains)/losses	32,416,119.72	-16,128,690.26
Bank charges	3,610,027.07	3,603,988.92
Total	-39,007,812.58	5,411,503.60

45. Impairment loss

Item	For the year	For the previous year
Impairment of bad debts	-5,474,214.60	19,447,086.17
Impairment of diminution in value of inventories	30,163,077.25	38,787,321.23
Impairment of fixed assets	37,334,764.63	8,692,377.08
Impairment of intangible assets	0.00	8,829,166.90
Impairment of available-for-sale financial assets	55,831,500.00	31,422,602.28
Total	117,855,127.28	107,178,553.66

46. Gains from changes in fair value

Sources of gains from changes in fair value	For the year	For the previous year
Financial assets at fair value through profit or loss	2,812,281.15	-930,399.32
Of which: Shares	2,898,453.50	-952,765.00
Funds	35,157.55	22,365.68
Foreign currency forward contracts	-121,329.90	0.00

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

VI. NOTES TO THE COMPONENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)***47. Investment Income**

Item	For the year	For the previous year
Long-term equity investments income under equity method	1,488,310.65	-373,776.28
Investment income generated from disposal of long-term equity investments	4,279,239,528.22	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	64,025.54	51,969.00
Investment income generated from disposal of financial assets measured at fair value, with the change in fair value included in the profit or loss	4,313,000.00	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	1,190,073.75
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	482,954.55	0.00
When without control, income generated from revaluation of remaining equity measured at fair value	0.00	0.00
Cash management gains	11,387,922.35	0.00
Total	4,297,099,345.96	1,340,566.47

48. Income from disposal of asset

Items	For the year	For the previous year	Amount charged to non-recurring gains or losses during the Year
Disposal of non-current assets	225,062,922.66	4,836,855.74	225,062,922.66
Total	225,062,922.66	4,836,855.74	225,062,922.66

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

VI. NOTES TO THE COMPONENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)***49. Other Income**

Items	For the year	For the previous year	Amount charged to non-recurring gains or losses during the Year
Government grants	91,964,810.95	0.00	91,964,810.95
Total	91,964,810.95	0.00	91,964,810.95

50. Non-operating income

Item	For the year	For the previous year	Recognised as extraordinary gains or losses for the year
Gains on destruction of non-current assets	0.00	0.00	0.00
Income from scraps	366,602.99	151,524.92	366,602.99
Government grants	69,757,065.99	128,100,925.11	69,757,065.99
Compensation income	20,616,194.38	145,197.00	20,616,194.38
Waiver of payables	124,863.20	144,267.63	124,863.20
Others	1,047,920.82	1,057,864.17	1,047,920.82
Total	91,912,647.38	129,599,778.83	91,912,647.38

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

VI. NOTES TO THE COMPONENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)***51. Non-operating expenses**

Item	For the year	For the previous year	Recognised as extraordinary gains or losses for the year
Loss on destruction of non-current assets	1,518,793.75	114,186.99	1,518,793.75
Charity donation expenses	12,584,888.51	539,436.45	12,584,888.51
Others	10,694,242.86	5,202,109.64	10,694,242.86
Total	24,797,925.12	5,855,733.08	24,797,925.12

52. Income tax expenses**(1) Breakdown of income tax expenses**

Item	For the year	For the previous year
Current income tax calculated according to tax laws and relevant rules	1,206,830,991.82	218,928,089.13
Include: Income tax on domestic enterprises	1,206,807,198.41	218,786,347.70
Income tax on Hong Kong and Macau enterprises	23,793.41	141,741.43
Adjustment of deferred income tax	30,389,413.54	-43,782,422.12
Total	1,237,220,405.36	175,145,667.01

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

52. Income tax expenses *(continued)*

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

Item	For the year	For the previous year
Profit before tax	5,724,922,788.82	1,005,061,175.93
Income tax calculated at statutory tax rates	1,431,230,697.21	251,265,293.98
Tax effect of different rates applicable to subsidiaries	705,965.05	-13,619,022.25
Effect of tax deduction	-264,777,248.02	-111,385,275.48
Effect of non-deductible expenses	1,789,377.48	-2,000,420.19
Credit (charge) on temporary differences on which deferred tax assets are not recognised for the year	8,523,782.75	13,304,975.64
Deductible losses of deferred tax assets that are not recognised for the year	39,578,340.97	31,692,666.25
Use of deductible losses of deferred tax assets that are not recognised in the previous year	-474,226.91	816,294.75
Others	20,643,716.83	5,071,154.31
Total	1,237,220,405.36	175,145,667.01

53. Other comprehensive income details

Please refer to note VI. 37 for details.

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

VI. NOTES TO THE COMPONENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)***54. Notes to cash flow statement item****(1) Cash received relating to other operating activities**

Item	For the year	For the previous year
Government grants	292,568,157.02	123,540,178.80
Interest income	78,084,383.47	9,030,359.23
Default and compensation income	11,047,096.35	145,197.00
Income from scraps	366,602.99	151,524.92
Deposits under guarantees for letter of credit/bank acceptance bills	3,416,238.94	17,840,897.20
Movements of capital and others	51,754,687.04	46,168,413.80
Total	437,237,165.81	196,876,570.95

(2) Cash paid relating to other operating activities

Item	For the year	For the previous year
Office expenses	57,713,064.05	29,132,296.41
Travelling expenses	31,885,506.34	28,664,833.42
Entertainment expenses	33,303,338.39	32,021,895.21
Transportation fees	68,524,326.23	68,267,696.59
Advertising expenses	339,858.46	1,127,520.01
Business meeting expenses	37,124,814.05	48,250,417.86
Auditing and information disclosure fees	6,953,164.78	9,195,832.07
Consultancy fees	11,896,765.51	7,821,329.32
Research and development costs	243,724,380.46	140,480,391.53
Bank charges	3,610,027.07	3,603,988.92
Business promotion expenses	3,100,389,665.25	2,644,466,954.89
Deposits under guarantees for letter of credit and bank acceptance bills	18,224,502.58	1,150,000.00
Other expenses paid and current account	87,548,307.66	75,809,809.34
Total	3,701,237,720.83	3,089,992,965.57

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

VI. NOTES TO THE COMPONENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)***54. Notes to cash flow statement item** *(continued)***(3) Cash received relating to other investing activities**

Item	For the year	For the previous year
Deposits under guarantees	0.00	14,510,983.09

(4) Cash paid relating to other investing activities

Item	For the year	For the previous year
Loss on foreign currency forward contracts	1,211,700.00	0.00

(5) Cash received relating to other financing activities

Item	For the Current year	For the Previous year
Collection of debts from Zhuhai Weixing Shiye Co., Ltd. (珠海維星實業有限公司)	20,942,982.72	0.00
Collection and advance payment of individual income tax	2,237,525.02	739,415.12
Total	23,180,507.74	739,415.12

(6) Cash paid relating to other financing activities

Item	For the year	For the previous year
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
Total	6,050,621.02	5,027,224.20

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

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

55. Supplemental information to cash flow statement

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

Item	For the year	For the previous year
1 Reconciliation of net profit to cash flow from operating activities:		
Net profit for the year	4,487,702,383.46	829,915,508.92
Add: Provision for impairment of assets	117,855,127.28	107,178,553.66
Depreciation of fixed assets, amortisation of oil and gas assets, depreciation of productive biological assets		
biological assets	333,266,021.37	335,587,144.90
Amortisation of intangible assets	25,907,664.31	26,509,987.15
Amortisation of long-term expense	15,332,317.28	11,905,926.56
Losses on disposal of fixed assets, intangible assets and other long-term assets ("—" represents gains)	-225,062,922.66	-4,836,855.74
Losses on write-off of fixed assets ("—" represents gains)	1,518,793.75	114,186.99
Losses from changes in fair value ("—" represents gains)	-2,812,281.15	930,399.32
Financial expenses ("—" represents gains)	21,997,107.58	6,874,442.47
Investments losses ("—" represents gains)	-4,297,099,345.96	-1,340,566.47
Decrease in deferred tax assets ("—" represents increase)	22,372,506.64	-48,761,226.51
Increase in deferred tax liabilities ("—" represents decrease)	8,016,906.90	4,978,804.39
Decrease in inventories ("—" represents increase)	-44,909,866.42	-182,095,042.80
Decrease in trade receivables ("—" represents increase)	-606,248,042.38	-423,729,045.99
Increase in trade payables ("—" represents decrease)	1,443,953,453.37	585,583,949.75
Others	14,075,644.32	30,398,870.92
Net cash flows from operating activities	1,315,865,467.69	1,279,215,037.52
2 Significant investing and financing activities not involving cash receipts and payment:		
Liabilities converted into capital	0.00	0.00
Convertible bonds due within one year	0.00	0.00
Fixed assets acquired under finance leases	0.00	0.00
3 Net movement in cash and cash equivalents:		
Cash at the end of the year	7,400,973,935.19	2,061,923,004.89
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 year	0.00	0.00
Less: Cash equivalents at the beginning of the year	0.00	0.00
Net increase in cash and cash equivalents	5,339,050,930.30	1,294,829,601.44

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

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

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

Nil

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

Item	Amount
Cash or cash equivalent received during the Year from disposal of subsidiaries during the Year	
In which: Zhuhai Weixing Shiye Co., Ltd. (珠海維星實業有限公司)	4,479,932,115.41
In which: Zhuhai Livzon Meidaxin Technological Development Co., Ltd. (珠海市麗珠美達信技術開發有限公司)	0.00
Reduced by: Cash and cash equivalents held by the Company on the date of losing the controlling interest	
In which: Zhuhai Weixing Shiye Co., Ltd. (珠海維星實業有限公司)	0.00
In which: Zhuhai Livzon Meidaxin Technological Development Co., Ltd. (珠海市麗珠美達信技術開發有限公司)	0.00
Adding: Cash and cash equivalents received during the Year from disposal of subsidiaries during the previous period	
In which: Zhuhai Weixing Shiye Co., Ltd. (珠海維星實業有限公司)	0.00
In which: Zhuhai Livzon Meidaxin Technological Development Co., Ltd. (珠海市麗珠美達信技術開發有限公司)	0.00
Net cash received from disposal of subsidiaries	4,479,932,115.41

(4) Composition of cash and cash equivalents

Item	Balance at the year end	Balance at the beginning of the year
1 Cash	7,400,973,935.19	2,061,923,004.89
Of which: Cash on hand	189,288.49	125,085.29
Bank deposits that are readily available for payment	7,399,630,287.84	2,060,784,878.76
Other cash at bank and on hand that are readily available for payment	1,154,358.86	1,013,040.84
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 year	7,400,973,935.19	2,061,923,004.89

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

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

VI. NOTES TO THE COMPONENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)***56. Assets with restricted ownership or right of use**

Items	Carrying amount at the end of the year	Reasons
Cash at bank and on hand – Bank deposits	1,120,000.00	Deposits under guarantee
Cash at bank and on hand – Other cash at bank and on hand	13,688,263.64	Guarantee for letter of credit, bank acceptance bills and forward exchange contracts
Total	14,808,263.64	

57. Monetary items in foreign currency

Item	Amount in foreign currency by year end	Exchange rate	Amount translated into RMB by year end
Cash at bank and on hand:			
In which: HKD	700,546,064.40	0.83591	585,593,460.69
Euro	278,016.61	7.8023	2,169,169.00
USD	34,047,931.72	6.5342	222,475,995.44
MOP	1,842,174.32	0.8122	1,496,213.98
JPY	22,381,178.00	0.057883	1,295,489.72
Total cash at bank and on hand:			813,030,328.83
Trade receivables:			
In which: USD	44,933,172.77	6.5342	293,602,337.51
JPY	36,116,388.00	0.057883	2,090,524.89
MOP	2,308,395.03	0.8122	1,874,878.44
Total trade receivables:			297,567,740.84
Other receivables:			
In which: HKD	1,485,395.80	0.83591	1,241,657.20
MOP	418,000.00	0.8122	339,499.60
Total other receivables:			1,581,156.80
Other current assets			
In which: HKD	100,945,816.88	0.83591	84,381,617.79
Total other current assets			84,381,617.79
Payables:			
In which: Euro	82,110.00	7.8023	640,646.85
USD	20,556.95	6.5342	134,323.22
Total trade payables:			774,970.07
Other payables:			
In which: HKD	2,671,861.81	0.83591	2,233,436.01
USD	698,854.19	6.5342	4,566,453.05
Total other payables			6,799,889.06

VII. CHANGE TO CONSOLIDATION SCOPE

1. Business combinations involving enterprises under common control

(1) Business combinations involving enterprises under common control during the Year

Name of the merged party	Percentage of equity obtained in the business combination (%)	Basis for the recognition as business combination under common control	Date of business combination	Basis for the determination of combination date
Livzon Biologics Limited	51.00	company under the control of the parent company	2017.11.29	registration and filing procedure of the change in equity ownership

Name of the merged party	Income of the merged party from the beginning of the year of combination to combination date	Net profit of the merged party from the beginning of the year of combination to combination date	Income of the merged party during comparative period	Net profit of the merged party during comparative period
Livzon Biologics Limited	0.00	0.00	0.00	0.00

(2) Business combinations costs and the carrying amount of assets and liabilities of the merged party

The Business combinations costs was nil. Livzon Biologics Limited has not yet made actual investment, the carrying amount of assets and liabilities was were nil. The acquisition was a transaction in respect of equity investment transfer

2. Disposal of subsidiaries

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

Name of subsidiary	Amount of disposal for equity	Disposal ratio (%)	Mode of disposal	Time of control ceases	Recognition	Differences arising from disposal amount and portion of net assets held by disposal investment for the range of consolidated financial statements
Qingyuan Xinteng Enterprise Company Limited	4,529,932,115.41	100.00	Transfer	17 July 2017	Assets transferred	4,279,239,528.22
Zhuhai Livzon Meidaxin Technological Development Co., Ltd. (珠海市麗珠美達信技術開發有限公司)	0.00	100.00	Deregistration	25 October 2017	Cancellation of business registration	0.00

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

VII. CHANGE TO CONSOLIDATION SCOPE *(continued)***2. Disposal of subsidiaries** *(continued)*

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

Name of subsidiary	Ratio of the remaining equity (%)	Book value of the remaining equity at the date of ceased control	Fair value of the remaining equity at the date of ceased control	Gain or loss arising from the remaining equity remeasured at fair value	Recognition and assumption for fair value	Profit or loss arising from transformation of other comprehensive income which is related to equity investment
Zhuhai Weixing Shiye Co., Ltd. (珠海維星實業有限公司)	0.00	0.00	0.00	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)	0.00	0.00	0.00	0.00	—	0.00

3. Change to Consolidation Scope for other reasons

Livzon MABPharm (US) Inc. (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 March 2017.

The Company and Livzon Group Livzon Pharmaceutical Factory (麗珠集團麗珠製藥廠) set up Zhuhai Livzon Weiqiu Technology Co., Ltd.* (珠海市麗珠微球科技有限公司) in July 2017, accounting for 100% of its registered capital.

Lizhu (Hong Kong) Co., Limited (麗珠(香港)有限公司) set up Livzon International Limited and Livzon Biologics Hong Kong Limited (麗珠生物科技香港有限公司) in October 2017, accounting for 100% of its registered capital respectively. Livzon Biologics Hong Kong Limited (麗珠生物科技香港有限公司) set up Zhuhai Livzon Biotechnology Co., Limited (珠海市麗珠生物醫藥科技有限公司) in November 2017, accounting for 100% of its registered capital respectively. On 29 November 2017, Lizhu (Hong Kong) Co., Limited (麗珠(香港)有限公司) transferred its 100% equity interest in Livzon Biologics Hong Kong Limited (麗珠生物科技香港有限公司) to Livzon Biologics Limited.

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

VIII. EQUITY IN OTHER ENTITIES

1. Equity in subsidiaries

(1) Group Structure

Name of the subsidiary	Subsidiary Type	Type of legal entity	Place of main business	Place of incorporation	Nature of business	Registered Capital	Percentage of shareholding	Proportion of voting rights	Acquisition method
Ando Development Limited (安滔發展有限公司)	Wholly-owned	Limited company	Hong Kong	Hong Kong	Investment	HKD500,000	100%	100%	Set-up
Lizhu (Hong Kong) Co., Limited (麗珠(香港)有限公司)	Wholly-owned	Limited company	Hong Kong	Hong Kong	Investment	HKD61,000,000	100%	100%	Set-up
Lian Hong Kong Limited (麗安香港有限公司)	Wholly-owned	Limited company	Hong Kong	Hong Kong	Investment	HKD1,000,000	100%	100%	Set-up
Zhuhai Modern Chinese Medicine High Technology Co., Ltd. (珠海現代中藥高科技有限公司)	Wholly-owned	Limited company	Zhuhai	Zhuhai	Provision of services	RMB6,000,000	100%	100%	Set-up
Livzon Group Livzon Pharmaceutical Factory (麗珠集團麗珠製藥廠)	Wholly-owned	Limited company	Zhuhai	Zhuhai	Manufacture of medicine	RMB450,000,000	100%	100%	Set-up
Livzon Group Livzon Pharmaceutical Marketing Co., Ltd. (麗珠集團麗珠醫藥營銷有限公司)	Wholly-owned	Limited company	Zhuhai	Zhuhai	Sales of goods	RMB20,000,000	100%	100%	Set-up
Zhuhai 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 Cynvenio Diagnostics 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	RMB133,333,300	30.60%	30.60%	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. (麗西麗珠參源藥材有限公司)*	Subsidiary of wholly-owned subsidiary	Limited company	Longxi County	Longxi County	Crop farming	RMB4,000,000	100%	100%	Set-up
Livzon Pharmaceutical Biotechnology Co., Limited (麗珠醫藥生物科技股份有限公司)	Wholly-owned	Limited company	Hong Kong	Hong Kong	Provision of services	HKD10,000	100%	100%	Set-up
Zhuhai Livzon Advertising Co., Ltd. (珠海麗珠廣告有限公司)	Wholly-owned	Limited company	Zhuhai	Zhuhai	Provision of services	RMB1,000,000	100%	100%	Set-up
Livzon Group Livzon Baimeing Biological Materials Co., Ltd. (麗珠集團麗珠-拜阿蒙生物材料有限公司)	Holding	Limited company	Zhuhai	Zhuhai	Manufacture of medicine	RMB12,000,000	82%	82%	Set-up
Livzon Group Livzon Medical Research Centre (麗珠集團麗珠醫藥研究所)	Wholly-owned	Limited company	Zhuhai	Zhuhai	Provision of services	RMB10,000,000	100%	100%	Set-up
Jiaozuo Livzon Hecheng Pharmaceutical Manufacturing Co., Ltd. (焦作麗珠合成製藥有限公司)	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

(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	Place of main business	Place of incorporation	Nature of business	Registered Capital	Percentage of shareholding	Proportion of voting rights	Acquisition method
Livzon Group Vaccine Engineering Inc. (麗珠集團疫苗工程股份有限公司)	Holding	Limited company	Zhuhai	Zhuhai	Provision of services	RMB65,000,000	83.85%	83.85%	Set-up
Wenshan Livzon Sangji Plantation Co., Ltd. (文山麗珠三七種植有限公司)	Holding	Limited company	Wenshan	Wenshan	Crop farming	RMB9,200,000	51%	51%	Set-up
Livzon Group Ningxia Xinbeijiang Pharmaceutical Manufacturing Co., Ltd. (麗珠集團寧夏新北江製藥有限公司)	Holding	Limited company	Pingluo County	Pingluo County	Manufacture of medicine	RMB100,000,000	99.214%	99.214%	Set-up
Livzon Group Ningxia Fuxing Pharmaceutical Manufacturing Co., Ltd. (麗珠集團寧夏復興製藥有限公司)	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 Lihe Medical Diagnostic Product Co., Ltd. (珠海麗禾醫療診斷產品有限公司)	Subsidiary of holding subsidiary	Limited company	Zhuhai	Zhuhai	Manufacture of medicine	RMB15,000,000	51%	51%	Set-up
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 subsidiary	Limited company	Zhuhai	Zhuhai	Provision of services	RMB100,000,000	60%	60%	Set-up
Livzon MABPharm (US) Inc. (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
Zhuhai Livzon Weiqiu Technology Co., Ltd.* (珠海市麗珠微球科技有限公司)	Wholly-owned	Limited company	Zhuhai	Zhuhai	Technology development	RMB500,000	100%	100%	Set-up
Livzon International Limited	Wholly-owned	Limited company	Cayman Island	Cayman Island	Investment	USD50,000	100%	100%	Set-up
Livzon Biologics Limited	Holding subsidiary	Limited company	Cayman Island	Cayman Island	Investment	USD50,000	51%	51%	Consolidated from common control
Livzon Biologics Hong Kong Limited (麗珠生物科技香港有限公司)	Subsidiary of holding subsidiary	Limited company	Hong Kong	Hong Kong	Investment	HKD400	51%	51%	Set-up
Zhuhai Livzon Biotechnology Co., Limited (珠海市麗珠生物醫藥科技有限公司)	Subsidiary of holding subsidiary	Limited company	Zhuhai	Zhuhai	Technology development	RMB250,000,000	51%	51%	Set-up
Sichuan Guangda Pharmaceutical Manufacturing Co., Ltd. (四川光大製藥有限公司)	Wholly-owned	Limited company	Pengzhou	Pengzhou	Manufacture of medicine	RMB149,000,000	100%	100%	Consolidated from non-common control
Livzon Group Xinbeijiang Pharmaceutical Manufacturing Inc. (麗珠集團新北江製藥股份有限公司)	Holding	Limited company	Qingyuan	Qingyuan	Manufacture of medicine	RMB134,930,000	92.14%	92.14%	Consolidated from non-common control
Livzon Group Limin Pharmaceutical Manufacturing Factory (麗珠集團利民製藥廠)	Wholly-owned	Limited company	Shaoguan	Shaoguan	Manufacture of medicine	RMB61,560,000	100%	100%	Consolidated from non-common control
Livzon Group Fuzhou Fuxing Pharmaceutical Co., Ltd. (麗珠集團福州復興醫藥有限公司)	Wholly-owned	Limited company	Fuzhou	Fuzhou	Manufacture of medicine	USD41,700,000	100%	100%	Consolidated from non-common control
Gutian Fuxing Pharmaceutical Co., Ltd. (古田復興醫藥有限公司)	Wholly-owned	Limited company	Gutian County	Gutian County	Manufacture of medicine	RMB26,700,000	100%	100%	Consolidated from non-common control

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

VIII. EQUITY IN OTHER ENTITIES *(continued)***1. Equity in subsidiaries** *(continued)***(2) Important non-wholly-owned subsidiaries**

Name of Subsidiaries	Percentage of shareholdings of non-controlling shareholders	Profit and loss attributable to non-controlling shareholders for the year	Dividend paid to non-controlling shareholders for the year	Equity balance for non-controlling shareholders by the year end
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%	85,619,856.24	29,400,000.00	195,197,874.04
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 Cynvenio Diagnostics Ltd. (珠海麗珠聖美醫療診斷技術有限公司), Shanghai Lihang Biotechnology Co., Limited (上海麗航生物科技股份有限公司))	49%	29,784,934.34	183,104,303.71	84,136,649.82
Livzon MABPharm Inc. (珠海市麗珠單抗生物技術有限公司)	49%	-62,638,513.62	0.00	133,278,372.66
Livzon Group Vaccine Engineering Inc. (麗珠集團疫苗工程股份有限公司)	16.15%	-157,952.43	0.00	-1,171,433.67
Livzon Group Xinbeijiang Pharmaceutical Manufacturing Inc. (麗珠集團新北江製藥股份有限公司)	7.86%	6,821,646.23	0.00	37,100,070.88

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

VIII. EQUITY IN OTHER ENTITIES *(continued)***1. Equity in subsidiaries** *(continued)***(3) Major accounting information on important non-wholly-owned subsidiaries**

Name of subsidiaries	Financial Position by the year end		Financial Position by the beginning of the year	
	Total assets	Net assets	Total assets	Net assets
Shanghai Livzon Pharmaceutical Manufacturing Co., Ltd. (上海麗珠製藥有限公司) (consolidated Shanghai Livzon Biotechnology Co., Ltd. (上海麗珠生物科技有限公司))	581,669,543.74	386,348,783.76	457,303,270.95	305,423,827.53
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 Cynvenio Diagnostics Ltd. (珠海麗珠聖美醫療診斷技術有限公司), Shanghai Lihang Biotechnology Co., Limited (上海麗航生物科技有限公司))	823,364,603.30	112,179,898.64	662,743,761.55	408,507,047.89
Livzon MABPharm Inc. (珠海市麗珠單抗生物技術有限公司)	339,202,402.35	271,996,678.88	446,497,897.52	400,110,085.92
Livzon Group Vaccine Engineering Inc. (麗珠集團疫苗工程股份有限公司)	16,774,546.60	-7,253,459.25	18,560,315.29	-6,275,425.64
Livzon Group Xinbeijiang Pharmaceutical Manufacturing Inc. (麗珠集團新北江製藥股份有限公司)	608,823,598.96	472,011,079.79	551,336,130.12	385,221,687.58

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

VIII. EQUITY IN OTHER ENTITIES *(continued)***1. Equity in subsidiaries** *(continued)***(3) Major accounting information on important non-wholly-owned subsidiaries** *(continued)*

Name of subsidiaries	Operating results for the year			Operating results for the previous year		
	Revenue	Net profit	Total comprehensive income	Revenue	Net profit	Total comprehensive income
Shanghai Livzon Pharmaceutical Manufacturing Co., Ltd. (上海麗珠製藥有限公司) (consolidated Shanghai Livzon Biotechnology Co., Ltd. (上海麗珠生物科技股份有限公司))	756,978,408.86	157,167,557.37	157,167,557.37	567,373,981.69	109,154,265.33	109,154,265.33
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 Cynvenio Diagnostics Ltd. (珠海麗珠聖美醫療診斷技術有限公司), Shanghai Lihang Biotechnology Co., Limited (上海麗航生物科技股份有限公司))	648,507,292.11	77,648,518.52	77,355,103.22	568,312,860.07	94,576,364.76	94,695,488.26
Livzon MABPharm Inc. (珠海市麗珠單抗生物技術有限公司)	76,697.72	-127,833,701.27	-128,113,407.04	0.00	-121,299,075.18	-121,299,075.18
Livzon Group Vaccine Engineering Inc. (麗珠集團疫苗工程股份有限公司)	0.00	-978,033.61	-978,033.61	0.00	-13,279,354.64	-13,279,354.64
Livzon Group Xinbeijiang Pharmaceutical Manufacturing Inc. (麗珠集團新北江製藥股份有限公司)	553,170,900.76	86,789,392.21	86,789,392.21	483,981,708.77	86,955,484.43	86,955,484.43

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

VIII. EQUITY IN OTHER ENTITIES *(continued)***1. Equity in subsidiaries** *(continued)***(3) Major accounting information on important non-wholly-owned subsidiaries** *(continued)*

Name of subsidiaries	Cash flow for the year					Cash flow for the previous year				
	cash flow for operating activities	cash flow for investment activities	cash flow for financing activities	Cash and cash equivalents by the beginning of the year	Cash and cash equivalents by the year end	cash flow for operating activities	cash flow for investment activities	cash flow for financing activities	Cash and cash equivalents by the beginning of the year	Cash and cash equivalents by the year end
Shanghai Livzon Pharmaceutical Manufacturing Co., Ltd. (Shanghai Livzon Pharmaceutical Manufacturing Co., Ltd. (上海麗珠製藥有限公司)) (consolidated Shanghai Livzon Biotechnology Co., Ltd. (上海麗珠生物科技有限公司))	187,545,873.35	-21,952,947.11	-158,734,844.27	5,219,176.50	12,036,826.13	151,136,550.69	-10,074,717.00	-136,711,421.90	868,764.71	5,219,176.50
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 Cynvenio Diagnostics Ltd. (珠海麗珠聖美醫療診斷技術有限公司), Shanghai Lihang Biotechnology Co., Limited (上海麗航生物科技有限公司))	178,600,799.15	-41,178,948.14	-111,568,724.72	44,824,799.54	70,659,208.88	103,370,655.08	-78,022,424.01	-12,632,855.18	31,465,881.13	44,824,799.54
Livzon MABPharm Inc. (珠海市麗珠單抗生物技術有限公司)	-122,452,617.56	-25,943,633.62	153,958,964.45	294,507.64	5,546,748.22	-88,703,314.63	-56,717,427.46	145,251,118.87	464,130.86	294,507.64
Livzon Group Vaccine Engineering Inc. (麗珠集團疫苗工程股份有限公司)	-27,753.96	306,738.44	-295,560.24	42,208.18	25,632.42	-941,819.80	89,061.50	815,453.27	79,513.21	42,208.18
Livzon Group Xinbeijiang Pharmaceutical Manufacturing Inc. (麗珠集團新北江製藥股份有限公司)	61,725,742.89	-12,841,739.39	-77,093,984.23	81,655,605.61	50,314,716.68	64,264,889.31	67,442,826.62	-69,115,642.32	16,730,091.81	81,655,605.61

2. Equity interest transfer with changes to proportion of equity ownership for subsidiaries without losing control**(1) Explanation on changes to proportion of equity interest ownership for subsidiaries**

Nil.

(2) Effect of transfer on non-controlling shareholder's equity interests and equity interest attributable to the owners of the Company for the year

Nil.

VIII. EQUITY IN OTHER ENTITIES *(continued)***3. Equity in associates or joint ventures****(1) Accounting information for non-important joint ventures or associates**

Item	Balance at the year end/ Amount for the year	Balance for the previous year/ Amount for the previous year
Associates:		
Total nominal value of investment	92,598,045.44	91,109,734.79
Total amount calculated by percentage of shareholding		
– net profit	1,488,310.65	–373,776.28
– other comprehensive income	0.00	0.00
– total comprehensive income	1,488,310.65	–373,776.28

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

Nil.

IX. RISKS RELATED TO FINANCIAL INSTRUMENTS**1. Management objectives and policies of risks**

The operation activities of the Company are subject to various financial risks: market risks (mainly including foreign exchange risks and interest rate risks), credit risks and liquidity risks. The Company formulates an overall risk management plan with respect to the unforeseeability of the financial market in order to minimise the potential adverse impacts on the financial performance of the Company.

(1) Foreign exchange risks

The Company conducts its operation primarily in China. Substantially all of the transactions were denominated and settled in Renminbi. However, the Company still has certain imports and exports businesses regarding bulk medicines and diagnostic reagents and equipment, for which they are settled in U.S. dollar and Japanese Yen. The Company's businesses outside China (mainly in Hong Kong) are settled in Hong Kong dollars. In addition, the Company will have foreign currency loans according to the operating needs. In respect of the above, the Company still exposes to certain foreign exchange risks. Taking into account the foreign exchange risks acceptable by the Company, the Company adopted non-hedging foreign currency forward contracts to control foreign exchange risk. However, as to the foreign exchange risk in loans, the Company shall closely monitor the trend on the exchange rate of Renminbi, and timely adjust the extent of borrowings, so as to reduce its risks to the minimum.

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

IX. RISKS RELATED TO FINANCIAL INSTRUMENTS *(continued)***1. Management objectives and policies of risks** *(continued)***(1) Foreign exchange risks** *(continued)*

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

(1) 31 December 2017

Amount denominated: RMB'000

Item	HKD item	USD item	Euro item	JPY item	MOP item
Financial assets in foreign currency –					
Cash at bank and on hand	585,593.46	222,476.00	2,169.17	1,295.49	1,496.21
Financial assets measured at fair value, with the change in fair value included in the profit or loss for the year	7,648.58	0.00	0.00	0.00	0.00
Receivables	0.00	293,602.34	0.00	2,090.52	1,874.88
Prepayments	0.00	664.22	675.76	245.34	0.00
Dividends receivables	0.00	0.00	0.00	0.00	0.00
Other receivables	1,241.66	0.00	0.00	0.00	339.50
Other current assets	84,381.62	0.00	0.00	0.00	0.00
Available-for-sale financial assets	107,660.82	0.00	0.00	0.00	0.00
Sub-total:	786,526.14	516,742.56	2,844.93	3,631.35	3,710.59
Financial liabilities in foreign currency –					
Payables	0.00	134.32	640.65	0.00	0.00
Receipts in advance	0.00	3,637.65	0.00	0.00	0.00
Other payables	2,233.44	4,566.45	0.00	0.00	0.00
Sub-total:	2,233.44	8,338.42	640.65	0.00	0.00

IX. RISKS RELATED TO FINANCIAL INSTRUMENTS *(continued)***1. Management objectives and policies of risks** *(continued)***(1) Foreign exchange risks** *(continued)*

(2) 31 December 2016

Amount denominated: RMB '000

Item	HKD item	USD item	Euro item	JPY item	MOP item
Financial assets in foreign currency –					
Cash at bank and on hand	233,067.97	147,973.30	2,072.50	1,258.04	394.09
Financial assets measured at fair value, with the change in fair value included in the profit or loss for the year	5,188.16	0.00	0.00	0.00	0.00
Receivables	0.00	236,106.15	385.80	1,950.60	917.73
Prepayments	1,135.51	410.91	1,948.72	0.00	0.00
Other receivables	1,385.41	0.00	0.00	0.00	363.99
Sub-total:	240,777.05	384,490.36	4,407.02	3,208.64	1,675.81
Financial liabilities in foreign currency –					
Account payables	0.00	142.60	0.00	0.00	256.52
Receipts in advance	0.00	1,654.34	0.00	0.00	0.00
Other payables	104.00	2,546.35	0.00	0.00	0.00
Sub-total:	104.00	4,343.29	0.00	0.00	256.52

As at 31 December 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 the Hong Kong dollar, U.S. dollar, Euro, Japanese Yen and Macau dollar, and other factors remain unchanged, the Group would be subject to an increase or decrease in profit of approximately RMB65,112,150 (31 December 2016: approximately RMB31,492,750).

(2) Interest rate risk

The Company's exposures in interest rate risk are mainly arising from bank borrowings. The bank lending rates are affected by the macro monetary policies of China, so that the Company is facing the risks arising from fluctuation of interest rates in future.

The finance department of the head office of the Company continues to monitor the interest rate level of the Company. The rise in the interest rate will increase the cost of additional interest bearing liability and the interest expense of the Company's outstanding interest bearing liability of which the interest is calculated at floating rate and impose material adverse impact on the financial results of the Company. The management will timely make adjustment based on the updated market conditions. The directors of the Company considers that the future changes in the interest rate will have no material adverse impact on the operating results of the Company.

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

IX. RISKS RELATED TO FINANCIAL INSTRUMENTS *(continued)***1. Management objectives and policies of risks** *(continued)***(3) Credit risk**

Credit risk is primarily attributable to cash and cash equivalents, restricted cash at bank, accounts receivables and other receivables. In respect of cash at banks, they were placed at several banks with good reputations, for which the credit risk was limited. In respect of accounts receivables, the Company shall assess the credit limit granted to customers for credit purpose. Moreover, as the customer base is large, the credit risk on accounts receivables is not concentrated. In respect of the settlement of bills receivables, 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 a prudent liquidity risk management, so as to ensure the sufficiency of the sources of monetary funds and liquidity by maintaining adequate monetary funds and reserve of banking facilities so that we can secure credit loans from banks. Apart from indirect financing from banks, a number of financing channels were opened, such as direct financing by inter-bank market including short-term financing bills and medium term financing bills, corporate bonds etc. These instruments can appropriately reduce the effects arising from the scale of financing by inter-bank market and the macro monetary policies of China, which shall secure adequate funds in a flexible manner.

As at the date of balance sheet, cash flows of the financial assets and financial liabilities contracts are presented below by term of maturity:

(1) 31 December 2017

Item	Within 1 year	1-2 years	2-5 years	Over 5 years	total
Financial assets –					
Cash at bank and on hand	7,415,782,198.83	0.00	0.00	0.00	7,415,782,198.83
Financial assets measured at fair value, with the change in fair value included in the profit or loss for the year	8,732,443.07	0.00	0.00	0.00	8,732,443.07
Receivable notes	1,151,583,176.39	0.00	0.00	0.00	1,151,583,176.39
Receivables	1,356,773,152.45	0.00	0.00	0.00	1,356,773,152.45
Prepayments	126,471,958.21	0.00	0.00	0.00	126,471,958.21
Interest receivables	5,945,063.41	0.00	0.00	0.00	5,945,063.41
Other receivables	57,695,538.55	0.00	0.00	0.00	57,695,538.55
Other current assets	84,381,617.79	0.00	0.00	0.00	84,381,617.79
Sub-total:	10,207,365,148.70	0.00	0.00	0.00	10,207,365,148.70
Financial liabilities –					
Financial assets measured at fair value, with the change in fair value included in the profit or loss for the year	339,129.90	0.00	0.00	0.00	339,129.90
Bills payables	661,858,884.48	0.00	0.00	0.00	661,858,884.48
Payables	501,668,543.26	0.00	0.00	0.00	501,668,543.26
Receipts in advance	115,288,797.94	0.00	0.00	0.00	115,288,797.94
Dividend payables	170,936,288.17	0.00	0.00	0.00	170,936,288.17
Other payables	1,753,221,979.28	0.00	0.00	0.00	1,753,221,979.28
Non-current liabilities due within one year	400,000.00	0.00	0.00	0.00	400,000.00
Long-term loans	0.00	0.00	0.00	700,000.00	700,000.00
Sub-total:	3,203,713,623.03	0.00	0.00	700,000.00	3,204,413,623.03

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

IX. RISKS RELATED TO FINANCIAL INSTRUMENTS *(continued)***1. Management objectives and policies of risks** *(continued)***(4) Liquidity risk** *(continued)*

(2) 31 December 2016

Item	Within 1 year	1-2 years	2-5 years	Over 5 years	total
Financial assets –					
Cash at bank and on hand	2,061,923,004.89	0.00	0.00	0.00	2,061,923,004.89
Financial assets measured at fair value, with the change in fair value included in the profit or loss for the year	6,019,067.02	0.00	0.00	0.00	6,019,067.02
Bills receivables	512,986,726.32	0.00	0.00	0.00	512,986,726.32
Receivables	1,464,366,229.78	0.00	0.00	0.00	1,464,366,229.78
Prepayments	87,734,518.90	0.00	0.00	0.00	87,734,518.90
Other receivables	48,808,469.78	0.00	0.00	0.00	48,808,469.78
Other current assets	650,000,000.00	0.00	0.00	0.00	650,000,000.00
Sub-total:	4,831,838,016.69	0.00	0.00	0.00	4,831,838,016.69
Financial liabilities –					
Bills payables	323,795,509.11	0.00	0.00	0.00	323,795,509.11
Payables	587,715,946.84	0.00	0.00	0.00	587,715,946.84
Receipts in advance	78,685,240.60	0.00	0.00	0.00	78,685,240.60
Interest payables	3,812,602.74	0.00	0.00	0.00	3,812,602.74
Dividend payables	2,531,984.46	0.00	0.00	0.00	2,531,984.46
Other payables	1,558,113,278.30	0.00	0.00	0.00	1,558,113,278.30
Non-current liabilities due within one year	400,000.00	0.00	0.00	0.00	400,000.00
Other current liabilities	350,000,000.00				350,000,000.00
Long-term loans	0.00	0.00	0.00	700,000.00	700,000.00
Sub-total:	2,905,054,562.05	0.00		700,000.00	2,905,754,562.05

2. Transfer of financial assets

Nil.

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

X. DISCLOSURE OF FAIR VALUE**1. Fair value of assets and liabilities measured at fair value at the year end**

Amount denominated: RMB '000

	Measured at fair value level I	Fair value at the year end Measured at fair value level II	Measured at fair value level III	Total
I. Continuous fair value measurement				
(I) Financial assets measured at fair value, with the change in fair value included in the profit or loss for the year				
1 Financial assets held for trading	8,514.64	217.80	0.00	8,732.44
(1) equity instrument investments	8,514.64	0.00	0.00	8,514.64
(2) derivative financial assets	0.00	217.80	0.00	217.80
2. Financial assets measured designated at fair value, with the change in fair value included in the profit or loss for the year	0.00	0.00	0.00	0.00
(II) Available-for-sale financial assets				
(1) debt instrument investments	0.00	0.00	0.00	0.00
(2) equity instrument investments	9,866.40	104,654.58	0.00	114,520.98
Total assets continuously measured at fair value	18,381.04	104,872.38	0.00	123,253.42
(III) Financial liabilities held for trading				
In which: Derivatives financial liabilities	0.00	339.13	0.00	339.13
Total liabilities continuously measured at fair value	0.00	339.13	0.00	339.13

2. Basis of market price for cases continuously measured at fair value level I

Held-for-trading equity instruments and certain available-for-sale debt instrument investments are listed and traded on the Shenzhen Stock Exchange and Hong Kong Stock Exchange, their fair value is measured at the closing price on the last trading day of the reporting period.

3. Determination basis of item market price measured at continuous second level fair value

- (1) Derivative financial instruments is foreign currency forward contracts, the fair value is measured at the forward exchange rates quoted by the respective matured contract.
- (2) Other equity instruments held for which fair value is determined by the amount stated in the statement of investor provided by the counterparty

In 2017, there were no transfers of the fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3.

XI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS

1. Status of parent company of the Company

Name of parent company	Related party relationship	Type of entity	Place of incorporation	Legal representative	Nature of business
Joicare Pharmaceutical Industry Group Co., Ltd. (健康元藥業集團股份有限公司)	Controlling shareholder	Joint stock companies with limited liabilities (listed)	Shenzhen	Zhu Baoguo	Production of oral liquid, drugs and healthcare food
Name of parent company	Registered capital	Percentage of the Company's shareholding held by the parent company (%)	Percentage of the Company's voting rights held by the parent company (%)	The ultimate controlling party of the Company	Unified Social Credit Code
Joicare Pharmaceutical Industry Group Co., Ltd. (健康元藥業集團股份有限公司)	1,573,778,272	23.67	23.67	Zhu Baoguo	91440300618874367T

Notes to the parent company of the Company

As of 31 December 2017, the Company's parent company and its subsidiaries held a total of 247,857,177 shares in the Company, representing 44.80% of the total share capital of the Company. Among the shares of the Company held by Joicare Pharmaceutical Industry Group Co., Ltd. (健康元藥業集團股份有限公司), of which 10,240,433 legal person shares were held in the name of Guangzhou Begol Trading Corporation (廣州保科力貿易公司) and the transfer procedures for these shares were not completed. The transfer procedures for other shares were completed.

2. The Company's subsidiaries

Please refer to note VIII.1. Interests the Company's subsidiaries.

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

XI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS *(continued)***3. Joint ventures and associates of the Company**

Please refer to note VI. 11. Long-term equity investments and note VIII. 3. Equity in associates or joint ventures.

4. Other related parties of the Company

Name of other related parties	Relationship with the Company	Organisation code/ Unified Social Credit Code
Shenzhen Haibin Pharmaceutical Co., Ltd. (深圳市海濱製藥有限公司)	A company controlled by the holding company of the Company	91440300618855174Y
Xinxiang Haibin Pharmaceutical Co., Ltd. (新鄉海濱藥業有限公司)	A company controlled by the holding company of the Company	914107007648945429
Jiaozuo Joicare Pharmaceutical Industry Group Co., Ltd. (焦作健康元生物製品有限公司)	A company controlled by the holding company of the Company	91410800775129520A
Zhuhai Joicare Pharmaceutical Co., Ltd. (珠海健康元生物醫藥有限公司)	A company controlled by the holding company of the Company	914404007578808713
Health Pharmaceutical (China) Co., Ltd. (健康藥業(中國)有限公司)	A company controlled by the holding company of the Company	914404006174989103
Shenzhen Taitai Pharmaceutical Co., Ltd. (深圳太太藥業有限公司)	A company controlled by the holding company of the Company	91440300741217151R
Shenzhen Taitai Gene Engineering Co., Ltd. (深圳太太基因工程有限公司)	A company controlled by the holding company of the Company	91440300733083333P
Topsino Industries Limited (天誠實業有限公司)	A company controlled by the holding company of the Company	
Guangzhou Joicare Respiratory Drugs Engineering Technology Co., Ltd. (廣州健康元呼吸藥物工程技術有限公司)	A company controlled by the holding company of the Company	91440101347516532X
Joicare Pharmaceutical Group Industry Co., Ltd	A company controlled by the holding company of the Company	
EPIRUS SWITZERLAND GmbH	A subsidiary of the company in which Directors are holding position	
CYNVENIO BIOSYSTEMS, INC.	A company which a Director of the Company serves	
珠海祥和泰投資管理合夥企業(有限合夥)	A company which senior management of the Company controls	91440400MA4UXRWA0K
珠海橫琴新區觀聯谷投資合夥企業(有限合夥)	A company which directors of the subsidiary of the Company controls	91440400MA4UY9CWX9
Zhuhai Zhenghe Co., Ltd. (珠海正禾企業有限公司)	A company which directors of the subsidiary of the Company controls	91440400618076963F

XI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (continued)**5. Related party transactions****(1) Related party transactions relating to purchase of goods/receipt of services**

Related party	Related party transaction description	Pricing basis and decision making procedures of the related party transactions	For the year		For the previous year	
			Amount	Percentage of similar transactions (%)	Amount	Percentage of similar transactions (%)
Guangdong Blue Treasure Pharmaceutical Co. Ltd. (廣東藍寶製藥有限公司)	Raw materials	The market price	1,139,096.15	0.06	510,324.79	0.03
Shenzhen Haibin Pharmaceutical Co., Ltd. (深圳市海濱製藥有限公司)	Raw materials	The market price	33,331,837.29	1.68	32,191,641.03	1.75
Xinxiang Haibin Pharmaceutical Co., Ltd. (新鄉海濱製藥有限公司)	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 product	The market price	1,437,516.27	0.07	386,825.30	0.02
Shenzhen Taitai Pharmaceutical Co., Ltd. (深圳太太藥業有限公司)	Raw materials	The market price	0.00	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	335,710,283.08	16.87	286,611,011.97	15.56
Total Purchased Products			371,618,732.79	18.68	319,735,743.26	17.36
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	15,882,846.41	5.91	9,471,962.73	3.67
CYNVENIO BIOSYSTEMS, INC.	Testing	Based on negotiation	23,714.63	100.00	0.00	0.00
Total Services Received			15,906,561.04		9,471,962.73	3.67

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

Related party	Related party transaction description	Pricing principles and decision making procedures of the related party transactions	For the year		For the previous year	
			Amount	Percentage of similar transactions (%)	Amount	Percentage of similar transactions (%)
Zhuhai Joincare Pharmaceutical Co., Ltd. (珠海健康元生物醫藥有限公司)	Finished goods	The market price	9,077.66	0.00	16,019.40	0.00
Guangdong Blue Treasure Pharmaceutical Co. Ltd. (廣東藍寶製藥有限公司)	Finished goods	The market price	8,284,341.88	0.10	14,743,589.74	0.19
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	5,917,685.93	0.07	299,373.35	0.00
Shenzhen Haibin Pharmaceutical Co., Ltd. (深圳市海濱製藥有限公司)	Finished product	The market price	2,327,765.55	0.03	481,466.65	0.01
Shenzhen Taitai Pharmaceutical Co., Ltd. (深圳太太藥業有限公司)	Finished goods	The market price	461,538.46	0.01	0.00	0.00
Sales of goods in aggregate			17,000,409.48	0.21	15,540,449.14	0.20
Guangdong Blue Treasure Pharmaceutical Co. Ltd. (廣東藍寶製藥有限公司)	Electricity and power	The market price	7,295,698.89	55.30	6,178,622.48	91.26
Zhuhai Joincare Pharmaceutical Co., Ltd. (珠海健康元生物醫藥有限公司)	Electricity and power	The market price	728,607.68	5.52	576,746.28	8.52
Provision of services in aggregate			8,024,306.57	60.82	6,755,368.76	99.78
Shenzhen Haibin Pharmaceutical Co., Ltd. (深圳市海濱製藥有限公司)	Processing fee, testing	Based on negotiation	888,386.27	32.41	1,462,343.17	67.56
Provision of services in aggregate			888,386.27	32.41	1,462,343.17	67.56

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

XI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS *(continued)***5. Related party transactions** *(continued)***(3) Related party leases***1 The Company as lessor*

Name of lessee	Class of leased assets	Lease income recognised for the year	Lease income recognised for the previous year
Zhuhai Joincare Pharmaceutical Co., Ltd. (珠海健康元生物醫藥有限公司)	Plant & buildings, equipment	173,985.09	177,362.67
Health Pharmaceutical (China) Co., Ltd. (健康藥業(中國)有限公司)	Plant & buildings	90,043.24	64,981.20

2 The Company as lessee

Name of lessor	Class of leased assets	Leasing expenses recognised for the year	Lease expenses recognised for the previous year
Joincare Pharmaceutical Industry Group Co., Ltd. (健康元藥業集團股份有限公司)	Plant & buildings	733,102.70	700,666.67

(4) Asset Transfer and Debt Arrangement of Connected Parties

Connect Party	Content of Connected Transaction	This Year	Last Year
Shenzhen City Youbao Technology Co., Ltd	Sale of equipment	0.00	20,683.76
Jiaozuo Joincare 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
Jiaozuo Joincare Pharmaceutical Industry Group Co., Ltd. (焦作健康元生物製品有限公司)	Sales of Equipment	1,174,610.16	89,317.09
CYNVENIO BIOSYSTEMS, INC.	Sale of equipment	13,442,815.87	18,558,818.11
CYNVENIO BIOSYSTEMS, INC.	Subscription of post dated bank drafts	3,006,245.24	0.00

XI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS *(continued)***5. Related party transactions** *(continued)***(5) Related party guarantees**

1. During the reporting period, the details on the bank loans of subsidiaries guaranteed by the Company were set out as follow (RMB0'000):

Name of guaranteed party	Actual date of event (Signing date of the Agreement)	Balances at the end of the year	Actual guaranteed amount	Guaranteed amount	Type of guarantee	Period of guarantee
Livzon MABPharm Inc. (珠海市麗珠單 抗生物技術有限公司)	2016.6.22	349.56	349.56	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)	2017.10.9	3,407.37	3,407.37	10,000.00	Opening the letter of credit and bank acceptance bills, joint liability guarantee	2017.08.22-2022.08.21 (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	483.25	483.25	4,000.00	Opening the letter of guarantee, joint liability guarantee	2015.09.11-2018.09.11 (Bank of China, Zhuhai Branch (中國銀行珠海分 行))
Livzon Group Livzon Pharmaceutical Factory (麗珠集團麗珠製藥廠)	2016.11.30	64.06	64.06	17,000.00	Opening the letter of credit, joint liability guarantee	2016.11.30-2019.11.30 (Bank of Communication, Zhuhai Branch (交通銀行 珠海分行))
Zhuhai FTZ Livzon Hecheng Pharmaceutical Manufacturing Co., Ltd. (珠海保稅區麗珠合成製藥有 限公司)	2016.12.26	4,892.64	4,892.64	20,000.00	Opening the letter of credit and bank acceptance bills, joint liability guarantee	2016.12.26-2019.12.26 (Bank of Communication, Zhuhai Branch (交通銀行 珠海分行))
Zhuhai FTZ Livzon Hecheng Pharmaceutical Manufacturing Co., Ltd. (珠海保稅區麗珠合成製藥有 限公司)	2017.10.09	3,592.58	3,592.58	10,000.00	Opening bank acceptance bills, joint liability guarantee	2017.08.22-2022.08.21 (Standard Chartered Bank, Zhuhai Branch (渣打銀行 珠海分行))

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

XI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS *(continued)***5. Related party transactions** *(continued)***(5) Related party guarantees** *(continued)*

1. During the reporting period, the details on the bank loans of subsidiaries guaranteed by the Company were set out as follow (RMB0'000): *(continued)*

Name of guaranteed party	Actual date of event (Signing date of the Agreement)	Balances at the end of the year	Actual guaranteed amount	Guaranteed amount	Type of guarantee	Period of guarantee
Livzon Group Xinbeijiang Pharmaceutical Manufacturing Inc. (麗珠集團新北江製藥股份有限公司)	2017.12.27	1,353.39	1,353.39	4,000.00	Opening bank acceptance bills, joint liability guarantee	2016.12.26-2019.12.26 (Bank of Communication, Zhuhai Branch (交通銀行 珠海分行))
Livzon Group Ningxia Fuxing Pharmaceutical Manufacturing Co., Ltd. (麗珠集團寧夏福興製藥有限公司)	2017.11.14	296.84	296.84	18,000.00	Opening bank acceptance bills, joint liability guarantee	2017.11.14-2018.11.13 (China Bohai Bank, Guangzhou Branch (渤海 銀行廣州分行))
Livzon Group Ningxia Xinbeijiang Pharmaceutical Manufacturing Co., Ltd. (麗珠集團寧夏新北江製藥有限公司)	2017.11.14	223.16	223.16	10,000.00	Opening bank acceptance bills, joint liability guarantee	2017.11.14-2018.11.13 (China Bohai Bank, Guangzhou Branch (渤海 銀行廣州分行))
Total actual amount guaranteed for subsidiaries during the Reporting Period				20,328.27		
Balance of total actual amount guaranteed for subsidiaries during the end of the Reporting Period				14,662.86		

2 *Guarantee provided to the Company by connected party*

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

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 with 49% of the above mentioned guarantee credit for Zhuhai Livzon Diagnostic Reagents Inc. (珠海麗珠試劑股份有限公司) and the guarantee period of which will be expired on the expiry date of the credit.

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

XI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (continued)**5. Related party transactions** (continued)**(6) Remuneration of key management personnel**

1 Directors', supervisors' and senior management's remuneration disclosed as follows

2017

Unit: RMB0'000

	Remuneration of Director/ Supervisor	Wage and subsidies	Contribution to pension scheme	Housing accumulation fund	Bonus	Inducement fee	Compensation for loss of office	Others	Total
Directors:									
Zhu Baoguo (朱保國)	9.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	9.00
Tao Desheng (陶德勝)	7.20	80.75	4.56	1.07	182.67	0.00	0.00	11.95	288.20
Yang Daihong (楊代宏)	3.60	69.44	4.54	1.07	125.23	0.00	0.00	1.28	205.16
Fu Daotian (傅道田)	7.20	73.53	2.48	0.00	35.00	0.00	0.00	0.00	118.21
Xu Guoxiang (徐國祥)	3.60	73.83	4.46	1.07	200.80	0.00	0.00	7.72	291.48
Qiu Qingfeng (邱慶豐)	7.20	0.00	0.00	0.00	0.00	0.00	0.00	0.00	7.20
Zhong Shan (鍾山)	4.80	0.00	0.00	0.00	0.00	0.00	0.00	0.00	4.80
Independent Directors:									
Xu Yanjun (徐焱軍)	9.60	0.00	0.00	0.00	0.00	0.00	0.00	0.00	9.60
Guo Guoqing (郭國慶)	9.60	0.00	0.00	0.00	0.00	0.00	0.00	0.00	9.60
Wang Xiaojun (王小軍)	9.60	0.00	0.00	0.00	0.00	0.00	0.00	0.00	9.60
Zhong Zhuhun (鄭志華)	9.60	0.00	0.00	0.00	0.00	0.00	0.00	0.00	9.60
Xie Yun (謝耘)	9.60	0.00	0.00	0.00	0.00	0.00	0.00	0.00	9.60
Supervisors:									
Wang Maolin (汪卯林)	4.20	39.76	4.39	1.07	68.13	0.00	0.00	1.88	119.43
Mr. Tang Yin (湯胤先生)	3.60	0.00	0.00	0.00	0.00	0.00	0.00	0.00	3.60
Huang Huamin (黃華敏)	3.60	0.00	0.00	0.00	0.00	0.00	0.00	0.00	3.60
Other senior management:									
Lu Wenqi (陸文岐)	0.00	62.29	0.00	1.07	128.64	0.00	0.00	1.34	193.34
Si Yanxia (司燕霞)	0.00	54.71	4.45	1.07	109.27	0.00	0.00	4.30	173.80
Zhou Peng (周鵬)	0.00	53.42	4.46	1.07	82.87	0.00	0.00	1.19	143.01
Yang Liang (楊亮)	0.00	36.83	4.37	1.07	78.46	0.00	0.00	7.85	128.58
Total	102.00	544.56	33.71	8.56	1,011.07	0.00	0.00	37.51	1,737.41

Mr. Xu Guoxiang was appointed on 30 June 2017; Mr. Yang Daihong has retired on change of Board session on 30 June 2017; Mr. Zhong Shansheng has resigned on 1 September 2017.

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

XI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS *(continued)***5. Related party transactions** *(continued)***(6) Remuneration of key management personnel** *(continued)**1 Directors', supervisors' and senior management's remuneration disclosed as follows (continued)*

2016

Unit: RMB0'000

	Remuneration of Director/ Supervisor	Wage and subsidies	Contribution to pension scheme	Housing accumulation fund	Bonus	Inducement fee	Compensation for loss of office	Others	Total
Directors:									
Zhu Baoguo (朱保國)	9.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	9.00
Tao Desheng (陶德勝)	7.20	50.73	4.20	1.34	61.82	0.00	0.00	0.05	125.34
Yang Daihong (楊代宏)	7.20	50.73	4.20	1.34	51.14	0.00	0.00	0.05	114.66
Fu Daotian (傅道田)	7.20	47.25	2.50	0.00	30.00	0.00	0.00	28.08	115.03
Qiu Qingfeng (邱慶豐)	7.20	0.00	0.00	0.00	0.00	0.00	0.00	0.00	7.20
Zhong Shan (鍾山)	7.20	0.00	0.00	0.00	0.00	0.00	0.00	0.00	7.20
Independent Directors:									
Xu Yanjun (徐焱軍)	9.60	0.00	0.00	0.00	0.00	0.00	0.00	0.00	9.60
Guo Guoqing (郭國慶)	9.60	0.00	0.00	0.00	0.00	0.00	0.00	0.00	9.60
Wang Xiaojun (王小軍)	9.60	0.00	0.00	0.00	0.00	0.00	0.00	0.00	9.60
Zheng Zhihua (鄭志華)	9.60	0.00	0.00	0.00	0.00	0.00	0.00	0.00	9.60
Xie Yun (謝耘)	9.60	0.00	0.00	0.00	0.00	0.00	0.00	0.00	9.60
Supervisors:									
Wang Maolin (汪卯林)	4.20	28.57	4.00	1.31	24.43	0.00	0.00	0.04	62.55
Tang Yin (湯胤)	3.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	3.00
Huang Huamin (黃華敏)	3.60	0.00	0.00	0.00	0.00	0.00	0.00	0.00	3.60
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	55.35	4.24	1.34	56.06	0.00	0.00	0.00	116.99
Lu Wenqi (陸文岐)	0.00	50.73	0.00	1.34	51.14	0.00	0.00	0.05	103.26
Si Yanxia (司燕霞)	0.00	35.58	4.06	1.33	44.83	0.00	0.00	0.05	85.85
Zhou Peng (周鵬)	0.00	31.03	4.02	1.34	27.96	0.00	0.00	0.05	64.40
Yang Liang (楊亮)	0.00	20.82	3.93	1.07	23.67	0.00	0.00	0.00	49.49
Total	103.80	370.79	31.15	10.41	371.05	0.00	0.00	28.37	915.57

Mr. Tang Yin (湯胤) was appointed on 26 February 2016, Mr. Zhou Peng (周鵬) was appointed on 7 November 2016; and Mr. Yuan Huasheng (袁華生) resigned as the Supervisor on 20 November 2015 effected since 26 February 2016.

XI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS *(continued)***5. Related party transactions** *(continued)***(6) Remuneration of key management personnel** *(continued)**2 Individuals with highest emoluments*

The emoluments of three and three of the five highest paid individuals were directors of the Company for the year 2016 and 2017, respectively. The rest were senior management of the Company (two and two for the year 2016 and 2017, respectively). Details of remuneration paid to the five highest paid individuals were already disclosed in note. XI 5(6) "Remuneration of key management personnel", the emoluments of the five highest paid individuals were within the following bands.

Items	2017	2016
Number of individuals within the band of \$1,000,001-\$1,500,000		5
Number of individuals within the band of \$1,500,001-\$2,000,000	2	
Number of individuals within the band of \$2,000,001-\$2,500,000	1	
Number of individuals within the band of \$2,500,001-\$3,000,000	2	

3 Emoluments band of senior management

Items	2017	2016
Number of individuals within the band of \$0-\$1,000,000		3
Number of individuals within the band of \$1,000,001-\$1,500,000	3	5
Number of individuals within the band of \$1,500,001-\$2,000,000	2	
Number of individuals within the band of \$2,000,001-\$2,500,000	1	
Number of individuals within the band of \$2,500,001-\$3,000,000	2	

(7) Other affiliated transactions

On 29 November 2017, Livzon International Limited acquired the investment rights of 51% equity interest in Livzon Biologics Limited from Joicare Pharmaceutical Group Industry Co., Ltd.

(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**

Item	Related parties	Balance at the year end		Balance at the beginning of the year	
		Balance	Provision for bad debts	Balance	Provision for bad debts
Accounts receivables	Guangdong Blue Treasure Pharmaceutical Co. Ltd. (廣東藍寶製藥有限公司)	9,690,000.00	484,500.00	6,900,000.00	345,000.00
Account receivables	Jiaozuo Joicare Pharmaceutical Industry Group Co., Ltd. (焦作健康元生物製品有限公司)	2,726,413.16	136,320.66	0.00	0.00
Account receivables	Shenzhen Taitai Pharmaceutical Co., Ltd. (深圳太太藥業有限公司)	540,000.00	27,000.00	0.00	0.00
Accounts receivables	Shenzhen Haibin Pharmaceutical Co., Ltd. (深圳市海濱製藥有限公司)	0.00	0.00	1,755.00	87.75
Sub-total		12,956,413.16	647,820.66	6,901,755.00	345,087.75
Prepayments	健康元藥業集團股份有限公司	71,133.80	0.00	108,030.26	0.00
Prepayments	CYNVENIO BIOSYSTEMS, INC	110,313.80	0.00	0.00	0.00
Sub-total		181,447.60	0.00	108,030.26	0.00
Other receivables	Zhuhai Joicare 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	Guangdong Blue Treasure Pharmaceutical Co. Ltd. (廣東藍寶製藥有限公司)	976,511.66	48,825.58	2,117,989.34	105,899.47
Sub-total		976,511.66	48,825.58	2,184,030.10	109,201.51

(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 year end	Balance at the beginning of the year
Bills payables	Jiaozuo Joincare Pharmaceutical Industry Group Co., Ltd. (焦作健康元生物製品有限公司)	25,050,000.00	0.00
Sub-total		25,050,000.00	0.00
Account payables	Guangdong Blue Treasure Pharmaceutical Co. Ltd. (廣東藍寶製藥有限公司)	11,800.00	162,840.00
Account payables	Shenzhen Haibin Pharmaceutical Co., Ltd. (深圳市海濱製藥有限公司)	23,691,089.77	3,360.00
Account payables	Joincare Pharmaceutical Industry Group Co., Ltd. (健康元藥業集團股份有限公司)	12,960.00	0.00
Account payables	Jiaozuo Joincare Pharmaceutical Industry Group Co., Ltd. (焦作健康元生物製品有限公司)	119,898,340.20	158,407,480.13
Sub-total		143,614,189.97	158,573,680.13
Dividends payables	Zhuhai Zhenghe Co., Ltd. (珠海正禾企業有限公司)	168,404,303.71	0.00
Sub-total		168,404,303.71	0.00
Other payables	Jiaozuo Joincare Pharmaceutical Industry Group Co., Ltd. (焦作健康元生物製品有限公司)	6,386,047.07	2,459,992.87
Sub-total		6,386,047.07	2,459,992.87

XII. SHARE PAYMENT**1. General Information of Share payment**

Item	Relevant Content
Total equity instruments granted during the current year by the Company (share)	—
Total equity instruments exercised during the current year by the Company (share)	3,638,427
Total equity instruments of the Company expired during the Year (share)	—
Range of exercise price of share options of the Company outstanding and remaining term of contract as the End of the Year	—
Range of exercise price of other equity instruments of the Company and remaining term of contract as at the End of the Year	Note

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

XII. SHARE PAYMENT *(continued)*

1. General Information of Share payment *(continued)*

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

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

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

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

On 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.

XII. SHARE PAYMENT *(continued)*

1. General Information of Share payment *(continued)*

Note: *(continued)*

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 under the first 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 under the reserved grant.

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.

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

XII. SHARE PAYMENT *(continued)*

1. General Information of Share payment *(continued)*

Note: *(continued)*

On 15 December 2017, the Company convened the 6th meeting of the ninth session of the Board to consider and approve the "Resolution on Granting Shares to be Unlocked during the Second Unlocking Period of the Reserve Grant under the Restricted Shares Incentive Scheme of the Company" and the "Resolution on Repurchase and Cancellation of Locked Restricted Shares Granted". Pursuant to which, it was agreed that the Company repurchase and cancel 77,774 Restricted shares granted but not yet unlocked at RMB14.08 per share from 13 incentive participants in the initial grant of Shares who no longer satisfying the conditions for incentive, and repurchase and cancel 11,310 Restricted Shares granted but not yet unlocked from 3 incentive participants from the reserved grant of Shares who no longer satisfying the incentive conditions, and 1,014 restricted shares granted to 1 incentive participant under the reserved grant which no longer satisfy the unlock conditions, at RMB18.16 per share, totaling 90,098 shares repurchased. Upon completion of the repurchase and cancellation, the number of incentive participants of the initial grant of Restricted Shares and the reserved grant of incentive shares were adjusted from 427 to 414 and 166 to 163, respectively. The 162 incentive participants under the reserved grant have satisfied the unlocking conditions with 461,214 Restricted Shares unlocked and listed in the second tranche from the reserved grant.

2. Equity settled share-based payments

Item	Relevant Content
Determination on Fair Value of Equity Instruments as the Date of Grant	Black-Scholes Model
Basis for Determining Quantity of Exercisable Equity Instruments	—
Reasons for Significant Discrepancies Between Estimate of Current and Previous Year	Nil
Accumulated Amount of Shares Settled in Equity Included in Capital Reserve	80,563,515.24
Total Expense Recognized for Equity Settled Share-Based Payments for this Year	14,075,644.32

3. Cash settled share-based payments

Nil.

XIII. COMMITMENTS AND CONTINGENCIES**1. Significant commitments****(1) Capital commitments**

Item	Balance at the year end	Balance at the beginning of the year
Contracted but not recognised in the financial statements		
– Commitments in relation to acquisition of long-term assets	43,824,827.39	37,696,879.21
Total	43,824,827.39	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 year end	Balance at the beginning of the year
Minimum lease payments under non-cancellable operating leases payable:		
Within 1 year	3,959,645.55	7,271,507.49
1 to 2 years	1,613,516.00	7,097,054.83
2 to 3 years	2,117,643.75	3,976,684.49
Over 3 years	167,097.00	110,476.03
Total	7,857,902.30	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 date of the balance sheet, there was no significant contingencies that required to be disclosed by the Company.

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

XIV. POST BALANCE SHEET DATE EVENTS

1. On 23 March 2018, the Company held the 11th Meeting of the 9th Board and passed the resolution of 2017 annual profit distribution plan, under which the parent's undistributed profit available for distribution to shareholders in 2017 was RMB4,724,885,078.69 with reference to the net profit of RMB4,024,295,025.23 realised by the parent in 2017, plus the opening undistributed profit of RMB913,371,349.46 and further minus the dividends of RMB212,781,296.00 paid under 2016 annual profit distribution plan.

Considering the capital demands due to its operations, the Board proposed the 2017 profit distribution plan for the Company: Based on the Company's total share capital as at the registration date of shareholding determined by implementation of the 2017 annual profit distribution plan, a cash dividend of RMB20 per 10 shares (tax inclusive) would be distributed to all the shareholders of the Company. At the same time, 3 shares would be issued for every 10 shares held to all shareholders of the Company by way of capitalizing our capital reserve.

The above mentioned profit distribution plan shall be submitted to the annual general meeting of 2017 for examination and approval.

2. On 15 December 2017, the company convened the sixth meeting of the Ninth Session of the Board to approve the "Resolution on Repurchase and Cancellation of Certain Restricted Shares", 90,098 Restricted Shares were repurchased and cancelled, at a total repurchase price of RMB1,318,861.76, the company's share capital has changed to 553,141,271. As at the date of the report, the cancellation of the above restricted shares is still in progress.
3. On 12 January 2018, the Company has entered into investment fund subscription agreement with GHS Partners Limited, Lian (Hong Kong) Co., Ltd. (麗安香港有限公司), a wholly-owned subsidiary of the Company, will invest USD 30,000,000 into Global Health Science Fund II, L.P. (全球健康科學基金) which is set up by GHS Partners Limited (as the ultimate general partner).
4. On 7 February, 2018, the Company held the 2018 First Extraordinary General Meeting to consider and approve "Resolution on a Connected Transaction in respect of the Change in the Shareholding Structure of Livzon MABPharm Inc., a Controlling Subsidiary of the Company". Livzon International Limited, Joicare Pharmaceutical Group Industry Co., Ltd. (a wholly-owned subsidiary of Joicare Pharmaceutical Industry Group Co., Ltd.) and Livzon Biologics Limited entered into the a capital increase and share subscription agreement, that the total registered capital of Livzon Biologics Limited denominated in USD equals to the capital increase of RMB600 million, pursuant to the agreement, Livzon International Limited and Joicare Pharmaceutical Group Industry Co., Ltd. made capital contribution to Livzon Biologics Limited on proportion, with an aggregate amount of RMB600 million. On the same date, the Company and Joicare Pharmaceutical Industry Group Co., Ltd. entered into equity transfer agreement in respect of the equity in Livzon MABPharm Inc. with Livzon Biologics Hong Kong Limited respectively, the Company and Joicare Pharmaceutical Industry Group Co., Ltd. transferred its 51% and 49% equity interest in Livzon MABPharm Inc. (珠海市麗珠單抗生物技術有限公司) to Livzon Biologics Hong Kong Limited (麗珠生物科技香港有限公司). As at 7 March 2018, business registration for the change in equity ownership was completed, the shareholder of Livzon MABPharm Inc. (珠海市麗珠單抗生物技術有限公司) has changed to Livzon Biologics Hong Kong Limited (麗珠生物科技香港有限公司), and the enterprise type has changed to limited liability company (Taiwan, Hong Kong or Macau legal person sole investment).

As at the date of the balance sheet, saved as disclosed above, there is no other major events to be disclosed by the Company.

XV. OTHER SIGNIFICANT MATTERS

1. Alteration to fund-raising investment project

On 19 September 2017, the Company held the 2017 First Extraordinary General Meeting 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 altered 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: 1. RMB143,289,400.00 will be applied to the project of relocation and expansion of Livzon Group Xinbeijiang Pharmaceutical Manufacturing Inc. (phase I); 2. 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 3. 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".

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: 1. change the original sub-project of "Renovation Project of Pilot Workshop" to "Microsphere Workshop Construction Project for Livzon Group Livzon Pharmaceutical Factory", and additionally include Livzon Group Livzon Pharmaceutical Factory as one of the subjects of implementation; and 2. terminate preclinical studies project of "Risperidone Sustained-release Microspheres for Injection (1 month)".

XV. OTHER SIGNIFICANT MATTERS *(continued)***1. Alteration to fund-raising investment project** *(continued)*

- (3) After the completion of the above alteration, the fund-raising investment projects of the Company are as follows:

Sequence No.	Project	The proceeds to be applied
1	Deeper development and industrial upgrading of series of innovative Ilaprazole	450,000,000.00
2	Working capital top-up and repayment of bank loans	362,480,366.77
3	Relocation and expansion of Livzon Group Xinbeijiang Pharmaceutical Manufacturing Inc. (First phase)	143,289,400.00
4	Technology update of bag infusion workshop for Livzon Group Limin Pharmaceutical Manufacturing Factory	53,117,300.00
5	Construction of Research & development platform of sustained release microsphere technologies, including Microsphere Workshop Construction Project for Livzon Group Livzon Pharmaceutical Factory	411,413,300.00
		163,933,300.00
Total		1,420,300,366.77

In order to satisfy the financial needs required for the implementation of the new fund-raising investment projects, and ensure the successful implementation of the fund-raising investment projects, the Company will use the proceeds to provide borrowings with the subject of implementation of new investment projects, and with the borrowing limits to be the amounts to be applied by each new investment projects, respectively. The term of borrowing would be beginning from the date of actual borrowing to the completion of the construction of new investment projects. The borrowings can continue to be used after its expiration, or be used for repayment in advance. The above borrowings are carried with interests, the interests of borrowings will be calculated based on the latest one-year RMB benchmark loan interest rates of financial institutions. The operating management of the Company was authorised by the Board to deal with the subsequent detailed work after the completion of the above borrowings issues.

2. Share Incentives

On 15 December 2017, the Company convened the Seventh meeting of the Ninth Session of the Board to approve the "Resolution on 2017 Share Options Incentive Scheme of the Company (Draft) and its Summary" ("Incentive Scheme"), "Resolution on Administrative Measures for Appraisal System of the 2017 Share Options Incentive Scheme of the Company (Draft) and its Summary", "Resolution on granting mandate to the board of directors at the general meeting to deal with matters regarding the 2017 Share Options Incentive Scheme."

Under the Incentive Scheme, the directors, senior management, mid-level management and relevant core personnel of the Company (excluding independent directors and supervisors), was granted 15,000,000 share options (among which, 13,500,000 share options was granted under the first grant and 1,500,000 share options was granted under the reserved grant). The costs of Incentive Scheme incurred under the Incentive Scheme will be amortised by instalments as per Exercise proportion (the proportion is 40%, 30% and 30% respectively) during the implementation of the Incentive Scheme, and capital reserve will also be capitalised.

XV. OTHER SIGNIFICANT MATTERS *(continued)***2. Share Incentives** *(continued)*

The Validity Period of the Incentive Scheme shall commence from the registration date of the grant of the Share Options and end on the date on which all the Share Options granted to the Incentive Participants have been Exercised or otherwise cancelled, which shall not be longer than 60 months. As for the initial Share Option Incentive Scheme, the Incentive Participants shall Exercise their Share Options by three tranches within the next 36 months following the 12-month period from the registration date of relevant grant. The following table sets forth the Exercise period and the Exercise schedule for each tranche:

Exercise arrangement	Duration	Exercise proportion
First Exercise period for Share Options under the First Grant	Commencing on the first trading day after expiry of the 12-month period from the registration date of the First Grant and ending on the last trading day of the 24-month period from the registration date of the First Grant	40%
Second Exercise period for Share Options under the First Grant	Commencing on the first trading day after expiry of the 24-month period from the registration date of the First Grant and ending on the last trading day of the 36-month period from the registration date of the First Grant	30%
Third Exercise period for Share Options under the First Grant	Commencing on the first trading day after expiry of the 36-month period from the registration date of the First Grant and ending on the last trading day of the 48-month period from the registration date of the First Grant	30%

The following table sets forth the Exercise period and the Exercise schedule for each tranche of the reserved Share Options under the Incentive Scheme:

Exercise arrangement	Duration	Exercise proportion
First Exercise period for reserved Share Options	Commencing on the first trading day after expiry of the 12-month period from the registration date of the grant of the reserved Share Options and ending on the last trading day of the 24-month period from the registration date of the grant of the reserved Share Options	40%
Second Exercise period for reserved Share Options	Commencing on the first trading day after expiry of the 24-month period from the registration date of the grant of the reserved Share Options and ending on the last trading day of the 36-month period from the registration date of the grant of the reserved Share Options	30%
Third Exercise period for reserved Share Options	Commencing on the first trading day after expiry of the 36-month period from the registration date of the grant of the reserved Share Options and ending on the last trading day of the 48-month period from the registration date of the grant of the reserved Share Options	30%

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

XV. OTHER SIGNIFICANT MATTERS *(continued)*

2. Share Incentives *(continued)*

Performance target at the Company level: An individual granted with Share Options under the Incentive Scheme will be assessed annually and the exercising of Share Options shall be conducted annually for the three accounting years during the Exercise period, subject to the Incentive Participant achieving the performance target as the condition of the exercising of the Share Options. For the Share Options granted under the First Grant (the reserved Share Options inclusive), the performance targets are as follows:

Exercise period	Performance target
First Exercise period	The net profit for 2018 shall not be lower than RMB992,000,000;
Second Exercise period	The net profit for 2019 shall not be lower than RMB1,141,000,000;
Third Exercise period	The net profit for 2020 shall not be lower than RMB1,312,000,000.

The aforesaid “net profit of the performance targets” represents the net profit before amortisation of incentive cost but after excluding non-recurring gains or losses for each performance year (hereinafter referred to as the “Net Profit”), i.e.: Net Profit of annual performance targets = Net Profit before amortisation of incentive cost for the year – non-recurring gains or losses for the year (after tax). In the event the Company fails to satisfy the performance target above, all Share Options which are exercisable by a relevant Incentive Participant in a relevant assessment year shall not be exercised and shall be cancelled by the Company

The assessment of the Incentive Participants at individual level shall be conducted according to the Company's current requirements for remuneration and assessment, and the comprehensive appraisal results of the Incentive Participants for each assessment year will be graded as follows:

Appraisal results	Excellent	Good	Qualified	Fail
Exercise percentage	100%		80%	0%

If the performance target at the Company level for a year is attained, the actual personal Exercise amount of an Incentive Participant for the year = Exercise percentage × the scheduled personal Exercise amount of the Incentive Participant for the year. If an Incentive Participant fails the assessment for a year, the Company shall cancel the Share Options concerned granted to the Incentive Participant which cannot be Exercised any more.

The resolution shall be considered at the general meeting of the Company, and approved by shareholders attending the meeting with more than two-thirds of the votes cast for the resolution.

XV. OTHER SIGNIFICANT MATTERS *(continued)***3. Major Contracts**

On 31 May 2017, Livzon Group Xinbeijiang Pharmaceutical Manufacturing Inc. (麗珠集團新北江製藥股份有限公司) and Hangzhou Zhongmei Huadong Pharmaceutical Co., Ltd. (杭州中美華東製藥有限公司) entered into Material Purchase Agreement, according to the contract, Hangzhou Zhongmei Huadong Pharmaceutical Co., Ltd. (杭州中美華東製藥有限公司) will purchase Acarbose bulk medicines from Hangzhou Zhongmei Huadong Pharmaceutical Co., Ltd. (杭州中美華東製藥有限公司), at an aggregate price RMB480,600,000 (tax inclusive).

As at the date of the balance sheet, there is no other event that should be disclosed by the Company.

XVI. NET CURRENT ASSETS AND TOTAL ASSETS LESS CURRENT LIABILITIES**1. Net current assets**

Item	Balance at the year end	Balance at the beginning of the year
Current assets	11,349,867,693.34	5,970,785,816.05
Less: Current liabilities	4,411,030,586.24	3,310,641,174.79
Net current assets	6,938,837,107.10	2,660,144,641.26

2. Total assets less current liabilities

Item	Balance at the year end	Balance at the beginning of the year
Total assets	15,897,730,717.63	10,529,262,952.41
Less: Current liabilities	4,411,030,586.24	3,310,641,174.79
Total assets less current liabilities	11,486,700,131.39	7,218,621,777.62

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

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

1. Accounts receivables

(1) Accounts receivables presented by types

Type	Balance at the year end				
	Balance		Provision for bad debts		Carrying value
	Amount	Percentage (%)	Amount	Percentage (%)	
Accounts receivables that are individually significant and impairment provided on an individual basis	0.00	0.00	0.00	0.00	0.00
Accounts receivables assessed for impairment collectively	673,570,782.74	99.63	36,391,718.07	5.40	637,179,064.67
Accounts receivables that are individually insignificant but impairment provided on an individual basis	2,497,535.08	0.37	2,497,535.08	100.00	0.00
Total	676,068,317.82	100.00	38,889,253.15	5.75	637,179,064.67

Type	Balance at the beginning of the year				
	Balance		Provision for bad debts		Carrying value
	Amount	Percentage (%)	Amount	Percentage (%)	
Accounts receivables that are individually significant and impairment provided on an individual basis	0.00	0.00	0.00	0.00	0.00
Accounts receivables assessed for impairment collectively	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

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

1. Accounts receivables *(continued)*

(1) Accounts receivables presented by types *(continued)*

1 *Accounts receivables for which provisions for bad debts has been made using the ageing analysis method in the portfolio*

Ageing	Balance at the year end		
	Amount	Provision for bad debts	Provision Percentage (%)
Within 1 year	665,360,163.52	33,268,008.18	5.00
1 to 2 years	4,573,951.94	274,437.12	6.00
2 to 3 years	351,118.56	70,223.71	20.00
3 to 4 years	1,446,766.36	1,012,736.45	70.00
4 to 5 years	724,697.51	652,227.76	90.00
Over 5 years	1,114,084.85	1,114,084.85	100.00
Total	673,570,782.74	36,391,718.07	

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

Accounts receivables	Balance	Provision for bad debts	Percentage (%)	Reason for provision made
Loans	2,497,535.08	2,497,535.08	100.00	not expected to be recoverable

(2) Provisions for bad debts made for the year was RMB-5,426,288.96; no provision for bad debts was recovered or reversed.

(3) Receivables written off during the Year

Item	Amount written-off
Accounts receivables actually written off	49,634.40

(4) The total of account receivables with five largest amount by creditors was RMB70,761,171.97, or 10.47% of the total account receivables by the year end, total provision for bad debts by the year end was RMB3,538,058.60.

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

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

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

XVII. NOTES TO THE KEY COMPONENTS OF PARENT COMPANY FINANCIAL STATEMENTS *(continued)***2. Other receivables****(1) Other receivables presented by types**

Type	Balance at the year end				
	Balance		Provision for bad debts		Carrying value
	Amount	Percentage (%)	Amount	Percentage (%)	
Other receivables that are individually significant and impairment provided on an individual basis	0.00	0.00	0.00	0.00	0.00
Other receivables that are assessed for impairment collectively	13,673,687.51	0.82	5,867,745.65	42.91	7,805,941.86
Receivables from each company in the scope of combination	1,654,479,365.05	99.09	0.00	0.00	1,654,479,365.05
Other receivables that are individually insignificant but impairment provided on an individual basis	1,541,860.22	0.09	1,541,860.22	100.00	0.00
Total	1,669,694,912.78	100.00	7,409,605.87	0.44	1,662,285,306.91

Type	Balance at the beginning of the year				
	Balance		Provision for bad debts		Carrying value
	Amount	Percentage (%)	Amount	Percentage (%)	
Other receivables that are individually significant and impairment provided on an individual basis	0.00	0.00	0.00	0.00	0.00
Other receivables that are assessed for impairment collectively	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

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

2. Other receivables *(continued)*

(1) Other receivables presented by types *(continued)*

- 1 Other receivables for which provision for bad debts has been made using the ageing analysis method in the portfolio

Ageing	Balance at the year end		
	Amount	Provision for bad debts	Provision Percentage (%)
Within 1 year	7,024,354.73	351,217.75	5.00
1 to 2 years	1,071,852.00	64,311.12	6.00
2 to 3 years	129,080.00	25,816.00	20.00
3 to 4 years	50,000.00	35,000.00	70.00
4 to 5 years	70,000.00	63,000.00	90.00
Over 5 years	5,328,400.78	5,328,400.78	100.00
Total	13,673,687.51	5,867,745.65	

- 2 Receivables from each company in the scope of combination

Other receivables description	Carrying amount	Provision for bad debts	Percentage of provision (%)	Reason
Current account	1,654,479,365.05	0.00	0.00	The debtor is a subsidiary of the Company and no provision for bad debts

- 3 As at the year end, ageing analysis of other receivables that are individually insignificant but impairment provided on an individual basis

Other receivables description	Gross amount	Provision for bad debts	Percentage of provision (%)	Reason for provision made
Current account	1,541,860.22	1,541,860.22	100.00	Not expected to be recoverable

- (2) Provisions for bad debts made for the year was RMB799,955.59; no provision for bad debts was recovered or reversed.

(3) Actual write-off of accounts receivables for the year

Item	Amount written-off
Receivables actually written off	5,800.00

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

XVII. NOTES TO THE KEY COMPONENTS OF PARENT COMPANY FINANCIAL STATEMENTS *(continued)***2. Other receivables** *(continued)***(4) Other receivables by nature of items**

Nature or description	Balance at the year end	Balance at the beginning of the year
Reserve fund	6,860,047.01	11,204,397.91
Related party balances	0.00	66,040.76
Receivables from each company in the scope of combination	1,654,479,365.05	1,584,630,442.33
Borrowing due from external entities	5,000,000.00	5,000,000.00
Others	3,355,500.72	3,582,740.33
Total	1,669,694,912.78	1,604,483,621.33

(5) Status of other receivables due from top five customers as at the year end

Name of unit	Nature or description	Balance at the year end	Term	Proportion to total balance of other receivables at the year end (%)	Balance of provision for bad debts at the year end
Livzon Group Ningxia Fuxing Pharmaceutical Manufacturing Co., Ltd. (麗珠集團寧夏福興製藥有限公司)	Current account	789,728,736.35	Within 1 year	47.30	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	452,250,237.55	Within 1 year	27.08	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	162,248,821.62	Within 1 year	9.72	0.00
Ando Development Limited (安滔發展有限公司)	Current account	123,914,514.51	Within 1 year	7.42	0.00
Jiaozuo Livzon Hecheng Pharmaceutical Manufacturing Co., Ltd. (焦作麗珠合成製藥有限公司)	Current account	90,610,796.71	Within 1 year	5.43	0.00
Total	—	1,618,753,106.74	—	96.95	0.00

(6) The Company has no derecognized other receivables out of transfer of financial assets.**(7)** The Company has no assets and liabilities formed by its continuous involvement of transferring other receivables.

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

XVII. NOTES TO THE KEY COMPONENTS OF PARENT COMPANY FINANCIAL STATEMENTS (continued)**3. Long-term equity investments****(1) Classification of long-term equity investments**

Item	Balance at the year end			Balance at the beginning of the year		
	Balance	Provision for impairment	Carrying amount	Balance	Provision for impairment	Carrying amount
Investments in subsidiaries	1,905,790,564.98	18,471,307.03	1,887,319,257.95	2,112,431,664.98	18,471,307.03	2,093,960,357.95
Investments in associates and joint ventures	35,393,189.13	1,200,000.00	34,193,189.13	36,407,870.69	1,200,000.00	35,207,870.69
Total	1,941,183,754.11	19,671,307.03	1,921,512,447.08	2,148,839,535.67	19,671,307.03	2,129,168,228.64

(2) Investment in subsidiaries

Investee	Balance at the beginning of the year	Increase during the Year	Decrease during the Year	Balance at the year end	Provision for impairment for the year	Balance of provision for impairment at the year end
Zhuhai Livzon 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	800,000.00	0.00	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 (安瀾發展有限公司)	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

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

XVII. NOTES TO THE KEY COMPONENTS OF PARENT COMPANY FINANCIAL STATEMENTS (continued)**3. Long-term equity investments** (continued)**(2) Investment in subsidiaries** (continued)

Investee	Balance at the beginning of the year	Increase during the Year	Decrease during the Year	Balance at the year end	Provision for impairment for the year	Balance of provision for impairment at the year end
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. (麗珠集團麗珠醫藥營銷有限公司)	12,008,000.00	0.00	0.00	12,008,000.00	0.00	0.00
Livzon Group Limin Pharmaceutical Manufacturing Factory (麗珠集團利民製藥廠)	184,301,219.52	0.00	0.00	184,301,219.52	0.00	0.00
Zhuhai Livzon Pharmaceutical Trading Co., Ltd. (珠海市麗珠醫藥貿易有限公司)	40,020,000.00	0.00	0.00	40,020,000.00	0.00	0.00
Livzon Group Fuzhou Fuxing Pharmaceutical Co., Ltd. (麗珠集團福州福興醫藥有限公司)	280,769,410.50	0.00	0.00	280,769,410.50	0.00	11,200,000.00
Livzon MABPharm Inc. (珠海市麗珠單抗生物技術有限公司)	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 Sanqi Plantation Co., Ltd. (文山麗珠三七種植有限公司)	4,694,000.00	0.00	0.00	4,694,000.00	0.00	0.00
Zhuhai Livzon Pharmaceutical Industrial Co. Ltd. (珠海市麗珠醫藥工業有限公司)	235,841,100.00	0.00	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	236,641,100.00	1,905,790,564.98	0.00	18,471,307.03

(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) Investment in associates and joint ventures**

Investee	Balance at the beginning of the year	Change during the Year				Other equity changes
		Investment acquired	Investment disposed of	Investment profit and loss on the equity method	Adjustment in other comprehensive income	
Associates						
Livzon Medical Electronic Equipment (Plant) Co., Ltd. (麗珠醫用電子設備(廠)有限公司)	1,200,000.00	0.00	0.00	0.00	0.00	0.00
Guangdong Blue Treasure Pharmaceutical Co. Ltd. (廣東藍寶製藥有限公司)	10,547,627.85	0.00	0.00	1,163,702.04	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	-2,097,303.66	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	-81,079.94	0.00	0.00
Total	36,407,870.69	0.00	0.00	-1,014,681.56	0.00	0.00

Investee	Change during the Year			Balance at the year end	Balance of provision for impairment at the year end
	Cash dividend or profit distribution announced	Impairment provision	Others		
Associates					
Livzon Medical Electronic Equipment (Plant) Co., Ltd. (麗珠醫用電子設備(廠)有限公司)	0.00	0.00	0.00	1,200,000.00	1,200,000.00
Guangdong Blue Treasure Pharmaceutical Co. Ltd. (廣東藍寶製藥有限公司)	0.00	0.00	0.00	11,711,329.89	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	21,429,927.63	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	1,051,931.61	0.00
Total	0.00	0.00	0.00	35,393,189.13	1,200,000.00

4. Operating income and operating cost

Item	For the year		For the previous year	
	Income	Cost	Income	Cost
Principal activities	4,842,037,295.49	2,779,816,319.99	4,560,519,714.54	2,320,734,879.51
Other activities	7,663,317.96	15,000.00	1,380,199.60	2,081.93
Total	4,849,700,613.45	2,779,831,319.99	4,561,899,914.14	2,320,736,961.44

(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 year	For the previous year
Urban maintenance and construction tax payable	19,973,436.56	18,750,135.79
Education surcharges payable	14,266,740.38	13,392,938.23
Flood prevention fee payable	0.00	303,555.84
Business Tax	0.00	2,589,152.34
Land use tax payable	150,000.00	206,725.80
Property tax payable	799,800.00	1,605,530.26
Stamp duty payable	4,710,482.57	974,189.75
Vehicle and vessel usage tax payable	28,782.24	21,360.00
Others	0.00	463,900.61
Total	39,929,241.75	38,307,488.62

6. Investment income

Item	For the year	For the previous year
Long-term equity investments income under cost method	1,401,654,274.00	366,519,928.73
Long-term equity investments income under equity method	-1,014,681.56	-1,974,148.87
Investment income generated from disposal of long-term equity investments	3,550,631,997.78	0.00
Investment income generated from financial assets measured at fair value, with the change in fair value included in the profit or loss for the year during its holding period	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 year	5,002,420.00	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 assets during its holding period	123,604.65	1,190,073.75
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	482,954.55	0.00
When without control, income generated from revaluation of remaining equity measured at fair value	0.00	0.00
Return from cash management	11,387,922.35	0.00
Total	4,968,268,491.77	365,735,853.61

(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 income statement**

Item	For the year	For the previous year
(1) Reconciliation of net profit to cash flow from operating activities:		
Net profit	4,024,295,025.23	406,446,112.36
Add: Provision for impairment of assets	57,328,008.90	11,397,051.44
Depreciation of fixed assets, amortisation of oil and gas assets, depreciation of productive biological assets biological assets	10,510,718.66	12,564,655.28
Amortisation of intangible assets	10,811,338.86	12,476,243.47
Amortisation of long-term expense	191,491.00	60,000.00
Losses on disposal of fixed assets, intangible assets and other long-term assets ("—" represents gains/income)	503,672.43	16,823.84
Losses on write-off of fixed assets	0.00	0.00
Losses from changes in fair value ("—" represents gains/income)	0.00	0.00
Financial expenses ("—" represents gains/income)	-21,660,380.08	-20,492,657.50
Investments losses ("—" represents gains/income)	-4,968,268,491.77	-365,735,853.61
Decrease in deferred tax assets ("—" represents increase)	-15,217,396.20	-1,695,482.03
Increase in deferred tax liabilities ("—" represents decrease)	732,148.02	477,564.55
Decrease in inventories ("—" represents increase)	214,233,019.34	-379,691,215.57
Decrease in trade receivables ("—" represents increase)	-252,127,361.78	-245,245,082.01
Increase in trade payables ("—" represents decrease)	760,999,897.94	639,658,976.81
Others	14,075,644.32	30,398,870.92
Net cash flows from operating activities	-163,592,665.13	100,636,007.95
(2) Significant investing and financing activities not involving cash receipts and payment:		
Liabilities converted into capital	0.00	0.00
Convertible bonds due within one year	0.00	0.00
Fixed assets acquired under finance leases	0.00	0.00
(3) Net movement in cash and cash equivalents:		
Cash at the end of the year	6,494,605,142.51	1,606,485,665.85
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 year	0.00	0.00
Less: Cash equivalents at the beginning of the year	0.00	0.00
Net increase in cash and cash equivalents	4,888,119,476.66	929,020,426.98

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

XVIII. SUPPLEMENTAL INFORMATION

1. Breakdown of extraordinary gains or losses

Item	For the year	For the previous year
Gains or losses from the disposal of non-current assets	4,504,302,450.88	5,309,155.74
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 as those government grants closely associated to the normal operation of the Group, complying with the policies and regulations of China, being entitled at a certain standard amount or certain level	161,721,876.94	128,100,925.11
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	11,387,922.35	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 arising from business combination under common control from the beginning of the period to the date of combination	0.00	0.00
Gains or losses arising from contingent matters not related to the normal operation of the Group	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 Group)	7,608,235.70	-930,399.32
Reversal of impairment of receivables on individual basis	0.00	0.00
Gains or losses from external entrusted loans	0.00	0.00
Gains or losses from changes in fair value on investment properties under the fair value model	0.00	0.00
One-off adjustment in profit or loss for the period according to the laws and regulations regarding taxation and accounting	0.00	0.00
Entrust fee income from entrusted operation	0.00	0.00
Other non-operating income and expenditures apart from the above	-2,642,343.73	-4,356,879.36
Items of gains or losses as defined meeting the definition of extraordinary gains or losses	0.00	0.00
Sub-total	4,682,378,142.14	128,122,802.17
Effect of income tax	1,056,999,539.60	17,442,373.66
Effect of non-controlling interests (after tax)	16,716,594.06	8,793,009.36
Total	3,608,662,008.48	101,887,419.15

XVIII. SUPPLEMENTAL INFORMATION *(continued)***1. Breakdown of extraordinary gains or losses** *(continued)*

Note: Figures "+" in the extraordinary gains or losses represents by revenue and income, while "-" represents loss or expenses.

According to the "Notice on Explanation of Information Disclosure of Companies Publicly Issuing Securities No. 1 – Extraordinary Gains or Losses" (CSRC Notice [2008] No. 43), the Company shall be governed by its provisions and recognised the extraordinary gains or losses.

2. Rate of return on net assets and earnings per share**2017**

	Weighted average rate of return on net assets	Earnings per share (RMB/share)	
		Basic earnings per share	Diluted earnings per share
Profit for the reporting period			
Net profit attributable to shareholders of ordinary shares	51.17%	8.09	8.06
Net profit attributable to shareholders of ordinary shares after deducting extraordinary gains or losses	9.48%	1.50	1.49

2016

	Weighted average rate of return on net assets	Earnings per share (RMB/share)	
		Basic earnings per share	Diluted earnings per share
Profit for the reporting period			
Net profit attributable to shareholders of ordinary shares	15.48%	1.52	1.51
Net profit attributable to shareholders of ordinary shares after deducting extraordinary gains or losses	13.47%	1.32	1.32

- (1) They include the audited financial reports of the Company for the twelve months ended 31 December 2017, which has been signed and sealed by the legal representative, person-in-charge of the accounting affairs (head of accounting affairs) and head of the accounting department, and which was prepared in accordance with the China Accounting Standards for Business Enterprises.
- (2) They include the original copy of the auditors' report which is sealed by the accounting firm and signed and sealed by the certified public accountant.
- (3) They include the original copies of the documents and announcements of the Company which have been disclosed in the designated newspaper as approved by CSRC during the Year.
- (4) 2017 Annual Report of the Company both in English and Chinese versions published at the website of Hong Kong Exchanges and Clearing Limited.

Livzon Pharmaceutical Group Inc.
Zhu Baoguo
Chairman

23 March 2018



Livzon, Cultivate Nourished Lives

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